

The IMF's financial assistance for low-income countries (LICs) is composed of concessional loans and debt relief.

Concessional lending began in the 1970s and has expanded since. In July 2009, the IMF's Executive Board approved a comprehensive reform of the IMF's concessional facilities. Such assistance is now provided through the facilities of the Poverty Reduction and Growth Trust (PRGT), which assists eligible countries in achieving and maintaining a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

Debt relief is supported under three initiatives:

- The Heavily Indebted Poor Countries (HIPC) Initiative helps eligible countries achieve a sustainable external debt position.
- The Multilateral Debt Relief Initiative (MDRI) provides additional resources to help eligible countries achieve the Millennium Development Goals.
- Assistance through the Post-Catastrophe Debt Relief (PCDR) Trust allows the IMF to join international debt-relief efforts when eligible poor countries are hit by catastrophic natural disasters.

The IMF's concessional lending and debt relief operations are trust based. The use of trusts permits greater flexibility in differentiating among members and mobilizing resources. It also removes certain credit and liquidity risks from the balance sheet of the General Resources Account (GRA).

Resources for the IMF's concessional operations are provided through contributions by a broad segment of the membership, as well as by the IMF. These resources are administered under the PRGT for concessional lending and under the PRG-HIPC, MDRI-I and -II, and PCDR Trusts for debt relief. The IMF acts as trustee for all five trusts, mobilizing and managing resources for all the concessional operations.

Section 3.1 provides an overview of concessional financing at the IMF. Section 3.2 describes concessional lending through the PRGT, and Sections 3.3, 3.4, and 3.5 describe the three debt-relief initiatives. Section 3.6 explains the financing structure and resources for concessional assistance and debt relief.

3.1 THE EVOLUTION OF CONCESSIONAL LENDING

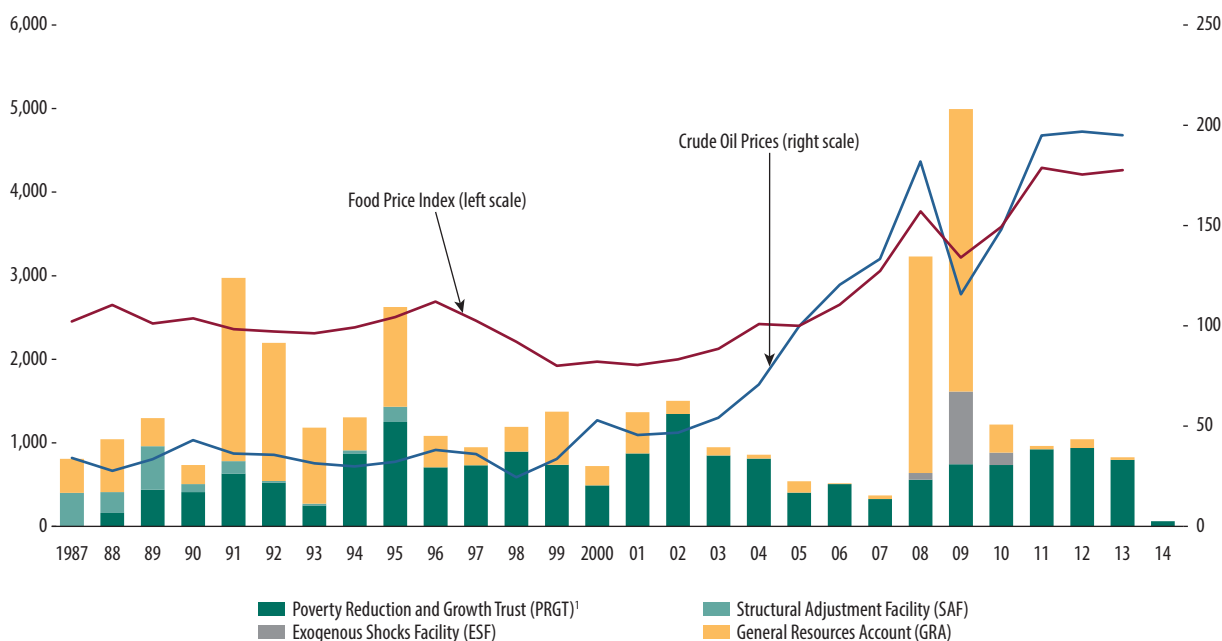
The IMF's concessional assistance to eligible low-income countries began in the mid-1970s and has expanded significantly over time. The initial assistance was financed entirely through profits from the sale of IMF gold and was disbursed with limited conditionality, first through Trust Fund (TF) loans and later through loans from the Structural Adjustment Facility (SAF).¹ Since 1987, concessional loans have been financed in large part by bilateral contributions and have been extended through the Enhanced Structural Adjustment Facility (ESAF) Trust and its successors. The ESAF was renamed as the Poverty Reduction and Growth Facility (PRGF) Trust in 1999, as the Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF) Trust in 2006, and most recently, as the Poverty Reduction and Growth Trust (PRGT).

A sweeping reform of concessional assistance in 2009 (see Section 3.2 and Table 3.1) established two new facilities—the Standby Credit Facility (SCF) for short-term balance of payments needs and the Rapid Credit Facility (RCF) to provide low-access financing for urgent balance of payments needs—while continuing to address protracted balance of payments needs through the Extended Credit Facility (ECF). The aim of the reform was to provide low-income countries more flexible and tailored support to meet their diverse needs, in light of their heightened exposure to global volatility. Access policies were revised (and access levels doubled), and a new interest rate mechanism was introduced to increase concessionality. In addition, temporary interest relief on all concessional credit was approved, and subsequently extended to the end of 2014. Disbursements of concessional loans and GRA resources to low-income countries peaked during 2008–09, as a result of the food and fuel crises and the global financial crisis (Figure 3.1).

¹ Before the TF and SAF loans, the IMF provided loans under the Oil Facility at below-market rates to 25 fuel-importing countries deemed particularly hard hit by the increased cost of oil imports. The Oil Facility was subsidized with contributions from donor countries deposited in the Oil Facility Subsidy Account established for this purpose. However, this Oil Facility did not differentiate among members based on income as did the TF and SAF.

Figure 3.1 PRGT-Eligible Countries: GRA Purchases and Concessional Loan Disbursements, 1987–2014

(Millions of SDRs; as of April 30 each year)



Source: Finance Department, International Monetary Fund.

¹Includes lending under the Enhanced Structural Adjustment Facility (ESAF), its successor the Poverty Reduction and Growth Trust (PRGT), and currently under the Extended, Standby, and Rapid Credit Facilities.

3.2 POVERTY REDUCTION AND GROWTH TRUST

In July 2009, the IMF’s Executive Board approved a comprehensive reform of the IMF’s concessional facilities. The objective was to increase the flexibility of IMF support to low-income countries and better tailor assistance to these countries’ diverse needs, particularly given their heightened exposure to global volatility. The Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF) Trust was renamed Poverty Reduction and Growth Trust (PRGT) with the entry into force of the 2009 reforms (effective January 7, 2010), to finance concessional loans. These are the key aspects of the reforms:

A more effective structure for LIC facilities: All concessional lending was consolidated within the PRGT, which replaced and expanded the PRGF-ESF Trust. Three concessional lending facilities for low-income countries are available (Table 3.1) and one nonfinancial instrument:

- The Extended Credit Facility (ECF) succeeds the PRGF as the IMF’s main tool for medium-term financing to low-income countries. ECF arrangements support programs that enable members with protracted balance of payments problems to make significant progress toward stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth.

- The Standby Credit Facility (SCF) provides financing similar to Stand-By Arrangements (SBAs) to low-income countries with short-term balance of payments needs. SCF arrangements support programs that enable members with actual or potential short-term balance of payments needs to achieve, maintain, or restore stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth.
- The Rapid Credit Facility (RCF) provides rapid, low-access financing with limited conditionality when an upper-credit-tranche (UCT) program with adjustment is either not needed, for instance due to the transitory and limited nature of the need, or not feasible, for instance if policy capacity is constrained. Examples of such financing needs include those caused by exogenous shocks, natural disasters, and emergence from conflict or other episodes of fragility or instability. RCF disbursements support members facing urgent balance of payments needs to help them achieve or restore stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth.
- The Policy Support Instrument (PSI) is the IMF’s nonfinancial policy support tool for countries that may not need or want IMF financial assistance but seek to consolidate their economic performance

Table 3.1 Concessional Lending Facilities

	Extended Credit Facility (ECF)	Standby Credit Facility (SCF)	Rapid Credit Facility (RCF)
Supersedes	Poverty Reduction and Growth Facility (PRGF)	Exogenous Shocks Facility–High-Access Component (ESF-HAC)	Exogenous Shocks Facility–Rapid Access Component (ESF-RAC), subsidized Emergency Post-Conflict Assistance (EPCA), and Emergency Natural Disaster Assistance (ENDA)
Objective	Help low-income countries achieve and maintain a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth		
Purpose	Address protracted balance of payments problems	Resolve short-term balance of payments needs	Low-access financing to meet urgent balance of payments needs
Eligibility	Countries eligible under the Poverty Reduction and Growth Trust (PRGT)		
Qualification	Protracted balance of payments problem; actual financing need over the course of the arrangement, though not necessarily when lending is approved or disbursed	Potential (precautionary use) or actual short-term balance of payments need at the time of approval; actual need required for each disbursement	Urgent balance of payments need when upper-credit-tranche (UCT) program is either not feasible or not needed ¹
Poverty Reduction and Growth Strategy	IMF-supported program should be aligned with country-owned poverty-reduction and growth objectives and should aim to support policies that safeguard social and other priority spending		
	Submission of Poverty Reduction Strategy (PRS) document by second review	Submission of PRS document not required; if financing need persists, SCF user would request an ECF with associated PRS documentation requirements	Submission of PRS document not required; move to ECF facilitated in cases of repeated use by preparation of a Poverty Reduction Strategy Paper (PRSP)
Conditionality	UCT; flexibility on adjustment path and timing	UCT; aim to resolve balance of payments need in the short term	No UCT and no conditionality based on ex post review; track record used to qualify for repeat use (except under shocks window)
Access Policies	Annual limit of 100% of quota; cumulative limit (net of scheduled repayments) of 300% of quota. Exceptional access: annual limit of 150% of quota; cumulative limit (net of scheduled repayments) of 450% of quota		Sublimits (given lack of UCT conditionality): annual 25% of quota; 100% of quota cumulative (net of scheduled repayments); under the shocks window: 50% annual and 125% cumulative (net of scheduled repayments)
	Norms: access declines with total outstanding credit; 120% of quota if outstanding credit is less than 100% of quota; 75% of quota if outstanding credit is greater than or equal to 100% of quota; SCFs treated as precautionary annual access limit 75% of quota, average annual access limit 50% of quota ²		
Financing Terms ³	Interest rate: Zero Repayment terms: 5½–10 years	Interest rate: 0.25% Repayment terms: 4–8 years Availability fee: 0.15% on available but undrawn amounts under precautionary arrangement	Interest rate: Zero Repayment terms: 5½–10 years
Blending	Based on income per capita and market access; linked to debt vulnerability		
Precautionary Use	No	Yes, with annual access limit of 75% of quota and average annual access limit 50% of quota	No
Length and Repeated Use	3–4 years (extendable to 5); can be used repeatedly	12–24 months; use limited to 2½ of any 5 years ⁴	Outright disbursements; repeated use possible subject to access limits and other requirements
Concurrent Use	General Resources Account (Extended Fund Facility/Stand-By Arrangement)	General Resources Account (Extended Fund Facility/Stand-By Arrangement) and Policy Support Instrument	General Resources Account (Rapid Financing Instrument and Policy Support Instrument)

Source: Finance Department, International Monetary Fund.

¹UCT standard conditionality is the set of program-related conditions intended to ensure that IMF resources support the program's objectives, with adequate safeguards to the IMF resources.

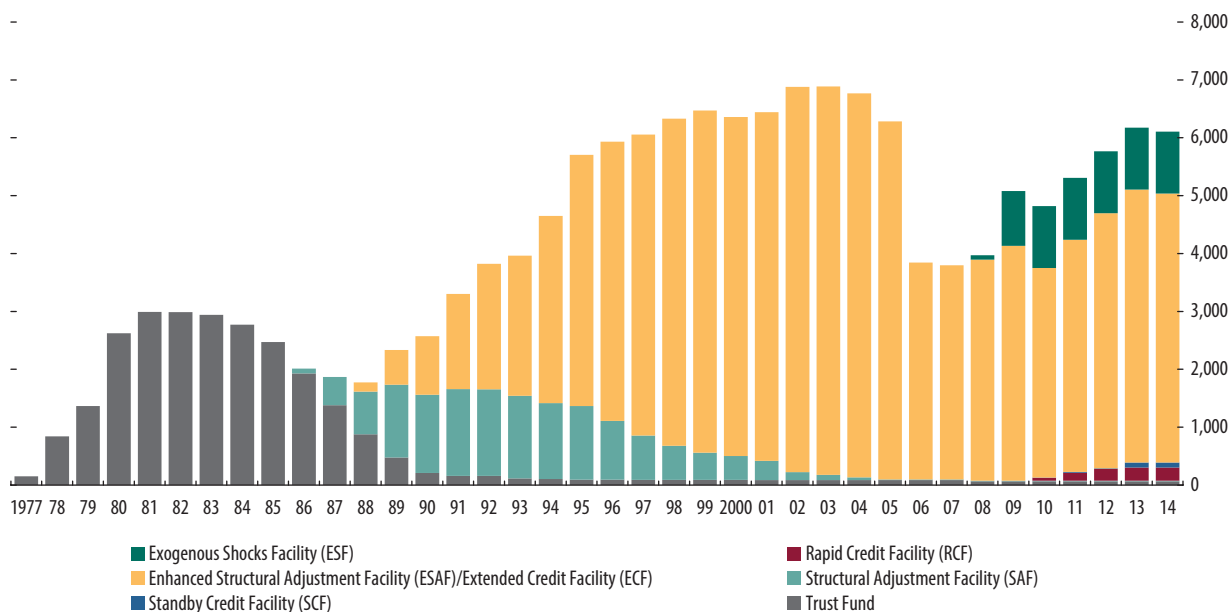
²Access norms do not apply when outstanding concessional credit is above 200% of quota. In those cases, access is guided by consideration of the access limit of 300% of quota, expectation of future need for IMF support, and the repayment schedule.

³The IMF reviews interest rates for all concessional facilities under the PRGT every 2 years; the next review is expected at the end of 2014. The Executive Board has approved a temporary interest waiver on concessional loans through the end of December 2014 in view of the global economic crisis (Box 3.5).

⁴SCFs treated as precautionary do not count toward the time limits.

Figure 3.2 Outstanding Concessional Credit by Facility, 1976–2014

(Millions of SDRs; as of April 30 each year)



Source: Finance Department, International Monetary Fund.
 Note: The sharp decrease in credit outstanding in 2006 reflects the impact of the Multilateral Debt Relief Initiative (MDRI).

with IMF monitoring and support and seek explicit Executive Board endorsement of their program and policies. A PSI can also facilitate access to the SCF and RCF (Box 3.4).

Enhanced focus on poverty reduction and growth: All PRGT facilities place a strong emphasis on poverty alleviation and growth rooted in country-owned poverty-reduction strategies. Formal requirements for submission to the IMF of PRS documents exist for ECF- and PSI-supported programs. Furthermore, under all PRGT facilities social and other priority spending should be safeguarded, and whenever appropriate increased, and this should be monitored through explicit targets, wherever possible.

Lower interest rates: A lower interest rate structure was established for the three concessional facilities, and the interest rates are reviewed regularly to preserve a higher level of concessionality than in the past. In addition, low-income countries received exceptional relief on all outstanding concessional loan interest payments due to the IMF through the end of 2011, which was subsequently extended through the end of 2014 (Box 3.5).

3.2.1 PRGT Terms

Availability: Assistance under the ECF arrangement is available for an initial 3- or 4-year term. An ECF arrangement may be extended for an overall maximum duration of

5 years. Assistance under an SCF arrangement is available for 12 to 24 months. Because the SCF is intended to address episodic short-term needs, its use is normally limited to 2½ of any 5 years, assessed on a rolling basis (SCFs treated as precautionary do not count toward the time limits). Assistance under the RCF is provided in the form of one-time disbursements or repeated disbursements over a limited period in case of recurring or ongoing financing needs, subject to RCF-specific access limits (see below) and other requirements on repeat use.²

Financial: Repayment of ECF and RCF credits are made semiannually in equal installments, subject to a 5½-year grace period and 10-year maturity. SCF credit payments are made semiannually in equal installments, subject to a 4-year grace period and an 8-year maturity. Interest on all facilities is paid semiannually and is subject to regular Executive Board reviews that take world interest rates into account (Box 3.5). Precautionary use of the SCF carries

² Under the PRGT Instrument: If a member has received a disbursement under the RCF within the preceding 3 years, then any additional disbursements under the RCF may be approved only where the Trustee is satisfied that: (1) the member’s balance of payments need was caused primarily by a sudden and exogenous shock, or (2) the member has established a track record of adequate macroeconomic policies for a period of normally about 6 months prior to the request; provided that a member may not in any case receive more than two disbursements under the RCF during any 12-month period.

a small availability fee of 0.15 percent a year, payable on the full amount of disbursements available during each 6-month period under an SCF arrangement, or any shorter period that is remaining under the SCF arrangement, to the extent that such disbursements are not drawn by the member. The ECF and RCF cannot be used on a precautionary basis.

Conditionality: ECF and SCF arrangements are subject to UCT standard conditionality (see Table 3.1)—as noted, this is a set of program-related conditions intended to ensure that IMF resources support program’s objectives, with adequate safeguards to the IMF’s resources. Conditionality is established only on the basis of those variables or measures that are reasonably within the member’s direct or indirect control and that are generally, either (1) of critical importance for achieving the goals of the member’s program or for monitoring the program implementation, or (2) necessary for the implementation of specific provisions of the Articles of Agreement or policies adopted under them. If UCT conditionality standard is either not necessary or feasible, an RCF is used.

Access limits and norms: Global annual and cumulative limits apply to each member’s total access under all concessional facilities. Total access to concessional financing should normally not exceed 100 percent of quota a year and 300 percent of quota cumulatively (net of scheduled repayments) across all concessional facilities. However, access above the normal limits can be made available to countries that (1) experience an exceptionally large balance of

payments need that cannot be met within the normal limits, (2) have a comparatively strong adjustment program and ability to repay the IMF, (3) do not have sustained past and prospective access to capital markets, and (4) have income at or below the prevailing operational cutoff for assistance from the International Development Association (IDA). Exceptional access above the normal limits is subject to hard caps of 150 percent of quota annually and 450 percent of quota cumulatively (net of scheduled repayments) across all concessional facilities. To help ensure that the RCF does not support continued weak policies or create moral hazard, in addition to the global and cumulative limits under all concessional facilities, access to RCF financing is subject to sub-ceilings of 25 percent of quota a year and 100 percent of quota cumulatively (Table 3.2). These sub-ceilings are raised to 50 percent of quota and 125 percent of quota, respectively, if the urgent balance of payments need was caused primarily by a sudden, well-defined exogenous shock. ECF and SCF disbursements are also subject to access norms, which provide general guidance and represent neither ceilings nor entitlements. Specifically, the access norm is 120 percent of quota when outstanding concessional credit for the member is less than 100 percent of quota and 75 percent of quota when outstanding concessional credit is 100 percent of quota or more.³ Access norms

³SCF arrangements that are treated as precautionary are subject to an annual access limit at approval of 75 percent of quota and an average annual access limit of 50 percent of quota.

Table 3.2 Access Limits and Norms for Poverty Reduction and Growth Trust Facility¹
(Percent of quota unless indicated otherwise)

Facility	Normal Access	Exceptional Access
Extended Credit Facility		
Annual Access Limit	100% of quota	150% of quota
Cumulative Access Limit	300% of quota	450% of quota
Norms per 3-year Arrangement	120% of quota if outstanding credit is less than 100% of quota; 75% of quota if outstanding credit is greater than or equal to 100% of quota	
Standby Credit Facility		
Annual Access Limit ²	100% of quota	150% of quota
Cumulative Access Limit	300% of quota	450% of quota
Norms per 18-month Arrangement	120% of quota if outstanding credit is less than 100% of quota; 75% of quota if outstanding credit is greater than or equal to 100% of quota	
Rapid Credit Facility		
Annual Access Limit	25% of quota (shocks window: 50% of quota)	
Cumulative Access Limit	100% of quota (shocks window: 125% of quota)	

¹The Executive Board agreed on April 8, 2013, that once the quota increase under the Fourteenth General Review of Quotas goes into effect, access norms and limits as a percent of quota should be reduced by half. The Executive Board considered that access norms and limits, which had doubled in 2009, are broadly appropriate in nominal terms. The Executive Board recognized that norms could be exceeded if warranted by balance of payments needs. They saw a need to review these limits regularly in light of low-income countries’ evolving financing needs.

²Standby Credit Facility arrangements that are treated as precautionary are subject to an annual access limit at approval of 75% of quota and an average annual access limit of 50% of quota.

Table 3.3 Countries Eligible for the Poverty Reduction and Growth Trust and the Heavily Indebted Poor Countries Initiative (as of April 30, 2014)

1. Afghanistan*	20. Ethiopia*	39. Marshall Islands	57. Sierra Leone*
2. Bangladesh	21. The Gambia*	40. Mauritania*	58. Solomon Islands
3. Benin*	22. Ghana*	41. Micronesia	59. Somalia*
4. Bhutan	23. Grenada	42. Moldova	60. South Sudan
5. Bolivia*	24. Guinea*	43. Mongolia	61. Sudan*
6. Burkina Faso*	25. Guinea-Bissau*	44. Mozambique*	62. Tajikistan
7. Burundi*	26. Guyana*	45. Myanmar	63. Tanzania*
8. Cambodia	27. Haiti*	46. Nepal	64. Togo*
9. Cameroon*	28. Honduras*	47. Nicaragua*	65. Tonga
10. Cabo Verde	29. Kenya	48. Niger*	66. Tuvalu
11. Central African Republic*	30. Kiribati	49. Nigeria	67. Uganda*
12. Chad*	31. Kyrgyz Republic	50. Papua New Guinea	68. Uzbekistan
13. Comoros*	32. Lao P.D.R.	51. Rwanda*	69. Vanuatu
14. Democratic Republic of the Congo*	33. Lesotho	52. St. Lucia	70. Vietnam
15. Republic of Congo*	34. Liberia*	53. St. Vincent and the Grenadines	71. Yemen
16. Côte d'Ivoire*	35. Madagascar*	54. Samoa	72. Zambia*
17. Djibouti	36. Malawi*	55. São Tomé and Príncipe*	
18. Dominica	37. Maldives	56. Senegal*	
19. Eritrea*	38. Mali*		

Source: Finance Department, International Monetary Fund.

Note: * indicates HIPC-eligible countries.

do not apply when outstanding concessional credit is above 200 percent of quota. In those cases access is guided by consideration of the access limit of 300 percent of quota, expectation of future need for IMF support, and the repayment schedule.

Blending: “Blending” of concessional PRGT with non-concessional General Resources Account (GRA) resources is presumed for PRGT-eligible countries whose income per capita is either above the prevailing International Development Association (IDA) operational cutoff or that have market access and income per capita exceeding 80 percent of the IDA cutoff. Blending should not generally be used for countries at a high risk of debt distress or in debt distress as assessed by the most recent LIC Debt Sustainability Analysis (DSA). The blending policy stipulates a 50:50 mix of PRGT and GRA resources, with access to concessional resources capped at the norm applicable to unblended arrangements.⁴ All access above the norm must be met from the GRA.

Poverty Reduction Strategy Paper (PRSP): Formal requirements for submission to the IMF of country-owned poverty-reduction strategies (PRS documents) exist for IMF support under the ECF and PSI (Box 3.6). However, all PRGT facilities place a strong emphasis on poverty alleviation and growth rooted in country-owned

poverty-reduction strategies, and countries seeking any type of IMF financial assistance, including under the SCF and RCF, must indicate how a program will reduce poverty and enhance growth. All programs should aim to support policies that safeguard social and other priority spending, and such spending is tracked through specific program targets.

3.2.2 PRGT Eligibility

Before 2010, PRGT eligibility was determined by the IMF Executive Board primarily on the basis of IDA eligibility. In 2010, a framework was established for updating the PRGT eligibility list, based on transparent criteria and a regular review process.⁵ Table 3.3 lists the PRGT- and HIPC-eligible members as of April 30, 2014.⁶

The eligibility framework comprises differentiated criteria for entry and graduation. In broad terms, countries become eligible if their annual income per capita is below the IDA cutoff for gross national income per capita and they are unable to access international financial markets

⁵ See Eligibility to Use the Fund’s Facilities for Concessional Financing, January 2010. www.imf.org/external/np/pp/eng/2010/011110.pdf

⁶ Zimbabwe has protracted arrears to the PRGT and was removed from the list of PRGT-eligible countries effective September 24, 2001.

⁴ The 50:50 blend of PRGT and GRA resources applies to the annual sublimits for the RCF and to the access limit under an SCF arrangement treated as precautionary.

on a durable and substantial basis. PRGT-eligible countries graduate if they have either persistently high income (significantly exceeding the threshold for entry) or can access international financial markets on a durable and substantial basis, provided they do not face serious short-term vulnerabilities. The framework also has special criteria for entry and graduation for small states, defined as those with a population below 1.5 million. The 2013 Eligibility Review extended eligibility to very small states (microstates)—members whose population is below 200,000—resulting in PRGT eligibility for Marshall Islands, Micronesia, and Tuvalu effective April 8, 2013. Eligibility reviews take place every 2 years and the next one is expected in 2015.

3.3 HEAVILY INDEBTED POOR COUNTRIES INITIATIVE

Debt relief for the most heavily indebted poor countries is provided through the HIPC Initiative. In 1996, the IMF and the World Bank jointly launched the HIPC Initiative to help relieve an external debt burden that had become unsustainable for a number of low-income countries, mostly in Africa. The HIPC Initiative involves coordinated action by the international financial community, including multilateral institutions, to reduce the external debt burden of these countries to sustainable levels. The HIPC Initiative complements traditional debt-relief mechanisms, concessional financing, and the pursuit of sound economic policies designed to place these countries on a sustainable external footing.

The initiative marked a significant advance from traditional debt-relief mechanisms. The initiative introduced key innovations in the treatment of low-income countries' debt, such as a systematic treatment of multilateral debt, the notion of debt sustainability, and a focus on poverty reduction. The initiative was enhanced in 1999 to provide deeper, broader, and faster debt relief to eligible members. The enhancements also aimed to strengthen the links between debt relief and poverty reduction, particularly through social policies (Box 3.7 and Figure 3.3).

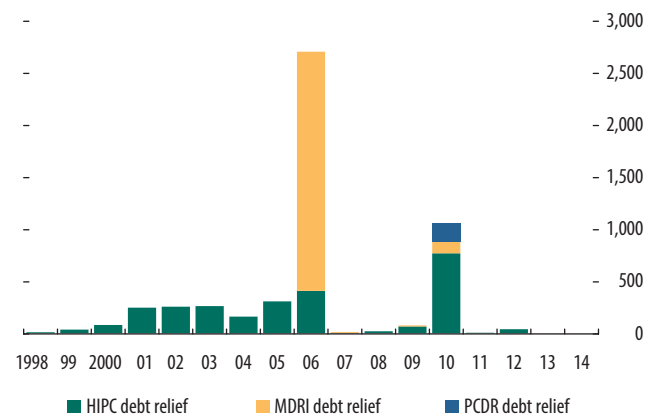
3.3.1 HIPC Eligibility and Qualification Criteria

A country is deemed eligible for assistance under the enhanced HIPC Initiative if it meets the income and indebtedness criteria and adopts a program supported by the IMF:

- **Income criterion:** A country is eligible for HIPC if it is eligible to borrow from the IMF's PRGT.
- **Indebtedness criterion:** A country is eligible if its debt burden indicators at the end of 2004 and the end of 2010 are above the HIPC Initiative thresholds, after

Figure 3.3 IMF Debt Relief to Low-Income Countries, 1998–2014

(Millions of SDRs; as of April 30 each year)



Source: Finance Department, International Monetary Fund.

Note: HIPC = Heavily Indebted Poor Countries; MDRI = Multilateral Debt Relief Initiative; PCDR = Post-Catastrophe Debt Relief.

Table 3.4 HIPC Thresholds for the Present Value of External Debt

Ratios	Thresholds (percent)
Present value of external public debt to exports	150
Present value of external public debt to fiscal revenues	250
The fiscal revenue threshold applies only if	
Exports-to-GDP ratio is at least	30
Revenue-to-GDP ratio is at least	15

Source: Finance Department, International Monetary Fund.

application of traditional debt relief mechanisms (Table 3.4).⁷

- **Program requirement:** A country must adopt a program supported by the IMF (and IDA) at any time after October 1, 1996.

A HIPC Initiative decision point is arrived at when the IMF and World Bank formally decide on a country's qualification for debt relief, and the international community commits to reducing the country's debt to a sustainable level. An eligible country qualifies if:

- It is eligible to borrow from the World Bank's IDA and from the IMF's PRGT.
- Its debt burden indicators are above the HIPC Initiative thresholds using the most recent data for the

⁷ See "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation and Proposals for the Future of the HIPC Initiative," November 2011. www.imf.org/external/np/pp/eng/2011/110811.pdf

year immediately preceding the decision point and its unsustainable debt burden cannot be addressed through traditional debt relief mechanisms.

- It has established a satisfactory track record of strong policy performance under respective IMF- and IDA-supported programs.
- It has a satisfactory poverty-reduction strategy in place (in the form of a full PRSP, an Interim PRSP, a PRSP preparation status report, or a PRSP Annual Progress Report).

Once an eligible country has met the objectives set at the decision point, including implementing key structural policy reforms (completion point triggers), it qualifies for the HIPC Initiative completion point—when the country receives the balance of debt relief committed at the decision point. At the completion point, all creditors are expected to provide full and irrevocable debt relief by reducing their claims on the country to the agreed sustainable level in net present value (NPV) terms.

3.3.2 Provision of Debt Relief

Under the HIPC framework, the IMF and the World Bank determine whether a member qualifies for debt relief—specifically, that they demonstrate the capacity to use the expected assistance prudently by establishing a satisfactory track record under IMF- and IDA-supported programs and have a poverty-reduction strategy in place. The IMF and

World Bank also determine the amount of HIPC assistance to be committed at the decision point.

The IMF provides its share of assistance under the HIPC Initiative in the form of grants, which are used to help meet debt-service payments to the IMF. Beginning at the decision point, a qualifying member may receive interim assistance from the IMF of up to 20 percent annually and 60 percent in total (or, in exceptional circumstances, 25 percent and 75 percent, respectively) of the committed amount of HIPC assistance between the decision point and the floating completion point. Interim assistance may be provided in annual installments to an account of the member administered by the IMF. These resources are used for debt-service payments to the IMF as they fall due. The member's account earns interest on any balance during the interim period. At the completion point, the IMF deposits the remaining amount of undisbursed committed assistance in the member's account. After the completion point, the IMF delivers the remaining HIPC assistance to the member through a stock-of-debt reduction operation (Box 3.8).⁸

The HIPC Initiative is now largely completed. As of April 30, 2014, 36 of 39 countries eligible or potentially eligible for HIPC Initiative assistance had reached decision points. Of those, 35 had reached their completion points. In total, the IMF has provided debt relief of SDR 2.6 billion under the HIPC Initiative (Table 3.5).

⁸ Additional debt relief beyond that committed at the decision point can be committed at the time of the completion point on a case-by-case basis (Box 3.9).

Table 3.5 Implementation of the HIPC Initiative
(Millions of SDRs; as of April 30, 2014)

	Decision Point	Completion Point	Amount Committed	Amount Disbursed ¹
Completion point countries (35)			2,406	2,578
1 Afghanistan ²	July 2007	January 2010	—	—
2 Benin	July 2000	March 2003	18	20
3 Bolivia	February 2000	June 2001	62 ³	65
4 Burkina Faso	July 2000	April 2002	44 ³	46
5 Burundi	August 2005	January 2009	19	22
6 Cameroon	October 2000	April 2006	29	34
7 Central African Republic	September 2007	June 2009	17	18
8 Democratic Republic of the Congo	July 2003	July 2010	280	331
9 Republic of Congo	March 2006	January 2010	5	6
10 Comoros	July 2010	December 2012	3	3
11 Côte d'Ivoire	April 2009	June 2012	43 ³	26 ⁴
12 Ethiopia	November 2001	April 2004	45	47
13 The Gambia	December 2000	December 2007	2	2
14 Ghana	February 2002	July 2004	90	94
15 Guinea	December 2000	September 2012	28	35.3
16 Guinea-Bissau	December 2000	December 2010	9	9

(continued)

Table 3.5 Implementation of the HIPC Initiative (continued)

	Decision Point	Completion Point	Amount Committed	Amount Disbursed ¹	
17	Guyana	November 2000	December 2003	57 ³	60
18	Haiti	November 2006	June 2009	2	2
19	Honduras	June 2000	April 2005	23	26
20	Liberia	March 2008	June 2010	441	452
21	Madagascar	December 2000	October 2004	14.7	16
22	Malawi	December 2000	August 2006	33	37
23	Mali	September 2000	March 2003	46 ³	49
24	Mauritania	February 2000	June 2002	35	38
25	Mozambique	April 2000	September 2001	107 ³	108
26	Nicaragua	December 2000	January 2004	64	71
27	Niger	December 2000	April 2004	31	34
28	Rwanda	December 2000	April 2005	47	51
29	São Tomé and Príncipe	December 2000	March 2007	1	1
30	Senegal	June 2000	April 2004	34	38
31	Sierra Leone	March 2002	December 2006	100	107
32	Tanzania	April 2000	November 2001	89	96
33	Toga	November 2008	December 2010	0.2	0.2
34	Uganda	February 2000	May 2000	120 ³	122
35	Zambia	December 2000	April 2005	469	508
Decision point countries (1)			14	9	
36	Chad	May 2001	Floating	14	9
Pre-decision point countries (1)					
37	Eritrea	...	...	...	...
Protracted arrears cases (2)					
38	Somalia	...	...	...	...
39	Sudan	...	...	...	...
Total			2,421	2,586	

Source: Finance Department, International Monetary Fund.

Note: Numbers may not add to totals due to rounding.

¹Includes the commitment made in net present value terms plus interest earned on that commitment.

²At the time of its decision point, Afghanistan did not have any outstanding eligible debt.

³Includes commitment under the original HIPC Initiative.

⁴Côte d'Ivoire reached its decision point under the original HIPC Initiative in 1998, but did not reach its completion point under the original HIPC Initiative. Debt relief of SDR 17 million, committed to Côte d'Ivoire under the original HIPC Initiative, was therefore not delivered.

Table 3.6 PRG-HIPC Financing Requirements and Sources (as of April 30, 2014)

	Billions of SDRs (End-2000 NPV)
Total IMF financing requirements	3.0
PRGF subsidy requirement	1.1
Cost of the HIPC Initiative to the IMF	1.9
Sources of financing	3.0
In effect	
Bilateral contributions	1.1
IMF contributions	1.8
Investment income from gold sale proceeds	1.4
Other contributions	0.5
Pending	
Bilateral contributions	0.1

Source: Finance Department, International Monetary Fund.

Note: Numbers may not add to totals due to rounding. HIPC = Heavily Indebted Poor Countries; NPV = net present value; PRG = Poverty Reduction and Growth Facility.

3.4 MULTILATERAL DEBT RELIEF INITIATIVE

The MDRI was launched to complement the HIPC Initiative by providing additional resources to help a group of low-income countries advance toward the United Nations' Millennium Development Goals. Although the MDRI was an initiative common to several international financial institutions, including the World Bank and the African Development Bank, the decision to grant debt relief was a separate responsibility of each institution, with varying approaches to coverage and implementation.

Debt relief was also provided for outstanding debt to the IMF as of the end of 2004 through the MDRI for eligible countries, including countries that reached the completion point under the HIPC Initiative. The IMF Executive Board adopted the MDRI in November 2005, and it became effective

on January 5, 2006. The countries eligible for MDRI debt relief included countries that reached the completion point under the HIPC Initiative, with income per capita below \$380 a year, and with outstanding debt to the IMF on December 31, 2004. Under the IMF's MDRI, qualifying members received 100 percent debt relief on the full stock of debt owed to the IMF as of December 31, 2004, that remained outstanding at the time of the provision of debt relief and was not covered by HIPC Initiative assistance. To qualify for the relief, the IMF Executive Board also required that these countries were current on their obligations to the IMF and demonstrated satisfactory performance in macroeconomic policies, implementation of a poverty-reduction strategy, and public expenditure management.

Immediately following the effect date of the MDRI decision in January 2006, the IMF delivered MDRI debt relief

totaling SDR 2.0 billion to 19 qualifying countries. These countries included 17 HIPCs that had reached their completion points⁹ and 2 non-HIPCs. As of April 30, 2014, total IMF MDRI debt relief granted to 30 qualifying countries has reached SDR 2.3 billion.¹⁰ Such relief was financed by the MDRI-I and MDRI-II Trusts (SDR 1.2 billion and SDR 1.1 billion, respectively—see Section 3.6.5.2). The details are provided in Table 3.7.

⁹ Except Mauritania, whose MDRI debt relief was approved June 21, 2006.

¹⁰ Liberia also received SDR 116 million in MDRI-type (beyond-HIPC) debt relief at the end of June 2010, which was financed from the Liberia Administered Account (Box 3.10).

Table 3.7 Debt Relief Following Implementation of the Multilateral Debt Relief Initiative
(Millions of SDRs; as of April 30, 2014)

	Delivery date	IMF credit from disbursements prior to end-2004 ¹	Financed by HIPC Umbrella Accounts subaccounts ²	Remaining MDRI-eligible credit	Financed by	
		(A)	(B)	(C = A - B = D + E)	MDRI-I Trust ²	MDRI-II Trust ²
		(A)	(B)	(C = A - B = D + E)	(D)	(E)
HIPC countries (28)³		2,863	670	2,192	1,104	1,088
1 Benin	January 2006	36	2	34	—	34
2 Bolivia	January 2006	161	6	155	—	155
3 Burkina Faso	January 2006	62	5	57	57	—
4 Burundi	February 2009	26	17	9	9	—
5 Cameroon	April 2006	173	24	149	—	149
6 Central African Republic	July 2009	4	2	2	2	—
7 Democratic Republic of the Congo	July 2010	248	248	0	—	—
8 Republic of Congo	January 2010	7.9	3	4.8	—	4.8
9 Ethiopia	January 2006	112	32	80	80	—
10 Gambia	December 2007	9	2	7	7	—
11 Ghana	January 2006	265	45	220	220	—
12 Guinea-Bissau	December 2010	0.5	0.5	0	—	—
13 Guyana	January 2006	45	13	32	—	32
14 Honduras	January 2006	107	9	98	—	98
15 Madagascar	January 2006	137	9	128	128	—
16 Malawi	September 2006	38	23	15	15	—
17 Mali	January 2006	75	13	62	62	—
18 Mauritania	June 2006	33	3	30	—	30
19 Mozambique	January 2006	107	24	83	83	—
20 Nicaragua	January 2006	140	49	92	—	92
21 Niger	January 2006	78	18	60	60	—
22 Rwanda	January 2006	53	33	20	20	—
23 São Tomé and Príncipe	March 2007	1	0.4	1	1	—
24 Senegal	January 2006	100	6	95	—	95
25 Sierra Leone	December 2006	117	41	77	77	—
26 Tanzania	January 2006	234	27	207	207	—
27 Uganda	January 2006	88	12	76	76	—
28 Zambia	January 2006	403	4	398	—	398

(continued)

Table 3.7 Debt Relief Following Implementation of the Multilateral Debt Relief Initiative (continued)

	Delivery date	IMF credit from	Financed by	Remaining	Financed by	
		disbursements	HIPC Umbrella		MDRI-eligible	MDRI-I	MDRI-II
		prior to	Accounts	credit	Trust ²	Trust ²
		end-2004 ¹	subaccounts ²	(C = A – B = D + E)	(D)	(E)
		(A)	(B)			
Non-HIPC countries (2)⁴		126	—	126	126	—
29 Cambodia	January 2006	57	—	57	57	—
30 Republic of Tajikistan	January 2006	69	—	69	69	—
Memorandum item (1)	Total		Financed by	Remaining debt	Financed by	
			LLA⁵		LLA⁵	
Liberia ⁵	June 2010	543	427	116	116	—
Total⁶		3,532	1,097	2,434	1,347	1,088

Note: Numbers may not add to totals due to rounding. HIPC = Heavily Indebted Poor Countries.

¹ Amount outstanding at the completion point (net of repayments between January 1, 2005, and the completion point date).

² Balances available at the time of MDRI debt relief. Debt relief under the HIPC Initiative is channeled through a separate Umbrella Account subaccount established for each beneficiary to which such relief is provided. The MDRI is funded through the MDRI-I and MDRI-II Trusts, for which the IMF acts as trustee. All countries with income per capita of \$380 a year or less (whether HIPCs or not) receive MDRI debt relief financed by the IMF's own resources through the MDRI-I Trust. HIPCs with income per capita above that threshold receive MDRI relief from bilateral contributions administered by the IMF through the MDRI-II Trust.

³ Afghanistan, Comoros, Haiti, and Togo did not have MDRI-eligible credit and did not receive MDRI debt relief. Côte d'Ivoire and Guinea had fully repaid their MDRI-eligible debt by their completion point date.

⁴ Non-HIPCs that qualified for MDRI debt relief with income per capita below the \$380 threshold.

⁵ Liberia received "MDRI-like" (beyond-HIPC) debt relief at end of June 2010, which was financed from the Liberia Administered Account (LLA).

⁶ Including Liberia's beyond-HIPC debt relief.

3.5 POST-CATASTROPHE DEBT RELIEF TRUST

In June 2010, the IMF established the PCDR Trust, which allows the IMF to join international debt-relief efforts when poor countries experience catastrophic natural disasters, such as the earthquake in Haiti in January 2010. The purpose of debt relief under the PCDR Trust is to free additional resources to meet exceptional balance of payments needs that arise from such catastrophes and subsequent economic recovery efforts, complementing fresh donor assistance and the IMF's concessional financing under the PRGT.

Assistance through the PCDR Trust is available to low-income countries eligible for concessional borrowing through the PRGT whose annual income per capita is below the prevailing income threshold for IDA.¹¹ PCDR support is limited to the most catastrophic natural disasters, specifically those that directly affect at least a third of a country's population and destroy more than a quarter of its productive capacity or cause damage deemed to exceed 100 percent of GDP.

Under PCDR Trust assistance, eligible countries receive debt flow relief to cover all payments falling due on their eligible debt to the PRGT and the General Resources

Account from the date of the debt flow relief decision to the second anniversary of the disaster. Early repayment by the PCDR Trust of a country's full stock of eligible debt to the PRGT and the GRA is also available when the disaster and subsequent economic recovery efforts cause substantial and long-lasting balance of payments disruptions that make the resources freed up by debt stock relief critical. Such debt stock relief is conditional on concerted debt-relief efforts by the country's other official creditors, the availability of PCDR Trust resources, as well as an assessment of the country's implementation of macroeconomic policies in the period preceding the decision to disburse debt relief.

As of April 30, 2014, Haiti is the only country to have received PCDR-financed debt relief. On July 21, 2010, Haiti received SDR 178 million (about \$268 million) in PCDR-financed debt stock relief, eliminating its entire outstanding debt to the IMF.

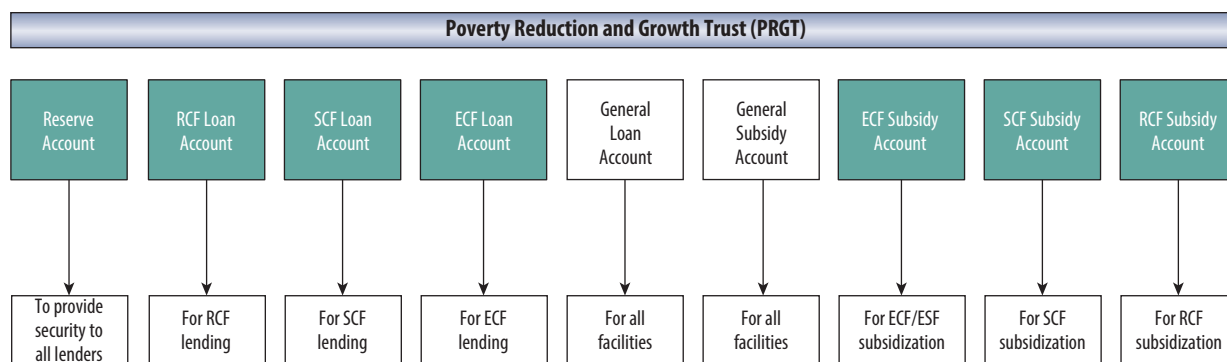
3.6 FINANCING CONCESSIONAL ASSISTANCE AND DEBT RELIEF

3.6.1 Financing Structure

As noted, the financing structure for concessional assistance currently comprises five trusts and related accounts and subaccounts for which the IMF is either a trustee or administrator: the PRG Trust, PRG-HIPC Trust, PCDR Trust, and

¹¹ PCDR support is also available to PRGT-eligible countries with a population of less than 1.5 million and whose annual income per capita is below twice the IDA cutoff.

Figure 3.4 Concessional Financing Framework



Source: Finance Department, International Monetary Fund.
 Note: ECF = Extended Credit Facility; ESF = Exogenous Shocks Facility; RCF = Rapid Credit Facility; SCF = Standby Credit Facility.

the MDRI-I and MDRI-II Trusts. The trusts have several features in common:

- SDRs are the unit of account for all operations.
- The resources and records of the trusts are kept separate from all other accounts of the IMF.
- The IMF, as trustee, has the authority to invest funds temporarily for the benefit of the trust or administered account. Invested funds are divided between short-term deposits and medium-term instruments at the Bank for International Settlements (BIS) and investment portfolios (bonds) managed by external managers (Box 3.11).

3.6.2 Framework for Concessional Lending

3.6.2.1 Poverty Reduction and Growth Trust

The PRGT is composed of the following accounts (Figure 3.4):

- four Loan Accounts, which serve as pass-throughs for receipt and provision of principal for concessional lending
- the Reserve Account, which provides security to lenders¹² (Section 3.6.3.3)
- four Subsidy Accounts that receive and provide resources for subsidizing lending under the PRGT facilities.

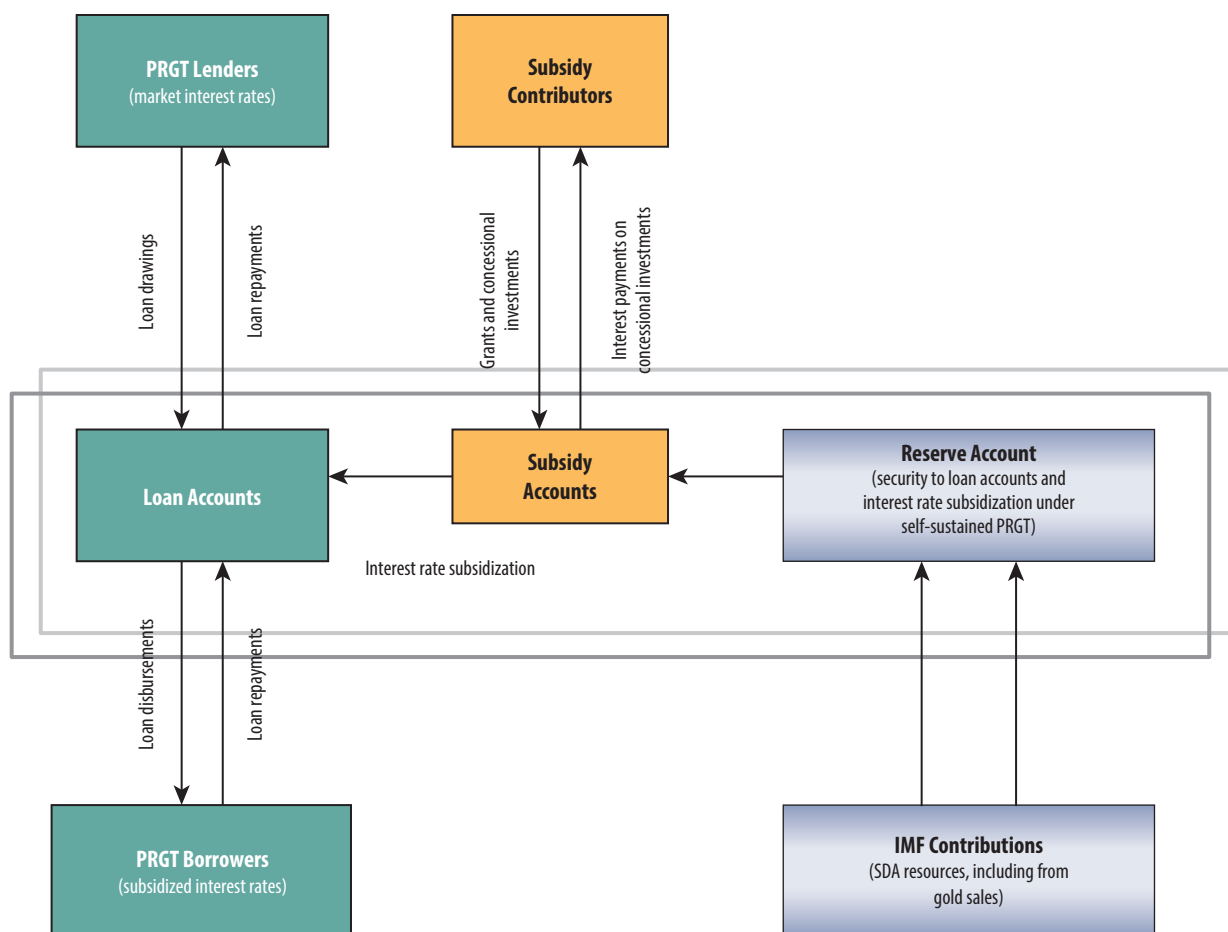
This framework allows for flexible use of concessional resources while also meeting donors’ preferences for

earmarking their contributions for specific purposes. Figure 3.5 shows the flow of funds between the PRGT accounts and contributors and borrowers. The PRGT accounts serve the following purposes:

- **General Loan Account (GLA):** This account receives and disburses loan resources for all PRGT facilities without specific earmarking by donors. Loan resources in the GLA are generally drawn only to finance an arrangement under a specific facility after the loan resources in the Loan Account associated with that facility are exhausted.
- **Special Loan Accounts (SLAs):** These accounts accommodate donors’ preferences for earmarking their loans for specific facilities. Three separate loan accounts exist for servicing the ECF, SCF, and RCF, respectively.
- **Reserve Account:** The Reserve Account offers security to lenders and—once the lenders to the PRGT have consented to the proposed amendments to the PRGT Instrument, which will establish the self-sustained PRGT—will provide subsidy resources (Section 3.6.4).
- **General Subsidy Account (GSA):** This account receives and provides subsidies for existing and new loans under all facilities of the PRGT. Resources in the GSA are drawn only to subsidize loans under a specific facility after resources in the Special Subsidy Account associated with that facility are exhausted.
- **Special Subsidy Accounts (SSAs):** These accounts accommodate donors’ preferences for earmarking their subsidy contributions for specific facilities. Three separate subsidy accounts exist servicing the ECF, SCF, and RCF, respectively. The ECF Subsidy Account was the “default” account for receipt of previously pledged subsidy resources. (The PRGF and PRGF-ESF Subsidy Accounts were terminated when the 2009 reform of concessional facilities went into effect in January 2010.)

¹² On April 24, 2014, the Executive Board of the IMF adopted the necessary amendments to the PRGT Instrument to implement the self-sustained PRGT, including an amendment to allow the eventual use of Reserve Account investment income to subsidize PRGT lending. This amendment will be effective once the necessary consents from all lenders to the PRGT have been obtained (Section 3.6.4).

Figure 3.5 Flow of Funds in the Poverty Reduction and Growth Trust



Source: Finance Department, International Monetary Fund.
Note: SDA = Special Disbursement Account.

3.6.3 Resources for Concessional Lending

Bilateral lenders, donors, and the IMF have provided resources for concessional lending. All concessional lending resources are channeled through the loan and subsidy accounts of the PRGT.

3.6.3.1 Loan Resources

Loan resources are generally provided at market-related interest rates by central banks, governments, and official institutions. Although repayment terms are negotiated bilaterally, currency loans are generally remunerated at the 6-month SDR interest rate and, since the 2009 reform of concessional facilities, SDR loans are remunerated at the official SDR interest rate, with a maturity effectively set to match the maturity profile of the borrower's loan repayments.

Under the 2009 reform of the IMF's concessional lending facilities (Box 3.12), concessional lending capacity

was projected to rise as high as \$17 billion through 2014. Financing available to individual countries on an annualized basis was roughly doubled. A major fundraising drive was launched to secure an additional SDR 10.8 billion in loan resources to meet expected loan commitments through 2014. These resources can be drawn until 2018, but new fundraising will be necessary after 2014 to meet future financing needs. In addition, new subsidy resources of SDR 1.5 billion (in end-2008 net present value terms) were mobilized from the IMF's internal resources, including resources linked to the gold sales, and through bilateral contributions. Moreover, new measures to facilitate mobilization of PRGT resources were adopted (Box 3.13). In response to issues raised by potential lenders during the drive, the fundraising framework was modified. General and facility-specific loan and subsidy accounts were established, including the establishment of an encashment regime for participating lenders.

Since 1987, 17 member countries or their agencies have provided loan resources to the PRGT (Table 3.8). As of April 30,

Table 3.8 Cumulative Commitments of Lenders to the Poverty Reduction and Growth Trust
(Millions of SDRs; as of April 30, 2014)

Lender	Loan Commitments	Amount Drawn	Amount Outstanding
National Bank of Belgium	700.0	351.6	101.2
Government of Canada	1,200.0	728.5	44.0
Government of China	200.0	200.0	34.1
People's Bank of China	800.0	514.3	514.3
National Bank of Denmark	300.0	108.9	8.9
Central Bank of Egypt	155.6	155.6	53.7
French Development Agency	3,570.0	3,570.0	1,474.3
Bank of France	1,328.0	903.5	903.5
KfW Banking Group (Germany)	2,750.0	2,750.0	604.4
Bank of Italy	2,180.0	1,798.3	720.2
Japan Bank for International Cooperation	5,134.8	5,134.8	464.1
Government of Japan	1,800.0	23.6	23.6
Bank of Korea	592.7	102.7	10.0
Bank of the Netherlands	950.0	450.0	252.2
Bank of Norway	150.0	150.0	—
Government of Norway	300.0	234.0	234.0
OPEC Fund for International Development ¹	37.0	37.0	—
Saudi Arabian Monetary Agency	500.0	—	—
Saudi Fund for Development	49.5	49.5	—
Government of Spain	67.0	67.0	—
Bank of Spain	1,046.4	641.4	276.4
Swiss Confederation	200.0	200.0	—
Swiss National Bank	901.7	401.7	174.2
Government of the United Kingdom	1,328.0	12.0	12.0
Total	26,240.7	18,584.4	5,904.9

Source: Finance Department, International Monetary Fund.

¹OPEC = Organization of Petroleum Exporting Countries. The loan commitment is for the SDR equivalent of \$50 million.

2014, the total PRGT loan resource commitments were SDR 26.2 billion, of which a cumulative SDR 19.3 billion had been committed to PRGT borrowers (leaving SDR 6.9 billion in uncommitted PRGT loan resources); SDR 18.6 billion had been disbursed.

3.6.3.2 Subsidy Resources

Subsidy resources are provided by bilateral contributors and the IMF. Bilateral contributions are typically provided through either grant contributions or investments placed by contributors with the PRGT at zero or below-market interest rates. In the latter case, the interest rate differential between the return earned on the investment by the PRGT and the rate of interest paid to the contributor represents a subsidy contribution to the PRGT.

As of April 30, 2014, cumulative subsidy resources (including investment income) amounted to SDR 3.3 billion, of which SDR 1.02 billion was provided by the IMF. In January 2006, when the MDRI decision went into effect, SDR 1.12 billion in bilateral subsidy contributions was transferred to the MDRI-II Trust. This outflow was partially

compensated by a one-time transfer of SDR 0.47 billion from the Special Disbursement Account to the PRGT.¹³

IMF contributions to the subsidy accounts originated with the initial late-1970s gold sales and include investment income on the remaining balances. In addition, on several occasions, resources for reimbursement to the GRA for PRGT administrative expenses were redirected to subsidy accounts (Box 3.14).

A new source of contributions to subsidy resources became available in 2012, after the Executive Board approved a distribution to the membership of SDR 700 million in reserves from windfall gold sales profits, on condition that new subsidy contributions equivalent to at least 90 percent of the distribution is made available to the PRGT.¹⁴ This distribution,

¹³These assets originated from gold sales, including the proceeds from gold sales in the 1970s and the profits from the sale of a portion of the IMF's gold in FY2000.

¹⁴The windfall occurred because the gold was sold at a higher price than assumed when the new income model was endorsed by the Executive Board (see Chapter 5).

which became effective in October 2012, was part of a financing package endorsed by the Executive Board in July 2009 aimed at boosting the IMF's lending capacity during 2009–14. It increased the number of bilateral contributors from 43 to 143 and added SDR 581 million to the subsidy accounts by the end of April 2014. In September 2012, the Executive Board also approved the distribution of SDR 1.75 billion in reserves from the remaining windfall gold sales profits as part of a strategy to generate subsidy resources to ensure the longer-term sustainability of the PRGT (Box 3.15). As with the earlier distribution, the Executive Board decided that this would become effective once satisfactory assurances have been obtained that at least 90 percent of the amount to be distributed will be made available to the PRGT. The Managing Director informed the Executive Board on October 10, 2013, that the required satisfactory financing assurances had been received, making the distribution effective on that day. As of the end of April 2014, 155 members had made subsidy contributions, totaling SDR 1.356 billion.

Once the proposed amendments to the PRGT Instruments to establish the self-sustained PRGT have been adopted, the investment income from the Reserve Account will be another source of subsidization of PRGT lending (see Section 3.6.4).

3.6.3.3 Reserve Account

An important feature of the PRGT is the Reserve Account (RA), which (1) provides security to the lenders to the Loan Accounts in the event of delayed or nonpayment by PRGT borrowers; (2) meets temporary mismatches between repayments from borrowers and payments to lenders; and (3) covers the IMF's costs of administering PRGT operations.¹⁵ As already noted, under the self-sustained PRGT it is envisaged that the investment income from the Reserve Account will also be a source of subsidization of PRGT lending.

The Reserve Account is largely financed through a recycling of profits from gold sales undertaken in the late 1970s, which included interest on and repayment of Structural Adjustment Facility (SAF) loans, receipts from the Trust Fund after termination of the SAF, and investment income on balances held by the Reserve Account.

¹⁵The GRA is generally reimbursed for the expenses of conducting the business of the SDR Department, the MDRI-I Trust, the PCDR Trust, and the PRGT. As part of the 2009 Financing Package, the Executive Board decided that for financial years 2010 through 2012, the GRA would forgo reimbursement of the estimated cost of administering the PRGT, and the equivalent would be transferred from the PRGT Reserve Account (through the Special Disbursement Account) to the General Subsidy Account of the PRGT (Box 3.14).

Historically, the Reserve Account provided reserve coverage of about 40 percent of outstanding PRGT obligations on average. Following the delivery of MDRI relief in 2006, which sharply reduced outstanding PRGT obligations, Reserve Account coverage rose to 90 percent (Figure 3.6). As of the end of April 2014 the balances in the Reserve Account amounted to just under SDR 3.9 billion, equivalent to about 65 percent of outstanding obligations to PRGT lenders.

3.6.4 Self-Sustained PRGT

When concessional operations were first initiated by the IMF in the late 1970s, they were intended to be fully self-financed from the proceeds of gold sales. However, in 1987, when the Enhanced Structural Adjustment Facility (ESAF) was established, trust financing sources were expanded to include bilateral loans and donor contributions to subsidize the lending. The idea of “self-sustained concessional operations” resurfaced in the mid-1990s.¹⁶

During the 1999 reform (when the ESAF was transformed into the PRGF), it was envisaged that after 2005 the IMF's concessional lending would be conducted through a self-sustained PRGF, financed on a revolving basis from the Special Disbursement Account (SDA), through transfers of resources accumulating in the Reserve Account. The annual lending capacity of the self-sustained PRGF under such a scenario was estimated in 2004 to be about SDR 660 million in perpetuity.

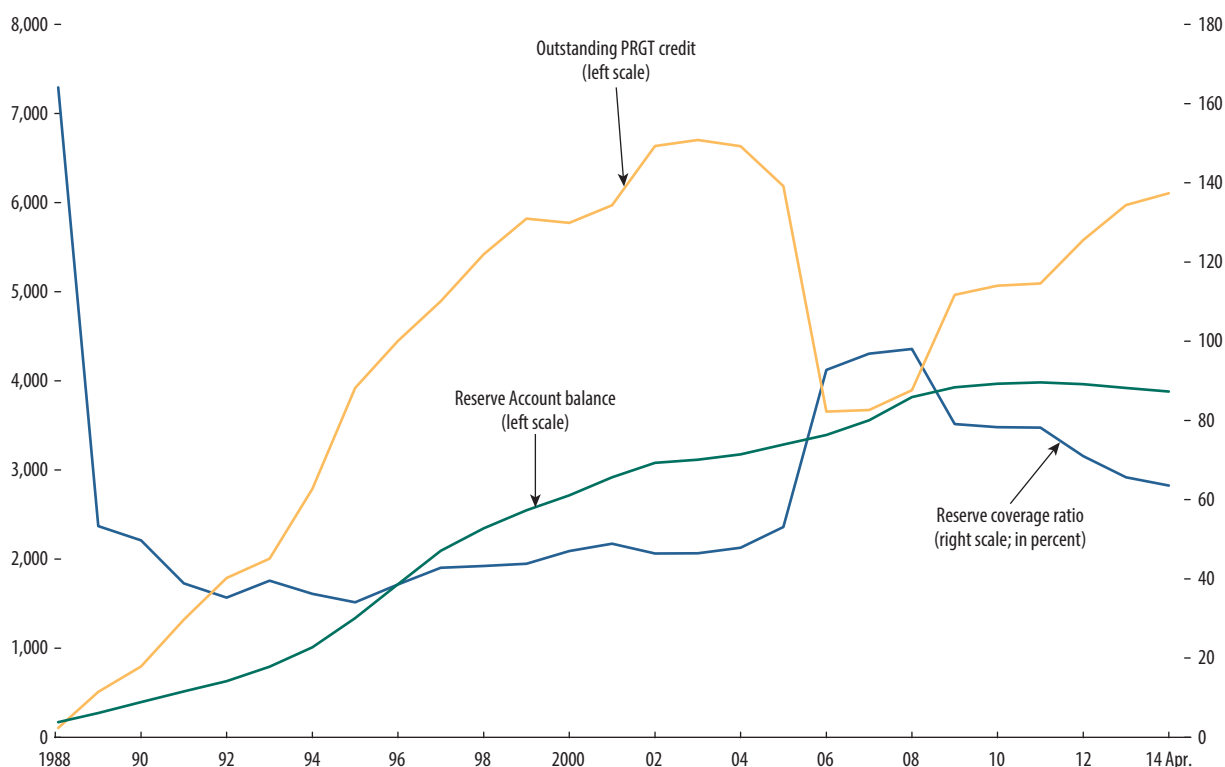
These estimates were revisited in 2005 during the MDRI discussions. Given the possibility of larger demand for concessional resources following the debt relief initiative, it became more prudent to use Reserve Account income for loan subsidization, with loan resources provided on market terms by bilateral contributors. Such an approach allows for more lending and balanced self-sustained operations.

The notion that resources in the Reserve Account would be used for loan subsidization was further affirmed by the Executive Directors during the 2009 discussions on the reform of concessional facilities. A new fundraising round launched under this reform sought to provide sufficient resources to cover the IMF's concessional lending until 2014, with self-sustained operations supported from the Reserve Account starting thereafter. At that time, the IMF staff estimated the self-sustained capacity at about SDR 0.7 billion annually starting in 2015. In September 2012, the Executive Board approved a strategy to make the PRGT

¹⁶Also, in October 1996, the Managing Director made a statement to Governors at the Annual Meetings that all Executive Directors had welcomed the agreement that would permit a self-sustained and, therefore, de facto permanent concessional financing operations by the IMF, which became a long-standing goal.

Figure 3.6 Poverty Reduction and Growth Trust Reserve Account Coverage, 1998–2014

(Millions of SDRs unless indicated otherwise; as of year-end)



Source: Finance Department, International Monetary Fund.
 Note: The sharp decrease in credit outstanding in 2006 reflects the impact of the Multilateral Debt Relief Initiative (MDRI).

self-sustaining. The strategy relies on use of the resources from the first and second partial distributions of reserves linked to windfall gold sales to provide subsidy resources for a protracted period, with transfers of investment income from the Reserve Account providing the necessary subsidy resources thereafter.

The strategy to make the PRGT self-sustaining rests on three pillars (Box 3.15): (1) a base average annual lending capacity of SDR 1¼ billion; (2) contingent measures that can be activated when average financing needs exceed the base envelope by a substantial margin for an extended period; and (3) the expectation that all modifications to LIC facilities would be designed in a manner consistent with PRGT self-sustainability.

An important legal step toward establishing the self-sustained PRGT was made on April 24, 2014, when the IMF’s Executive Board approved the necessary amendments to the PRGT Instrument that would allow future transfers of investment income from the Reserve Account to the General Subsidy Account to subsidize PRGT lending. This self-sustained PRGT architecture will become effective only after all lenders of the Loan Account of the PRGT have consented

to these amendments—a necessary safeguard because the Reserve Account provides security to PRGT lenders.

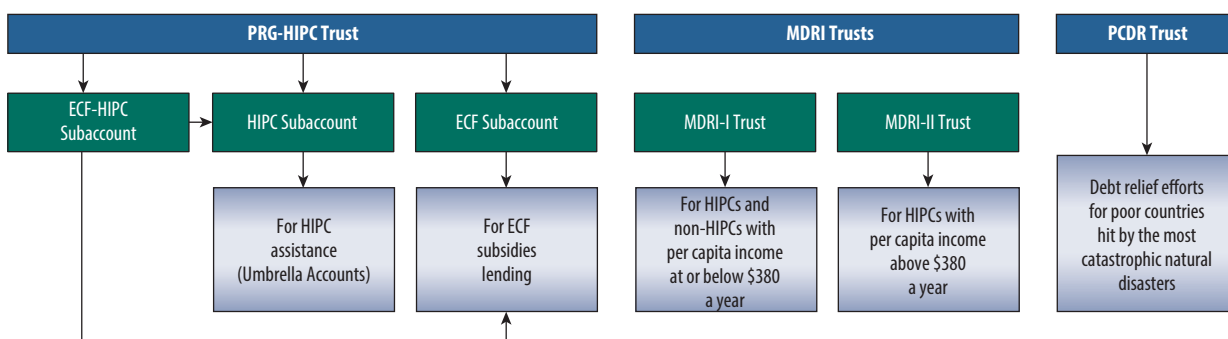
3.6.5 Framework for Debt Relief

Debt relief is provided through the following trusts (1) The PRG-HIPC Trust; (2) the MDRI-I and MDRI-II Trusts; and (3) the PCDR Trust. Each trust is structured to achieve the purposes for which it was established.

3.6.5.1 PRG-HIPC Trust

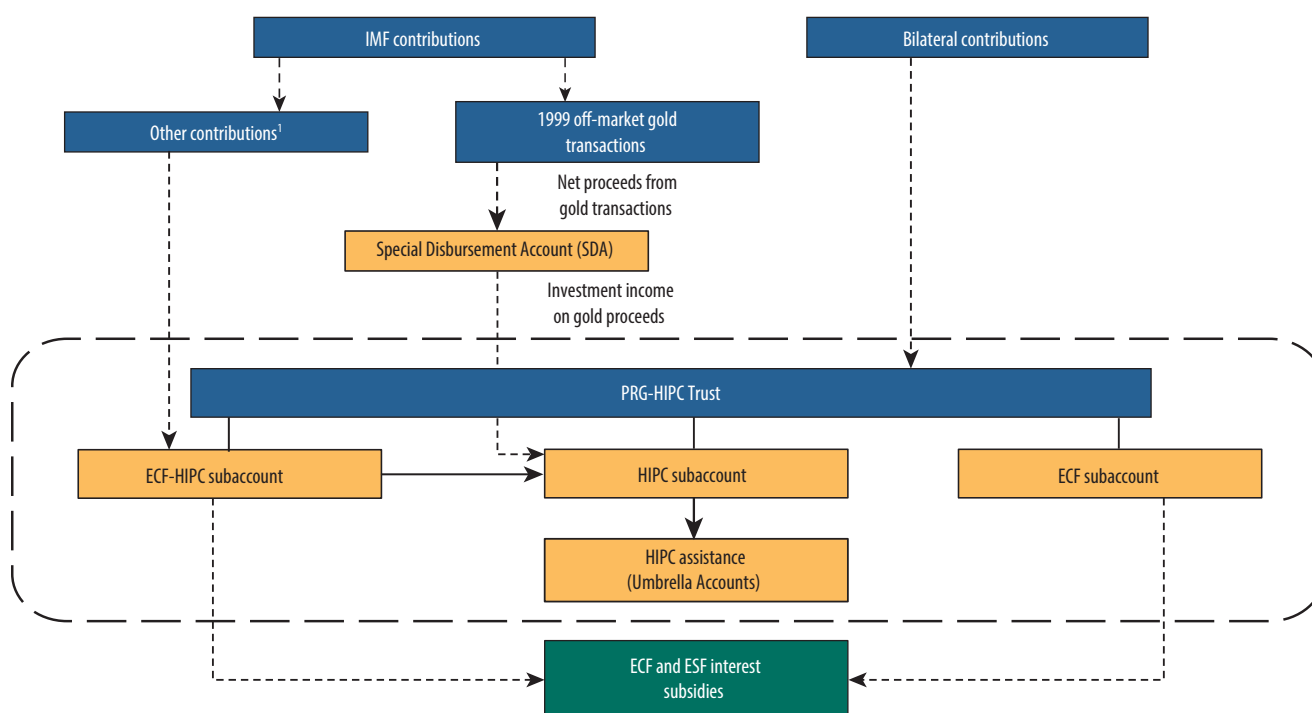
The PRG-HIPC Trust is composed of three subaccounts for receiving and providing grants for debt relief and subsidization of outstanding Extended Credit Facility (ECF) loans and Umbrella Accounts (Figure 3.7).

Subaccounts: The ECF subaccount, the HIPC subaccount, and the ECF-HIPC subaccount permit contributors to earmark resources for either ECF or HIPC or both operations. In addition, resources in the ECF-HIPC subaccount that are not earmarked for HIPC operations can be transferred to the ECF Subsidy Account if resources in the latter are insufficient for subsidizing ECF lending.

Figure 3.7 Debt Relief Framework


Source: Finance Department, International Monetary Fund.

Note: ECF = Extended Credit Facility; HIPC = Heavily Indebted Poor Countries; MDRI = Multilateral Debt Relief Initiative; PCDR = Post-Catastrophe Debt Relief.

Figure 3.8 Financial Structure of the Poverty Reduction and Growth—Heavily Indebted Poor Countries Trust


Source: Finance Department, International Monetary Fund.

Note: ECF = Extended Credit Facility; ESF = Exogenous Shocks Facility; HIPC = Heavily Indebted Poor Countries; PRG = Poverty Reduction and Growth.

¹ Includes transfers from the Reserve Account of the PRGT for the cost of administering PRGT operations for 1998–2004 and transfers of part of the interest surcharge on certain outstanding purchases under the Supplemental Reserve Facility.

Umbrella Accounts: A separate subaccount, or Umbrella Account, is established for each HIPC beneficiary. Resources placed in the Umbrella Accounts consist of HIPC grants approved by the Executive Board and disbursed to the member at the completion point, interim assistance provided between the decision and completion points, plus accumulated interest. These resources are used to meet the beneficiary's obligations to the IMF, in the case of interim assistance as they fall due, and in the case of eligible amounts that fall due after completion point to allow for early repayment.

3.6.5.2 MDRI Trusts

The MDRI-I and MDRI-II Trusts are composed of one account each (Figure 3.7) which received and provided resources for debt relief under the MDRI to two groups of countries differentiated by their levels of income per capita.

- **MDRI-I Trust:** Holds resources used to provide MDRI debt relief to low-income countries, both HIPCs and non-HIPCs, with income per capita at or below \$380 a year.

- **MDRI-II Trust:** Holds resources used to provide MDRI debt relief to HIPC countries with income per capita above \$380 a year.

3.6.5.3 PCDR Trusts

The PCDR Trust receives and provides resources for debt relief to allow the IMF to join international debt-relief efforts when eligible poor countries are hit by the most catastrophic of natural disasters.

3.6.6 Resources for Debt Relief

Resources for debt relief under the HIPC Initiative, MDRI, and PCDR have been provided by bilateral donors and the IMF. The IMF administers the resources as trustee of the associated trust accounts (see Section 3.6.1).

3.6.6.1 HIPC Initiative

The HIPC initiative has delivered SDR 2.6 billion in debt relief (Table 3.9). Resources for debt relief under the HIPC Initiative have been provided roughly equally by the IMF and contributions from 93 IMF members. Resources received but not yet disbursed are invested, providing additional net income over time of about SDR 0.3 billion.

The bulk of the IMF's contribution came from the investment income on the net proceeds from 1999 off-market

transactions in gold. A total of 12.9 million fine troy ounces in off-market gold transactions were completed in April 2000, generating net proceeds of SDR 2.23 billion.

These resources were placed in the Special Disbursement Account (SDA) and invested solely for the benefit of the HIPC Initiative.¹⁷ However, funding of the IMF's MDRI resulted in some changes to the funding of the HIPC Initiative. Some of the gold corpus was used to finance the MDRI, and therefore it did not generate investment income to finance the HIPC Initiative, as originally envisaged. Therefore, to ensure that the HIPC Initiative was sufficiently financed, on January 6, 2006, some SDA resources (SDR 530 million) were transferred to the HIPC Subaccount of the PRG-HIPC Trust to be used exclusively for HIPC assistance (Figure 3.8).

Resources for the HIPC Initiative were substantially depleted after the delivery of debt relief. Table 3.9 provides a summary of all inflows and outflows to and from the PRG-HIPC Trust. There now remains one decision-point country (Chad), which at the end of 2012 had received HIPC interim assistance of about SDR 9 million.

3.6.6.2 MDRI

Funding for MDRI did not involve any new resource mobilization. The MDRI-I Trust was financed with IMF resources of SDR 1.5 billion that were transferred from the SDA, representing the IMF's resources from past gold sales (Figure 3.9).¹⁸ The MDRI-II Trust was financed by a direct, one-time transfer of SDR 1.12 billion from the PRGF-ESF Subsidy Account of the PRGT, representing bilateral resources from 37 contributors.¹⁹ Resources for the MDRI were also substantially depleted after the delivery of debt relief. Table 3.10 provides a summary of all inflows and outflows of the two MDRI Trusts.

3.6.6.3 PCDR

The initial financing for the PCDR Trust of SDR 280 million was transferred from surplus balances in the MDRI-I Trust through the Special Disbursement Account to the PCDR Trust. PCDR resources available for debt relief as of

Table 3.9 Heavily Indebted Poor Countries and Poverty Reduction and Growth—HIPC Trust Resources
(Billions of SDRs; as of April 30, 2014)

Debt Relief and Sources of Financing	Amount
Total HIPC Debt Relief Delivered ¹	2.59
Financing by Source	
IMF Contributions	1.24
Transfer from Special Disbursement Account (SDA)	1.17
Transfer from General Resources Account (GRA)	0.07
Bilateral Contributions	1.28
Cumulative Net Income	0.32
Total Financing	2.84
Remaining Resources Available	0.24
Memorandum Items:	
Estimated Financing Need for Remaining HIPCs ²	0.01
Pending Pledged Contributions to Finance Liberia's Debt Relief ³	0.02

Source: Finance Department, International Monetary Fund.

¹ Includes commitments made at Decision Point and interest earned on commitments.

² Estimates in end-June net present value (NPV) terms for Decision Point and pre-Decision Point cases, excluding protracted arrears cases.

³ In March 2008 NPV terms; finalized pledged contributions will replenish the PRG-HIPC Trust.

¹⁷ The SDA is the vehicle for receiving and investing profits from the sale of the IMF's gold and for making transfers to other accounts for special purposes authorized in the Articles of Agreement, in particular for financial assistance to low-income members of the IMF.

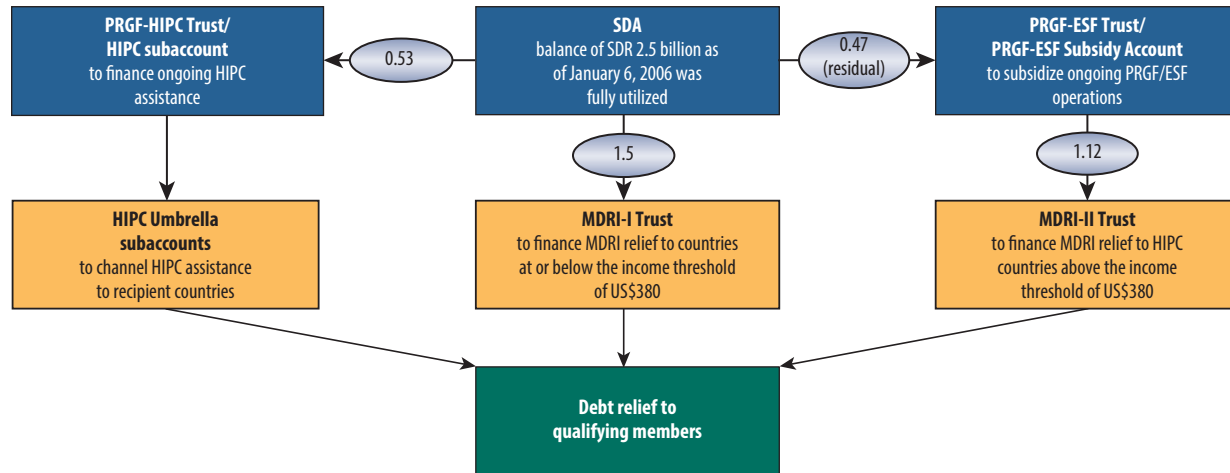
¹⁸ Under the Trust Instrument, any surplus at the time of termination of the MDRI-I Trust must be transferred back to the SDA.

¹⁹ Under the Trust Instrument, any surplus at the time of termination of the MDRI-II Trust must be transferred back to the PRGT to provide subsidies.

April 30, 2014, were SDR 102 million. The PCDR Trust is expected to be replenished through future donor contributions as necessary. Table 3.11 provides a summary of all inflows and outflows of the PCDR Trust.

Figure 3.9 Financing Framework for Debt Relief under the Heavily Indebted Poor Countries Initiative and Multilateral Debt Relief Initiative

(Billions of SDRs)



Source: Finance Department, International Monetary Fund.
Note: ESF = Exogenous Shocks Facility.

Table 3.10 MDRI Trust Debt Relief and Sources of Financing
(Billions of SDRs; as of April 30, 2014)

Debt Relief and Sources of Financing	Amount	
	MDR-I	MDR-II
Total IMF MDRI Debt Relief Delivered ¹	1.23	1.09
HIPC Countries	1.10 ²	1.09
Non-HIPC countries	0.13 ²	—
Sources of Financing		
IMF Contributions	—	—
Transfer from Special Disbursement Account (SDA)	1.50	—
Cumulative Net Income	0.02	0.01
Transfer to the PCDR Trust	-0.28	—
Bilateral Contributions ³	—	1.12
Total Financing	1.24	1.13
Remaining Resources Available	0.01	0.04

Source: Finance Department, International Monetary Fund.

¹ Excludes SDR 116 million of MDRI-like beyond-HIPC debt relief to Liberia financed from the Liberia Administered Account.

² Eligible countries with income per capita below \$380.

³ Transferred from PRGF-ESF Trust.

Table 3.11 PCDR Trust Debt Relief and Sources of Financing
(Billions of SDRs; as of April 30, 2014)

Debt Relief and Sources of Financing	Amount
Total PCDR Debt Relief Delivered	0.18
Sources of Financing	
IMF Contributions	0.28
MDRI-I	0.28
Cumulative Net Income	0.00
Total Financing	0.28
Remaining Resources Available	0.10

Source: Finance Department, International Monetary Fund.

Note: PCDR = Post-Catastrophe Debt Relief.

Box 3.1 Concessional Lending Timeline

1976: A Trust Fund is set up for concessional lending, financed through the sale of 25 million ounces of the IMF's gold during 1976–80. Trust Fund loans include a 5½-year grace period and are repayable in 10 years, at an interest rate of ½ percent a year.¹

1986: The Structural Adjustment Facility is created to provide concessional financing to help low-income countries address balance of payments financing needs arising from structural weaknesses. The SAF Trust is financed by reflows of Trust Fund repayments, and its loans are extended on the same terms.

1987: The Enhanced Structural Adjustment Facility (ESAF) Trust offers higher access under 3-year arrangements.

1994: The ESAF Trust is enlarged with new bilateral loans and subsidy contributions.

1999: The ESAF is renamed the Poverty Reduction and Growth Facility (PRGF) and refocused toward reducing poverty and strengthening growth on the basis of country-owned poverty-reduction strategies.

2001: An Administered Account is set up at the IMF for donors to subsidize Emergency Post-Conflict Assistance purchases from the GRA (EPCA) to eligible countries (Box 3.2).

2005: Subsidized assistance is extended to eligible members receiving Emergency Natural Disaster Assistance (ENDA) purchases from the GRA.

2006: The Exogenous Shocks Facility (ESF) is set up within the PRGF Trust to assist low-income countries facing sudden and exogenous shocks (Box 3.3). To implement the ESF, the PRGF Trust is renamed the Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF) Trust.

2008: The Executive Board modifies the ESF to provide shocks assistance more rapidly and with streamlined conditionality. In particular, a rapid-access component (ESF-RAC) allows a member access to up to 25 percent of its quota with no upper-credit-tranche (UCT) conditionality (which involves a set of

policies sufficient to correct balance of payments imbalances and enable repayment to the Fund).

2010: The PRGF-ESF Trust is converted into the PRGT in the wake of the sweeping reform of concessional assistance by the Executive Board. Three new facilities are created: the Extended Credit Facility (ECF), which succeeds the PRGF to provide financial assistance to countries with protracted balance of payments problems; the Standby Credit Facility (SCF) to address short-term balance of payments needs, allowing also for precautionary use; and the Rapid Credit Facility (RCF) to provide rapid, low-access financing with limited conditionality to meet urgent balance of payments needs. The RCF replaces both the ESF-RAC and subsidized ENDA and EPCA to eligible countries.

2012: In September, the Executive Board approves a strategy to make the PRGT self-sustaining for the longer term. The IMF's concessional lending is normally to be subsidized by returns on existing resources rather than new bilateral contributions. However, loan resources continue to be provided by bilateral lenders.

2013: In October, resources needed to sustain concessional lending to low-income countries at an average annual capacity of around SDR 1.25 billion, which is broadly in line with estimated demand for IMF support to the world's poorest countries, was secured. A critical mass of 151 member countries committed to provide to the Poverty Reduction and Growth Trust (PRGT) their share in the partial distribution of the general reserve of SDR 1.75 billion which was attributed to windfall profits remaining from the partial sale of IMF gold. This amounted to over 90 percent of the distribution that was approved in September 2012. This distribution followed a similar partial distribution of SDR 0.7 billion of general reserves attributable to windfall profits from gold sales which took place in October 2012.

¹ Of the \$4.6 billion in profits from the gold sales, \$1.3 billion was distributed to developing economy members in proportion to their quotas; \$3.3 billion was made available for concessional lending through the Trust Fund.

Box 3.2 Subsidization of Emergency Assistance and Its Financing

Since 1962, the IMF has provided emergency assistance to member countries afflicted by natural disasters. In 1995, the IMF's emergency assistance was broadened to include countries in the aftermath of conflict. This assistance was provided under the Emergency Natural Disaster Assistance and Emergency Post-Conflict Assistance (ENDA/EPCA) Facility, which were financed by GRA resources. Financial support through EPCA was subsidized for low-income countries from May 2001 onward and for ENDA support from January 2005 onward. The Rapid Credit Facility (RCF) replaced subsidized use of ENDA/EPCA for low-income countries in January 2010.

The RCF provides rapid concessional financial assistance with limited conditionality to low-income countries facing urgent balance of payments needs (see Table 3.1).

Terms: Access to RCF financing is determined on a case-by-case basis and is generally limited to 25 percent of quota a year and 100 percent of quota cumulatively. However, under the RCF's shocks window, access is available up to 50 percent of quota a year and 125 percent on a cumulative basis. Financing under the RCF has a grace period of 5½ years and a final maturity of 10 years.

Subsidized Financing: In May 2001, the interest rate on ENDA/EPCA loans was lowered to 0.5 percent a year through subsidies from bilateral donors for postconflict cases eligible for IMF concessional facilities. After January 2005, subsidized rates were also available for emergency assistance for natural disasters at a member's request—again, financed by donor contributions. As of April 30, 2013, contributions to subsidize ENDA/EPCA emergency assistance totaled SDR 41 million from 19 donors. The 2009 reform of the IMF's concessional facilities set the interest rate on financing under the RCF at zero from 2010 through 2014. The ENDA/EPCA Subsidy Account remained open temporarily to subsidize emergency purchases outstanding on the effective date of the PRGT reform (that is, as of January 7, 2010). All of these purchases were fully repaid by April 4, 2013. Accordingly, the account was terminated on February 1, 2014, with most of the remaining subsidy resources transferred to the PRGT subsidy account. Between 2001 and 2013, the account had enabled subsidization of SDR 406 million in purchases under EPCA/ENDA.

Box 3.3 Exogenous Shocks Facility

On November 23, 2005, the IMF Executive Board approved the establishment of the Exogenous Shocks Facility (ESF) within the Poverty Reduction and Growth Facility (PRGF). The ESF was designed to provide concessional financing to low-income countries that had no PRGF arrangement and were experiencing exogenous shocks. For purposes of the ESF, the Executive Board defined an exogenous shock as an event beyond the control of the authorities of the member country that had a significant negative impact on the economy. The ESF was modified several times and was superseded in 2009 by the Rapid Credit Facility (RCF) and Standby Credit Facility (SCF).

Because the ESF was established as a new facility under the PRGF Trust, it was necessary to mobilize additional loan and subsidy resources to make it operational. Resources were sought

from bilateral creditors and secured by the Reserve Account previously associated with the PRGF. There were pledges of SDR 211.3 million in subsidy resources from 11 contributing members and about SDR 0.7 billion in loan resources for ESF-specific lending from one lender.

The ESF was modified in 2008 with the establishment of two separate modalities, the High-Access Component (ESF-HAC) and the Rapid-Access Component (ESF-RAC). The ESF-RAC made loan disbursements outright, rather than under an arrangement as required for the ESF-HAC.

As part of the 2009 reform of the IMF's concessional facilities, the RCF replaced the ESF-RAC, and the SCF replaced the ESF-HAC. Existing ESF-HAC arrangements remained in effect until their expiration or cancellation.

Box 3.4 Policy Support Instrument

The Executive Board established the Policy Support Instrument (PSI) in 2005. The PSI is a nonfinancial instrument that supports countries in a broadly stable and sustainable macroeconomic position—that is, low-income countries that may not need or want IMF financial assistance but seek to consolidate their economic performance with IMF monitoring and support and seek explicit Executive Board endorsement of their program and policies.

Purpose: The PSI is designed to promote a close policy dialogue between the IMF and a member country. It provides more frequent IMF assessments of the member's economic and financial policies than is available through the regular annual surveillance. This support from the IMF also delivers clear signals to donors, creditors, and the general public about the strength of the country's policies.

Eligibility: The PSI is available to all Poverty Reduction and Growth Trust (PRGT)-eligible countries that have a poverty-reduction strategy in place and a policy framework focused on consolidating macroeconomic stability, while deepening structural reforms in key areas in which growth and poverty

reduction are constrained, including those that have established a good track record of macroeconomic management, and whose institutions are able to support continued good performance, including in response to shocks.

Duration and repeated use: A PSI is approved for 1 to 4 years and may be extended for a maximum of 5 years. After the expiration or cancellation of the PSI, a successor PSI may be requested as long as the qualification criteria are met. There is no limit on the number of successor PSIs.

The PSI is a valuable complement to the lending facilities under the PRGT. If short-term financing needs arise, PSI users can request concurrent support under the Standby Credit Facility, or under the Rapid Credit Facility. In line with the approach to conditionality in IMF lending facilities, the criteria for the assessment of policies under a PSI-supported program was streamlined.

Between the PSI's establishment and April 30, 2014, the IMF's Executive Board had approved PSIs for seven members: Cabo Verde (formerly Cape Verde), Mozambique, Nigeria, Rwanda, Senegal, Tanzania, and Uganda.

Box 3.5 Interest Rate Regime for Concessional Facilities

Prior to the 2009 reform of IMF concessional lending facilities, the interest rate on the IMF's concessional loans, including Exogenous Shock Facility (ESF) loans, was fixed at 0.5 percent over a 10-year maturity, with a 5½-year grace period. The reform reduced the interest rates on all concessional loans while tailoring repayment terms under the different facilities of the Poverty Reduction and Growth Trust (PRGT) according to the type of balance of payments need. The interest rate was initially zero for the Extended Credit Facility (ECF) and Rapid Credit Facility (RCF) and 0.25 percent for the Standby Credit Facility (SCF) and ESF. However, in the wake of the global financial crisis, effective January 7, 2010, the Executive Board waived all interest payments for 2010 and 2011 on all outstanding concessional credit through the end of January 2012, including subsidized emergency assistance through the Emergency Natural Disaster Assistance (ENDA) and Emergency Post-Conflict Assistance (EPCA) under the General Resources Account (GRA).

The interest rate structure is reviewed every 2 years for all concessional loans (except balances outstanding under the old ESF which will continue to carry a rate of 0.25 percent once the

temporary interest waiver expires). At each review, the interest rate levels would normally be adjusted in line with developments in SDR interest rates, within the ranges shown in the table below. The new interest rates following reviews will apply to all existing and subsequent credit disbursed.

The first review of the interest rate structure was concluded in December 2011. Given the severe downside risks to the global economy, the Executive Board endorsed a 1-year extension of the temporary interest waiver on all PRGT loans through the end of 2012, and a zero interest rate on outstanding ECF and RCF loans, and 0.25 percent on outstanding SCF loans from January 1, 2013, through December 31, 2013. In December 2012, the Executive Board approved the extension of the temporary interest waiver on concessional loans through the end of December 2014 in view of the global economic crisis.¹

¹The temporary interest waiver was extended on outstanding ENDA/EPCA credits until April 4, 2013, when the last outstanding ENDA/EPCA credit was repaid. There is still outstanding ENDA/EPCA credit by non PRGT-eligible members.

Interest Rate Mechanism for Concessional Facilities

(Percent a year)¹

	Extended Credit Facility	Rapid Credit Facility	Standby Credit Facility
SDR rate less than 2 percent	0.00	0.00	0.25
SDR rate 2–5 percent	0.25	0.25	0.50
SDR rate greater than 5 percent	0.50	0.50	0.75

Source: Finance Department, International Monetary Fund.

Note: SDR = Special Drawing Right.

¹The average SDR rate is based on the most recent 12 months.

Box 3.6 Poverty Reduction Strategy Papers

The Poverty Reduction Strategy Papers (PRSPs), initiated by the IMF and the World Bank in 1999, result in a comprehensive country-based strategy for poverty reduction. PRSPs aim to provide the crucial link between national public actions, donor support, and the development outcomes needed to meet the United Nations' Millennium Development Goals. PRSPs help guide policies associated with IMF and World Bank concessional lending as well as debt relief under the HIPC Initiative.

The core principles underlying the PRSP approach are that poverty-reduction strategies should be:

- country driven
- based on broad participation of civil society to promote national ownership of strategies
- results oriented and focused on outcomes that will benefit the poor
- comprehensive in recognizing the multidimensional nature of poverty
- partnership oriented, involving coordinated participation of development partners (government, domestic stakeholders, external donors)
- based on a long-term perspective for poverty reduction.

Country-owned PRSPs remain the basis of sustained program relationships with the IMF under the Extended Credit Facility and Policy Support Instrument. The 2009 reform of concessional facilities and the most recent Review of Facilities for Low-Income Countries eased the procedural requirements related to the Poverty Reduction Strategy while underscoring the importance of maintaining a strong focus on poverty reduction in low-income countries. Programs supported by the IMF's concessional lending facilities will, when possible, include specific quantitative targets to safeguard social and other priority spending, consistent with the priorities in national poverty-reduction strategies. Now that PRSPs are in place in a large share of low-income countries, the focus has shifted toward effective implementation.

Box 3.7 Debt Relief Timeline

1996: The IMF and World Bank jointly launch the Heavily Indebted Poor Countries (HIPC) Initiative to provide assistance through grants that lower recipient countries' debt service repayments to the IMF.

1999: The HIPC Initiative is further enhanced to provide faster, deeper, and broader debt relief.

2006: The IMF implements the Multilateral Debt Relief Initiative (MDRI) to provide full relief of eligible (pre-2004) IMF debt to eligible HIPCs and other low-income countries. The HIPC

Initiative and the MDRI are financed through bilateral contributions and IMF resources.

2010: In June, following the devastating earthquake in Haiti, the IMF introduces the Post-Catastrophe Debt Relief (PCDR) Trust, which allows the IMF to join international debt relief efforts when eligible low-income countries are hit by catastrophic natural disasters. The PCDR Trust is initially financed with the IMF's own resources, with the expectation of replenishment through donor contributions, as necessary.

Box 3.8 The Heavily Indebted Poor Countries Sunset Clause

Under the sunset clause, the HIPC Initiative was initially set to expire at the end of 1998. This was meant to prevent the initiative from becoming permanent, to minimize moral hazard, and to encourage early adoption of reforms by HIPCs. The expiration date was subsequently extended four times to allow more time for eligible countries to undertake qualifying programs.

With the last extension, until end of 2006, the IMF and World Bank Boards decided to close the initiative to new entrants by ring-fencing its application to those countries that met the income and indebtedness criteria based on debt data at the end of 2004. In April 2006, the IMF endorsed and closed a list of 14 countries that were assessed to have met these criteria, and these countries were grandfathered into the initiative: seven countries that were previously assessed eligible for HIPC Initiative debt relief (Central African Republic, Comoros, Côte d'Ivoire, Liberia, Somalia, Sudan, and Togo), four additional countries (Eritrea, Haiti, the Kyrgyz Republic, and Nepal), and three countries that chose not to participate (Bhutan, Lao PDR, and Sri Lanka). Sri Lanka later graduated from PRGT eligibility and therefore from eligibility for the HIPC Initiative. In 2007, Afghanistan was assessed to be HIPC-eligible after its debt-reconciliation process was completed (based on end-2004 debt data) and included in the ring-fenced list of countries. In 2009, Nepal chose not to participate in the initiative.

In December 2011, the IMF and the World Bank Executive Boards agreed to add end-2010 indebtedness as a criterion for eligibility for assistance under the HIPC Initiative as well as to ring-fence further the list of eligible or potentially eligible countries based on that criterion. The expanded criteria eliminated from eligibility three countries: Bhutan and Lao P.D.R., both of which had previously indicated that they chose not to participate, and the Kyrgyz Republic because their external debt was assessed as well below the initiative's thresholds.

As of April 30, 2014, the remaining HIPC-eligible countries are:

- Chad, which reached its decision point in May 2001 and has received HIPC interim assistance of about SDR 9 million from the IMF
- Eritrea, Somalia, and Sudan, the latter two of which have protracted arrears to the IMF, and all three of which have yet to qualify for debt relief under the HIPC Initiative.

The cost to the IMF for providing debt relief to the protracted arrears countries was not included in the original cost estimates for the HIPC Initiative, and so additional financing will need to be secured when these members are ready to clear their arrears and embark on the HIPC Initiative.

Box 3.9 Topping Up HIPC Assistance

Under the Enhanced HIPC Initiative, additional debt relief beyond that committed at the decision point can be committed at the time of the completion point on a case-by-case basis to bring the ratio of the net present value (NPV) of debt-to-exports to 150 percent (or NPV of debt-to-fiscal-revenue to 250 percent). The burden-sharing approach is based on a creditor's exposure after both enhanced HIPC relief and additional bilateral debt reduction. Topping-up assistance for eligible HIPCs is calculated on the basis of the debt stock before the delivery of Multilateral Debt Relief Initiative (MDRI) relief (see Section 3.4).

The additional topping-up assistance is committed only if the member's declining debt sustainability stems primarily

from a fundamental change in its economic circumstances as a result of exogenous factors. Moreover, the IMF will only deliver topping-up assistance once satisfactory financing assurances have been received from other creditors indicating they will also provide their share of debt relief under the HIPC Initiative. These indications of satisfactory financing assurances are similar to assurances required for the provision of HIPC debt relief at the completion point. This approach also ensured that the IMF's MDRI debt relief was additional to assistance under the HIPC Initiative. As of April 30, 2014, the IMF has provided additional topping-up assistance to six countries for a total of SDR 62.7 million in NPV terms.

IMF Topping-Up of HIPC Assistance

(Millions of SDRs; in NPV terms; as of April 30, 2014)

Country	Amount	Percent of Original Commitment	Dates of		Time until Satisfactory Financing Assurances Were in Place (months)
			Commitment	Disbursement	
Burkina Faso	10.9	65	April 2002	October 2004	30.8
Ethiopia	18.2	68	April 2004	March 2005	11.1
Malawi	10.1	43	August 2006	December 2006	3.7
Niger	9.7	45	April 2004	March 2005	11.4
Rwanda	13.0	38	April 2005	August 2005	4.6
São Tomé and Príncipe	0.8	...	March 2003	December 2008	9.5
Total	62.7				
Average	10.4	51.9			11.8

Source: Finance Department, International Monetary Fund.

Note: NPV = net present value.

Box 3.10 Liberia's Debt Relief

Liberia was in arrears to the IMF from 1984 until March 14, 2008, when it regularized its relations with the IMF through the clearance of SDR 543 million in arrears. This paved the way for Liberia to receive new financing and debt relief.

New financing: On March 14, 2008, with financing from a bridge loan provided by the United States, Liberia cleared its long-standing overdue obligations to the IMF. On the same day, the IMF's Executive Board approved Extended Credit Facility (ECF; formerly the PRGF) and Extended Fund Facility (EFF) arrangements amounting to SDR 239.02 million and SDR 342.77 million, respectively. Disbursements under the ECF and EFF arrangements were front-loaded in order to repay the bridge loan.

Debt relief: On March 18, 2008, the IMF and the World Bank committed to provide Liberia debt relief under the HIPC Initiative. The IMF Executive Board also agreed that upon reaching the completion point Liberia would receive MDRI-type

(beyond-HIPC) debt relief to cover any remaining debt originating under the successor ECF and EFF arrangements that corresponded to the stock of arrears at the time of arrears clearance.

Fundraising: A large number of IMF member countries contributed to the financing package of debt relief for Liberia. Bilateral contributions from 102 countries, including low-income countries, were facilitated by a partial distribution from the balances of the First Special Contingent Account (SCA-1) and the proceeds of deferred charges adjustments used to offset the impact on IMF income from Liberia's arrears.

In June 2010, Liberia received SDR 549 million in debt relief from the IMF. The IMF debt relief was associated with the stock of arrears at arrears clearance, subject to HIPC and beyond-HIPC assistance (SDR 427 million and SDR 116 million, respectively), and remaining HIPC assistance associated with the first disbursement of new credit under the ECF (SDR 5.5 million).

Box 3.11 Trust Assets: Investments in Support of Concessional Financing

The IMF manages several trusts, funded and invested to provide positive returns to augment its lending capacity to low-income countries. The IMF acts as trustee, and these trusts are separate from general quota resources. The trusts have been established to meet specific needs.

The trusts include contributions from the IMF, from its members, and from other sources. The IMF's contributions have included funds from the Special Disbursement Account. Other funding sources include multilateral institutions and bilateral creditors and donors, who have provided grants, deposits, and loans at zero or below-market interest rates. As of April 2014, the trust resources available for investment totaled about SDR 7.6 billion. Most of these assets (95 percent) were in the Poverty Reduction and Growth Trust (PGRT). The trust to support the Heavily Indebted Poor Countries (HIPC) Initiative held 3 percent of total trust assets, the Post-Catastrophe Debt Relief (PCDR) Trust had 1 percent, and the two Multilateral Debt Relief Initiative trusts (MDRI-I and MDRI-II) had just under 1 percent.

Investment Strategy: Between 1987 and 2000, the trust assets were invested in either SDR-denominated deposits at the Bank for International Settlements (BIS) or short-term debt instruments issued by government or official institutions. In March 2000, to supplement the resources available for concessional lending, the Executive Board endorsed a new strategy focused on longer-term investments with the aim of enhancing returns. Short-term deposits are now kept to a minimum, and the bulk of the funds are invested over longer horizons using a 1- to 3-year SDR-weighted government bond benchmark.

Investment Provisions of Trusts: The investment provisions of the trusts define the eligible investments. In general, the trust

assets can be invested in the same set of instruments as those in the Fixed-Income Subaccount of the Investment Account (see Chapter 5). These include domestic government bonds of member countries, bonds and other marketable obligations of eligible national and international financial organizations, and deposits with the BIS. The provisions of some of the trusts also allow for deposits with commercial banks.

As with the Fixed-Income Subaccount of the Investment Account, the investment is managed by external managers (except for BIS investments which are managed by IMF staff), a custodian bank, and an operational staff. Although the resources and records of the Investment Account and the trusts are separate, the investment activities for both portfolios are carried out in a consistent way in order to realize the cost benefits of economies of scale.

Some trust resources are held in short-term deposits to ensure adequate liquidity to meet the operational requirements of managing inflows from donations and repayments and outflows for loans. About 10 percent of the trust resources are held in short-term deposits with the BIS.

All trust operations and transactions are denominated in SDRs, but this is not necessarily the case for all trust investments. Deposits with the BIS are denominated in SDRs, but investments in bonds and BIS medium-term instruments are denominated in the currencies that comprise the SDR basket. As with the Fixed-Income Subaccount of the Investment Account, currency risk is mitigated by making the investments replicate the SDR basket. The currency composition of the investments may differ from that of the SDR basket; however, when the relative prices of assets in the various currencies diverge, the portfolio is rebalanced periodically to further reduce risk.

Box 3.12 The 2009 Fundraising Exercise

As part of the 2009 reform of the IMF concessional lending facilities, a major fundraising drive was launched to secure an additional SDR 10.8 billion in loan resources and SDR 1.5 billion in subsidy resources to support projected demand for concessional loans of SDR 11.3 billion during 2009–14.

Loan resources: In 2009, the IMF staff initially projected that loan resources of about SDR 9 billion would be needed to ensure a projected lending capacity of SDR 11.3 billion during 2009–11. However, the target was subsequently raised to SDR 10.8 billion to allow for a buffer for encashment purposes. By the end of 2011, 14 lenders had pledged SDR 9.8 billion in loan resources, including seven lenders that participate in the encashment regime.

Subsidy resources: In 2009, the IMF staff projected resources needed to fully subsidize lending during 2009–14 at SDR 2.5 billion in end-2008 net present value (NPV) terms. With SDR 1.0 billion available at the time, additional subsidy resources of SDR 1.5 billion were needed. The IMF Executive Board agreed to a financing package composed of mostly internal sources that broadly covered the SDR 1.5 billion NPV target:

- a transfer of SDR 0.62 billion from the PRGT Reserve Account to the General Subsidy Account (GSA) and new bilateral contributions of SDR 0.2–0.4 billion

- delayed reimbursement to the GRA for PRGT administrative costs for three financial years, FY 2010–12, of SDR 0.15–0.20 billion
- use of SDR 0.5–0.6 billion linked to gold sales profits from a distribution to members of reserves attributed to gold sales profits.

The Executive Board endorsed the transfer of resources from the Reserve Account to the GSA.¹ Fundraising efforts for bilateral subsidy resources are ongoing, with commitments as of March 31, 2014, of SDR 214.1 million from 26 members, near the lower bound of the target range. The equivalent of the estimated costs of administering the PRGT was transferred from the Reserve Account to the GSA—SDR 38.4 million in FY2010, SDR 46.4 million in FY2011, and SDR 63.1 million in FY2012.

¹The authority to make this transfer was ultimately not used. Following the establishment in 2014 of general authority to transfer resources from the Reserve Account to the GSA when needed, the authorization for the specific transfer of SDR 0.62 billion was rescinded.

Box 3.13 Features of Loan Resources

In 2010, a number of modifications were made to the framework for lending to the Poverty Reduction and Growth Trust (PRGT) in response to issues raised by potential lenders to the PRGT. The modifications addressed a number of issues, described here.

Encashment regime: To allow for the reserve status of claims on the PRGT, a voluntary encashment regime was established. Participating creditors have the right to seek early repayment of outstanding claims on the PRGT in case of balance of payments needs and to authorize drawings by the trustee to fund early repayment requests by other participating creditors to any of the loan accounts of the PRGT. Early repayment is subject to the availability of resources under borrowing agreements of other participating creditors.

Note issuance: A framework for notes was created that is similar to that used for General Resources Account borrowing. Notes are issued under PRGT Note Purchase Agreements and

are subject to General Terms and Conditions for PRGT Notes that together provide the same key financial and operational terms as are applicable to loans under PRGT loan agreements.

Lending in SDRs: SDR lenders are expected to have voluntary SDR trading agreements in place with the SDR Department.

Shorter maturities: Borrowing agreements can provide for shorter notional maturities and these may be extended unilaterally by the IMF, acting as trustee of the PRGT, up to the final maturity of the corresponding PRGT loans. This allows for shorter maturities but also protects the PRGT against maturity mismatches.

Differentiation of interest rates: The PRGT now pays the 3-month official SDR interest rate quarterly on loans in SDRs and continues to pay the derived 6-month SDR interest rate on loans in currencies on a semiannual calendar or anniversary basis.

Box 3.14 Reimbursement of Administrative Expenses Associated with Concessional Lending Operations

The IMF Office of Budget and Planning (OBP) provides the IMF Finance Department with an estimate of the cost of administering the IMF's concessional lending operations at the end of each financial year. Since the inception of the Trust Fund in 1976, all such administrative expenses have been accounted for, and the general rule is that costs are reimbursed to the General Resources Account (GRA).

Exceptions to the general rule have been agreed by the Executive Board in the context of funding initiatives since 1998 to increase concessional lending capacity or provide debt relief. During FY1998–2004, the Executive Board agreed to redirect SDR 366.2 million of such payments from the GRA to the PRGF-HIPC Trust to help finance both subsidy needs and debt relief. Similarly, during FY2005–09, SDR 237.3 million was redirected to benefit the subsidy account of the PRGF-ESF Trust.

As part of the 2009 concessional financing reforms, the Executive Board decided that, for a period of 3 years, starting in FY2010, an amount equivalent to the expenses of operating the PRGT would be transferred from the PRGT Reserve Account to the General Subsidy Account of the PRGT instead of to the GRA. This generated additional PRGT subsidy resources of SDR 147.9 million.

Part of the financing strategy approved by the Executive Board in September 2012 called for reimbursement of the GRA for PRGT administrative expenses to recommence in FY2013 and continue thereafter. If, however, demand for PRGT borrowing substantially exceeds the base envelope for an extended period, the strategy for the self-sustained PRGT allows the Executive Board to consider further temporary suspension of reimbursement.

Box 3.15 Making the Poverty Reduction and Growth Trust Sustainable

A three-pillar strategy to ensure that the PRGT has sufficient resources to meet projected demand for IMF concessional lending over the long-term was set out in Proposal to Distribute Remaining Windfall Gold Sales Profits and Strategy to Make the Poverty Reduction and Growth Trust Sustainable (September 17, 2012).

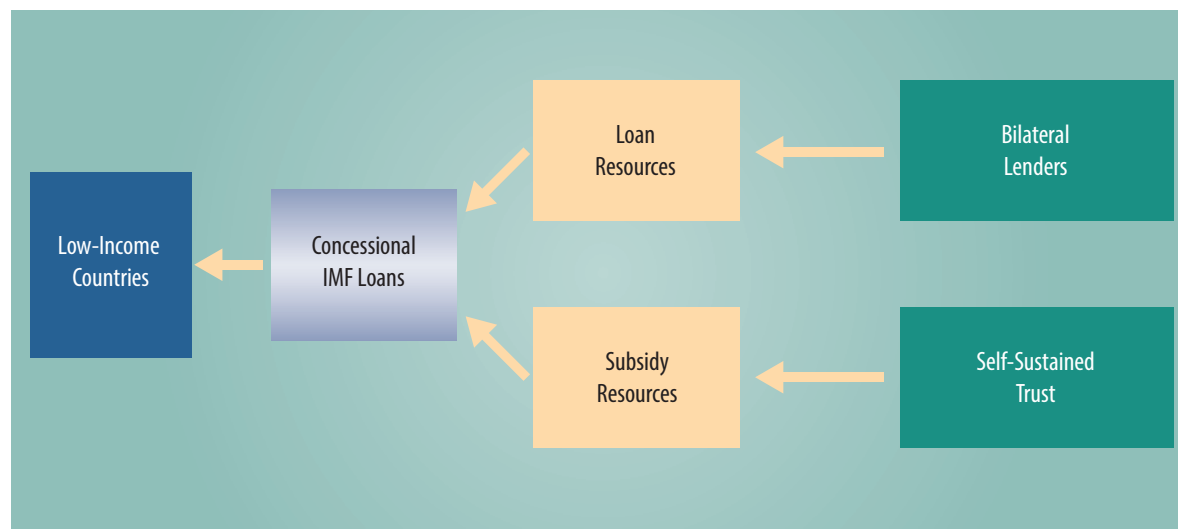
- A *base envelope* of about SDR 1¼ billion in annual lending capacity, which is expected to cover concessional lending needs over normal periods. While financing commitments can vary substantially from year to year, the self-sustaining PRGT can build up capacity in years with low levels of new lending commitments and draw down capacity in years when demand is high. This implies that the base envelope could cover periods where demand in individual years could be much higher, as long as fluctuations average out over a number of years.
- *Contingent measures* that can be put in place when average financing needs exceed the base envelope by a substantial margin for an extended period. If the Executive Board considers that the self-sustaining capacity will decline

substantially below SDR 1¼ billion, it could decide to activate a range of contingent measures, including (1) reaching additional understanding on bilateral fundraising efforts among a broad range of the membership; (2) the suspension for a limited period of the reimbursement of the GRA for PRGT administrative expenses; and (3) modifications of access, blending, interest rate, and eligibility policies to reduce the need for subsidy resources.

- A *principle of self-sustainability* under which future modifications to facilities for low-income countries would be expected to ensure that the demand for IMF concessional lending can reasonably be met with the resources available under the first and second pillars under a plausible range of scenarios.

The estimate of a self-sustained capacity of SDR 1¼ billion is based on the projected annual returns on the balances in the four PRGT subsidy accounts—including all existing subsidy resources and those facilitated by two partial distributions of amounts in the IMF general reserve attributed to the windfall gold sales profits—and investment income from the Reserve Account (RA) in the steady state.

Poverty Reduction and Growth Trust Self-Sustainability



Source: Finance Department, International Monetary Fund.

ADDITIONAL READING

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- Poverty Reduction and Growth Trust—Review of Interest Rate Structure*, IMF Policy Paper, November 23, 2011: www.imf.org/external/np/pp/eng/2011/112311.pdf
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- Poverty Reduction Strategy Papers: www.imf.org/external/np/prsp/prsp.aspx
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