

INTERNATIONAL MONETARY FUND

**Proposed Amendment of the Extended Fund Facility
Considerations to Extend the Duration of Extended Arrangements on
Approval from Three to Four Years¹**

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March 9, 2012

The EFF Decision currently provides that extended arrangements will be approved for periods not exceeding three years but that, where appropriate, the period of an existing arrangement may be lengthened to a duration of up to four years. This note proposes that the EFF Decision be amended to allow for extended arrangements to be approved for up to four years from the outset.

Context and Summary

1. **The reforms to the IMF lending toolkit since 2009 have injected additional flexibility and allowed better tailoring to countries' varying circumstances.** These reforms have enabled the Fund to better respond to the wide-ranging needs of member countries by, among other things, establishing new and more tailored facilities, increasing access limits, clarifying exceptional access criteria, streamlining conditionality, and reforming charges (including by strengthening price incentives via commitment fees), while maintaining adequate Fund safeguards.

2. **In an effort to streamline the lending toolkit, all facilities for special balance of payments needs were eliminated, except the Extended Fund Facility (EFF).** The Executive Board initially requested to preserve this facility given its benefits for low-income countries transitioning from PRGT-supported programs and for middle-income countries with prolonged balance of payments needs. Since the onset of the global crisis, this facility has proved successful in dealing with more entrenched balance of payments difficulties, and over time its use has broadened, including meeting the large financing needs that have arisen in the Euro Area crisis.² Extended arrangements can currently only be approved for periods

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² Six extended arrangements have been approved since 2008 (Liberia 2008, Seychelles 2009, Moldova 2010, Armenia 2010, Ireland 2010, and Portugal 2011).

not exceeding three years but can be lengthened, where appropriate, to a duration of up to four years. To allow better tailoring of the EFF to the needs of countries with serious longer-term balance of payments imbalances arising from structural impediments in production and trade, staff proposes an amendment of the EFF to allow for arrangements of up to four years to be approved from the outset.

Current Design

3. **Objectives:** The EFF was established in 1974 to complement the limited use allowed at the time (both in scale and duration) for stand-by arrangements (SBAs).³ Specifically, the Executive Board decision establishing the EFF states that the facility is contemplated, in particular, for: (a) economies suffering serious payments imbalance relating to structural maladjustments in production and trade, and where prices and cost distortions have been widespread; and (b) economies characterized by slow growth and an inherently weak balance of payments position which prevents pursuit of an active development policy. The decision further provides that assistance “will be given in the form of extended arrangements in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances in production, trade, and prices when it is expected that the needed improvement in the member’s balance of payments can be achieved . . . only over an extended period.”⁴ The underlying staff papers on the establishment of the EFF emphasized that the extended period was required to assist members that, faced with serious imbalances, would be prepared to embark on a comprehensive program involving major policy shifts.

4. **Duration:** The original (1973) discussion on the creation of a facility like the EFF envisaged financing programs of three or more years given the longer-term nature of the needed adjustments, in contrast to the then normal period of one year for SBAs. Ultimately, the decision taken was that extended arrangements would be approved at the outset for periods not exceeding three-year periods. A key consideration in this regard was the need to balance the longer time required to implement the major policy shifts contemplated under an extended arrangement with the concern that the program duration should be consistent with a time frame during which national support could reasonably be expected to be maintained. In this context, there was also the concern that if the period was longer than three years, unexpected economic and social developments could test the authorities’ commitment, leading to weaknesses in policy implementation. Subsequently, as the Fund began to approve SBAs for periods longer than one year, the EFF was amended to allow for extensions, where appropriate (based on similar considerations described in ¶7 for such extensions), permitting

³ [Decision No. 4377-\(74/114\)](#), September 13, 1974, as amended.

⁴ See [Decision No. 4377-\(74/114\)](#), at ¶1.

a maximum duration of four years, and thus helping defray excessive overlap in the envisaged use of these instruments.⁵

5. **Repurchases:** Reflecting the envisaged longer term adjustment, the EFF allows a longer repurchase period, providing more favorable repurchase terms compared with other Fund General Resources Account (GRA) instruments. Specifically, with respect to repurchase periods, a member is required to make repurchases within a range of four to ten years after each purchase. This compares with a repurchase period of a maximum of five years currently required for repurchases applicable to other GRA instruments.

Proposed Modification

6. **Rationale:** Given the longer-term adjustment envisaged under an extended arrangement, there is a strong case to make the EFF more flexible by allowing approval of a longer duration extended arrangement at the outset, where appropriate, as discussed below.

- Currently, despite the EFF's design to address longer-term balance of payments difficulties, both SBAs and extended arrangements can be approved for no more than three years at the outset. Looking back since 1992, 35 percent of extended arrangements were extended beyond three years, or—in a few cases—involved back-to-back extended arrangements, suggesting that a significant number required an adjustment program beyond three years.
- Based on current policy, an SBA is normally expected to range from 12 to 18 months, although a longer period, up to a maximum of three years, could be approved if requested by a member and is considered necessary by the Fund to enable the member to implement its adjustment program successfully.⁶ The EFF, however, lacks flexibility to design an extended arrangement of appropriate duration based on the determined adjustment need in cases where this need exceeds three years at the outset.
- Moreover, for members requiring deeper economic adjustments as envisaged under the EFF, a three-year extended arrangement that can be extended up to four years creates uncertainty given that extension of the arrangement is not part of the initial understandings with the member, which in turn constrains program design. Thus, allowing extended arrangements of up to four years on approval would strengthen the ability to design programs as appropriate to address deeper structural reforms and

⁵ [Decision No. 8885-\(88/89\)](#), adopted June 6, 1988.

⁶ See [Decision No. 12865-\(02/102\)](#), adopted September 25, 2002, as amended.

serious imbalances, and to start having the expected impact towards achieving stabilization.

7. ***Specific Proposal:*** It is proposed that the EFF Decision be modified to allow approval of extended arrangements for up to four years from the outset, where appropriate (as explained below). It would be expected that extended arrangements would be initially approved for periods not exceeding three years. For maximum flexibility under the EFF, the current policy allowing existing extended arrangements to be lengthened up to four years, where appropriate, at the request of the member, would be maintained. Determination of whether approval of a four-year arrangement is appropriate from the outset would be predicated on, inter alia, the existence of a balance of payments need beyond the three-year period, the prolonged nature of the adjustment required to restore macroeconomic stability, and the presence of adequate assurances about the member's ability and willingness to implement deep and sustained structural reforms. Similar considerations would be applicable to determine the appropriateness of lengthening shorter duration extended arrangements to four years. Extensions beyond four-years would not be feasible for any extended arrangement given longer-term program implementation and reform fatigue risks, as noted below. Any further financing required would have to be under a new Fund arrangement or other instrument, including, if appropriate, a new extended arrangement. Consistent with normal practice, it would be expected that purchases under extended arrangements would be evenly phased, providing the necessary financial support to see the member through successful completion of the adjustment program (but with frontloading possible in appropriate cases).⁷

8. ***Relationship with PRGT Framework:*** The proposed change in the design of extended arrangements could have implications for the design of blended EFF and PRGT financing. That said, there are already precedents in PRGT-GRA blended financing with varying durations of the blended arrangements, suggesting that potential implications are likely to be manageable.⁸ This will be assessed in the upcoming review of low-income countries facilities.

⁷ In the March 2009 reforms, it was recognized that Fund practice had traditionally been to establish more or less uniform amounts of access for each phased tranche. It was, however, clarified that Fund GRA arrangements may also be frontloaded as appropriate (see [Decision No. 7925-\(85/38\)](#), adopted March 8, 1985, as amended). In practice, even phasing continues to be used in the majority of arrangements approved since 1992.

⁸ For example, in Pakistan's SAF/SBA blend in 1988, the SAF had a three-year duration and the SBA was approved for two years; Liberia's 2008 ECF/EFF blend had a three year duration at approval – the ECF arrangement was then extended by 13 months, while the extended arrangement lapsed following disbursement of the full amount under the arrangement in March 2008.

Risks

9. **Approval of extended arrangements for more than three years from the outset, as proposed above, will create a longer commitment of Fund resources.** Committing Fund financing for a four-year extended arrangement has implications for Fund liquidity and the revolving nature of its resources. However, this risk is not significantly more than the current risk associated with extending a three-year arrangement to four years—a move which is often associated with augmentations. Also, the repurchase terms remain unchanged, mitigating some of the longer-term risks on Fund financing. Moreover, the 100 basis point time-based surcharge applying where outstanding credit has been above 300 percent of quota for more than three years provides an additional financial incentive to avoid prolonged large access.

10. **There are also risks of slippages in program implementation over the longer program period.** As noted earlier, past discussions of the EFF have recognized the risk that supporting adjustment over a period beyond three years may create reform fatigue, raising program implementation risks and prolonging the adjustment period even further. Mitigating this risk would require ensuring strong program ownership and commitment to long-term reforms for the four-year period. Indeed, justification for approval of four-year extended arrangements would be determined based on a member's specific circumstances and reform commitments (see ¶7).

Safeguards

11. **The standard safeguards that apply to all Fund financing will continue to apply, taking into account the longer term nature of the program.** This will include ensuring that the design of the program and conditions on purchases adequately reflect the deeper structural reforms needed. Securing adequate assurances about the political commitment to reform would also help mitigate risks. The normal practice of even phasing should also help in the context of the design of a longer program to ensure that financing is linked to satisfactory observance of successive conditions under the program and that adequate support of the adjustment effort is available throughout the period of the arrangement.

Proposed Decision

Extended Fund Facility—Proposed Modification

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Decision No. 4377-(74/114) on the Extended Fund Facility, adopted September 13, 1974, as amended, shall be amended to read as set forth in Attachment I to this decision.

2. Attachment B of Decision No. 10464-(93/130), on Stand-By and Extended Arrangement Standard Forms, adopted September 13, 1993, as amended, shall be amended to read as set forth in Attachment II to this decision.

ATTACHMENT I
Extended Fund Facility

(i) The Executive Directors have been considering the establishment of an extended facility for members that would enable the Fund to give medium-term assistance in the special circumstances of balance of payments difficulty that are indicated in this decision. The facility, in its formulation and administration, is likely to be beneficial for developing countries in particular.

(ii) The Executive Directors have noted the studies prepared by the staff, including SM/74/58 ("Extended Fund Facility," March 8, 1974), and especially paragraphs 12 to 16 of that memorandum, in which certain situations to which an extended facility could apply, are described as follows:

(a) an economy suffering serious payments imbalance relating to structural maladjustments in production and trade and where prices and cost distortions have been widespread;

(b) an economy characterized by slow growth and an inherently weak balance of payments position which prevents pursuit of an active development policy.

(iii) The Executive Directors have noted the support for an extended facility by the Committee of the Board of Governors on the Reform of the International Monetary System and Related Issues.

(iv) Taking into account the considerations set forth above, and in particular the exceptional problems faced by some members, the Executive Directors have decided to establish a facility in accordance with the terms set forth in Section II of this decision for the purpose of giving such members medium-term assistance, consistently with Article I(v) and the other purposes of the Fund, under extended arrangements.

1. The Fund will be prepared to give special assistance to members to meet balance of payments deficits for longer periods and in amounts larger in relation to quotas than has been the practice under existing tranche policies. Such assistance will be given in the form of extended arrangements in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances in production, trade, and prices when it is expected that the needed improvement in the member's balance of payments can be achieved without policies inconsistent with the purposes of the Fund only over an extended period. The Fund will pay particular attention to the policy measures that the member intends to implement in order to mobilize resources and improve the utilization of them and to reduce reliance on external restrictions, the time required for these measures to have the intended effect on the balance of payments, and such other factors as the Fund considers relevant to the member's circumstances.

2. A member that contemplates making a request for an extended arrangement should consult the Managing Director before making a request under this decision. A request by a

member for an extended arrangement in order to deal with a problem of the kind referred to in this decision will be met, subject to paragraphs 3 and 4 below, if the Fund is satisfied that

(a) the solution of the member's balance of payments problem will require a longer period than the period for which the resources of the Fund are available under existing tranche policies, and

(b) the member has presented:

- (i) a program, setting forth the objectives and policies for the whole period of the extended arrangement, and adequate for the solution of the member's problem; and
- (ii) a detailed statement of the policies and measures for the first 12 months constituting an initiation of the program referred to in (i) considered substantial in the member's circumstances,

with the understanding that, for each subsequent 12-month period, the member will present to the Fund a detailed statement of the progress made, and the policies and measures as in (ii) that will be followed, to further the realization of the objectives of the program referred to in (i) with such modifications in the member's policies as might reasonably be considered necessary to assist it to achieve its objectives in changing circumstances.

3. Extended arrangements under this decision will be for periods not exceeding four years. It would be expected that extended arrangements would be approved for periods not exceeding three years, although arrangements for up to four years may also be approved, where appropriate, and if the member so requests. Where appropriate, and at the request of the member, the period of an existing extended arrangement of less than four years may be lengthened up to the maximum duration of four years. Each arrangement will prescribe the total amount, and the annual installments within the total, available in accordance with the original or any modified terms of the arrangement. Purchases in respect of each installment will be phased over the period in which it is available and will be subject to suitable performance clauses related to the implementation of those policies that are necessary for achieving the objectives of the program that the member has adopted as the basis for an extended arrangement.

4. In order to carry out the purposes of this decision, the Fund will be prepared to grant any waiver of the conditions of Article V, Section 3(b)(iii) when necessary to permit purchases under this decision or to permit purchases under other policies that would raise the Fund's holdings of a member's currency above the limits referred to in that provision because of purchases outstanding under this decision.

5. A member that has obtained an extended arrangement under this decision will make repurchases corresponding to purchases under the extended arrangement to the extent that such purchases are still outstanding, as soon as its balance of payments problems have been overcome and, in any event, within an outside range of four to ten years after each purchase. Not later than four years after the first purchase under the extended arrangement the member will propose to the Fund a schedule of repurchases for all purchases outstanding

under the extended arrangement. Normally, schedules under this paragraph will provide for repurchases in respect of each purchase of 12 equal six-monthly installments.

6. When purchases are made under extended arrangements granted pursuant to this decision, the Fund will so indicate in an appropriate manner.

7. The Fund will levy charges on holdings of a member's currency resulting from purchases outstanding under this decision in accordance with the decisions of the Fund.

8. Except as otherwise provided in this or in any subsequent related decisions, extended arrangements shall be subject to the Fund's decisions and policies on stand-by arrangements.

9. The Fund will review this decision as needed in the light of experience, including in the context of periodic reviews of other GRA facilities and instruments.

ATTACHMENT II
Form of Extended Arrangement

Attached hereto is a letter [, with annexed memorandum,] dated _____ from (Minister of Finance and/or Governor of Central Bank) requesting an extended arrangement and setting forth:

(a) the objectives and policies that the authorities of (member) intend to pursue for the period of this extended arrangement;

(b) the policies and measures that the authorities of (member) intend to pursue during the first year of this extended arrangement; and

(c) understandings of (member) with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of (member) will pursue for the subsequent years of this extended arrangement.

To support these objectives and policies the International Monetary Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of [up to four years] from _____ (member) will have the right to make purchases from the Fund in an amount equivalent to SDR _____ million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR _____ million until _____, the equivalent of SDR _____ million until _____, the equivalent of SDR _____ million until _____, and the equivalent of SDR _____ million until _____.

(b) Until (end of second year) purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR _____ million.

(c) Until (end of third year) purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR _____ million.

(d) the right of (member) to make purchases during the subsequent years shall be subject to such phasing as shall be determined.

3. (Member) will not make purchases under this extended arrangement:

(a) Subject to paragraph 2 of [Decision No. 14407](#), during any period in which the data at the end of the preceding period indicate that:¹

(i) [the limit on net international reserves of [Central Bank] described in paragraph ____ of the attached [letter] [memorandum]], or

¹ The performance criteria enumerated here are examples only.

- (ii) [the limit on net domestic borrowing of the public sector described in paragraph ___ of the attached [letter] [memorandum]], or
- (iii) [the limit on the net domestic assets of the Central Bank described in paragraph ___ of the attached [letter] [memorandum]], or
- (iv) [these provisions would incorporate other [quantitative or structural] performance criteria monitored at the end of the preceding period]

[specified in [Tables 1, 2, 3 and 4] [paragraphs ____], respectively, of the [letter] [memorandum] is not observed; or

(b) [if at any time during the period of the arrangement] [while]

- (i) [the limit on the contracting or guaranteeing of external public debt with original maturity of ____ described in paragraph ___ of the attached [letter] [memorandum]], or
- (ii) [the limit on external payments arrears described in paragraph ___ of the attached [letter] [memorandum]], or
- (iii) [these provisions would incorporate other [quantitative or structural] performance criteria continuously monitored]

[specified in [Tables 5, 6 and 7] [paragraphs ____], respectively, of the [letter] [memorandum]], is not observed, or

(c) after ____ and ____, until the review[s] contemplated in paragraph ___ of the attached [letter] [memorandum] is [are] completed, or

(d) if at any time during the period of the extended arrangement, (member)

- (i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or
- (ii) introduces or modifies multiple currency practices; or
- (iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or
- (iv) imposes or intensifies import restrictions for balance of payments reasons.

When (member) is prevented from purchasing under this extended arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. (Member) will not make purchases under this extended arrangement during any period in which (Member): (i) has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation in respect of a noncomplying purchase pursuant to [Decision No. 7842-\(84/165\)](#) on the Guidelines on Corrective Action, or (ii) is failing to meet a repayment obligation to the PRG Trust established by [Decision No. 8759-\(87/176\)](#) PRGT, as amended, or a repayment expectation to that Trust pursuant to the provisions of Appendix I to the PRG Trust Instrument.

5. (Member's) right to engage in the transactions covered by this extended arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of (member). When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this extended arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of (member), the Fund agrees to provide SDRs at the time of the purchase.

7. (Member) shall pay a charge for this extended arrangement in accordance with the decisions of the Fund.

8. (a) (Member) shall repurchase the amount of its currency that results from a purchase under this extended arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as (member's) balance of payments and reserve position improves.

(b) Any reductions in (member's) currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the extended arrangement (member) shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to (member) or of representatives of (member) to the Fund. (Member) shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of (member) in achieving the objectives and policies set forth in the attached letter [and annexed memorandum].

10. In accordance with paragraph ___ of the attached letter, (member) will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 above have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while (member) has outstanding purchases under this arrangement, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning (member's) balance of payments policies.