

IMF Publication

Update on the Financing of the Fund's Concessional Assistance and Proposed Amendments to the PRGT Instrument



IMF POLICY PAPER

April 7, 2014

UPDATE ON THE FINANCING OF THE FUND'S CONCESSIONAL ASSISTANCE AND PROPOSED AMENDMENTS TO THE PRGT INSTRUMENT

IMF staff regularly produces papers proposing new IMF policies, exploring options for reform, or reviewing existing IMF policies and operations. The following document(s) have been released and are included in this package:

- The **Staff Report** prepared by IMF staff and completed on April 7, 2014 for the Executive Board's consideration on April 24, 2014.

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Electronic copies of IMF Policy Papers
are available to the public from
<http://www.imf.org/external/pp/ppindex.aspx>

International Monetary Fund
Washington, D.C.



UPDATE ON THE FINANCING OF THE FUND'S CONCESSIONAL ASSISTANCE AND PROPOSED AMENDMENTS TO THE PRGT INSTRUMENT

April 7, 2014

EXECUTIVE SUMMARY

New commitments under PRGT-supported programs amounted to SDR 0.15 billion in 2013, while disbursements on existing arrangements amounted to about SDR 0.8 billion. However, this lower demand is expected to be temporary. New commitments are projected to rebound to about SDR 1.5 billion in 2014, similar to the level observed in 2012. These projections are subject to considerable uncertainty regarding progress on ongoing program negotiations.

There have been no additional bilateral loan and subsidy pledges to the PRGT since the September 2013 update, beyond pledges of subsidy resources related to the two distributions of reserves. Since 2009, the PRGT has secured SDR 9.8 billion in loan resources, and SDR 214 million in new bilateral subsidy resources. Loan resources are adequate against the current demand projections through end-2015. The draw-down periods under these agreements (end-December 2018), however, will need to be extended to have funding assurances for disbursements after end-2018.

The effectiveness in October 2013 of the second partial distribution of reserves linked to windfall gold sales profits provided critical resources needed for self-sustained PRGT lending. As of end-March 2014, a total of 154 countries had pledged 94 percent of the distribution, and 124 members had effected their payments (73 percent of the total distribution) under the second distribution. Additional contributions linked to this distribution are still expected from members. Under the first distribution that became effective in October 2012, a total of 143 countries representing 94 percent of the distribution had pledged to contribute PRGT subsidies, and 126 members had effected their payments (83 percent of the total distribution) by end-March 2014. Assuming use of Reserve Account investment income, when eventually needed for subsidy purposes, the average annual self-sustained lending capacity of the PRGT is currently estimated at SDR 1.3 billion.

With subsidy resources for the self-sustained PRGT now secured, this paper proposes the necessary amendments to the PRGT Instrument to implement the self-sustained PRGT and to extend the commitment period for PRGT lending from end-2015 to end-2020. The self-sustained PRGT is premised on the eventual use of Reserve Account investment income to subsidize PRGT lending but such use requires an amendment of the PRGT Instrument. This paper also proposes allowing staff to seek

additional borrowing capacity of up to SDR 11 billion for the Loan Accounts of the PRGT with drawdown periods through end-2024 and to raise the cumulative limit for PRGT borrowing from SDR 30 billion to SDR 37 billion. The paper puts forward the decisions to implement these proposals.

Resources available in the HIPC and MDRI Trusts are projected to be sufficient to finance debt relief for the remaining eligible countries, with the important exceptions of the protracted arrears cases. Substantial additional resources will be needed when Somalia and Sudan are ready to embark on the HIPC Initiative. The financing modalities developed for Liberia could provide a useful framework for these countries at that time.

Approved By
Andrew Tweedie

Prepared by the Finance Department (In consultation with the Legal and Strategy, Policy, and Review Departments)

CONTENTS

GLOSSARY	5
INTRODUCTION	6
CONCESSIONAL FINANCING AND PRGT	7
SOURCES OF FINANCING FOR THE PRGT	10
A. Loan Resources	10
B. Subsidy Resources	12
C. Reserve Account	14
DEMAND FOR PRGT CONCESSIONAL LENDING	15
SUSTAINING PRGT LENDING BEYOND 2015	19
A. Establishing the Self-Sustained PRGT	19
B. PRGT lending operations beyond 2015	21
C. Increasing the Cumulative Borrowing Limit Under the PRGT	22
D. Implementation	22
SUBSIDIZATION OF EMERGENCY ASSISTANCE	22
FINANCING OF DEBT RELIEF	24
E. Remaining HIPC's	24
F. Pending Contributions to Liberia's Debt Relief	25
G. Protracted Arrears Cases	26
BOXES	
1. PRGT Concessional Financing Framework	7
2. Strategy to Make the PRGT Sustainable	9
FIGURES	
1. PRGT Commitments to LICs, 1988–2013	16
2. Disbursements to PRGT-Eligible Countries, 1988–2013	17
3. Reserve Coverage Ratio Under Different Demand Scenarios, 2014–40	20

TABLES

1. New Commitments of Loan Resources to the PRGT	11
2. ESF Subsidy Contributions	12
3. PRG-HIPC Trust—Pending Contributions	13
4. New Subsidy Commitments to the PRGT	14
5. New PRGT Commitments to LICs in 2013	16
6. Projected Demand for PRGT Resources Under Alternative Scenarios	18
7. Self-Sustainable PRGT Capacity Under Elevated Demand Scenarios	19
8. PRGT Contributions from the EPCA/ENDA Administered Subsidy Account	23
9. Financing of Debt Relief to the Remaining HIPC	25
10. Pending Disbursements to Finance Debt Relief to Liberia	25

APPENDIX TABLES

1. Summary of Bilateral Commitments to the PRGF-ESF and PRG-HIPC Trusts	27
2. PRGT—Borrowing Agreements	30
3. PRGT—Subsidy Agreements	31
4. PRGT Reserve Account Coverage	32
5. Implementation of the HIPC Initiative	33
6. Debt Relief Following Implementation of the MDRI	34
7. Distribution of the General Reserve Associated with Gold Windfall Profits	35

Glossary

ECF	Extended Credit Facility
EFF	Extended Fund Facility
ENDA	Emergency Natural Disaster Assistance
EPCA	Emergency Post-Conflict Assistance
ESAF	Enhanced Structural Adjustment Facility
ESF	Exogenous Shocks Facility
GLA	General Loan Account
GRA	General Resources Account
GSA	General Subsidy Account
HIPC	Heavily Indebted Poor Countries
IMF	International Monetary Fund
LICs	Low-Income Countries
MDRI	Multilateral Debt Relief Initiative
NPA	Note Purchase Agreement
PCDR	Post-Catastrophe Disaster Relief Trust
PRGF	Poverty Reduction and Growth Facility
PRG-HIPC	Trust for Special Poverty Reduction and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations
PRGT	Poverty Reduction and Growth Trust
RCF	Rapid Credit Facility
SCA-1	First Special Contingent Account
SCF	Standby Credit Facility
SDR	Special Drawing Rights
SLA	Special Loan Accounts