

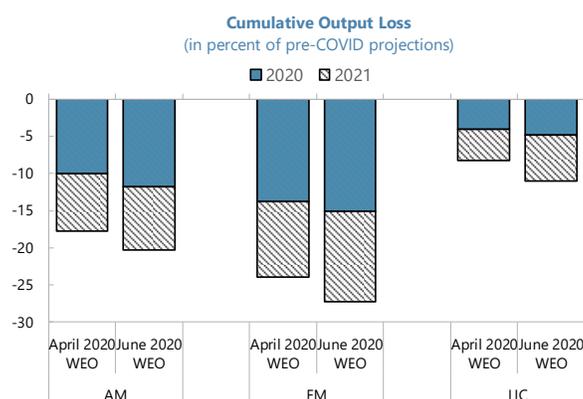
INTRODUCTION

1. In response to the outbreak of the COVID-19 pandemic, the Fund temporarily increased access limits under its emergency financing instruments for an initial six-month period. With many emerging market and developing country (EMDC)¹ members facing urgent balance of payments (BoP) needs, the Executive Board, on April 6, 2020 approved a temporary increase in [access limits](#) under the exogenous shocks window of the RCF and the regular window of the RFI—in each case, from 50 to 100 percent of quota for annual access, and from 100 to 150 percent of quota for cumulative access.

2. Other reforms also allowed the Fund to respond to members' urgent financing needs at an unprecedented scale and speed. These included: (i) [streamlined procedures](#) to accelerate Board consideration of member requests for emergency financing; (ii) an [increase in the normal annual access limits](#) from 145 to 245 percent of quota for the Fund's General Resources Account (GRA) and from 100 to 150 percent of quota for the Poverty Reduction and Growth Trust (PRGT) through April 6, 2021; and (iii) a temporary suspension of the limit of two RCFs disbursements per year. These reforms have facilitated the provision of emergency Fund financing by the Fund to 69 members through August 31, 2020.

3. The temporary increases in access limits under emergency financing are set to expire on October 5, 2020. The Executive Board, in approving the higher access limits, asked that the case for extending the limits for a longer period be examined one month prior to their expiration ([Enhancing the Emergency Financing Toolkit—Responding to the COVID-19 Pandemic](#)), i.e. on September 5, 2020.²

4. Exceptional demand for Fund financing is expected to persist well into 2021. For many EMDCs, prospects continue to remain precarious despite a slight improvement in the global growth outlook in recent months. The persistence of distressed economic conditions into 2021, along with elevated uncertainty, can be expected to result in continued high demand for Fund financial support, including through the emergency financing instruments in a significant number of cases.



Sources: IMF, World Economic Outlook; and IMF staff calculations.

5. This paper proposes extending the duration of the current (higher) limits on access to emergency financing for a further six months. An extension will provide the Fund with greater flexibility to respond to the urgent BoP needs of members in situations where an upper credit

¹ For the purpose of this paper, EMDC members are defined as the 189 IMF member countries excluding 35 advanced economies.

² Completion of this paper was delayed by competing work pressures.

tranche-quality (UCT) program is not feasible. The next section discusses use of the emergency financing instruments since the onset of the pandemic, followed by staff proposals to extend the duration of higher access limits for the emergency financing instruments. The paper also discusses the resource implications for the GRA and the PRGT. It concludes with issues for discussion and proposed decisions for adoption by the Executive Board.

USE OF THE EMERGENCY FINANCING INSTRUMENTS SINCE THE ONSET OF THE PANDEMIC

6. The emergency financing instruments have been the primary means of providing financial support to Fund members since the onset of the pandemic. (Box 1 describes the qualification requirements for use of these instruments.) Only nine countries had received financial support exclusively through Fund arrangements as of end-August—a mix of new arrangements (two), augmentations under arrangements not treated as precautionary before the pandemic (four), and drawings under precautionary arrangements (three, of which two were augmented).

7. As of August 31, 2020, 69 members had received financial support through the Fund’s emergency financing instruments since the outbreak of the pandemic, totaling SDR 21 billion (US\$29 billion).³ Specifically, support provided to address urgent BoP needs under the regular window of the RFI and the exogenous shocks window of the RCF has been as follows:

- Thirty-three members received financing of SDR 4.6 billion (about US\$6.2 billion) under the RCF;
- Twenty-six members received financing of SDR 14.1 billion (about US\$19.5 billion) under the RFI;
- Ten members received financing of SDR 2.5 billion (about US\$3.4 billion) under blended RCF and RFI financing.

In addition, 19 countries have requested but not yet received emergency financial support, including 16 first-time requests and three second-time requests.

8. Use of the emergency financing instruments has, unsurprisingly, been more common among poorer and fragile countries. One-half of PRGT-eligible members and slightly over one-half of fragile and conflict-affected states (FCS) received support, as compared with about one-quarter of the rest of the Fund membership. Of the 69 members that received Fund support through the RCF and/or RFI as of August 31, 2020, 22 are classified as FCS by the Fund.

9. Some three-quarters of the countries receiving financing under the emergency financing instruments have benefited from the temporary doubling in RCF/RFI annual access limits. Since April 6, the Board has approved emergency financing requests that involved access in excess of 50 percent of quota—the annual access limit under both RFI and RCF in place before the

³ Five countries (Chad, Gabon, Kyrgyz Republic, Madagascar, and Rwanda) received two disbursements under emergency financing, bringing the total number of approved financing requests to 74.

temporary increase—for 53 of the 69 countries who received assistance. Of these 69 members (Annex):

- Forty-two countries obtained support in the amount of 100 percent of quota, split almost evenly between PRGT-eligible countries and those not eligible for concessional financing.
- The remaining 27 countries, of whom 23 were PRGT-eligible, received financial support of less than 100 percent of quota:
 - In 12 cases, access was constrained by annual access limits—by the limits on access to the RCF/RFI in 2 cases, and by the limits on access to the GRA and PRGT in 2 and 8 cases, respectively.
 - In 15 cases, the access provided reflected a mix of factors, including the size of the BoP need, the quality of economic policies (including in regard to governance/corruption), the track record in using Fund credit in the past, and capacity to repay the Fund.

10. One-third of the countries that received support through the emergency financing instruments had a Fund arrangement in place when this support was provided. For these 23 countries, provision of new support through an augmentation of access under the arrangement was deemed not feasible, given the urgency of financing needs and the expectation of difficulties or delays in completing the next program review.

11. Emergency financing requests have generally contained governance commitments to help ensure that resources are used for their intended purpose. Since emergency financing is provided through outright disbursements, the RCF and RFI do not provide for ex post conditionality to help safeguard appropriate use of the financing. In order to ensure transparency and accountability, recent RCF and RFI requests have typically included governance safeguards in the form of audits and procurement-related commitments by the authorities (as described in Box 2). Such safeguards are considered “best practice” in emergency financing requests, although other commitments may feature in response to country-specific circumstances.

PROPOSALS TO EXTEND THE HIGHER ACCESS LIMITS IN THE EMERGENCY FINANCING INSTRUMENTS

12. Economic prospects remain precarious in many EMDCs. While it is expected that members will increasingly seek support through UCT arrangements as the pandemic abates, such arrangements may not be feasible in a significant number of cases. An extension of higher access may be justified in giving the membership an additional period to address urgent BoP needs arising from the pandemic, where support under Fund arrangements is not feasible.⁴

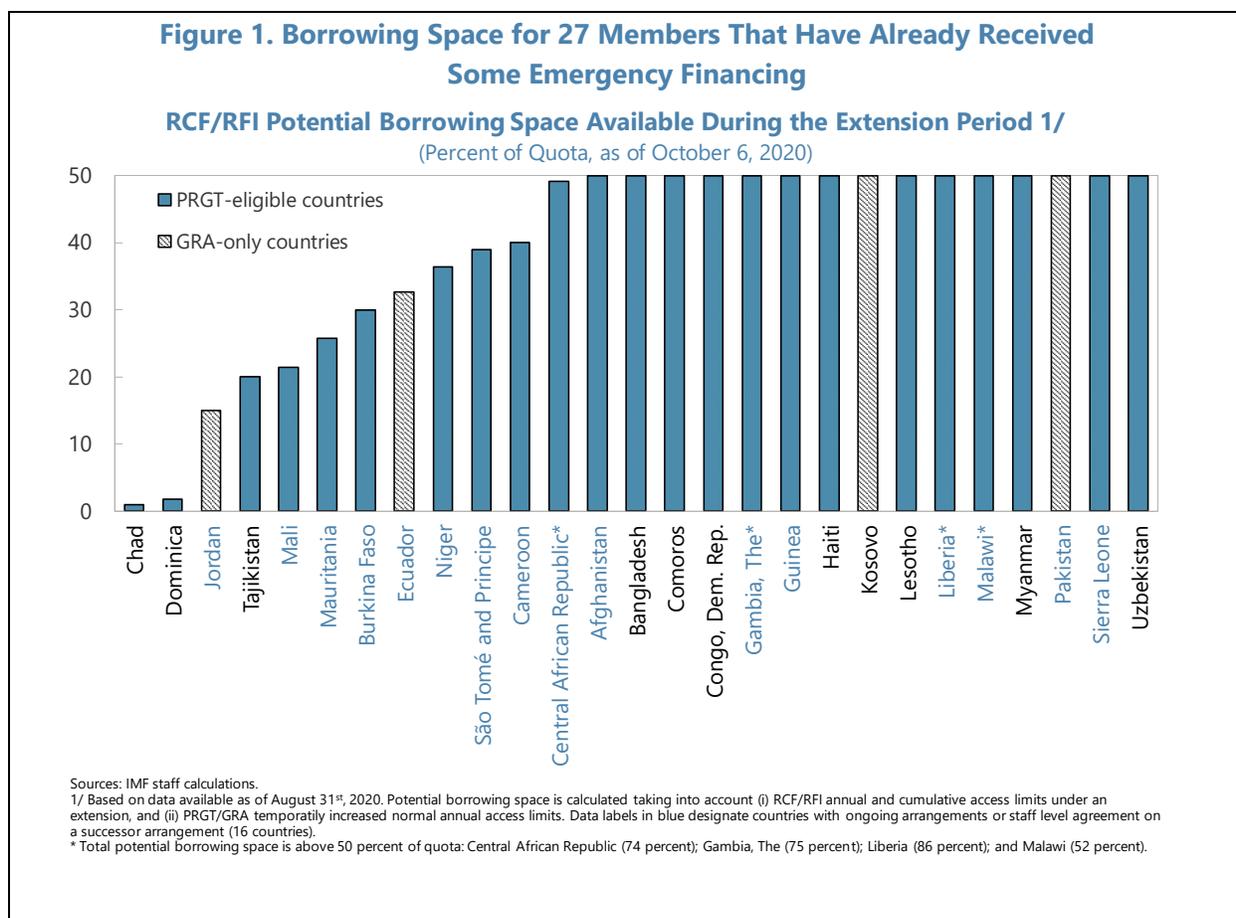
⁴ As noted in Box 1, a UCT-quality Fund supported program is not considered feasible when the member is unable to design or implement such a program due to the member’s limited policy implementation capacity, or when the

(continued)

13. Extending the period during which the higher access levels to the RCF/RFI are in place would benefit three distinct groups of member countries:

- *Members that have requested but not yet received financial support from the RCF/RFI.* These requests are under active discussion but have been held up by a mix of factors, including governance and debt sustainability concerns. Extending the higher access limits would provide more time for resolution of outstanding issues needed to finalize their request at the current levels.
- *Members that have received some assistance under the RCF/RFI but continue to have borrowing space under the current access limits (see Figure 1).* These countries, almost all PRGT-eligible, were constrained in their access to emergency financing by factors including i) pre-covid use of the RCF/RFI, ii) annual limits on access to the PRGT/GRA (later increased on a temporary basis on July 13, 2020), and iii) approval of less-than-maximum access levels, based on concerns about the quality of policies or potential misuse of funds combined with a willingness to consider subsequent requests, where warranted. With urgent BoP needs likely to remain significant and some countries still poorly positioned to design or implement UCT-programs supported by Fund arrangements, an extension of higher access limits retains borrowing space for further potential RCF/RFI support, if needed.
- *Members that have not yet requested emergency financing:* Requests for emergency financing from some “new” countries can be expected, given the expected persistence of the pandemic’s global economic impact and the potential for a second wave of infections. UCT arrangements may be advisable in such cases, but the recent experience points to continued value of emergency financing in situations of high uncertainty, particularly where policy-making capacity is impaired.

urgency of the BoP need calls for financial assistance before understandings can be reached on an arrangement to address the member’s longer-term needs.



Rapid Financing Instrument

14. Staff proposes an extension of the temporary increase of the annual and cumulative access limits under the regular window of the RFI for a further six-month period through April 6, 2021. This extension by a full six months is justified by the likely persistence of the pandemic's impact well into 2021 and is consistent with the timeframe of the temporary increase in normal annual access limits—in effect until April 6, 2021—which was intended to ensure emergency lending was additional to UCT support. Any consideration of a longer extension beyond April 6, 2021 would be taken up in the context of the planned review of the temporary increase in annual access limits by end-2020.

15. The impact of the extension of the temporary increase in access limits on GRA resources would likely be modest, subject to continued heightened uncertainty due to the pandemic. Through end-August, the Fund has disbursed SDR 15.6 billion through the RFI (standalone or in a blend with the RCF). As noted above, the number of countries that have already accessed the RFI and have remaining borrowing space is relatively limited. However, should the economic outlook worsen, total potential RFI-related demand for GRA resources could reach some

SDR 57 billion (including the amounts already disbursed), if more large EMs that have not requested assistance to date were to make emergency financing requests.

Rapid Credit Facility

16. Staff also proposes an extension of the temporary increase of the annual and cumulative access limits under the exogenous shocks window of the RCF for a further six-month period. The same reasoning for extending higher access limits under the RFI applies also to the RCF (including the justification for a six-month extension period); in addition, access limits under the RFI and RCF have historically moved in lockstep. It is therefore proposed to extend for six months the increased annual and cumulative access limits under the RCF's exogenous shocks window of 100 and 150 percent of quota, respectively, until April 6, 2021.

17. The impact on the demand for emergency financing under the RCF of a six-month extension is expected to be contained. Staff analysis suggests that the extension could modestly increase projected demand based on actual requests for RCF support, as countries would now have more time to resolve outstanding issues and finalize their requests. The extension could also encourage some countries to temporarily delay requests for multi-year arrangements or even cancel ongoing arrangements. This timing effect may change the financing mix but is unlikely to have any major impact on the overall demand projections.

18. Accordingly, the extension is unlikely to significantly impact PRGT loan and subsidy resources. The ongoing loan mobilization campaign has already secured over SDR 15 billion in effective loan agreements and formal pledges from 13 donors, well in excess of the SDR 12.5 billion target. This will provide sufficient resources to accommodate the surge in crisis-related demand by low-income countries for Fund financing, supported by the temporary increase in PRGT and RCF access limits. However, there is a need to ensure sufficient subsidy resources to preserve the PRGT's self-sustainability. A comprehensive funding strategy for the PRGT will need to be discussed with the Executive Board in the period ahead.

19. The temporary increase in access limits under the RCF and RFI will be assessed as part a planned wider review of the temporary changes in access limits to Fund facilities introduced since the onset of pandemic. The temporary increases in annual access limits to the GRA and PRGT introduced in July are expected to be discussed by the Executive Board by December 2020; the temporary increases in the RFI and RCF limits will be taken up as part of that review.

ISSUES FOR DISCUSSION

Do Directors agree that exceptional demand for Fund emergency financing is expected to persist well into 2021?

Do Directors agree that the temporary increase in annual and cumulative access limits under the RCF and RFI should be extended for six months?

Proposed Decisions

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

Decision I. Amendment to the PRGT Instrument

Section II, paragraph 2(b)(iii) of the Instrument to Establish the Poverty Reduction and Growth Trust (“PRGT Instrument”), Annex to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended, shall be further amended by replacing the reference to “October 5, 2020” with “April 6, 2021” and shall read as follows:

“(iii) for the period from April 6, 2020 to April 6, 2021, a member’s request for assistance under the RCF to address an urgent balance of payments need resulting primarily from a sudden and exogenous shock shall be subject to an annual access limit of 100 percent of quota and a cumulative access limit of 150 percent of quota, net of scheduled repayments; and”

Decision II. Amendment to the RFI Instrument

Paragraph 5(A) of the Decision establishing the Rapid Financing Instrument (RFI), Decision No.

15015-(11/112), November 21, 2011, as amended, (“RFI Decision”) shall be further amended by replacing the reference to “October 5, 2020” with “April 6, 2021” and shall read as follows:

“(A) for the period from April 6, 2020 to April 6, 2021, the above annual and cumulative access limits shall be 100 percent of quota and 150 percent of quota, net of scheduled repurchases, respectively; and”

Box 1. Summary of Key Aspects of Qualification for Emergency Financing

Emergency financing (RCF/RFI) is available to countries facing an *urgent* balance of payments (BoP) need where an IMF-supported program that meets UCT-conditionality standards is either *not necessary or not feasible*. 1/ Access to the RCF is available only to PRGT-eligible countries; 2/ access to the RFI is available to all member countries. 3/

- An ***urgent BoP need*** is characterized by a BoP need that, if not addressed, would result in immediate and severe economic disruption for the member.
- Qualification requires that either (i) the BoP need is transitory, specifically, is expected to be resolved within one year with no major policy adjustments being necessary (thus, a UCT-quality program is **not necessary**) or (ii) the member is unable to design or implement a UCT-quality economic program (or complete a review under an existing UCT program) given the urgent nature of the BoP need or due to the member's limited policy implementation capacity (thus, the UCT-quality program is **not feasible**).

Financing through the RCF/RFI is provided without ex post conditionality. It is made available in the form of an outright disbursement/purchase, with repeated use possible based on urgent BOP needs caused primarily by exogenous shocks or 6-monthly track records of adequate macroeconomic policies. Approval requires ex ante policy undertakings by the member outlined in a letter of intent on the general policies the member plans to pursue to address its BOP difficulties and its intention not to introduce any measures and/or policies that may compound its BoP difficulties. Prior actions could also be established, where warranted. As with all Fund financing, the access level in individual cases would depend on the scale of the BoP need, the assessment of the member's capacity to repay, the member's outstanding Fund credit, and its record of using Fund resources in the past. The access for each member that qualifies for assistance under the RCF shall also take into account the size and likely persistence of the shock.

Emergency financing during the COVID-19 pandemic has been justified on the basis of the urgent BOP needs arising from the impact of crisis and satisfaction of other qualification requirements. The choice of emergency financing instead of support through a UCT arrangement has typically been justified on the basis that the urgency of BOP needs has called for financial assistance before a UCT-quality program can be put in place (or a review completed under an existing program).

1/ UCT conditionality standard implies that the authorities have the commitment and capacity to implement a set of policies that is adequate to correct external imbalances and enable repayment to the Fund.

2/ Qualification for the RCF requires that the BoP difficulties that underlie the financing need are not predominantly caused by a withdrawal in financial support by donors.

3/ For RCF-RFI blends, purchases under the RFI count towards the applicable RCF annual and cumulative limits.

Box 2. Staff Guidance on Addressing Governance Safeguards for Emergency Financing

Policy commitments in emergency financing requests (RCF/RFI) seek to limit the risk of misuse of Fund resources. Catastrophes create opportunities for corruption, exacerbated by weaker controls. Such misuse of resources undermines the effectiveness of a government's relief efforts; it also reduces the willingness of external donors to provide support to the government, and the member's capacity to repay the Fund.

To reduce the risk of corruption, authorities commit to governance safeguards in their Letters of Intent (LOI). While measures are tailored to country-specific circumstances, two commitments are especially common:

- The first commitment is to undertake and later publish on the government's website an ex-post audit of crisis-related spending. In most cases, these audits will be conducted by the country's supreme audit institution. This approach maximizes synergies by leveraging the existing institutional framework and also supports these institutions. In some cases, however, the audit will be conducted by an external third-party auditor, especially if the supreme audit institution is considered to have inadequate capacity or insufficient independence to conduct such an audit.
- The second commitment is to publish crisis-related procurement contracts on the government's website, including identifying the companies awarded the contract and their beneficial owners, as well as recording ex-post validation of delivery of the services/products specified in the contract. This commitment can be tailored to country specific circumstances in consultation with the World Bank governance practice experts on procurement, taking appropriate account of existing laws and frameworks.

Emergency financing requests also include other measures to address governance vulnerabilities:

- (i) **the commitment to undertake central bank safeguards assessments**, which all countries receiving emergency lending must provide;
- (ii) **governance-related prior actions**, which are being required when the up-front implementation of such measures is critical to reducing corruption risks; such prior actions have included measures on central bank safeguards, key PFM reforms, and enforcing the anti-corruption and anti-money laundering frameworks; 1/ and
- (iii) **limiting access under the RCF/RFI**, with the understanding that a second request for support could be considered after a track record of reasonable performance has been demonstrated, ideally in the context of a staff-monitored program.

Governance and anti-corruption measures are also included where warranted in countries' multi-year financing arrangements. This work is part of the ongoing implementation of the 2018 Framework for Enhanced Engagement on Governance, to address longer-term structural issues that underpin poor governance and corruption.

1/ Since the onset of COVID-19, governance-related prior actions have been included in [3] emergency financing requests (Ecuador, Liberia, and Papua New Guinea).

Annex I. Members' Use of Fund Financing Since the Onset of the Pandemic 1/

Countries that received financial support through RCF/RFI at 100 percent of quota (42 countries)		Countries that received financial support through RCF/RFI at less than 100 percent of quota (27 countries)			Countries that received financial support through Fund arrangements and did not access the RCF/RFI (9 countries)	
Country	Arrangement Type	Country	Arrangement Type	Amount Approved (Percent of quota)	Country	Arrangement Type
Albania	RFI	Chad	RCF	95	Armenia	SBA
Bahamas, The	RFI	Dominica	RCF	89	Barbados	EFF
Bolivia	RFI	Jordan	RFI	85	Benin	ECF
Bosnia and Herzegovina	RFI	Tajikistan	RCF	80	Georgia	EFF
Cabo Verde	RCF	Mali	RCF	79	Honduras	SBA-SCF
Costa Rica	RFI	Mauritania	RCF	74	Morocco	PLL
Côte d'Ivoire	RFI-RCF	Burkina Faso	RCF	70	Somalia	ECF-EFF
Djibouti	RCF	Ecuador	RFI	67	Togo	ECF
Dominican Republic	RFI	Niger	RCF	64	Ukraine	SBA
Egypt	RFI	São Tomé and Príncipe	RCF	61		
El Salvador	RFI	Cameroon	RCF	60		
Eswatini	RFI	Afghanistan	RCF	50		
Ethiopia	RFI	Bangladesh	RFI-RCF	50		
Gabon	RFI	Comoros	RFI-RCF	50		
Ghana	RCF	Guinea	RCF	50		
Grenada	RCF	Haiti	RCF	50		
Guatemala	RFI	Kosovo	RFI	50		
Jamaica	RFI	Lesotho	RFI-RCF	50		
Kenya	RCF	Myanmar	RFI-RCF	50		
Kyrgyz Republic	RFI-RCF	Pakistan	RFI	50		
Madagascar	RCF	Sierra Leone	RCF	50		
Maldives	RCF	Uzbekistan	RFI-RCF	50		
Moldova	RFI-RCF	Malawi	RCF	48		
Mongolia	RFI	Central African Republic	RCF	25		
Montenegro, Rep. of	RFI	Democratic Republic of the Congo	RCF	25		
Mozambique	RCF	Gambia, The	RCF	25		
Nepal	RCF	Liberia	RCF	14		
Nigeria	RFI					
North Macedonia	RFI					
Panama	RFI					
Papua New Guinea	RCF					
Paraguay	RFI					
Rwanda	RCF					
St. Lucia	RCF					
St. Vincent and the Grenadines	RCF					
Samoa	RCF					
Senegal	RFI-RCF					
Seychelles	RFI					
Solomon Islands	RFI-RCF					
South Africa	RFI					
Tunisia	RFI					
Uganda	RCF					

1/ Use of emergency financing from March 1 to September 1, 2020; excludes support under the Flexible Credit Line.