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IMF POLICY PAPER

October 2024

2024 REVIEW OF THE POVERTY REDUCTION AND GROWTH TRUST FACILITIES AND FINANCING—REFORM PROPOSALS

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

- A **Press Release** summarizing the views of the Executive Board as expressed during its October 15, 2024, consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on September 24, 2024, for the Executive Board's consideration on October 15, 2024.
- An **Informational Annex** prepared by the IMF staff.
- **Proposal for a Distribution Framework for GRA Resources to Facilitate Generation of Additional PRGT Subsidies**
- **Proposed Decisions** prepared by the IMF staff.

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PRESS RELEASE

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The IMF Approves Policy Reforms and Funding Package to Support Low Income Countries in a Sustainable Manner

FOR IMMEDIATE RELEASE

- *The reforms approved by the IMF's Executive Board aim to bolster the Fund's capacity to support Low-Income Countries (LICs) in addressing their balance of payment needs, while restoring the self-sustainability of the Poverty Reduction and Growth Trust (PRGT).*
- *The approved policy reforms include: a long-term self-sustained annual lending envelope calibrated at SDR 2.7 billion (about $3.6 billion), more than twice the pre-Covid-19 average. To this end, the membership agreed on a new framework to distribute IMF General Resources to facilitate generation of SDR 5.9 billion (about $8 billion) in additional PRGT subsidy resources.*
- *The Executive Board also approved reforms to help tailor IMF support to country-specific needs, recognizing the increasing economic heterogeneity of LICs. This includes a new interest rate mechanism that maintains interest-free lending to the poorest countries, while ensuring a sufficient degree of concessionality for others. Access policies will allow for flexibility in calibrating Fund support while safeguards will be strengthened and streamlined.*

Washington, DC – **October 21, 2024:** The Executive Board of the International Monetary Fund (IMF) approved a set of reforms to the Fund's concessional lending facilities and an associated funding strategy to preserve the Fund's ability to provide adequate support to Low-Income Countries (LICs) over the long term. These reforms are detailed in the staff paper "2024 Review of the Poverty Reduction and Growth Trust (PRGT) Facilities and Financing—Reform Proposals."

The IMF significantly scaled-up support to its low-income members in response to the COVID-19 pandemic and subsequent major shocks. The annual lending commitments have risen to an average of SDR 5.5 billion since 2020, compared with about SDR 1.2 billion during the preceding decade. Outstanding PRGT credit has tripled since the pandemic's onset, while funding costs at the SDR interest rate have risen sharply. As a result, the PRGT faces an acute funding shortfall, with its self-sustained lending capacity projected to decline, absent reforms, to about SDR 1 billion a year by 2027, well below expected demand.

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The reforms approved by the IMF's Executive Board aim at maintaining adequate financial support to LICs while restoring the self-sustainability of the PRGT. The Executive Board today endorsed a long-term annual lending envelope of SDR 2.7 billion ($3.6 billion) and approved a package of policy reforms and resource mobilization to support that lending capacity. The envelope, which is more than twice the pre-pandemic capacity, is calibrated to ensure that the Fund can use its limited concessional resources to continue providing vital balance of payment support to LICs, while supporting strong economic policies and catalyzing fresh financing from other sources.

The Review includes policy changes that reflect the increasing economic heterogeneity among LICs. A new tiered interest rate mechanism will enhance the targeting of scarce PRGT resources to the poorest LICs, which will continue to benefit from interest-free lending, while better-off LICs will be charged a modest, and still concessional, interest rate. The access norm will be set at 145 percent of quota to help anchor the average size of future arrangements and the overall lending volume. At the same time, annual and cumulative limits for PRGT normal access will remain at 200 and 600 percent of quota, respectively. This will allow for flexibility in calibrating Fund's support. Safeguards will be strengthened and streamlined to maintain a robust and efficient risk management framework, in light of high lending volumes and risks.

After a successful bilateral fundraising, and in the context of a robust financial outlook for the Fund, the membership reached consensus on a framework to deploy IMF internal resources to facilitate the generation of PRGT subsidy resources. Specifically, SDR 5.9 billion (about US$ 8 billion), in 2025 present value terms, is expected to be generated through a framework to distribute GRA net income and/or reserves over the next five years. This would come on top of additional bilateral subsidy contributions, the subsidy savings from the new interest rate mechanism, and financing from a proposed further five-year suspension of PRGT administrative expenses reimbursement to the GRA.

Executive Board Assessment[1]

Executive Directors welcomed the opportunity to discuss the 2024 Review of the Poverty Reduction and Growth Trust (PRGT) Facilities and Financing. They emphasized that the Fund, working closely with the World Bank and other partners, has a key role in supporting

[1] At the conclusion of the discussion, the Managing Director, as Chair of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Low-Income Countries (LICs), through policy support, capacity development, concessional financing, and catalyzing donor support.

Directors recognized that the exceptionally high demand for concessional financing in recent years, amid sharply higher funding costs, has put PRGT finances under intense strain. Absent reforms, the PRGT self-sustained lending capacity would decline to about SDR 1 billion a year by 2027, well below expected demand.

Directors stressed the urgency of maintaining adequate financial support to LICs in the years ahead, while restoring the Trust's self-sustained lending capacity. They agreed that while lending should decline from recent highs as LICs gradually recover from successive shocks and implement domestic policy reform, demand for PRGT financing will remain significantly above pre-pandemic levels in a more shock-prone world.

Directors generally endorsed a long-term self-sustained annual PRGT lending envelope of SDR 2.7 billion that would allow the Fund to continue providing adequate support to LICs while being feasible from a funding perspective. They underscored that the Fund's limited concessional resources should support strong economic policies and catalyze fresh financing from other sources. A few Directors would have preferred a lower envelope. Directors underlined that continued attention to strong program design and reform content, including in areas such as domestic resource mobilization and debt management, will be essential to support the success and impact of PRGT arrangements.

Directors broadly supported the staff's proposal for a tiered interest rate mechanism, that would apply to all new ECF and SCF arrangements and outright disbursements under the RCF approved beginning on May 1, 2025, to better reflect the increasing economic heterogeneity among LICs. They welcomed the enhanced targeting of scarce PRGT resources on the poorest LICs, for which the interest rate would remain at zero. A few Directors would have seen merit in a small positive charge as a price signal. Higher-income LICs would be charged a positive, but still concessional, interest rate in proportion to the SDR interest rate, with a higher concessional element for more vulnerable higher-income LICs with more limited market access. Directors noted that the proposal will contribute to a larger sustainable lending capacity for the PRGT that will benefit borrowers and have limited impact on members' financial position and debt sustainability. Some Directors would have preferred a greater element of concessionality for higher income LICs, while a few others would have favored maintaining zero interest rates for financing to small developing states or for emergency financing under the RCF. A few other Directors would have preferred a two-tiered

mechanism based solely on income. Directors broadly supported the staff's proposal that outstanding PRGT credit and new disbursements under existing PRGT arrangements and RCF financing approved through April 30, 2025, would be exempt from the application of the new interest rate mechanism.

Directors supported returning the access norm applicable to ECF and SCF arrangements to 145 percent of quota, on January 1, 2025, in view of LICs' recovery from the recent extreme shocks as well as their efforts to mobilize more domestic revenue, adjust policies, and rebuild buffers. They broadly supported maintaining the PRGT overall annual and cumulative access limits at 200 and 600 percent of quota, respectively. A few Directors would have preferred a return to previous PRGT access limits. A few Directors stressed that PRGT access limits should be determined independently of GRA access limits.

Directors supported the proposed reform for Strengthened Policy Safeguards, effective from January 1, 2025, which consolidates the current High Access Procedures and Enhanced Safeguards into a strengthened and streamlined framework centered around the access norm with the aim to help mitigate risks without overburdening the Fund's policy framework.

Directors underscored that success of programs under the PRGT will hinge on ensuring strong design and implementation, including with regard to the size and composition of fiscal adjustments, mobilization of domestic resources, protection of priority areas including social spending and growth-enhancing public investment, governance, and structural reforms. In this regard, Directors looked forward to the analysis and recommendations of the forthcoming Review of Program Design and Conditionality.

Directors stressed the need to carefully monitor the implementation of the reform package. The annual reviews of PRGT resource adequacy offer a framework to review the trends in PRGT loan demand and resources. In the event that resources fall short, or demand exceeds expectations by a substantial margin for an extended period, Directors concurred that the Executive Board could introduce a range of contingency measures in the context of an ad-hoc PRGT review. They also welcomed the proposal to have a targeted mid-term review in three years, including to assess the early experience of PRGT borrowers with the new interest rate mechanism.

Directors endorsed the proposed financing framework aimed at ensuring the PRGT has sufficient self-sustained capacity to meet demand. They endorsed the proposed five-year suspension of PRGT administrative expenses reimbursement to the GRA. In the context of the

Fund's historically strong financial position of the GRA, Directors also supported the proposed framework consisting of (i) a Multi-Year Distribution Plan for a cumulative amount of SDR6.9 billion of GRA net income or reserves to be achieved through annual distribution decisions of specific amounts subject to the financial conditions of the GRA and (ii) the establishment of a new administered account, the Interim Placement Administered Account (IPAA), to which such amounts would be transferred from the GRA and temporarily placed and administered by the Fund pursuant to the terms of the IPAA Instrument, pending sufficient assurances by members for new commitments of PRGT subsidy resources. The principal amounts would become available to members for disposition based on their quota shares once the assurances equivalent to 90 percent of the aggregate amount have been reached. The framework is designed to facilitate generation of urgently needed additional PRGT subsidies, and such framework is understood to be acceptable to all Fund members. They concurred with staff's projections that such distributions would be expected to help generate an additional SDR 5.9 billion (in 2025 present value terms) in subsidy resources, conditional on members coming forward with assurances that they will provide their share (or equivalent) of the GRA distributions to benefit the PRGT subsidy accounts. Some Directors indicated that their authorities were not in a position to provide assurances at the current juncture. Some Directors stressed the need for contingency planning given possible uncertainties in receiving sufficient assurances from member countries regarding new PRGT subsidy commitments. Many Directors emphasized that relying on GRA distributions should not be viewed as a permanent solution for subsequent PRGT pledges. Directors generally noted that the option of using limited gold sales could be revisited in the medium- to longer term. Some Directors highlighted the importance of continued bilateral contributions from high-income countries. A few Directors called for the recognition of such voluntary financial contributions in the determination of members' quotas. Directors also supported the further refinement to the PRGT's investment strategy.

Directors concurred that the PRGT eligibility framework remains broadly adequate and agreed with the associated list of PRGT-eligible countries. They supported the proposed refinement to the five-year period and data sources used to assess past market access, which will allow for the inclusion of more recent data where relevant. Directors concurred that this modification, which would be effective immediately, would also have immediate application for the determination of market access under the framework for presumed blending. They also supported the proposal to restore, effective immediately, the assessment of absence of serious short-term vulnerabilities for all PRGT-eligible countries before taking decisions on graduation and concurred that this would help better align the PRGT eligibility framework with

the current more shock-prone environment and continue to limit the risks of premature graduation.

Directors broadly supported proposed targeted changes, effective immediately, to other PRGT policies. Directors supported a targeted adjustment to the Policy Safeguards for High Combined Credit Exposure to align its debt sustainability criterion with that under the GRA Exceptional Access (GRA-EA) policy for LICs that meet the market access criterion under the GRA-EA policy. They noted that the Independent Evaluation Office (IEO) is currently advancing its evaluation of the EA policy, and the follow-up work to the IEO recommendations would ensure any evolution of the GRA-EA policy would be reflected in the PS-HCC, as appropriate, to maintain consistency across frameworks. Most Directors supported the extension to end-December 2025 of the current cumulative access limits of the Rapid Credit Facility (RCF). Directors also concurred with the recommendation to conduct a comprehensive review of the policy on Poverty Reduction Strategies in 2025.

Directors agreed with Staff-proposed automatic adjustment of access limits and other quota-based thresholds when the 16th GRQ becomes effective.

Directors emphasized the importance of a sound communication strategy that highlights the objective of securing a self-sustainable PRGT to support the Fund's continued ability to provide concessional lending to vulnerable countries, including zero-interest loans to the poorest countries. Many Directors also underlined the importance of transparent communication about all stages of the financing mechanism, including that commitments from members to contribute their share of the distribution to the PRGT will be requested following the conclusion of this PRGT review.

Finally, Directors agreed that the next general review of the Fund's facilities for LICs will take place on the standard five-year cycle.

INTERNATIONAL MONETARY FUND

September 24, 2024

2024 REVIEW OF THE POVERTY REDUCTION AND GROWTH TRUST FACILITIES AND FINANCING—REFORM PROPOSALS

EXECUTIVE SUMMARY

The IMF significantly scaled-up support to its low-income members in response to the COVID-19 pandemic and subsequent major shocks. Concessional financing under the Poverty Reduction and Growth Trust (PRGT) reached unprecedented levels. Together with financing from other partners including the World Bank, this has provided lifelines to low-income countries (LICs) to help them meet urgent financing needs while buttressing macroeconomic stability and avoiding more disruptive adjustment. The financing came in the context of Fund policy advice on protecting economies from the harmful effects of pandemic-related disruptions and price shocks, as well as enhanced capacity building.

This exceptionally high demand for concessional financing, amid sharply higher funding costs, has put PRGT finances under intense strain. Annual lending commitments have risen to an average of SDR 5.5 billion since the onset of the pandemic, compared with about SDR 1.2 billion during the preceding decade. Outstanding PRGT credit, which is provided at a zero percent interest rate, has tripled, while funding costs at the SDR interest rate (SDRi) have risen sharply. As a result, the PRGT faces an acute funding shortfall, with its self-sustained lending capacity projected to decline to about SDR 1 billion a year by 2027, well below expected demand.

The urgent task for this Review is thus to maintain adequate financial support to LICs in the years ahead while restoring the Trust's self-sustained lending capacity. While lending should decline from recent highs as LICs gradually recover from successive shocks, staff projects that demand for PRGT financing will remain significantly above pre-pandemic levels. Resolving the imbalance between expected demand for PRGT financing and its sustainable supply will require recalibration of current lending policies as well as additional resources.

The Review proposes a long-term self-sustained annual PRGT lending envelope of SDR 2.7 billion. While down substantially from recent levels, this envelope is still more than twice the pre-crisis average, reflecting the significant balance of payments (BoP) pressures many LICs will continue to face in a more shock-prone world. The envelope is calibrated to ensure that the Fund can use its limited concessional resources to

continue providing vital BoP support to LICs, while supporting strong economic policies and catalyzing fresh financing from other sources.

The Review introduces a number of significant policy changes that reflect the increasing economic heterogeneity among LICs. First, staff proposes a tiered interest rate mechanism that would enhance the targeting of scarce PRGT resources on the poorest LICs. These countries (31 out of the total 69 LICs) would continue to benefit from interest-free lending, while higher-income LICs would be charged a positive, but still concessional, interest rate. Second, staff proposes that the access norm be returned to the 145 percent of quota that was effective before the temporary increase in December 2023. The lower norm would help anchor the average size of future arrangements at a level that reflects LICs' recovery from the recent extreme shocks as well as their efforts to mobilize more domestic revenue, adjust policies, and rebuild buffers. Staff proposes that the annual and cumulative limits for PRGT normal access remain at 200 and 600 percents of quota. This would allow for flexibility in calibrating Fund support, as LICs will continue to face a difficult environment in the coming years and some will need to be supported by larger programs.

The Review proposes to strengthen and streamline the safeguards to maintain a robust and efficient risk management framework. This would be achieved by consolidating the current High Access Procedures and Enhanced Safeguards into a single, coherent framework centered around the access norm with the aim to help mitigate risks without overburdening the Fund's policy framework.

To help close the PRGT funding gap, the Review proposes a distribution of IMF internal resources, in the context of a historically strong financial position of the GRA. Taking into account additional bilateral subsidy contributions, the proposed interest rate mechanism, and a proposed further five-year suspension of PRGT administrative expenses reimbursement to the GRA, an additional SDR 5.9 billion (in 2025 present value terms) would be generated through contributions facilitated by a distribution of GRA net income and/or reserves. The option of using limited gold sales could be revisited in the medium- to longer term, for example if demand from LICs exceeds projections. The PRGT's investment strategy would also be refined.

Staff will carefully monitor the evolution of the lending capacity and the impact of the policy changes on borrowers' needs and financing costs. The annual reviews of PRGT resource adequacy offer a framework to review the trends in PRGT loan demand and resources. In the event that resources fall short, or demand exceeds expectations, the Board could introduce a range of contingency measures in the context of an ad-hoc PRGT review. Moreover, staff proposes a targeted mid-term review after 3 years, including to assess the early experience of PRGT borrowers with the new interest rate mechanism, prior to the next comprehensive Review of PRGT Facilities and Finances on the standard 5-year cycle.

Staff also proposes targeted adjustments to other PRGT policies. These cover the PRGT eligibility framework, the Policy Safeguards for High Combined Credit Exposure, the Cumulative Access Limits of the Rapid Credit Facility, and the policy on Poverty Reduction Strategies.

The proposed policy and financing package will allow the Fund to continue helping its LIC members implement sound economic policies and build stronger institutions. This critical role is grounded in the fact that the bulk of demand for concessional financing is coming from LICs implementing UCT arrangements in support of countries' homegrown adjustment plans and equipped with ex post conditionality. Continued attention to strong program design and reform content, including in areas such as domestic resource mobilization and debt management, will be essential to support the success and impact of PRGT arrangements. To this end, the Fund will carefully examine best practices and reform options for underpinning successful programs in the context of the forthcoming Review of Program Design and Conditionality (RoC).

Approved By
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Glossary

BPS	Basis Points
BoP	Balance of Payments
CCRT	Catastrophe Containment and Relief Trust
CD	Capacity Development
DIA	Deposit and Investment Account
DSF	Debt Sustainability Framework
EA	Exceptional Access
ECF	Extended Credit Facility
EF	Emergency Financing
EFF	Extended Fund Facility
ES	Enhanced Safeguards
FCS	Fragile and Conflict-Affected States
FSSA	Financial Sector Stability Assessments
FSW	Food Shock Window
GFC	Global Financial Crisis
GFN	Gross Financing Needs
GNI	Gross National Income
GRA	General Resources Account
GRQ	General Review of Quotas
GSA	General Subsidy Account
HAP	High Access Procedures
HIPC	Heavily Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDS	International Debt Statistics
IEO	Independent Evaluation Office
IFIs	International Financial Institutions
IMF	International Monetary Fund
LA	Loan Account
LICs	Low-Income Countries
MDRI	Multilateral Debt Relief Initiative
MONA	Monitoring of Fund Arrangements Database
NIM	New Income Model
NPA	Note Purchase Agreement
PV	Present Value
ODA	Official Development Assistance
PB	Precautionary Balances
PCI	Policy Coordination Instrument
PCS	Preferred Creditor Status

PFM	Public Financial Management
PRS	Poverty Reduction Strategy
PRGT	Poverty Reduction and Growth Trust
PS-HCC	Policy Safeguards for High Combined Credit Exposure
RA	Reserve Account
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RoC	Review of Program Design and Conditionality
SA	Subsidy Account
SBA	Stand-by Arrangement
SCF	Stand-by Credit Facility
SDA	Special Disbursement Account
SDGs	Sustainable Development Goals
SDR	Special Drawing Rights
SDRi	SDR Interest Rate
SLA	Special Loan Accounts
SMS	Small and Micro States
SPS	Strengthened Policy Safeguards
SRA	Subsidy Reserve Account
SSTV	Serious Short-Term Vulnerabilities
TA	Technical Assistance
UCT	Upper Credit Tranche
UFR	Use of Fund Resources
WDI	World Development Indicators
WEO	World Economic Outlook

INTRODUCTION

1. **Low-income countries (LICs) are gradually recovering from recent shocks but face persistent macroeconomic vulnerabilities.**[1] The COVID-19 pandemic, Russia's war in Ukraine, and the parallel tightening of international financial conditions have taken a large toll on LICs.[2] Growth has been recovering but remains subdued amid significant scarring from the pandemic, tight liquidity, and weak external and fiscal buffers. Strong policy efforts in combination with unprecedented financing from external partners have helped LICs mitigate the impact of the shocks, and progress is now being made with macroeconomic stabilization. Several LICs also re-accessed international financial markets since early 2024. However, the medium-term outlook—including for accelerating income convergence vis-à-vis more advanced peers and advancing toward the Sustainable Development Goals (SDGs)—remains challenging and LICs are particularly exposed to shocks such as climate events, commodity price fluctuations, and political instability. This is particularly true for the poorest LICs, many of which are also Fragile and Conflict-Affected States (FCS). Achieving sustained gains with macroeconomic stability and inclusive growth will require well-calibrated domestic policies and structural reforms, as well as sustained support by the international community. The Fund has a critical role to play as part of the latter, mainly through its Poverty Reduction and Growth Trust (PRGT) that provides concessional financing to LICs.

2. **The urgent task for this review of PRGT Facilities and Financing is to maintain adequate financial support to LICs while restoring the Trust's self-sustained lending capacity.** While demand for PRGT lending is expected to fall from the unprecedented levels of recent years (an average of SDR 5.5 billion over 2020-23), staff anticipates that medium- and longer-term demand will remain significantly above pre-pandemic levels that hovered around SDR 1.2 billion per year. At the same time, the high lending volumes in combination with the increase in the SDR rate (SDRi) have put PRGT finances under strain. In the absence of policy changes and additional subsidy resources, the PRGT could only sustain a lending envelope of an average SDR 1 billion per year from 2027—a level even lower than during the 2010s. Restoring the PRGT's longer-term financial viability is thus an urgent priority.

3. **To achieve this objective, the paper sets out a package of proposals for Executive Board consideration.** Based on demand projections and in line with anticipated resource constraints, staff proposes a PRGT long-term self-sustained lending capacity of SDR 2.7 billion per year. This envelope would need to be supported by a recalibration of PRGT lending policies and additional financing. Staff would closely monitor the evolution of the self-sustained lending capacity as well as the impact of the main policy changes on borrowers. In addition to this core area of the

[1] In this paper, "LICs" and "PRGT-eligible countries" cover the same perimeter of countries and are used interchangeably (for the PRGT eligibility criteria see Annex IX). "Concessional financial support/loans" are defined as those provided at a lower cost (i.e., higher grant element) than General Resources Account (GRA) lending.

[2] IMF (2024). *Macroeconomic Developments and Prospects for LICs—2024* .

Review, the paper proposes targeted reforms in other areas to enhance the Fund's policy frameworks applicable to its LIC members.

4. Staff proposals reflect the guidance provided by Executive Directors in a series of informal engagements.[3] They also draw on a mission chief survey and suggestions from the April 2024 IMF-WB Joint Event on Policy Action in LICs and the Role of the International Community.

5. The rest of the paper is organized as follows. The next section sets the stage with a discussion of the distinct role of the Fund in providing balance of payment (BoP) support, and recent trends in Fund lending to LICs and implications for PRGT facilities and lending capacity. The third section presents the annual SDR 2.7 billion self-sustained PRGT lending envelope. The fourth section lays out staff's proposed lending policy changes. The fifth section outlines a proposal to mobilize resources in support of the envelope and proposes refinements to the PRGT's investment strategy. The sixth section covers other targeted reforms. The paper concludes with a discussion of enterprise risks. The annexes provide technical details underpinning staff's proposals.

TAKING STOCK: THE ROLE OF THE FUND IN LICS AND RECENT TRENDS IN PRGT LENDING

Within its mandate and working closely with the World Bank (WB) and other partners, the Fund has a long history of helping LICs address their unique challenges. Its multifaceted engagement—delivered through policy advice, capacity development, and lending—has seen substantial evolution and strengthening in recent years. Concessional financing through the PRGT constitutes an important part of the Fund's support for LICs, with lending volumes reaching unprecedented levels over the past four years in response to the COVID-19 pandemic and subsequent shocks.

[3] During an informal IMF Board meeting on April 10, Executive Directors confirmed the role of the Fund in LICs and saw the PRGT's facilities architecture, as well as its eligibility framework, as broadly appropriate. At the same time, Directors supported or indicated that they could agree to explore staff's evolving proposals that (1) future demand for PRGT lending will likely be below current levels but exceed pre-pandemic averages, (2) additional financing and lending policy changes are urgently needed to boost the PRGT's self-sustained annual lending capacity; and (3) there is scope for exploring further differentiation of lending terms to better reflect LICs' heterogeneity. Support for other options—including changing the blending ratio, lowering the per capita income thresholds for countries' graduation from PRGT-eligibility, bringing blenders entirely under the PRGT, and extending loan maturity—was limited. On financing, Directors called for exploring all options. At a subsequent meeting on July 16, Directors reiterated their support for a self-sustained PRGT and the need to find a lasting solution. There was broad support for the proposed lending envelope and the direction of lending reforms, while further clarifications were sought on the calibration of the proposals. While there had been significant support for a limited use of gold as an additional source of PRGT financing, most Directors agreed that the proposal to use a distribution of GRA net income or reserves was the most feasible option at this stage.

A. The Fund's Multifaceted Engagement with LICs

Integrated Approach

6. The Fund has a long history of helping its LIC members address their economic challenges and it has strengthened its support further in recent years. Within its mandate, the Fund focuses on helping LICs achieve, maintain or restore macroeconomic stability, creating an environment conducive to inclusive growth and development, and improving living standards including through poverty reduction. This agenda has received additional attention since 2020, as LICs required urgent support in navigating the challenges emanating from the COVID-19 pandemic, the war in Ukraine, and global monetary tightening (see IMF, 2024).

7. To maximize effectiveness, the Fund relies on an integrated approach that supports LICs across three dimensions.

- **Policy advice.** Support to LICs typically involves intensive engagement on policies and reform priorities in support of macroeconomic stability and inclusive growth. In response to the multiple shocks since 2020, the Fund's bilateral and multilateral surveillance has focused first on helping countries sustain critical spending (including to protect vulnerable households and firms from the shocks' impact) and maintain buffers, and then on helping LICs tighten their macroeconomic policies to reduce debt-related vulnerabilities and address high inflation.

- **Capacity development (CD).** The Fund has significantly expanded its CD activities for LICs, allowing spending to increase by over 40 percent between FY22 and FY23 alone. Technical assistance and training have become more closely integrated with policy advice and financing activities, and have responded flexibly to country needs especially on strengthening the capacity of central banks, ministries of finance, and statistical agencies.

- **Financing.** As discussed below, the Fund has significantly increased its financial support.

Engagement Tailored to Country-Specific Needs

8. The Fund has further evolved in recent years to respond effectively to LICs' diverse needs, recognizing that every situation is different. The institution has invested significantly in deepening its understanding of countries' specific needs that can be addressed within the broad policy frameworks. For example, the Fund recently adopted a FCS strategy and a guidance note on Small Developing States (SDS) that establish specific guidance for the institution's engagement with these types of countries, many of which are also LICs.

- **FCS.** The FCS strategy highlights that Upper Credit Tranche (UCT)-quality programs with FCS should sharpen focus on the distributional aspects of macroeconomic adjustment, and the pace and timing of structural reforms with respect to political economy dynamics and institutional capacities. Moreover, supporting program priorities with CD is critical. For countries where UCT-

quality programs are not feasible, the Fund can engage through a range of modalities including Staff Monitored Programs (SMPs) and emergency financing (EF) to address urgent BoP needs.

- **SDS.** The SDS guidance note underscores the unique economic vulnerabilities of these countries in an increasingly shock-prone world. It recognizes the need for a comprehensive approach to engaging with SDS, including in areas like climate change, gender equality, inclusive growth, governance, and digitalization. Moreover, it calls for leveraging instruments such as the Resilience and Sustainability Facility (RSF) alongside the lending under the GRA and the PRGT, as well as strong partnerships with the WB and other international financial institutions, to help the Fund provide robust support to SDS.

Closely Working with Others

9. Working closely with the WB and other partners has been an important dimension of the Fund's engagement with LICs. The scope of the collaboration with the WB reflects country-specific conditions and needs, and typically spans many areas of policy advice, CD, and lending (Annex II). The Fund cooperates with other partners such as the Regional Development Banks, member organizations of the United Nations family including the World Food Programme and the World Trade Organization, and bilateral donors on topics of shared interest both at the institutional level and in the context of country-specific macroeconomic adjustment programs supported by the Fund.

B. The Fund's Lending to LICs: Role and Recent Trends

The Fund's Unique Role in Helping LICs Address BOP Problems, Mainly Through its PRGT

10. Where needed, the Fund assists its members with temporary financing to address their BoP problems. The Fund's financial support helps smooth the adjustment necessary to address macroeconomic imbalances and mitigate the economic and social impact of reforms. It is provided under both the GRA and the PRGT on a temporary basis and under adequate safeguards to help resolve different types of BoP problems.

11. Concessional lending through the PRGT has evolved into the Fund's main vehicle to provide financing to LICs, responding well to these countries' specific needs (see Annex I). Specifically, PRGT lending is guided by a set of core features:

- **Addressing BoP problems, especially those of a protracted nature.** Fund financial support is associated with the existence of a BoP problem. The Extended Credit Facility (ECF), which is the workhorse of the PRGT, supports members with a protracted BoP problem to make significant progress towards a stable and sustainable macroeconomic position. The concept of a "protracted BoP problem" accounts for the fact that imbalances in many LICs take a longer time

to resolve and are often associated with entrenched structural problems.[4] In practice, the ECF allows for longer-term engagement and more gradual adjustment, and recognizes successive arrangements may be necessary.

- **Catalyzing financial support from other sources.** Fund arrangements help boost the credibility of LICs' macroeconomic policy frameworks and are expected to catalyze financing from multilateral and bilateral donors, as well as the private sector where relevant. This function is critical given LICs' often sizeable BOP needs and, beyond those, the vast demand for financing in support of their broader economic development objectives.

- **Supporting poverty reduction and growth.** Country ownership, and poverty reduction as well as growth objectives, are prominent dimensions of PRGT lending. The macroeconomic framework, program conditionality and fiscal targets in PRGT arrangements are derived from or made consistent with the objectives of fostering growth and achieving national poverty reduction strategies (PRS).

- **Providing subsidized financial support.** The Fund started concessional financial support in the mid-1970s with the establishment of the Subsidy Account and, one year later, the Trust Fund, which provided loans to LICs at a lower interest rate and longer maturities than financing under the GRA (Annex VI). Since the introduction of the PRGT interest rate structure and adjustment mechanism in 2009, its implementation has been waived by the IMF Executive Board and interest rates have been continuously kept at zero for all members (Annex VI).

- **Targeting the support to the poorest members.** The limited volume of the Fund's concessional lending resources puts a premium on their efficient use.[5] The Fund thus relies on several policies to manage access, including restricting eligibility for PRGT financing (Annex IX), imposing access limits and norms (Annex IV), and limiting the level of access by higher-income LICs through access caps and PRGT/GRA blending requirements (Annex V).

12. The Fund's focus on BOP needs makes its lending to LICs distinct from development financing by multilateral development banks and other donors. In particular, Fund financing is not earmarked to specific spending areas or development projects. Instead, it focuses on macroeconomic stability and external adjustment, comes exclusively in the form of loans and thus needs to be repaid (usually in a shorter timeframe than development financing that typically involves

[4] Under the Articles, the use of Fund resources in the GRA is contingent upon the existence of a BoP need, substantiated by the BoP deficit, reserve position, or developments in reserves. Instead of solely relying on the member's overall BoP position, assessment of a "protracted" BoP problem also considers various indicators, including: the evolution of exports and imports, changes in the terms of trade, access to capital markets, cost of debt service, and foreign exchange reserves. See *Need as a Condition for the Use of Fund Resources*, (SM/94/299) for further details.

[5] Achieving favorable PRGT lending terms involves securing both loan and subsidy resources, with the latter relying on limited donor resources or the need for broad consensus among members to mobilize internal resources and therefore often challenging to secure. The self-sustaining financial framework also relies on generating sufficient investment income to help cover subsidy requirements and administrative expenses.

more concessional or grant financing), and can be partly or even fully saved rather than spent when reserves are low.[6]

PRGT Lending Volumes, Use of Toolkit, Catalytic Effect, and Program Performance

13. Prior to the COVID-19 pandemic, PRGT lending volumes were broadly in line with the available resources in the PRGT under the self-sustained framework adopted in 2012.[7] Consistent with its targeted nature and distinct mandate focusing on BoP needs, PRGT lending has covered, on average, 1.7 percent of LICs' Gross Financing Needs (GFN) and was mainly countercyclical: it increased significantly during crisis episodes and declined thereafter (Figures 1 and 2).[8] The small share of IMF lending in total loan and grant flows to LICs reflects the Fund's catalytic role, and the broader mandate of other international financial institutions (IFIs) as well as bilateral official creditors and donors in providing development finance.[9] While annual disbursements under the PRGT ranged between SDR 0.5 billion and SDR 1.6 billion, annual lending commitments—that is, total new lending approved in a given year—averaged around SDR 1.2 billion, broadly in line with the PRGT's estimated self-sustained capacity of SDR 1¼ billion. This pattern reflected in part the existence of hard access caps, blending rules, and norms, which all worked to ensure consistency of lending volumes with levels that could be financed on a sustained basis.

14. The COVID-19 pandemic triggered a sharp increase in demand for Fund concessional lending, which has reached unprecedented levels during the past four years. The Fund significantly stepped up its financial support for LICs amid a series of large shocks, starting with the COVID-19 pandemic, followed by the spike in commodity prices and the global food crisis in the wake of the war in Ukraine, and the parallel tightening of international financial conditions. As a result, PRGT lending increased significantly in 2020—covering 9.4 percent of LICs' GFN (12.9 percent including GRA resources) before reverting to an average 2.8 percent of GFN over 2021-23 (4.2 percent including GRA resources). Annual new lending commitments under all PRGT facilities reflect this unprecedented spike in demand, averaging SDR 5.5 billion during 2020-2023, almost five times the level realized in the pre-pandemic decade (2010-2019). Total PRGT credit outstanding reached a record of SDR 18.3 billion at end-2023—about three times the pre-pandemic average (Figure 2).

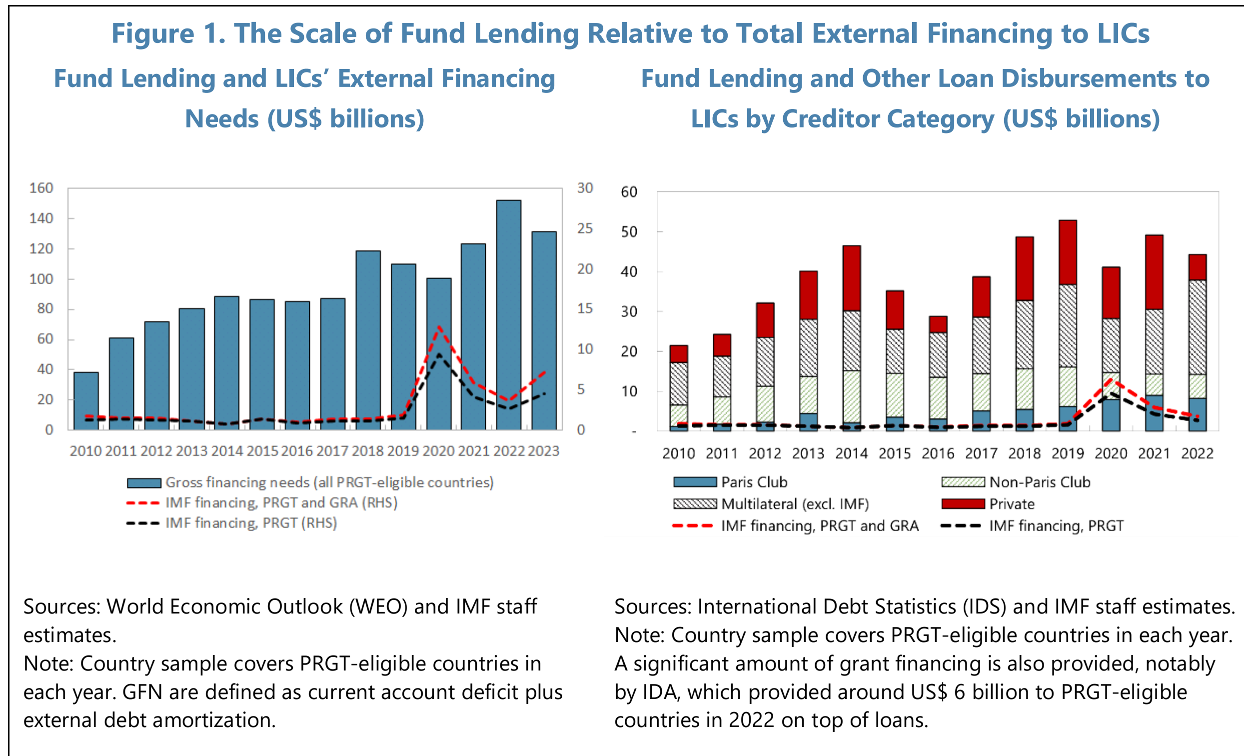
[6] The CCRT provides relief on debt service in the form of grants that are funded directly through donors contributions. Both IMF loans and budget support by donors constitute, in effect, BoP support as they provide the recipient with foreign exchange but budget support is usually fully spent and absorbed. Another difference is that the typically earlier repayment of IMF loans implies an earlier and larger unwinding of spending and absorption. For a more detailed discussion on this topic, see *The Macroeconomics of Managing Increased Aid Inflows—Experiences of LICs and Policy Implications* (IMF, 2005), and *The Fund's Facilities and Financing Framework for LICs* (IMF, 2009a).

[7] See *Proposal to Distribute Remaining Windfall Gold Sales Profits and Strategy to Make the Poverty Reduction and Growth Trust Sustainable*.

[8] The share of Fund lending in LICs' GFN amounted to around 2 percent when including also the financing provided under the GRA.

[9] In this context, it is important to note that donor and creditor flows declined over the past twenty years as a share of LICs' GNI: official development assistance (ODA) from the 32 members of the OECD Development Assistance Committee (DAC) fell from 6 percent to just over 2 percent despite increasing as a share of donor GNI. Multilateral flows declined from 2.6 percent to 1.8 percent of LIC GNI.

Figure 1. The Scale of Fund Lending Relative to Total External Financing to LICs



Sources: World Economic Outlook (WEO) and IMF staff estimates.
Note: Country sample covers PRGT-eligible countries in each year. GFN are defined as current account deficit plus external debt amortization.

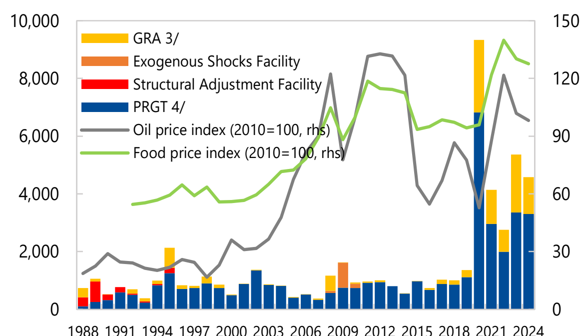
Sources: International Debt Statistics (IDS) and IMF staff estimates.
Note: Country sample covers PRGT-eligible countries in each year. A significant amount of grant financing is also provided, notably by IDA, which provided around US$ 6 billion to PRGT-eligible countries in 2022 on top of loans.

15. This unprecedented support to LICs was made possible by a remarkable show of solidarity from the membership. Thanks to the steadfast support of over 40 PRGT contributors, the 2021 fundraising targets for PRGT loan and subsidy resources (SDR 12.6 billion and SDR 2.3 billion, respectively) were successfully met in 2023. Achieving this important milestone was also facilitated by SDR channeling from economically stronger members to the PRGT, providing the PRGT the capacity to mobilize much-needed support to the poorest members.[10] Following the successful completion of the 2021 loan fundraising round, the U.S. Congress authorized a US$21 billion loan for the PRGT (see further details below).

[10] Twenty advanced and emerging economy members have contributed loan resources (under both the 2020 and 2021 rounds): Australia, Belgium, Brazil, Canada, China, Denmark, Finland, France, Germany, Italy, Japan, Korea, Netherlands, Norway, Qatar, Saudi Arabia, Spain, Sweden, Switzerland, and United Kingdom. Forty-five PRGT partners have provided or pledged subsidy contributions under the 2021 round: Australia, Botswana, Brunei Darussalam, Bulgaria, Canada, China, Croatia, Cyprus, Denmark, Estonia, European Commission, Finland, France, Germany, Greece, Hungary, Indonesia, Ireland, Italy, Japan, Korea, Latvia, Lithuania, Malta, Mauritius, Morocco, Netherlands, Norway, Oman, Philippines, Poland, Portugal, Qatar, Saudi Arabia, Singapore, Slovak Republic, Slovenia, Spain, Sri Lanka, Sweden, Switzerland, Thailand, Trinidad and Tobago, United Kingdom, United States. Further details can be found on the PRGT and SDR Channeling pages, and MD's Statement on the Achievement of Stage 1 Fundraising Targets for the PRGT.

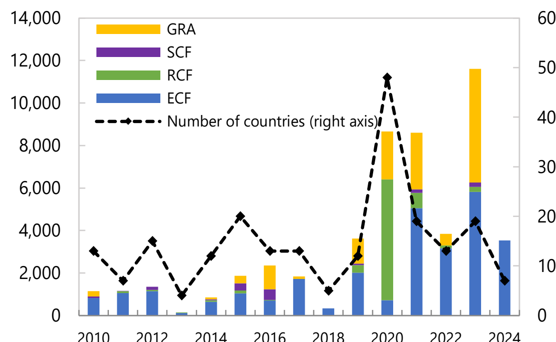
Figure 2. Disbursements and Commitments to PRGT-Eligible Countries
(Millions of SDRs)

PRGT-Eligible Countries: GRA and Concessional Lending Disbursements, 1988-2023 1/, 2/



Source: IMF staff estimates.
1/ The list of countries is defined as those eligible for PRGT resources in each year.
2/The data runs up to end-August 2024
3/ GRA: General Resource Account.
4/ PRGT: includes all financing under the PRGT, the Poverty and Growth Facility (PRGF), and the Enhanced Structural Adjustment Facility (ESAF).

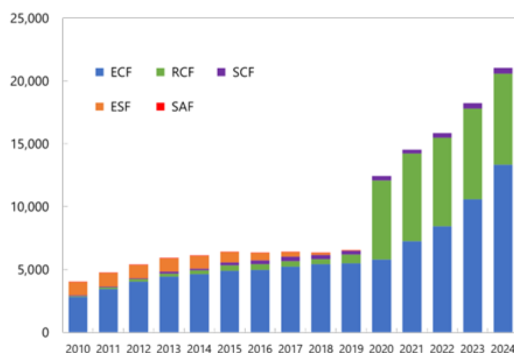
Annual Commitments to PRGT-Eligible Countries, 2010-23 1/, 2/



Source: IMF staff estimates.
1/ In April 2010, Albania, Angola, Azerbaijan, India, Pakistan, and Sri Lanka graduated from the PRGT; Amenia graduated in July 2013; Georgia graduated in April 2014; Bolivia, Mongolia, Nigeria, and Vietnam graduated in October 2015; Guyana in August 2020.
2/ The data runs up to end-August 2024.

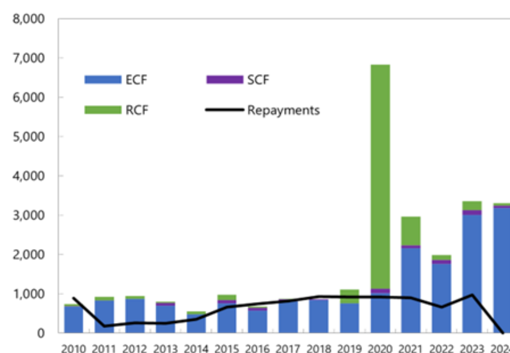
PRGT Outstanding Credit, Disbursements and Repayments, 2010-23

Credit Outstanding per Facility 1/



Source: IMF staff estimates.
1/ The data runs up to end-August 2024.

PRGT Lending: Disbursements and Repayments 1/



Source: IMF staff estimates.
1/ The data runs up to end-August 2024.

16. **The pandemic caused a temporary move towards EF, but the ECF and ECF/Extended Fund Facility (EFF) blends had regained their status as workhorse instruments by 2021.** Prior to the pandemic, most of the Fund's support under the PRGT was provided through ECF arrangements that accounted for 22 out of 25 programs approved during the 2016-2019 period, underlining the protracted nature of BoP needs in most LICs. Stand-by Credit Facility arrangements (SCFs) and the Rapid Credit Facility (RCFs) were used only occasionally (Figure 3). At the peak of the pandemic, in 2020, the emphasis shifted temporarily to EF under the RCF or, in the case of blenders, combined Rapid Financing Instrument (RFI) and RCF. Soon after, lending quickly transitioned back to upper credit tranche (UCT)-quality programs with their multi-year framework and ex-post conditionality: 34

countries out of the total 51 PRGT-eligible countries that received EF in 2020-21 subsequently resumed or transitioned to UCT-quality programs; and only seven EF requests have been approved since January 2022. As of August 1, 2024, 30 ECFs and ECF/EFF blends were in place, including five arrangements with countries that did not receive EF during the pandemic.

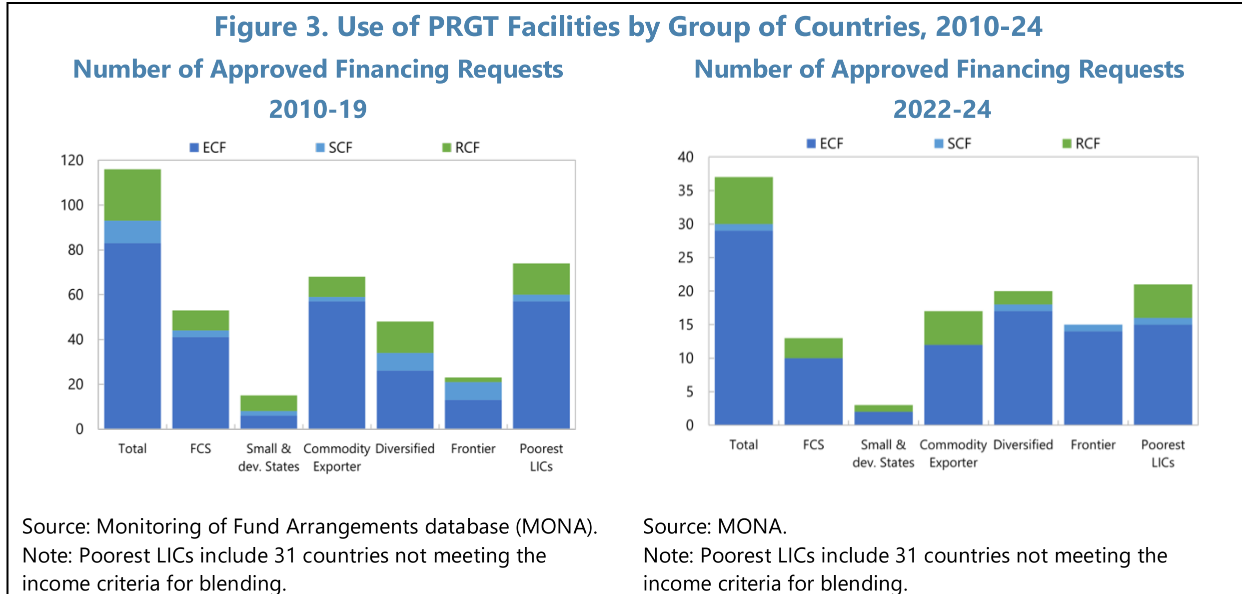


Figure 3. Use of PRGT Facilities by Group of Countries, 2010-24

Source: Monitoring of Fund Arrangements database (MONA).
Note: Poorest LICs include 31 countries not meeting the income criteria for blending.

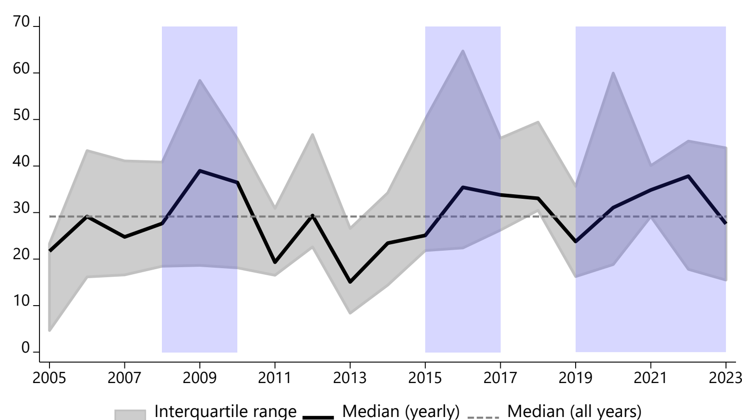
Source: MONA.
Note: Poorest LICs include 31 countries not meeting the income criteria for blending.

17. The large-scale support since 2020 remained catalytic, even if the Fund initially assumed a larger share of total BoP support in line with its countercyclical mandate. For the median country, Fund financing typically covered between 30-40 percent of the total residual BoP financing gaps (not to be confused with the overall financing needs as proxied by the GFN) in the years following the pandemic, and thus a slightly higher share compared with the long-term median that also includes periods of economic tranquility (Figure 4). That said, 2023 saw a reversion of this trend.[11]

[11] Taking a broader perspective than only BoP financing, recent Fund analysis indicates that additional Fund disbursements of one percentage point (pp) of GDP in the context of IMF financing arrangements were associated with additional official development assistance of 2¾ pp of GDP, about half of which is from multilateral donors (He, Velasquez and Johnston, 2024). Moreover, looking at the pandemic era, countries that received IMF EF were also often recipient of higher COVID-related financial commitments from other financial institutions including the WB (IEO, 2023; Cohen-Setton and Toni, 2024).

Figure 4. Median IMF Financing Share, 2005-23

(Percent of financing gap in UCT programs)



Sources: IMF country reports for program requests and IMF staff estimates.
The data cover 135 UCT-quality programs that were approved by the IMF's Executive Board for 53 LICs between 2005 and 2023, accounting for about 90 percent of all UCT programs approved for LICs during the sample period.
The figure includes three important crisis episodes during the sample period which are highlighted in blue: the global financial crisis (2008-10); the commodity price shock (2016-17); and the COVID-19 pandemic and after shocks (2020-23).

18. Emerging evidence suggests that PRGT-supported programs played an important role in helping LICs cope with recent shocks. While it is too early to draw firm conclusions, evidence suggests that Fund financing and coordinated support from other development partners during the pandemic and subsequent shocks helped countries sustain crucial spending and maintain buffers in the face of increasingly tight financial conditions. Moreover, a recent study (Batini and Li, 2023) finds that the IMF's strong financial support to LICs led to stronger recoveries from the pandemic than would otherwise have been possible, and limited economic losses.

19. Nevertheless, further strengthening program implementation remains crucial. Meeting program targets, including on social spending, has remained a challenge and the overall pace of fiscal and external adjustment in LICs has been gradual.[12] Completion of structural reforms has also faced challenges—including as a result of widespread socio-economic fragilities and institutional weaknesses in many LICs. The upcoming RoC will present a more comprehensive analysis of these issues and consider options to further underpin strong economic policies and reforms.

Two Implications of the Recent Trends for the 2024 Review of Facilities and Finances

20. The architecture of PRGT facilities remains well-aligned with members' needs. The picture established above, as well as responses received from a survey of mission chiefs, suggests that the current PRGT facilities architecture is sufficiently flexible to meet members' different types of BoP needs. The Fund was able to step-up EF during the pandemic, and then return quickly to UCT-quality programs that are better suited to address countries' macroeconomic imbalances and manage risks to the Fund. The fact that SCF usage has become less frequent in recent years is

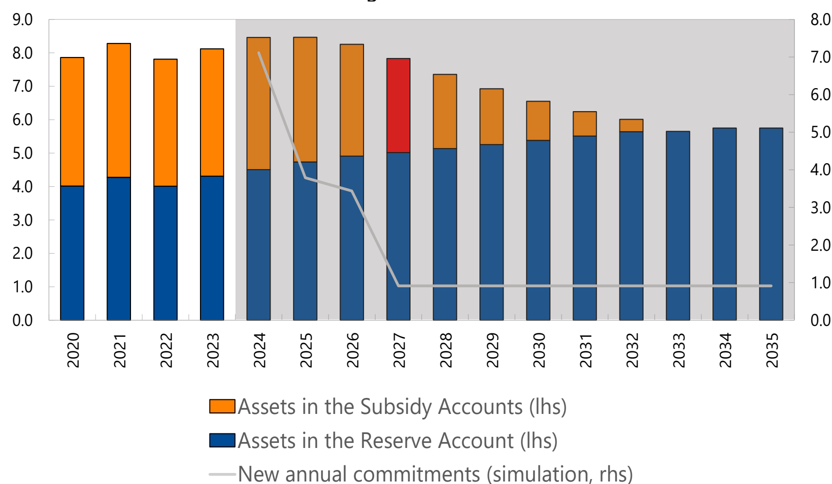
[12] IMF (2024). Macroeconomic Developments and Prospects for LICs—2024.

consistent with its role of providing short-term support, which has become less relevant during the recent years characterized by protracted BoP needs. The Food Shock Window under the RCF and RFI, created in 2022 for a limited time (until end-March 2024) to address BoP shocks associated with the food and energy price spike, also demonstrated that the current architecture can be temporarily adjusted in response to specific shocks. The PRGT toolkit has also remained relevant for FCS and SDS, within a broader set of engagement options (see Paragraph 8).[13]

21. Under current trends the PRGT's self-sustained lending capacity would fall to about SDR 1 billion per year by 2027.[14] Despite the successful completion of the first-stage of PRGT fundraising, launched in 2021, PRGT subsidy account resources could be fully committed by around 2027. At that point, new lending would need to fall to about SDR 1 billion per year (Figure 5) since using the principal of the Reserve Account for subsidization would not be consistent with the current PRGT framework on Reserve Account resources.[15]

Figure 5. Simulation of PRGT Assets in the Reserve Account and Subsidy Accounts (2020-35)
(In SDR billion)

Subsidy Accounts' resources could be fully earmarked by 2027. New lending commitments would need to fall to self-sustained capacity (below SDR 1 billion) to avoid eroding the Reserve Account.



Source: IMF staff estimates.
Note: The shaded area marks simulation period. Projected evolution of PRGT assets is subject to uncertainty, notably regarding lending volumes and interest rates. This simulation assumes that annual new PRGT lending commitments will be around SDR 7 billion in 2024 and in line with the central policy scenario (Box 2) until 2026. From 2027 onwards new commitments are assumed at somewhat below SDR 1 billion.

[13] As of August 2024, 12 PRGT-eligible FCS have on-track UCT-quality programs under the PRGT, (one more is implementing a Staff Monitored Program). SDS have relied much less than other LICs on IMF EF and UCT arrangements in recent years.

[14] The SDR interest rate, which averaged less than ¼ percent in 2020, reached an average of over 3¾ percent in 2023.

[15] Existing subsidy resources would be committed by 2026 if lending is at an average annual volume of about SDR 5 billion, or 2028 if lending is at an average volume of about 3 billion (based on assumed average annual lending from 2024 to 2026 and 2024 to 2028 respectively). The calculation includes potential savings from changes to the PRGT interest rate framework discussed below but excludes additional bilateral contributions.

THE PRGT LENDING ENVELOPE

The recent series of global shocks have led to record PRGT lending levels, reducing the PRGT's self-sustained lending capacity to only SDR 1 billion from 2027 onwards. While overall demand for Fund concessional financing is expected to gradually decrease from recent peaks, it will likely remain well above pre-pandemic levels. Building on demand projections and available resource options, staff proposes a self-sustained long-term lending envelope of SDR 2.7 billion per year for the PRGT. This envelope would allow the Fund to continue providing critical policy and financing support to an increasingly diverse group of LICs while being feasible from a funding perspective.

A. Borrower Demand: Some Normalization but Higher Than During 2010s

22. LICs' total GFN remain large and are expected to increase further. According to staff's projections, LICs' baseline external GFN, defined as the sum of current account deficits and external debt amortization, are expected to increase from US$154 billion in 2024 to US$173 billion in 2028, totaling around US$820 billion for the period 2024-28. This large number does not yet account for additional important and urgent needs such as rebuilding external buffers further, a more ambitious development agenda, and climate change adaptation and mitigation.[16] Mobilizing large-scale financing for LICs thus remains a priority. It will require a concerted effort involving more domestic revenue mobilization and accelerated structural reforms, as well as financing from external partners—including IFIs, official bilateral creditors and donors—and the private sector. With its focus on supporting LICs facing BoP needs, the PRGT is part of this collective effort.

23. At the same time, staff expects demand for PRGT financing to decline from the recent peaks. As discussed in the previous section, the BoP needs that PRGT financing helps address are only a small component of countries' overall external financing needs. Moreover, many LICs have recalibrated macroeconomic policies to rebuild buffers and reduce deficits. BoP needs should thus decrease, leading to a gradual decline of the unprecedented concessional Fund support provided to LICs recently. Looking ahead, more robust growth prospects, an easing of global financial conditions, and a gradual reduction of debt vulnerabilities could also lower demand for PRGT financing by moving some countries from PRGT-only to presumed-blender status and facilitate the graduation of others from the PRGT.[17]

24. However, demand for PRGT financing is expected to remain well above its pre-pandemic average. Two main factors come into play:

[16] See *Macroeconomic Developments and Outlook Prospects for LICs*—2024 (IMF, 2024)

[17] Medium-term projections were constructed using WEO projections of gross external financing needs for PRGT-eligible countries and assumptions on the share of PRGT financing in covering these needs over time. Long-term projections are based on assumptions on the probability of countries accessing PRGT resources, access levels per facility, trend in nominal growth and blending, and PRGT eligibility status. See Annex III.

- **Significant vulnerabilities will persist for the foreseeable future.** The effects of post-pandemic scarring will likely sustain the demand for Fund support in many LICs over the coming years, followed by a gradual deceleration towards the long-term lending average.

- **A more shock-prone world.** While a recurrence of the unprecedented shocks of the past few years appears unlikely, the average frequency and magnitude of shocks affecting LICs' external positions are likely to remain higher than before the COVID-19 pandemic. This reflects growing risks associated with extreme weather events and climate disasters, a higher incidence of violent conflicts and social unrest, and the potential for steep commodity price fluctuations and trade diversion in the context of the global energy transition and geopolitical fragmentation.

25. In addition, the financing needs and economic characteristics of LICs are increasingly differentiated.[18] One dimension is the duration of countries' financing needs: a substantial subset of LICs face chronic BoP needs emanating from structural current account deficits, while others may require BoP support only temporarily when hit by an exogenous shock. Another dimension is the capacity to absorb different financial terms and conditions, reflecting differences in countries' income level. This diversity among LICs, which emanates from their heterogeneous economic and institutional characteristics, has increased in recent years (see Box 1 on income heterogeneity):

- **The poorest LICs, which are also often fragile and little diversified, are most in need of Fund concessional support.** Thirty-one of the 69 LICs still fall into this category, even if their number has fallen over recent years as more countries have crossed the International Development Association (IDA) operational cutoff (at US$1,335 for FY2025; Annex IX. Box 1). Their economies often face a structural FX gap that requires exceptional BoP financing on a protracted basis. Moreover, weak institutions and non-diversified economies make these countries more susceptible to shocks and magnify their impact, while access to international capital markets may not be available or affordable. Due to their limited potential to generate FX earnings and fiscal revenues and, consequently, to shoulder higher cost of external financing, it will remain critical for these countries to continue to receive Fund support on the most concessional terms.

- **Higher-income LICs, including many SDS and frontier markets, typically require shorter-term BoP financing from the Fund, while the level of concessionality may be less critical.** Their relatively stronger FX earnings and fiscal revenues, as well as more developed economic institutions, enable them to tap international markets for an important share of their FX needs. For these countries, access to exceptional BoP financing can play a useful insurance role that can be activated in case the economy is hit by a negative shock, particularly in the context of a temporary loss of market access. This means that the level of concessionality of the Fund's support is often a less critical consideration than the volume of financing available when

[18] See ¶10-14 and Box 2, Macroeconomic Developments and Prospects for LICs—2024 (IMF, 2024), for additional details on LIC heterogeneity.

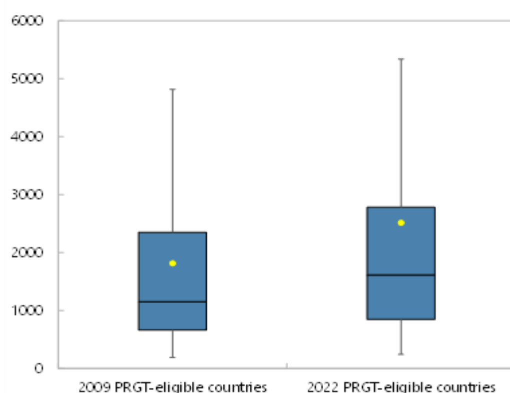
compared with their poorer peers. Moreover, with part of their borrowing at commercial rates, the provision of a relatively small portion of total borrowing at concessional interest rates is not a primary determinant of their debt sustainability.

Box 1. Income Heterogeneity of PRGT-Eligible Countries

The Fund's LIC members comprise a diverse set of countries. At one end of the income spectrum are the poorest members with few financing options; on the other are those countries that are approaching graduation from the PRGT with much higher per capita income levels and robust market access.[1]

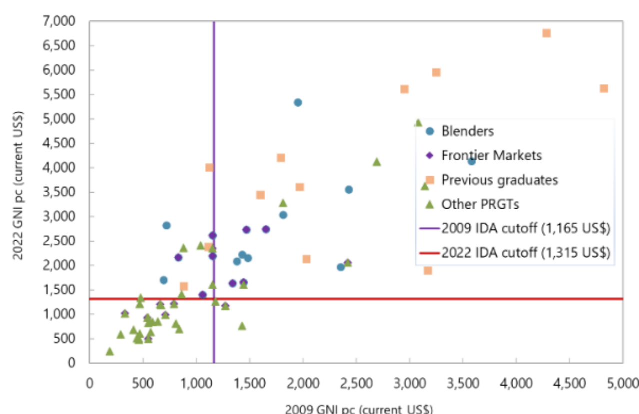
The heterogeneity across LICs has become more pronounced during the past 15 years. Out of the 82 countries that were eligible for PRGT financing in 2009, 13 have graduated in the meantime. Moreover, since 2009, per-capita income has increased above the IDA threshold in 13 other LICs. On the other hand, per-capita income has dropped below the IDA threshold in a few countries, and some of the poorest LICs are further away from the IDA threshold today than they were in 2009. As a result of these heterogeneous trends, income dispersion across LICs has increased—for the current PRGT-eligible countries, the poorest LIC (among non-small states) had a per capita GNI equivalent to 4 percent of the GNI per capita of the richest LIC in 2022, down from 8 percent in 2009 (WB World Development Indicators (WDI) data). These dynamics reflect deep-rooted challenges and have been exacerbated by the recent shocks.[2]

Per Capita GNI (2009 vs 2022 PRGT-Eligible Countries)



Source: WB WDI data.
Note: Country sample covers PRGT-eligible countries in each year. Data is missing for 5 countries in 2009 and 2 countries in 2022.

Income Progression Among 2009 non-SDS PRGT-Eligible Countries



Source: WB WDI data.
Note: Djibouti, Somalia, Yemen, Eritrea and South Sudan are excluded due to missing data. PRGT-eligible SDS are not included in this chart.

[1] PRGT-eligible members' GNI income per capita in 2023 ranged from US$240 to over US$11,000, with a median of US$1,610. Many of the wealthiest LICs are SDS.
[2] See *Macroeconomic Developments and Prospects for LICs—2024* (IMF, 2024).

B. Calibrating a Self-Sustained PRGT Envelope Meeting Members' Needs

26. Staff calibrated a lending envelope that would allow the Fund to continue providing critical policy and financial support to LICs, while being feasible from a funding perspective. Specifically, staff estimated a likely corridor of future demand for PRGT resources by using scenario

analysis, which is particularly well suited to account for substantial uncertainty in projections. The scenarios integrate bottom-up projections for 2024, medium-term projections based on projected external GFN for 2025-29, and long-term estimates based on assumptions about the likelihood and size of access to PRGT resources. Taking the demand corridor as a starting point, staff then narrowed the projection interval to a range built around a credible central policy scenario that takes into account PRGT resources that could credibly be mobilized -(See Box 2 and Annex III).

27. Taking into account support from other development partners that it helps catalyze, a long-term PRGT annual lending envelope of SDR 2.7 billion would meet LICs' financing needs. A PRGT self-sustained long-term annual lending capacity of SDR 2.5-3.0 billion, with a central policy scenario of SDR 2.7 billion, together with other financial support it helps catalyze, would achieve the twin objectives of meeting future demand with sufficiently high probability and being feasible on the basis of a credible and realistic PRGT funding strategy (Figure 6, and Box 2). Importantly, the proposed lending capacity, which is more than twice the pre-pandemic level, would accommodate temporary episodes of high demand for UCT-quality programs; EF to address urgent BoP needs; average access in line with the proposed norm (see below); a buffer for large programs; periodic adjustments of access norms and limits; and assumed graduation of some countries in line with the growth of their gross national income (GNI) per capita. The staff's estimates account for higher demand in the medium term—although at levels lower than the recent peak—before lending levels converge to their long-term average.

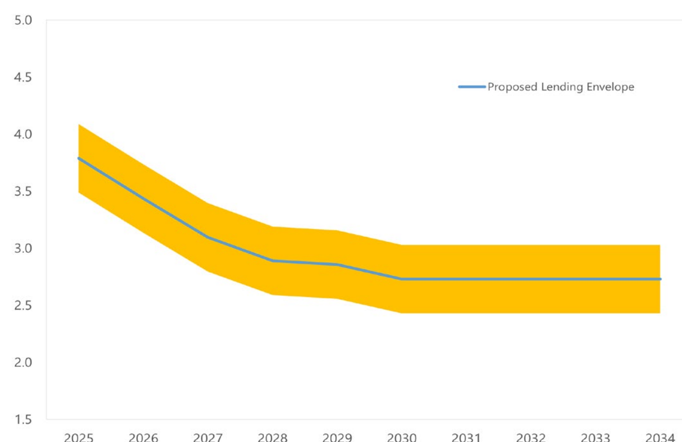
28. Staff plans to carefully monitor the evolution of borrowing and lending capacity and propose measures as necessary to preserve the self-sustained model. While the PRGT's financing model is sufficiently flexible to accommodate temporary periods of extraordinary demand, the lending capacity is sensitive to risks including lower investment returns and average financing needs exceeding the base envelope by a substantial margin for an extended period. Staff will carefully review demand and supply trends in the context of the annual reviews of the adequacy of PRGT resources.

29. As a safeguard, an ad-hoc review would be triggered should demand projections deviate significantly from the self-sustained lending envelope. In the event of indications that demand could exceed a corridor around the self-sustained long-term annual lending capacity of SDR 2.5-3.0 billion for a protracted period, or if available resources fall short of what is needed to sustain this level of lending, an ad-hoc review would consider a range of policy options and contingency measures under the three-pillar PRGT framework.[19] Potential policy options include additional measures to constrain demand such as tightening access limits and norms or restoring hard caps, and/or increasing interest rates. Lending capacity could also be boosted, or sustained, if resources fall short of projections, through additional bilateral fundraising and/or further use of

[19] See Annex I in *2024 Update of Resource Adequacy of the PRGT and the Debt Relief Trusts*.

internal resources, such as through a further suspension of GRA reimbursement. The appropriate measures would depend on the nature of the challenges.

Figure 6. Future PRGT Lending Envelope
(SDR billion)



Source: IMF staff estimates.
Notes: Estimates of expected annual commitments on a subsidy use basis. The dark blue line marks staff's proposed lending envelope, which would converge to SDR 2.7 billion in the long term. The dark orange area is calibrated to reflect shocks to key assumptions underpinning projected average access but not a combination of shocks or persistent deviations in access frequency. For more details on the methodology and assumptions see Box 2 and Annex III.

Box 2. PRGT Demand Estimates and Central Policy Scenario

Methodology for estimating the likely corridor of future demand and a credible lending envelope takes into account information on the near-term demand, projected GFN in the medium term, and assumptions on the share of PRGT financing in LICs' GFN, and on the future likelihood and size of LICs' access to PRGT resources (see also Annex III).

Methodology

Medium-term demand estimates are anchored on external GFN projections and the assumed evolution of the share of PRGT lending in these GFN, starting from 2024 demand estimates. The starting point is the share of PRGT lending in GFN in 2024, estimated at 5 percent, consistent with the projection of around SDR 7 billion in new lending commitments for 2024 that reflects assumptions informed by consultations with country teams and a high amount of expected disbursements from existing arrangements approved in the past years. Medium-term projections (5 years out) then assume a gradual decrease in the share of PRGT disbursements in GFN, in line with the expectation of a gradual reduction of demand from recent peaks. Different scenarios for this decrease are considered to create a low, high and central scenario (see below). Annual demand for PRGT financing is calculated by applying for each year the assumed share of PRGT disbursements in GFN to the corresponding World Economic Outlook (WEO) GFN projection.

Long-term demand projections reflect assumptions about the likelihood and average access of financing requests. The approach follows the standard methodology used in previous PRGT Reviews. The model applies assumptions on (1) the probability of countries accessing PRGT resources; (2) access levels; (3) trend growth of per-country access levels over time to avoid erosion of access in real terms; and (4) blending

Box 2. PRGT Demand Estimates and Central Policy Scenario (concluded)

status and graduation from PRGT eligibility. Long-term demand is defined as the model's projected average demand over the next decade. For the current exercise, it is used in all scenarios as projected annual average lending from 2030 onwards.

Unconstrained Demand Corridor

Staff constructs low and high demand scenarios for PRGT lending based on assumptions on the state of the world. Scenarios assume higher financing needs in the medium than in the long term reflecting a gradual unwinding of the lingering macroeconomic imbalances in the aftermath of the recent shocks.

- The **low demand scenario** reflects a generalized return to a pre-pandemic patterns of demand. Specifically, medium-term demand projections assume that the share of PRGT disbursements in GFN will gradually decline to the pre-pandemic (2010-19) average by 2029. Similarly, for the long-term, staff assumes that the likelihood of requests would broadly correspond to the pre-pandemic average. The one exception to this assumption would be more requests for EF, consistent with expectations of a more shock-prone world. Annual demand in such a scenario would average SDR 2.3 billion in the medium-term and SDR 2.0 billion in the long term.

- The **high demand scenario** assumes sustained elevated demand and, correspondingly, higher access. Medium-term projections assume the share of PRGT disbursements to decline only to the average of the pandemic period (2021-23), while GFN would remain 10 percent above those projected in the 2024 WEO to reflect additional shocks. Staff calibrates the longer-term model based on past episodes of high demand (e.g., following the global economic and financial crisis and the COVID-19 pandemic). In this scenario, demand increases to an annual average of SDR 3.8 billion in the medium term and SDR 3.4 billion in the long term.

Central Policy Scenario

- **Staff derives a central policy scenario consistent with staff's proposed access policies that balances financing needs and available resources.** In the medium-term, the share of PRGT disbursements would gradually return to the mid-point between the 2010-19 and 2021-23 averages. The central scenario is derived using long-term likelihood of programs set between the low and high demand scenarios, thus accounting for a more shock prone world. The average assumed access accommodates potential additional demand stemming from (1) a greater distance between the norm and access limits than in the past and (2) large nominal programs that contributed significantly to PRGT demand in recent years, especially between 2021 and 2023, even if these are assumed to occur at a lower frequency in the future proxied by their average incidence over the 2010-2023 period. In such a scenario, staff estimates a lending envelope of SDR 3.2 billion for the medium term and SDR 2.7 billion for the long term on a subsidy-use basis (reflecting that some demand for SCFs will be precautionary). Sensitivity analysis to key assumptions, including the impact of large nominal programs (SDR 0.3 billion in annual demand), or of nominal access growth (SDR 0.3 billion), suggests a range between SDR 2.5 billion to SDR 3.0 billion as a credible estimate for an adequate long-term lending capacity.

LENDING POLICY CHANGES

Staff proposes differentiated lending terms to better reflect heterogeneity across LICs. By construction, these differentiated terms also act as an automatic stabilizer to reduce the drain on PRGT resources emanating from the cost of the interest rate subsidies that are provided under the Trust. In addition, staff proposes reverting the PRGT access norm to the level that prevailed before the temporary increase in 2023 (145 percent of quota), while maintaining the PRGT annual (AALs) and cumulative access limits (CALs) at their current levels (respectively 200 and 600 percent of quota). The reduced norm would be a key lever to ensure PRGT lending stays within the targeted envelope, while the unchanged access limits allow flexibility for cases where access above the norm would be justified. Finally, recalibrating the PRGT's safeguards would help mitigate the risks associated with higher credit exposure and reinforce the anchoring role of the new norm. While the lending policy changes proposed in this section would become effective on January 1, 2025, the new interest rate mechanism would become effective on May 1, 2025 to reduce significant operational risks.

A. Introducing a Differentiated PRGT Interest Rate Structure

30. Staff sees a strong case for further differentiating PRGT lending terms through a tiered interest rate structure to reflect LICs' increasing heterogeneity. The poorest LICs are typically facing high and long-lasting financing needs while having very limited access to international financial markets and less adequate external and fiscal buffers. In contrast, frontier market LICs have more diversified economic structures, stronger institutions, and access to markets. This supports the case for differentiating interest rates across LICs, to better target and strengthen further the efficient use of overall scarce concessional lending resources particularly during periods of high interest rates. By charging the better-off LICs a positive interest rate tied to the SDRi, the differentiated interest rate structure would also act as an automatic stabilizer to reduce the pressure on PRGT resources coming from the subsidization of interest rates.

Staff Proposal

Country Tiering Based on the Blending Policy

31. Staff assesses that the PRGT blending policy has been effective in targeting the Fund's limited concessional resources to the poorest LICs and remains adequate. The 2021 reforms on blending rules and caps established three groups of LICs and further enhanced the focus of PRGT resources on the poorest (see Annex V). The blending policy uses income as the primary criterion to offer the most favorable support to the poorest LICs with GNI per capita below a certain cutoff (see Box 3).[20] For the countries with GNI per capita higher than the cutoff, it then distinguishes between

[20] In line with the Articles of Agreement (Article V, Section 12 (f)(ii)), the IMF Board has applied GNI per capita as a measure of relative poverty and therefore need for concessional support both in the PRGT but also in the other IMF Trusts such as the CCRT. In the RST, while no Special Disbursement Account (SDA) resources are involved, GNI per

(continued)

countries based on their debt vulnerabilities that could limit market access, taking into account past market access and whether the country is a small or micro state.[21, 22] Blending rules and access caps have long been used as important tools to optimize the use of PRGT's scarce resources, including by prioritizing the poorest LICs. At the same time, blended financing is a positive signal for countries that are successfully moving toward emerging market status.

Box 3. Criteria for Presumed Blending

Under the current blending policy, which was reformed in 2021,[1] countries are presumed to blend if they (i) meet the income criterion for blending and (ii) do not have debt vulnerabilities that limit their access to international financial markets. Countries that do not meet one or both criteria are not required to blend.

A country is deemed to meet the income criterion for blending if its GNI per capita has exceeded the IDA operational cutoff by at least 5 percent for two consecutive years. Having met the income threshold, the country continues to meet it, provided that income per capita does not fall below 95 percent of the IDA operational cutoff.[2] Should income per capita fall below this level, the country no longer meets the income criterion.

A country is deemed to have debt vulnerabilities that limit its access to international financial markets if it is assessed to be (i) in debt distress or (ii) at high risk of debt distress and either (a) has had limited past market access as specified under the blending policy or (b) is a small/micro state.

The blending framework hence focuses primarily on countries' per capita income, but also takes into account the impact of debt vulnerabilities on access to financial markets.

[1] See *Fund Concessional Financial Support for LICs—Responding to the Pandemic*.
[2] The IDA operational cutoff is based on GNI per capita (Atlas method) and is updated annually in July.

32. Differentiating interest rates in line with the blending policy would further strengthen the efficient use of PRGT resources. This proposed PRGT tiered interest rate structure (price approach), aligned with the existing tiered PRGT access structure (volume approach), would ensure a coherent framework: PRGT resources and the most favorable lending terms would be focused on the poorest LICs. All PRGT-eligible countries would be supported through differentiated levels of

capita income was also used for RST eligibility. See *Catastrophe Containment and Relief Trust: Policy Proposals and Funding Strategy* (IMF, 2020), and *Proposal to Establish A Resilience and Sustainability Trust* (IMF, 2022).

[21] All the 19 PRGT-eligible SDSs are above the GNI per capita cutoff but special consideration is given to account for their inherent vulnerabilities. Hence, the policy specifies that only small and micro states meeting the income criterion and having a low or moderate risk of debt distress are required to blend, regardless of their market access. The recently published 2024 guidance note on engagement with SDS underscores a tailored approach to address the unique economic vulnerabilities of these countries in an increasingly shock-prone world.

[22] FCS status is not considered in the tiering because FCS criteria extend beyond economic factors, such as the number of casualties or the size of refugee populations, which are subject to frequent change, and do not necessarily reflect the relative financial strength of the country compared to other PRGT-eligible countries. As well as heterogeneity in the nature of fragility, 60 percent (18 out of 30) of LICs currently listed as FCS are below the GNI per capita cutoff, whilst some FCS are higher-income and are successfully accessing markets. The IMF FCS strategy provides guidance to staff for tailored support to FCS.

concessionality until they are no longer PRGT-eligible. Under this approach, the country groups would be as follows (see Table 1):

- **Tier 1 ("*the lowest income*").** PRGT-eligible countries that do not meet the income criterion for blending (see Box 3). These countries, when seeking access to concessional financing, are not required to blend and are eligible for PRGT exceptional access with no cap.

- **Tier 2 ("*the higher-income*").** PRGT-eligible members that meet the income criterion for blending—further divided in two subgroups:

    - Tier 2A ("*the higher-income, presumed blenders*"). Higher income PRGT-eligible members that do not face elevated debt vulnerabilities that limit their access to international financial markets. These members are required, when seeking PRGT access, to blend PRGT and GRA resources at a 1:2 ratio. They are also subject to a per-arrangement cap at the norm, and a hard cap on total PRGT volume at the normal access limits. That means that these countries are not eligible for exceptional access under the PRGT.

    - Tier 2B ("*the higher-income, non-presumed blenders*"). Higher income PRGT-eligible members that face debt vulnerabilities that limit their access to international financial markets and tend to face higher economic vulnerabilities than Tier 2A countries (Box 5). While not required to blend when seeking PRGT access, they are subject to a hard cap on total PRGT volume at the normal access limits and are not eligible for PRGT exceptional access.

33. The country groups are expected to be broadly stable with limited risks of "cliff effects", notwithstanding periodic changes in tiering status. The current blending rules contain a set of robust checks for changing members' blending status. With this built-in hysteresis, past movements across country groups have been quite rare (Box 4). Nevertheless, staff plans to monitor the risks of cliff effects closely and periodically update the Board on developments.

Box 4. Stability of Country Tiers

Applying current blending rules to historical data shows that movements between country groupings would have been infrequent. Staff assessed potential "cliff effects" in the borrowing rate if the blending rules had been applied also to pricing by analyzing past incidences of two types of movements under the current blending rules: (1) in and out of groups that would trigger changes in borrowing costs; and (2) movement from Tier 1 to Tier 2A, which would result in a sudden large increase in a country's PRGT borrowing rate for a marginal increase in per capita income. Two conclusions emerge from this work:

- **Country tiers would have been relatively robust.** Over 75 percent of countries would have stayed in the same country grouping between 2019 and 2023, suggesting a high degree of stability in the country groupings as determined by the current blending criteria (Box 4. Table 1). This is especially the case for Tier 1 countries, which change tier only based on changes in GNI per capita. Looking at a longer period, changes would have occurred in only 5.5 percent of all country-year observations, mostly induced by changes in debt vulnerability assessments and market access status (Box 4. Table 2). The income-induced changes would have been mostly movements from Tier 1 to Tier 2A.

Box 4. Stability of Country Tiers (concluded)

- **Countries do not appear to move in and out of tiers excessively.** Based on the number of possible tier changes,[1] only 0.5 percent of changes—affecting four countries (Myanmar, Tajikistan, Yemen and Zambia)—would have involved multiple changes between tiers due to income changes. The majority of these would have been caused by major crises including conflicts. As expected, repeated moves across tiers, while being rare, would have been more frequent due to changes in debt sustainability or market access.

Box 4. Table 1. Stability of Country Tiers Over a 5 Year Horizon (2019-2023)

	Current Blending Rules		
	Tier 1	**Tier 2A**	**Tier 2B**
	number of countries		
Grouping at end-2022	30	20	19
Stable countries 1/	27	15	15
	In percent		
Share of stable countries	90.0	75.0	78.9

Source: IMF staff estimates.
1/ Countries remaining in the same group over the period.

Box 4. Table 2. Changes of Country Tier Status Between 2009 and 2023

		Total Changes in Tiers		Multiple Changes of Tiers		
Trigger	**Direction of the Changes**	**Number**	**Percent of total possible moves**	**Number of multiple changes per member**	**Percent of total changes**	**Number of countries with multiple changes 1/**
Income	1 to 2A	13	1.3	-	-	-
	1 to 2B	4	0.4	-	-	-
	2A to 1	5	0.5			
	2B to 1	1	0.1			
	2 to 1	6	0.6	-	-	-
		23	***2.4***	**5**	***0.5***	**4.0**
Debt/market access	2B to 2A	10	1.0	-	-	
	2A to 2B	20	2.1	-	-	
		30	***3.1***	13	***1.3***	**10.0**
Total changes		**53**	**5.5**			
Total observations		**966**		**966**		69

Source: IMF staff estimates.
1/ 14 countries would experience multiple reclassifications.

[1] Each member is assumed to be assessed on an annual basis across income, debt, and market access. Hence over the fifteen-year period (2009-2023), there are 966 (14 years x 69 members) opportunities for change or "observations".

34. A transitional arrangement is proposed to mitigate the "cliff effect" and prevent poorest LICs from prematurely moving to a higher income tier solely due to GDP rebasing. In cases where GDP rebasing would increase GNI per capita above 105 percent of the IDA operational cut-off, the application of the income criterion, and consequently the potential application of the interest rate mechanism and the blending policy, would be postponed until GNI per capita data are obtained for three consecutive years starting from the official release date of the rebased GDP series. This transitional arrangement will also be applied retroactively to all countries that rebased their GDP since the onset of the COVID-19 pandemic in 2020 and subsequently exceeded the 105 percent GNI per capita of the IDA operational cut-off. For these countries the three-year transition period would start to apply from the effective date of the new interest rates mechanism. This transitional arrangement would not apply to countries that already exceeded 105 percent of the IDA operational cut-off in the year prior to the official release date of the rebased GDP series.

Table 1. Country Groupings Under Staff's Proposal

Tier 1: Lowest Income (countries that do not meet the income criterion for blending)

	FCS	GNI per Capita (US$) 1/	Quota Size (SDRm)
1 Burundi	Y	230	154
2 Afghanistan, I.R. of 4/	Y	360	324
3 South Sudan 4/	Y	417	246
4 Central African Rep.	Y	470	111
5 Madagascar		530	244
6 Mozambique 3/	Y	530	227
7 Sierra Leone		560	207
8 Niger	Y	600	132
9 Somalia	Y	610	163
10 Yemen, Republic of 4/	Y	618	487
11 Malawi		640	139
12 Congo, Dem. Rep. of	Y	660	1,066
13 Eritrea 4/	Y	702	16
14 Chad	Y	710	140
15 Liberia		730	258
16 Gambia, The		830	62
17 Burkina Faso	Y	850	120
18 Mali	Y	860	187
19 Guinea-Bissau	Y	900	28
20 Rwanda 3/		980	160
21 Uganda		980	361
22 Sudan	Y	990	630
23 Togo 3/		1,030	147
24 Ethiopia 3/	Y	1,130	301
25 Lesotho		1,160	70
26 Myanmar	Y	1,210	517
27 Tanzania 3/		1,210	398
28 Zambia 3/		1,320	978
29 Guinea		1,360	214
30 Nepal		1,380	157
31 Haiti 5/	Y	1,740	164

Tier 2: Higher Income Countries (countries that meet the income criterion for blending)

Tier 2 A: Higher Income Presumed Blenders (with no debt vulnerabilities that limit market access)

	FCS	GNI per Capita (US$) 1/	Quota Size (SDRm)
1 Benin 3/		1,440	124
2 Cameroon 3/	Y	1,650	276
3 Senegal 3/		1,660	324
4 Kyrgyz Republic		1,700	178
5 Cambodia		1,810	175
6 Kenya 3/		2,110	543
7 Timor-Leste 2/	Y	2,140	26
8 Mauritania		2,150	129
9 Nicaragua		2,270	260
10 Solomon Islands 2/	Y	2,270	21
11 Uzbekistan 3/		2,360	551
12 Côte d'Ivoire 3/		2,670	650
13 Papua New Guinea 3/	Y	2,840	263
14 Bangladesh		2,860	1,067
15 Honduras 3/		2,900	250
16 Bhutan 2/ 4/		3,590	20
17 Vanuatu 2/		3,660	24
18 Micronesia, Fed. States of	Y	4,150	7
19 Cabo Verde 2/		4,280	24
20 Moldova		6,110	173

Tier 2 B: Higher Income Non-Presumed Blenders (with debt vulnerabilities that limit market access)

	FCS	GNI per Capita (US$) 1/	Quota Size (SDRm)
1 Tajikistan 3/		1,440	174
2 Comoros 2/	Y	1,600	18
3 Zimbabwe	Y	1,740	707
4 Lao P.D.R.		2,120	106
5 Ghana 3/		2,340	738
6 Congo, Republic of 3/	Y	2,470	162
7 São Tomé & Príncipe 2/	Y	2,480	15
8 Djibouti 2/		3,450	32
9 Kiribati 2/	Y	3,830	11
10 Samoa 2/		4,020	16
11 Tonga 2/ 3/		5,000	14
12 Tuvalu 2/	Y	7,550	3
13 Marshall Islands 2/	Y	7,570	5
14 Dominica 2/		8,920	12
15 Grenada 2/		9,800	16
16 St. Vincent & the Grenadines 2/		10,070	12
17 Maldives 2/		11,030	21
18 St. Lucia 2/		12,400	21

Source: IMF staff estimates.
1/ The Atlas method for GNI per capita applies a conversion to smooth fluctuations in prices and exchange rates. More information on IDA GNI per capita Atlas Method and eligible countries can be found here: https://ida.worldbank.org/en/about/borrowing-countries. The FY25 IDA operational cutoff is $1,335, the blending threshold is $1,335*1.05=$1,402.
2/ Small and micro states.
3/ Frontier countries.
4/ 2023 GNI data missing and 2022 data (or earlier data) is used.
5/ Taking into account staff proposal for countries where a GDP rebasing has been implemented.

Lending Rates: A Differentiated Interest Rate that Favors the Poorest Countries

35. Based on the tiering structure described above, staff proposes differentiated interest rates with a mechanism to adjust more frequently to changes in SDRi (Annex VI). Staff proposes to replace the current interest rate mechanism[23] with a new tiered interest structure, based on the country groups defined above. This new mechanism would not differentiate by facility type to avoid any possibility that interest rate considerations might affect the selection of PRGT facilities rather than the nature of a country's underlying BoP need. Staff's proposal would therefore apply to interest rates applicable to all PRGT facilities (ECF, RCF, and SCF). Specifically:

- **The interest rate for Tier 1 countries** would be set at zero, thereby maintaining the current level of concessionality for the poorest and most vulnerable PRGT-eligible members.

- **The interest rate for Tier 2 countries** would be set as a fraction of the SDRi calibrated to remain well below the GRA rate and market rates (Table 2).

    - The interest rate for Tier 2A countries (higher income presumed blenders) would be set at 70 percent of the prevailing SDRi, below the GRA interest rate (SDRi plus basic margin) which applies to the GRA portion of their blended financing.

    - The interest rate for Tier 2B countries (higher income non-presumed blenders) would be set at 40 percent of the prevailing SDRi. Staff suggests a lower interest rate for these countries relative to Tier 2A to account for the presence of more pronounced debt vulnerabilities and generally weaker macroeconomic performance (Box 5). Notwithstanding the new interest rate, Tier 2B countries' borrowing costs on PRGT loans would continue to be significantly below GRA rates.

[23] Interest rates are currently set for two years through biennial reviews and their level is linked to the average SDR interest rate over the most recently observed 12-month period. The rate charged on SCF loans was originally set at 25 basis points above that for the ECF, but aligned with the latter in 2019. In June 2023, the Executive Board approved the postponement by two years of the periodic review of PRGT interest rates, leaving them at zero. Interest rates on RCF loans were permanently set at zero in 2015. See *PRGT—Review of Interest Rate Structure—Postponement* (IMF 2023).

Table 2. Criteria for Country Groupings, PRGT Access, and PRGT Interest Rates 1/

	Income Criterion	Market access criterion	Access to PRGT	Interest rate on new post-reform PRGT arrangements
Tier 1 (lowest income)	Do not meet	Not applicable	Uncapped, non-presumed blenders	0 percent
		Tier 2A: Meet	Presumed blenders (1:2 PRGT:GRA) with PRGT access capped per arrangement at the norm; and at the AAL/CAL	70 percent of SDRi
Tier 2 (higher income)	Meet	**Tier 2B**: Do not meet	Non-presumed blenders with PRGT access capped at the AAL/CAL	40 percent of SDRi

1/ Criteria set by the Fund's (unchanged) blending policy governing access to PRGT resources.

Box 5. Comparison of Macroeconomic Vulnerabilities Across Country Tiers

PRGT-eligible countries in Tier 2A and Tier 2B have comparable income levels but differ in their macroeconomic vulnerabilities. Tier 2A and Tier 2B median incomes are broadly comparable, even if Tier 2B countries' GNI per capita incomes are very heterogeneous due to the large number of SDS in this group that benefit from higher income cutoffs for PRGT-eligibility. However, a sample of macroeconomic indicators suggests substantial differences in vulnerabilities (see Box 5. Table 1 and Box 5. Figure 1). Tier 2B countries have historically experienced the lowest growth rates of all tiers, consistent with their relatively elevated debt vulnerabilities and limited access to financing. For the same reasons, these countries' primary deficits are relatively small. Statistics on international reserves of Tier 2B countries place the group closer to Tier 1 countries than to Tier 2A peers.

Box 5. Table 1. Normalized Tier 2B indices 1/

	2010-2019	2022-2024
Growth	0.0	0.0
Primary Balance	1.0	1.0
Reserves	0.46	0.49
Public Debt	0.0	0.0
Average	0.36	0.37
Income 2/	na	0.93
Average w/ income	na	0.48

Source: IMF staff estimates.
1/ Calculated using min-max normalization of the tier averages for reach respective indicator.
2/ Weighted average, 2022 GNI.

The lower proposed interest rate for Tier 2B countries compared with Tier 2A countries reflects these latent vulnerabilities. A simple average of the normalized indices (with values ranging between 0 (worst) and 1 (best)) shows that the economic performance of Tier 2B countries remains on average one-third of the distance apart from the index readings for Tier 2A. The suggested lower interest rate is consistent with these countries' weaker macroeconomic conditions even if per capita income levels among Tier 2B countries are often high due to the large number of SDS in this group.

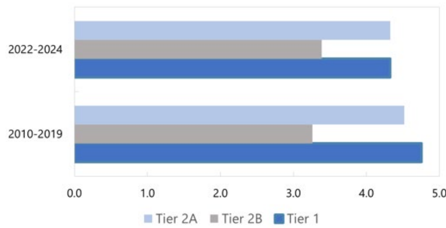
Box 5. Comparison of Macroeconomic Vulnerabilities Across Country Tiers (concluded)

Box 5. Figure 1. Macroeconomic Indicators in Different Tiering Groups

(Averages of Annual Medians; 2010-2019, 2022-2024)

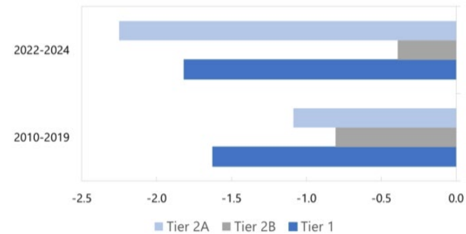
Tier 2B growth trails other groups given heightened vulnerabilities and a larger share of SMS…

Growth



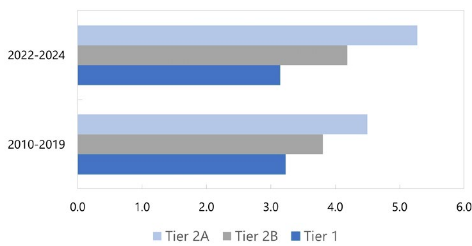
…while primary balances were among the lowest, reflecting lack of official financing and access to market financing

Primary Balance



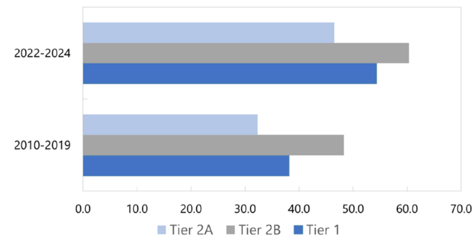
However, reserves track closely with tiered hierarchy…

Reserves in Months of Prospects Imports



…as does public debt, which is high for Tier 2B by design

General Government Debt

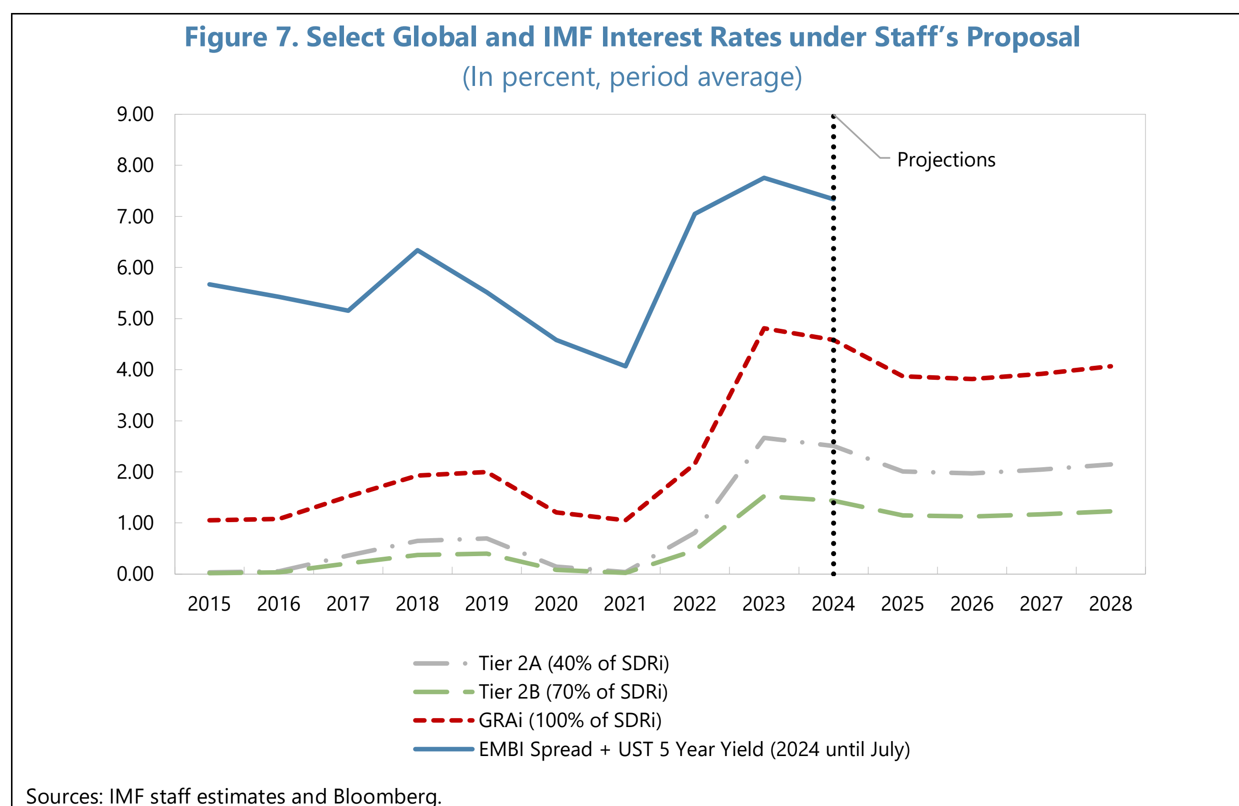


Source: IMF staff estimates.

36. Linking the PRGT interest rates to the SDRi provides an automatic stabilizer for the PRGT's lending capacity, while maintaining favorable financing conditions for all borrowers. The current fixed-rate structure exposes the PRGT's finances to significant interest rate risks stemming from fluctuations in global financial conditions. Moving to an automatic link to the SDRi for relatively better-off LICs would partially mitigate this risk. The proposal relies on a rules-based mechanism similar to the one that has served the GRA well. For borrowers, the cost of financing would remain favorable, i.e., below GRA terms and well below prevailing and expected market rates (see Figure 7, and Annex VII. Figure 1), consistent with the PRGT's mandate to provide loans on concessional terms to eligible countries.[24]

[24] The SDRi is based on 3-month instruments while the ECF/EFF have an average terms of 5 years. Hence, PRGT rates linked with a discount to the SDRi will be substantially below 5-year market rates.

Figure 7. Select Global and IMF Interest Rates under Staff's Proposal
(In percent, period average)



Sources: IMF staff estimates and Bloomberg.

37. Staff's proposal would achieve better differentiation among PRGT borrowers while lowering subsidy resource needs. Under the proposed central lending scenario and SDRi projections, the new mechanism would generate subsidy savings of about SDR 2.3 billion in end-2025 present value terms. This would account for about one quarter of the total resource needs associated with indefinitely keeping the current zero rates for all PRGT borrowers.[25] Potential savings under this proposal would be significantly higher than those associated with applying the current PRGT mechanism from 2025 onward (see Annex VI). At the same time, PRGT borrowing costs would become more aligned with members' per capita income, thereby reducing the share of scarce subsidy resources used for wealthier PRGT-eligible members.

38. In staff's view, the proposed SDRi factors for Tier 2A and Tier 2B countries (70 and 40 percent) establish a good balance between several objectives. This calibration does not overburden Tier 2A countries and helps address debt sustainability concerns for Tier 2B borrowers, while generating significant subsidy savings and reducing the drain on PRGT resources during periods of higher interest rates. Alternative calibrations that deliver similar subsidy savings are possible but would further increase borrowing costs for Tier 2A countries or may raise concerns about Tier 2B countries' debt vulnerabilities.

[25] Subsidy savings would account for a higher fraction of the subsidy gap (about 30 percent) if the waiver on the application of the current interest rate mechanism was lifted in 2025, as assumed in FO/DIS/24/23. The higher savings reflect a positive interest rate also for Tier 1 countries.

Operational Modalities

39. The basic framework for the new interest mechanism would be established in the PRGT Instrument, while the country groupings would periodically be updated by staff. A country's tier status would routinely be reassessed at the time a request for financing under a new arrangement or under the RCF is made (as is today the case for blending status).

40. Staff proposes applying the new terms only to PRGT commitments under new arrangements and to new RCF loans approved after the effectiveness date (May 1, 2025).[26] Under the PRGT Instrument, changes in the PRGT interest rate provisions apply to all outstanding balances.[27] However, to reduce potential adverse effects on PRGT borrowers' debt sustainability, especially in the early phases of the application of the new interest rate regime, staff proposes to amend the interest rate mechanism under the PRGT Instrument so that the new PRGT interest rates would apply only to credit under new arrangements or new disbursements under the RCF approved after the date the new mechanism becomes effective. This would exclude credit resulting from disbursements made under arrangements in place, or outstanding RCF credit, before the new mechanism becomes effective on May 1, as well as any credit that may be disbursed in the future in the event of augmentations of access or extensions under such existing arrangements.

41. Changes to PRGT lending rates for post-reform commitments would be triggered by (1) changes in country tier and (2) changes in the SDRi, but would follow separate modalities.

- **Country tier:** As with the blending status, a country's tier at the time of approval of an arrangement or RCF financing would determine the interest rate terms applied to all disbursements under that particular arrangement or the RCF disbursement, including any extension or augmentation of access under the arrangement. This would provide additional certainty and stability, and the applicable interest rate would apply for as long as credit under that arrangement or RCF disbursement remains outstanding.

- **SDRi:** As intended, the PRGT lending rates would float with the SDRi. Hence, as is the case in the GRA, the PRGT lending rates would be updated weekly, with the updated PRGTi applied to all post-reform commitment balances as of each respective Monday following the previous Friday's recalculation of the SDRi. Interest would be paid by PRGT borrowers after the end of each IMF financial quarter, in line with the schedule of interest payments to PRGT lenders and with the billing cycle of the GRA and SDR Department.

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[26] While in an early paper on the ESAF staff expressed uniformity of treatment concerns with differentiation of interest rates based on the time of the lending commitment, starting in 2000 such differentiation has been accepted by the Executive Board in a number of instances regarding GRA charges.

[27] See *PRGT Instrument*, Section II, Paragraph 6: Any modification of these provisions will affect only loans made after the effective date of the modification, provided that modification of the interest rate shall apply to interest accruing after the effective date of the modification.

Impact Assessment

42. The proposal would preserve interest-free lending for the poorest LICs and some concessionality for the others, while supporting an expanded PRGT lending envelope. Despite lowering the grant element for higher-income LICs, the new lending terms for PRGT financing would remain more favorable than those under the GRA and even more those associated with market financing (Table 3). By allowing the poorest LICs to continue benefiting from interest-free lending from the PRGT, and supporting an expanded PRGT lending envelope through subsidy savings, staff believes that the tradeoff between the volume of available lending and its price is well calibrated across all country tiers, and optimizes the use of PRGT resources without generating excessive increases in borrowing costs.

Table 3. Impact of the Interest Rate Mechanism on Grant Elements

Scenarios	Grant Element 1/						
	Tier 1	Tier 2B	Tier 2A	Tier 1 & Tier 2B	Tier 2A	Tier 2A	GRA 2/
	ECF	ECF	ECF	RST Group A 3/	RST Group B 3/	Blend ECF/EFF	EFF
No policy change	32.2	32.2	32.2	29.1	13.2	16.7	8.9
Policy change	32.2	24.6	18.9	29.1	13.2	12.3	8.9

Source: IMF staff estimates.
1/ Discount rate at 5 percent and SDRi at 3 percent. The grant element is calculated using the ECF, the main financing instrument for LICs.
2/ GRA charges include 50 basis points (bps) service charge and 100 bps basic margin.
3/ RST charges include for Group A countries (non-presumed blenders, Tier 1 and Tier 2B): 55 bps margin up to an interest rate cap of 2.25 percent and no service charge; Group B countries (presumed blenders, Tier 2A and non-PRGT eligible small states with per capita GNI below 10 times the IDA operational cuttoff): 75 bps margin and 25 bps service charge.

43. Staff assesses the impact of the proposed changes in interest rates on members' financial position and debt sustainability to be limited and manageable.

- **Gradual phasing in.** The application of the new interest rate framework only to new PRGT commitments would significantly minimize its near-term impact by excluding the existing stock of PRGT credit outstanding, as well as disbursements under arrangements approved before the new interest rate mechanism becomes effective.

- **Small total impact when scaled to GDP or revenue.** The impact of the positive interest rates will only develop over time, in line with new borrowing after the reform. Even under the most extreme access scenario, staff's analysis suggests that the maximum impact on debt service costs for the median Tier 2A and Tier 2B countries would be manageable, peaking below 0.3 percent of government revenues in 2032-33. Moreover, combining a maximum access scenario with an extreme SDRi shock would still result in moderate impacts on the debt service ratio to government revenues (see Annex VII).

- **Stress tests reflect low probability extreme-case scenarios.** The impact of the new interest rate structure on countries' debt dynamics, and in particular debt risk ratings and sustainability assessments, would remain limited. The impact remains limited even under an extreme stress scenario where countries are assumed to borrow the maximum possible additional amount from the PRGT under the prevailing access limits.

44. Including the potential changes in IDA terms does not alter the generally benign assessment of the impact of the proposed interest tiering. Among the various measures considered by IDA, some relate to optimizing the provision of grants, including by offering some current grant-recipient countries the option to increase financing under highly concessional credit terms. Another proposed measure involves offering floating rate loans to some borrowers with limited debt vulnerabilities, with the benefit of greater financing. These potential adjustments to IDA lending terms are guided by principles aimed at preserving countries' debt sustainability. Against this backdrop, simulations jointly conducted by WB and IMF staff indicate that the countries concerned are not expected to experience a significant deterioration in their debt sustainability outlook due to the policy changes currently under consideration (see Annex VII).

B. Recalibrating the Access Norm and Maintaining the PRGT Access Limits at their Current Levels

45. PRGT access norms and limits need to be calibrated to support the proposed self-sustained lending envelope, while providing sufficient room for the Fund to support LICs. Historically, access norms have played a key role in guiding individual access and ultimately contain the overall lending volume (see Annex IV). However, the extraordinary shocks since 2020 prompted increases in the norm and also led to a few large arrangements above the norm, significantly impacting PRGT lending volumes and subsidy costs. Going forward, staff therefore sees the need to recalibrate the norm and reaffirm its role in anchoring the size of future arrangements to help maintain PRGT lending volumes aligned with the proposed lending envelope.[28] At the same time, in the current context where LICs continue to face substantial challenges and needs, the PRGT AAL and CAL need to be set at levels that would allow the Fund to provide sufficient support the few LICs faced with higher needs.

46. Continued attention to strong program design and reform content will be essential. PRGT programs help smooth adjustments, but can only be successful if they entail well-targeted conditionality and build on strong ownership and reform implementation by the authorities. Strong financial support from the PRGT goes hand in hand with strong program design and

[28] Access to IMF resources is determined on a case-by-case basis, using standard criteria: (i) the size of the BoP need; (ii) the strength of the adjustment program; (iii) the capacity to repay; and (iv) IMF credit outstanding and track record of past use. In this context, and except for presumed blenders subject to the per arrangement access cap, the access norm provides indicative guidance on the appropriate level of access, while representing neither a hard ceiling nor a floor.

implementation, including with regard to the size and composition of fiscal adjustments, mobilization of domestic resources, protection of priority areas including social spending and growth-enhancing public investment, appropriate content and sequencing of structural reforms, and improvement in public financial management and other governance measures, among others. The forthcoming RoC will provide a comprehensive and granular assessment of program performance since 2018 and make relevant proposals on program design and implementation.

Staff Proposal

47. Staff proposes to move the access norm back to the level prevailing before the temporary increase approved in December 2023. The norm would be set at 145 percent of quota[29] to guide access under PRGT arrangements and anchor the proposed lending envelope. For presumed blenders, the per arrangement cap on the use of PRGT resources would therefore be reduced to 145 percent of quota.[30] This would help better align future lending with the PRGT's resources, while accommodating PRGT demand as it gradually decreases from recent peaks and stabilizes at a higher level than the pre-pandemic average in a more shock-prone world. In real terms, the proposed norm is higher than before the pandemic: it represents 2.1 percent of the projected 2025 median LIC GDP, compared to an average 1.6 percent of median LIC GDP during 2010-19 based on the applicable past norms (see Annex IV).

48. Staff proposes that the PRGT access limits be maintained at current levels to provide sufficient flexibility in calibrating Fund support to LICs. Specifically, the AAL and CAL would be kept at 200 and 600 percent of quota respectively, reflecting the difficult environment for LICs in the coming years and possible need for larger programs in some cases. Keeping limits at current levels, while moving the norm back to 145 percent of quota, would provide flexibility to respond to larger BoP needs, while anchoring the overall lending volume to available resources.

49. The need for sufficient borrowing space to address exceptional situations of intense BoP pressures is corroborated by the recent experience. Among twelve PRGT arrangements with access above the norm approved since 2021, four were larger than 250 percent of quota. A forward-looking analysis shows that the alternative of returning AAL and CAL to 145 and 435 percent of quota, respectively, would leave some countries with limited borrowing space to address significant needs, particularly non-presumed blenders.[31] Moreover, irrespective of the access limits, any access

[29] Applicable to a 36-month ECF and 18-month SCF, while the norm for longer or shorter arrangements would be adjusted proportionally, with the norm for above-24-month SCF capped at 193.3 percent quota, the prorated norm corresponding to a 24-month SCF.

[30] Upon effectiveness of the proposed norm, any augmentation of PRGT access by presumed blenders will be subject to the new cap at the norm (existing commitments under existing arrangements would not be affected by the reduction in the norm).

[31] While most countries would have some space even if the AAL and CAL were to return to 145/435 percent of quota, ten non-presumed blenders would have less than 250 percent of quota of remaining borrowing space if they were to request a new arrangement today or after the expiration of their current program. This calculation takes into account the repayments that would free up the borrowing space during the follow-up arrangement, assuming a 3-year duration. The recent experience with a series of extreme shocks suggests the usefulness of having flexibility to

(continued)

decision in a financing request would be subject to access policy considerations, including a country's capacity to repay and debt sustainability, the strength of the program, and the size of the BoP need.

50. Keeping pace between the PRGT and GRA access limits would maintain a strong signal of the Fund's commitment to supporting its poorest members amid increased needs, even though PRGT and GRA access limits refer to two separate frameworks and the triggers for exceptional access policy are assessed independently.[32] It would also reduce operational complexity in blended arrangements.[33]

51. It will be crucial to reaffirm the role of the norm in anchoring the size of arrangements. Empirical analysis of PRGT arrangements since 2009 confirms that the PRGT access norms have historically performed well in anchoring access (see Annex IV). This strong anchoring role was supported by timely adjustments of the norm's level to compensate for erosion in relation to key macroeconomic variables and in times of major crises. That said, the average and median access levels have fluctuated around the norm with the business cycle, rising above the norm after major global shocks while remaining closer to or below the norm in relatively tranquil periods. In recent years, a few large arrangements above the norm have contributed significantly to higher PRGT demand.[34] While the impact of the increased distance between the norm and access limits and the occurrence of large arrangements above the norm are accounted for in the proposed lending envelope, it will be crucial to reaffirm the guiding role of the norm to further mitigate the associated risks to the IMF, including through modifications to the safeguards.

C. Strengthening and Streamlining PRGT Safeguards

52. The Fund relies on a multi-layered framework to manage risks related to its lending. This framework includes, inter alia, robust program design, tailored conditionality, comprehensive debt sustainability analyses, access limits, safeguards, and the exceptional access framework. These

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address large BoP needs while allowing for a more gradual economic adjustment than what would have been required to meet exceptional access criteria. Further, two of the affected countries are in Tier 2B, which implies that they face a hard cap on PRGT resources at the access limits.

[32] GRA and PRGT access limits were first aligned in July 2021 and are currently temporarily set at 200/600 percent of quota respectively for the AAL and CAL through the end of 2024, (up from 145/435 before the temporary increase). The PRGT access norm has been kept at the level of the AAL, and was also temporarily increased to 200 percent of quota. Upon effectiveness of the proposed norm, any augmentation of PRGT access by presumed blenders will be subject to the new cap at the norm (existing commitments under existing arrangements would not be affected by the reduction in the norm).

[33] Given the differing role of the PRGT and the GRA, differences in PRGT and GRA access limits would not give rise, as a legal matter, to a lack of uniformity of treatment. In particular, given the financial structure of the PRGT, alignment of access can only be attained in a context in which the required resource envelope for the PRGT is in line with the available resources. In addition, all Fund members have access to the GRA if they meet applicable GRA policies.

[34] This can be attributed to a mix of countries with large quotas requiring sizable PRGT support amid the successive shocks over the past four years and, though to a lesser extent, larger access under arrangements relative to the norm.

components are crucial in the context of addressing the unique challenges of LICs and ensuring sustainable outcomes. The upcoming RoC will present a comprehensive analysis of program design and conditionality and consider measures to underpin strong economic policies and reforms, which are critical to ensuring that programs can meet the overarching objective of helping members resolve their BoP needs and achieve medium-term external viability, while also fostering sustainable economic growth and providing adequate safeguards to Fund resources. The PRGT safeguards, strengthened and streamlined as proposed in this review, represent one dimension of the Fund risk mitigation framework, and play a vital role in enhancing program effectiveness while safeguarding Fund resources.

53. Maintaining robust and efficient safeguards will be essential. PRGT safeguards have expanded over recent years as the Fund increased its financial support to LICs—including through the strengthening of the High Access Procedures (HAP) and the introduction of Enhanced Safeguards for Debt Sustainability and Capacity to Repay (ES) (see Annex VIII).[35] Elevated levels of outstanding PRGT credit, pronounced debt vulnerabilities in many LICs, and the proposed significant increase in the lending envelope imply larger risks to the Fund. This underscores the importance of strengthening safeguards, including through enhanced Board oversight and making the framework better equipped to mitigate risks effectively without overburdening the Fund's policy framework. At the same time, there is scope to optimize the safeguard triggers and requirements to make the framework more nimble in mitigating increased risks.

Staff Proposal

54. Staff proposes to introduce a single coherent framework—the "Strengthened Policy Safeguards (SPS)"[36]—by consolidating the current HAP and ES. This would be subdivided into three categories, SPS1, SPS2, and SPS3, and would leave the Exceptional Access (EA) framework unchanged (Table 4). Specifically, staff proposes to:

- **Link the flow triggers of the new SPS to the PRGT access norm and simplify their calculation.** The flow triggers would be applied on a per-arrangement basis[37] so that they can adjust automatically with the norm. This would strengthen the anchoring role of the norm, whilst not changing its role and nature. Specifically, access above 125 percent of the applicable norm would trigger SPS1, which requires a granular discussion of the composition and evolution of a country's debt (ES1A) and an enhanced analysis of the country's Capacity to Repay the Fund (ES1B); and access above 150 percent of the norm would activate SPS2, which requires an informal Board meeting. All ES requirements would continue to apply for countries at high risk of, or in, debt distress, which trigger SPS3. These revised flow triggers facilitate greater scrutiny of program requests in a risk-based way and would be activated at lower levels of access than is

[35] See the 2022 Guidance Note on Enhanced Safeguards for Debt Sustainability and Capacity to Repay.

[36] The SPS will be assessed for all arrangements and RCF credits at the approval stage and during augmentations.

[37] The flow triggers would no longer account for disbursements under past arrangements or EF, as it is the case under the current policy.

currently the case under the HAP and ES,[38] which helps mitigate the increased risks for the Fund. The stock trigger for the new safeguard would remain unchanged at 300 percent of quota.

- **Strengthening Executive Board oversight.** The new SPS would require the inclusion of granular analysis of the composition and evolution of a country's debt (ES1A) and an enhanced capacity to repay analysis (ES1B) in the informational requirements for informal Board discussions when SPS2 is triggered for arrangements of 150 percent of the norm or when the unchanged stock trigger is met.[39]

Table 4. Proposed Changes in the Safeguards Framework 1/

Safeguards	Current Framework		
	Requirement	Triggers (in percent of quota) 1/	
ES1A	Granular discussion of the composition and evolution of debt	Flow (annual PRGT access)	100
		Stock (credit outstanding)	300
		Debt risk ratings	High/in distress
ES1B	Enhanced CtR analysis informed by cross-country comparisons of metrics of Fund exposure	Flow (annual PRGT access)	100
		Stock (credit outstanding)	300
		Debt risk ratings	High/in distress
ES2	Explicit program objective to reduce debt vulnerabilities	Debt risk ratings	High/in distress
HAP	Informal Board meeting	Flow (PRGT access during 36-month	240
	(ES1A & ES1B not included in the informational requirement)	Stock (credit outstanding)	300
EA	Informal Board meeting	Flow (PRGT access during 12-month	200
	(ES1A & ES1B not included in the informational requirement)	Stock (credit outstanding)	600
Safeguards	**Proposed Strengthened Policy Safeguards (SPS) Framework**		
	Requirement	**Triggers (in percent of quota unless otherwise specified) 1/**	
SPS1 (ES1A and ES1B)	Granular discussion of the composition and evolution of debt; and Enhanced CtR analysis informed by cross-country comparisons of metrics of Fund exposure	Flow (access per arrangement)	125% of the norm (181)
		Stock (credit outstanding)	300
SPS2 (HAP+ES1A and ES1B)	Informal Board meeting	Flow (access per arrangement)	150% of the norm (218)
	(ES1A & ES1B included in the informational requirement)	Stock (credit outstanding)	300
SPS3 (ES1A, ES1B, ES2)	Granular discussion of the composition and evolution of debt + Enhanced CtR analysis + Explicit program objective to reduce debt vulnerabilities	Debt risk ratings	High/in distress
EA	Informal Board meeting	Flow (PRGT access during 12-month period)	200
	(ES1A & ES1B not included in the informational requirement)	Stock (credit outstanding)	600

*The norm-based SPS flow triggers are shown assuming 3-year ECF and 18-month SCF
1/ The triggers apply when the stated percent of quota thresholds are exceeded.

[38] For all ECF cases, representing 88 percent of the PRGT programs since 2010, the flow triggers will activate at lower access levels than in the current policy. However, for the SCF the flow triggers will activate at higher access levels than in the current policy as countries using SCF are subject to stronger requirements to restore macroeconomic stability.

[39] Consistent with a risk-based approach, the *de minimis* threshold for the application of the SPS would be increased from 15 percent of quota per arrangement to 25 percent of quota for countries with low or moderate risk of debt distress (only four countries, including two blenders, requested access below this level since 2010). This threshold will be revised downward to 15 percent of quota at the time of the general effectiveness conditions for quota increases under the 16th GRQ becomes effective (see Annex XIII). New DSAs are required for all new program requests and when there are significant changes, which would typically be the case for augmentations, so the DSA-related triggers would no longer apply.

55. These proposals would strengthen the Fund's existing risk management framework for the PRGT while helping streamline safeguards. The strengthening would come from the improved risk-based approach of the safeguards. The expected number of programs that would be subject to closer scrutiny of risks would be comparable to the current framework despite the lower flow triggers under SPS1 and SPS2 for ECF arrangements; and the information requirements under SPS2 would be enhanced.[40] At the same time, the scope of the proposed policy changes is limited, reflecting staff's view that the current safeguards have served the Fund well: the EA criteria, the level of the stock trigger for the new SPS, and the requirements for countries in debt distress or high risk thereof would remain unchanged. These proposals would not change the role of the norm in providing guidance on the appropriate level of access for PRGT facilities where it is difficult to accurately assess the BOP need, while representing neither a ceiling, floor, nor an entitlement.

D. Ensuring Timely Operationalization of the Policy Changes and Adequate Monitoring of their Impact

56. Staff proposes to implement the new interest rate mechanism on May 1, 2025, and the rest of the changes to lending policies on January 1, 2025.

57. Staff will closely monitor the impact of the policy changes on PRGT lending volumes and, if needed, propose additional measures to maintain the Trust's self-sustained capacity. As discussed in paragraph 28, staff will carefully review the trends and projections in lending volumes in the context of the annual reviews of the adequacy of PRGT resources. In the event of substantial deviations impacting the self-sustained lending capacity of the PRGT, staff would propose corrective measures consistent with the three-pillar framework for PRGT self-sustainability.

58. Recognizing large uncertainty, staff will also pay particular attention to the impact of the main policy changes on borrower needs and financing costs. In addition to a close attention in the implementation phase of the reform proposals, and prior to the next comprehensive Review of PRGT Facilities and Finances that is expected to follow the standard 5-year cycle, staff proposes a targeted review after 3 years that will include an assessment of the early experience of PRGT borrowers with the new interest rate mechanism and the underlying country groupings.

59. The implementation of the 16th General Review of Quotas (GRQ) reform will be accommodated by maintaining unchanged nominal levels of access. Staff proposes to reduce the access norm to 100 percent of quota upon effectiveness of the general conditions for effectiveness of the increase in quotas under the 16th GRQ.[41] Similarly, staff proposes that the annual and cumulative access limits be reduced to 135 and 405 percent of quota respectively, at that time.

[40] SPS would not have applied to two countries, which did meet the ES flow trigger, but would have applied to one country, which did not meet the ES flow trigger.

[41] The value of the norm in SDR terms would be preserved if set at 97 percent of the new quota. Rounding it to 100 percent of the new quota would increase annual long-term demand estimates by SDR 71 million on average, which is within the range of deviations in assumptions that can be accommodated within the estimated lending envelope of SDR 2.7 billion.

This would broadly preserve their current levels in SDR terms.[42] The SPS stock trigger would also be revised downward proportionally from 300 to 200 at the same time.

FINANCING PROPOSALS

Addressing the urgent funding needs of the PRGT will require mobilizing substantial additional subsidy resources. The GRA's strong balance sheet and income outlook create a historic opportunity for the membership to distribute some of the income or reserves to facilitate generation of additional PRGT subsidy and reserve resources. Staff also proposes extending the suspension of the reimbursement of PRGT administrative expenses to the GRA for another five years. PRGT loan resources are adequate to meet expected demand in the near to medium-term thanks to the loan contributions provided by 17 PRGT lenders under the 2021 fundraising round, which exceeded the target by a wide margin, and to a recent significant loan authorized by the United States. Staff proposes to increase the PRGT cumulative borrowing limit to accommodate the loan contribution agreement with the United States.

A. Proposed Financing Sources for Addressing PRGT Subsidy Needs

60. The Executive Directors have reconfirmed their support for a self-sustained PRGT. During consultations, Executive Directors provided strong support for the PRGT's endowment-based model where an existing resource envelope is expected to generate enough subsidy resources to allow for a defined lending envelope without the need for additional fundraising.

61. In order to accommodate a long-term PRGT annual lending envelope of SDR 2.7 billion, additional subsidy resources of SDR 6.3 billion will be required. Taking into account the potential subsidy savings of SDR 2.3 billion from the proposed changes to the PRGT interest rate framework, the total subsidy resource gap falls from SDR 9.1 billion to SDR 6.8 billion in end-2025 present value terms. Anticipated additional bilateral subsidy contributions are projected to raise subsidy resources by about SDR 0.5 billion in net present value terms, reducing the remaining subsidy gap to SDR 6.3 billion.

62. In the absence of a net income or reserve distribution that could facilitate bilateral contributions, prospects for bilateral fundraising are limited in the near term. After the completion of the Stage 1 fundraising campaign,[43] Directors' feedback suggests that the scope for further bilateral fundraising (unrelated to any distribution) for subsidy resources at the current

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[42] The adjusted limits are rounded up from the value that would be needed to exactly preserve the SDR value of limits after the 16th GRQ quota increase (see Annex XIII for proposed access norms, limits and SPS thresholds). The expected impact on PRGT demand can be accommodated within the estimated lending envelope. Transitional rules are proposed to apply for existing arrangements so existing commitments to PRGT resources would not become subject to exceptional access policy only due to a lowering of the access limits.

[43] Over 40 contributors have pledged subsidy resources, including several emerging market economies. See Managing Director's Statement on the achievement of Stage 1 fundraising targets for the PRGT in Marrakech.

juncture is limited, given budget constraints and competing fundraising initiatives, including the parallel IDA replenishment process.

63. Gold sales are not a feasible option in the near term, but, if needed, this option could be revisited at a later stage. In the April and July informal Board meetings it was recognized that the sale of gold is unlikely to garner the required level of Board support in the near term. However, the option of using limited gold sales as a means of securing sufficient subsidy resources to the PRGT could potentially be revisited in the medium- to long-term, for example if demand from LICs exceeds projections.

Staff Proposal

64. Building on Directors' guidance, staff proposes to close the remaining SDR 6.3 billion subsidy gap using two financing sources: (i) an extension of the suspension of the reimbursement of PRGT administrative expenses to the GRA beyond FY26; and (ii) new subsidy contributions facilitated by a distribution of GRA net income or GRA general reserves (Table 5).

Table 5. PRGT: Financing Needs and Possible Sources
(SDR billions, end-2025 PV terms)

Description	Sources	Needs
	In SDR billion	
Financing needs to support lending policy scenario 1/		**9.1**
Amount generated from proposed interest rate changes	2.3	
Amount generated from additional bilateral subsidy contributions	0.5	
5-yr suspension of GRA reimbursement	0.4	
To be generated from contributions facilitated by income/reserve distribution	5.9	
Total	**9.1**	

Source: IMF staff estimates.
1/ Assuming interest rates were kept at zero indefinitely.

65. Staff proposes an extension of the suspension of the reimbursement of PRGT administrative costs to the GRA for five years. Annual reimbursements from the PRGT to the GRA for the expenses of conducting the business of the PRGT were incorporated into the Fund's New Income Model (NIM) in 2008. This reflects the principle that the margin for the basic rate of charge should not be used to fund administrative expenses unrelated to GRA intermediation cost, which includes the administrative expenses of the PRGT. However, under the contingency measures designed to ensure the self-sustainability of the PRGT, in line with the NIM, it was recognized that reimbursements could be suspended temporarily if PRGT resources are insufficient. Requiring a majority of votes cast, the Board has already decided that such a suspension will run from FY21 to

FY26.[44] Staff proposes a further suspension for a period of five years, covering FY27-FY31. This would generate SDR 0.5 billion in nominal subsidy resources (or SDR 0.4 billion in 2025 present value (PV) terms), leaving a residual subsidy need of SDR 5.9 billion.

66. The GRA's strong financial position creates a historic opportunity to distribute net income and/or reserves to facilitate subsidy contributions to close the remaining subsidy gap. Such distributions can be justified based on the outlook for precautionary balances (PBs) and income, and appropriate levels of charges and surcharges.[45] A distribution of GRA net income would require a majority of the votes cast, while distribution of the general reserves would require a 70 percent majority of the total voting power. The proposed framework and modalities for the possible distribution of a portion of GRA net income and/or general reserves to facilitate generation of additional subsidy contributions to the PRGT will be discussed in separate paper, including the assumptions regarding income and PBs that can justify a distribution.

67. The proposed financing package would not only close the subsidy gap but also buttress PRGT reserves. Raising the subsidy resources estimated in Table 5 would address the PRGT's subsidy needs and support a self-sustained lending capacity of SDR 2.7 billion. In addition, to the extent that proceeds from the GRA distribution flow into the PRGT's Subsidy Reserve Account (SRA), it would also buttress the reserve coverage ratio.[46] Staff projects that the reserve coverage ratio would fall to around the 20 percent indicative benchmark before recovering thereafter, supported initially by the inflows of investment earnings under the proposed distribution modalities, and later by the transfer of resources equivalent to the principal of the distribution itself (less any leakage).

B. Loan Resources

68. SDR 40 billion in loan resources have been raised since the onset of the pandemic to meet the elevated demand needs. At the onset of the pandemic, the PRGT had only SDR 8.4 billion in freely available loan resources (net of an encashment buffer and undrawn commitments under

[44] While possible, a permanent suspension of reimbursement would constitute a change in the principles underpinning the NIM and the model of the self-sustained PRGT in its current form. As noted above, additionally there are legal restrictions on suspending reimbursement in cases where PRGT loans would use SDA resources as principal—which is not currently the case.

[45] Taking into account the impact of the proposed policy changes discussed in the *Review of Charges and the Surcharge Policy—Reform Proposals* (forthcoming), estimated projected net income of the General Resources Account generated during FY2025 to 2029 could allow for possible distributions, of SDR 6.9 billion cumulatively, while preserving the capacity to further increase precautionary balances by about SDR 1.6 billion. Further details can be found in the accompanying Board paper on GRA reserve distribution.

[46] If members choose to contribute to the PRGT's subsidy accounts, the member could opt for their contribution to be made to the SRA or another subsidy account of the PRGT such as the General Subsidy Account (GSA). Contribution to the SRA has the advantage of also bolstering PRGT's reserve coverage. This is because the SRA has the dual purpose of holding and investment PRGT subsidy resources while covering residual credit risk to PRGT lenders by serving as a backstop for the PRGT's Reserve Account.

existing PRGT programs).[47] As these were deemed insufficient to meet the demand expected for the near term, in April 2020 the Board approved immediate mobilization of SDR 12.5 billion in additional loan resources for the PRGT. This fast-track fundraising round was successful and mobilized SDR 16.9 billion thanks to the prompt support of 16 PRGT lenders. As demand for PRGT lending remained unabated during the pandemic, another fundraising round was launched in July 2021 under Stage 1 of the PRGT fundraising strategy aiming to mobilize SDR 12.6 billion in additional loan resources. This target was also exceeded, thanks to loan contributions of SDR 14.7 billion from 17 lenders. The resources raised in these two rounds include SDR 3.65 billion in loans provided at a fixed low rate of remuneration, which also generate implicit subsidy savings to the PRGT.[48] After successful completion of the 2021 round, the United States Congress authorized a loan in the amount of US$21 billion (about SDR 16 billion) for the PRGT.

69. Current loan resources would meet demand for PRGT lending in the next few years. Total loan resources stand at about SDR 43 billion while uncommitted resources (net of an encashment buffer) currently stand at about SDR 24 billion (Table 6). These loan resources would meet possible new lending commitments through 2029 under the central demand scenario, and 2027 under the high demand scenario.[49]

Table 6. PRGT: Loan Resources
(SDR billion)

Breakdown	End-Feb 2020	End-Aug 2024
Undrawn loan resources (A) [1]	13.8	43.1
PRGT lending commitments (B)	2.3	6.8
Uncommitted loan resources (C = A-B) [2]	11.5	36.3
Encashment buffer (D) [3]	3.1	11.9
Uncommited loan resources net of enchasment buffer (E = C-D)	8.4	24.4

Source: IMF staff estimates.
[1] End-August 2024 includes the $21 billion loan authorized by the United States Congress in March 2024.
[2] Undrawn loan resources net of undrawn commitments under existing arrangements.
[3] Calcuated as 20% percent of credit outstanding and undrawn commitments from lenders in the encashment regime.

70. Staff proposes to increase the PRGT cumulative borrowing limit by SDR 16 billion. This increase would accommodate the loan contribution agreement with the United States and meet expected demand over the medium to long term. This would entail increasing the limit from SDR 71

[47] Under the encashment regime, the PRGT provides participating lenders with the right to request early repayment of outstanding claims in case of BoP need. The Fund repays the requesting lender by drawing down resources committed to the PRGT by other participating lenders, requiring a liquidity buffer to be maintained.

[48] These loans were provided by Qatar (SDR 150 million) and the United Kingdom (SDR 3.5 billion) at a concessional rate of 0.05 percent per annum. The PRGT subsidy gap presented in this paper already factors in the implicit subsidy savings that are expected to be generated by these concessional loans.

[49] Mobilization of new loan resources conservatively aims at covering demand under all plausible scenarios, including the high demand scenario. While loan needs are expected to be higher going forward than in the pre-pandemic era, it would be unlikely that they would systematically remain at the level implied by the high case, as this situation would plausibly require the consideration of corrective measures, as discussed in the previous section.

billion currently to SDR 87 billion.[50] The proposed increase is not expected, by itself, to lead to higher-than-expected levels of lending and, therefore, to impact the PRGT reserve coverage. As discussed in this paper, PRGT lending depends primarily on the demand by LICs and the Fund's lending policies, including access limits and norms.

71. Staff proposes to keep unchanged in the PRGT Instrument the periods for the commitment, drawdown of loan resources, and the temporary suspension of these drawings. The PRGT Instrument currently authorizes the commitment of loan resources until end-2029 and drawdown period until end-2034, in line with the longest initial duration of five years under an ECF arrangement. The Instrument also allows (until end-June 2034) any PRGT lender to request a temporary suspension of drawings on loan commitments if the lender faces a liquidity need for such suspension. These deadlines would also apply to bilateral borrowing agreements that envisage a longer drawdown period.[51]

C. Proposed Refinements to the PRGT Investment Strategy

72. The PRGT's investment strategy will be optimized to accommodate the new financing framework. The PRGT's long-term investment strategy was established in 2017 to support its self-sustaining financial framework under an expectation that PRGT's investment assets (aggregate balances of the reserve account and subsidy resources in subsidy accounts) would remain stable over a long-term investment horizon, as discussed in the context of the 2021 Review of the Investment Account and Trust Investment Assets. In recent years, the higher lending and interest rate environment—and greater dependence on subsidies generated from longer-term investment returns—has put greater-than-expected pressures on balances in the subsidy account. Recent experiences also suggest that the PRGT should maintain additional flexibility for potential lending shocks which could result in a temporary drawdown of existing resources pending further replenishment. As such, modifications to the investment strategy will aim to accommodate potentially greater need for liquidity while allowing the majority of the balances to be invested over a longer horizon. Specifically, the refinements will accommodate the greater timing mismatches between outflows and inflows of subsidy resources while maintaining the majority of subsidy and reserve account balances in longer-term investments to generate income.

[50] While an increase in the PRGT cumulative borrowing limit is not needed for the Fund, as Trustee of the PRGT, to conclude a borrowing agreement with the United States, the authorized cumulative limit sets a ceiling on the cumulative amount of loan resources which can be drawn under outstanding borrowing agreements including with the United States.

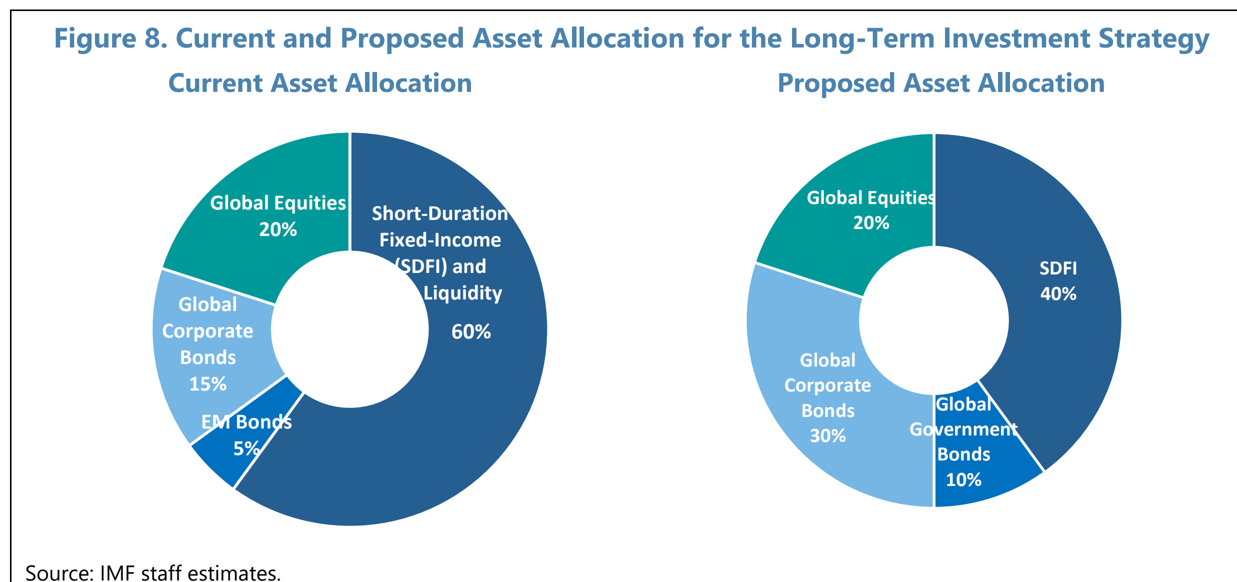
[51] Possible future extensions of these deadlines would allow to accommodate borrowing agreements with longer horizon (e.g., United States). In the case of existing borrowing agreements with shorter deadlines, the PRGT could seek to amend such agreements in due course to allow for a longer drawdown period of undrawn resources, if needed.

Staff Proposal[52]

73. Staff proposes separating PRGT's investment assets into two portfolios, reflecting different investment horizons. The majority of PRGT balances would be allocated to a *long-term portfolio* and continue to be invested in a long-term investment strategy with a similar risk profile to the current one. The remaining balances, which are expected to be more transitory, would be allocated to a new *short-term portfolio*. They would be invested appropriately to meet PRGT's projected subsidy costs and other expenses over the short- to medium-term horizon. To optimize overall investment performance, the allocation of PRGT assets across the two portfolios would be reviewed regularly, and adjusted as necessary to satisfy their objectives and investment horizon.

74. The long-term investment strategy would be refined to target a slightly higher margin of 100 bp above the SDRi on average over a 10-year horizon.[53] Adjustments to the fixed-income allocations are proposed to position the portfolio to benefit from higher long-term bond yields and improve portfolio diversification. Specifically, staff proposes to i) reduce the allocation to the short duration fixed-income (SDFI) and liquidity components to increase the allocation to the global corporate bond component; and ii) replace the emerging market (EM) bonds allocation with an enlarged and more diversified global government bond component (Figure 8). The allocation to equities would remain unchanged at 20 percent. The revised asset allocation improves projected returns without materially increasing risk.

Figure 8. Current and Proposed Asset Allocation for the Long-Term Investment Strategy



Source: IMF staff estimates.

[52] Further details are provided in the companion paper on the Review of the PRGT Investment Strategy.

[53] Staff's analysis indicates that for PRGT overall an average return margin of 90 bp over the SDRi remains a reasonable long term assumption for modeling the PRGT's lending capacity. The lower return expected for the short term tranche is fully offset over time by the 10 bp increase in the targeted margin for the long-term tranche.

75. The proposed refinements are reflected in the proposed revisions to the Guidelines for Investing PRG, RS, PRG-HIPC and CCR Trust Assets (TA Guidelines). These proposed revisions are subject to approval of the Executive Board by a 70 percent majority of the total voting power. In line with past practice, the amended TA Guidelines will be published.

76. The proposed refinements will not change the existing investment options approved by the Board for contributor investments for the benefit of the PRGT.[54] The first investment option, which is the investment strategy that applies for the permanent assets of the PRGT, will be clarified to mean the PRGT's long-term investment strategy. In addition, it should be noted that refinements to the PRGT's long-term strategy approved by the Board will also apply to all temporary resources invested in this strategy. The second investment option—to invest in the strategy for the SDFI which would be centralized in the PRGT Deposit and Investment Account (DIA)—will remain unchanged.

77. Staff also proposes establishing a new Long-Term Investment Account (LTIA) to centralize contributor resources invested in the first option under the long-term strategy. The purpose of this new investment account would be to centralize all bilateral investment agreements for the benefit of specified subsidy accounts and pooled with the PRGT long-term investment strategy. Given that PRGT's aggregate investment assets would be invested across two separate portfolios, establishing a new separate account is necessary to centralize member resources pooled only with PRGT investments in the long-term investment strategy.[55] Resources contributed by members for investment under the long-term strategy have grown to around SDR 1.1 billion currently and are expected to continue to increase. The new LTIA would complement the DIA, which was established in 2021 to support large-scale investments and centralize resources contributed by members for investment.[56] Unlike the DIA which is invested in the SDFI strategy, investments in the LTIA would be subject to greater investment risk and volatility of returns in line with the long-term strategy. Establishment of the LTIA would provide operational consistency with the DIA and enhance transparency for reporting. The addition of the LTIA would require a revision to the PRGT Instrument.

[54] See *Guidance for the Investment of Temporary Resources to Generate Income to Contribute to PRG, PRG-HIPC and CCR Trust Assets* (Decision No. 16253-(17/70) as amended October 13, 2022).

[55] Staff will work with existing contributors whose investment agreements would be centralized in the LTIA.

[56] Investments are expected to be liquid with the ability of encashment if needed based on the market value of investment at the time and maximum remuneration would continue to be SDRi.

OTHER TARGETED REFORMS

This section presents staff's proposed adjustments to other PRGT policies. All reforms proposed in this section would become effective immediately. These include updating the list of PRGT-eligible countries and two minor adjustments to the PRGT eligibility and graduation framework; an extension of the temporarily higher cumulative access limits (CALs) under the RCF; a targeted adjustment to the Policy Safeguards for High Combined Credit Exposure (PS-HCC) pending the completion of the ongoing evaluation of the GRA and PRGT exceptional access frameworks by the Independent Evaluation Office; and a stand-alone review of the PRS policy in 2025. In addition, this section presents findings on the experience with the precautionary SCF arrangements.

A. Fine-Tuning the PRGT Eligibility Framework

Motivation

78. The PRGT eligibility framework, important to target concessional resources to the LICs most in need, remains broadly adequate but would benefit from two minor adjustments. Based on IMF staff analysis and Directors' guidance, the current eligibility framework appears to remain broadly adequate. At the same time, staff sees merit in proposing two adjustments pertaining to decisions on potential graduation from the PRGT (see Annex IX). The adjustments seek to address the following risks:

- **Failure to graduate countries with market access.** Some countries may fail to be considered for graduation under the market access criterion despite satisfying the past market access tests based on actual recent market borrowing due to lags in updating the WB's International Debt Statistics (IDS) database.

- **Premature graduation of countries with serious short-term vulnerabilities (SSTV).** In 2015, the need for an assessment of SSTV was removed for countries whose GNI per capita exceeds the income graduation threshold by a large margin. The latter condition was considered sufficient to minimize the risk of graduation reversal. At the same time, to ensure continued broad alignment with IDA policies and avoid premature graduation, a mandatory SSTV assessment was retained for countries with "IDA-grant only" or "IDA loan-grant mix" status. Since then, however, IDA terms have evolved, with more space given to loans rather than grants.[57] This evolution makes the distinction between IDA loans and grants less relevant in identifying countries with potential SSTV. Moreover, in an environment of increased uncertainty and higher probability of non-economic, disruptive shocks that can cause large declines in income, worsen debt vulnerabilities or cause loss of market access (wars, climate events), relatively higher incomes do not necessarily make LICs immune to severe impact from SSTV,

[57] As part of IDA20, countries with higher income and at moderate risk of debt distress have been moved from 50/50 grant/loan allocation to 100 percent loan allocation.

including the risk of a sharp decline in income, a loss of market access, or/and high debt vulnerabilities.

Staff Proposals

79. Staff proposes adjusting the time span and data sources for measuring the market access criterion under certain circumstances. Specifically, staff proposes to include debt issuance data from sources other than IDS for the recent periods not covered by IDS data, in those cases where such inclusion would imply a revised assessment of the past market access test for entry or graduation, including where past market access would otherwise not be satisfied, due to the lag in the IDS data.

80. Staff also proposes to restore mandatory assessments of SSTV for all PRGT-eligible countries.[58] This change would involve removing all exceptions to carrying out an SSTV assessment, thereby better aligning the PRGT eligibility framework with the current more shock-prone environment and continuing to limit the risks of premature graduation (and/or possible reversals). Staff's proposal would shield PRGT policies from further evolution of IDA policies. Moreover, it would acknowledge the higher probability and diversity of non-economic, disruptive shocks compared to the past, and the need to assess SSTV in all cases, including for higher income LICs, given the elevated uncertainty such shocks can entail.

81. An assessment based on the proposed revised framework shows that only the Syrian Arab Republic meets the criteria to be added to the list of PRGT-eligible countries. The WB published the latest GNI data for Syria in 2021, which showed that its GNI per capita has dropped to a level that makes the country eligible for the PRGT. The assessment (Annex IX) shows that all countries meeting the income and/or the market access graduation criterion, based on relevant income and market access data, face SSTV which warrant retaining their PRGT eligibility. No other changes to the PRGT eligibility list are warranted based on application of the revised criteria.

82. The quota-based thresholds of market access for entry onto, and graduation from, PRGT eligibility would be reduced once the quota increases under the 16th GRQ take effect. Specifically, the thresholds of market access for entry and for graduation, are proposed to be revised from 25 percent and 50 of quota, respectively, to 20 and 35 percent of a member's quota under the 16th GRQ (see Annex XIII). In addition, staff proposes to revise the 2 percent of quota minimum annual issuance threshold to 1.5 percent of quota of a member's quota under the 16th GRQ. These changes will ensure the broad stability of the thresholds of the market access criterion in SDR terms, which is also used in determining countries' blending status.

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[58] This would include members with GNI per capita above 50 percent of the graduation threshold as was the case before 2015.

B. Adjusting the PS-HCC

Motivation

83. Staff sees the need for a targeted adjustment to the PS-HCC. The Independent Evaluation Office (IEO) is currently advancing its evaluation of the Exceptional Access policy, which will cover the PRGT EA, the GRA EA and the PS-HCC. The evaluation is expected to be completed by end-2024. While this evaluation will be followed-up by further work in response to the IEO recommendations, it may take some time. Staff suggests implementing a targeted adjustment to increase the consistency across the existing frameworks as a transitory measure until the evaluation is concluded. Specifically, for PRGT-eligible countries with significant market access, staff believes that the imposition of a more stringent debt sustainability requirement in the PS-HCC than in the GRA EA framework is not coherent with the overarching objective of the PS-HCC to "provide the same quality of safeguards to Fund resources that is provided by meeting the GRA EA criteria".[59] In line with this objective, the PS-HCC is currently superseded by the GRA EA framework when both safeguards are triggered. In staff's view, this could motivate a PRGT-eligible country with market access to seek additional GRA financing to trigger the GRA EA only to avoid the PS-HCC, even if the former financing comes at a higher cost.

Staff Proposal

84. Staff proposes to align the PS-HCC debt sustainability criterion with that under the GRA EA for LICs that meet the GRA EA market access criterion (GRA EA3). No change is proposed for countries that do not meet the GRA EA3. Specifically, where the member's public debt is considered sustainable but not with a high probability,[60] and the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund (including to the PRGT), combined access above the current PS-HCC thresholds would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources. As laid out in the November informal Board paper (summarized in Annex X), the implications for overall PRGT lending are expected to be limited as the policy adjustment would affect only a narrow set of countries. This proposed change would become effective immediately for all financing requests subject to the PS-HCC policy, including ongoing programs.

[59] See Policy Safeguards For Countries Seeking Access To Fund Financial Support That Would Lead To High Levels Of Combined GRA-PRGT Exposure (Executive Summary).

[60] Under the PS-HCC, public debt is generally considered to be sustainable with high probability for countries that are assessed under the LIC-DSF when the country has a low or moderate overall risk of public debt distress.

C. Extending Temporarily the Current Cumulative Access Limits for the RCF

Motivation

85. The June 2023 extension of the higher CALs under the RCF has enabled LICs to preserve borrowing space for EF under the PRGT. For the Exogenous Shock Window (ESW) and for the Large Natural Disaster Window (LNDW), CALs were kept at 150 and 183.3 percent of quota respectively—50 percent of quota above their pre-pandemic levels. An increase of 25 percent of quota to the ESW CAL was preserved for countries that have accessed the now-elapsed Food Shock Window (FSW) through RCF. These temporary higher CALs were extended until the completion of the 2024 PRGT Review.

86. The extension of CALs did not lead to a prolonged reliance on EF or impede the transition back to UCT arrangements. As discussed in paragraph 16, most of the PRGT-eligible countries resumed or transitioned to new arrangements in support of UCT-quality programs or did not request follow-up financial support from the Fund. Only 3 out of 51 countries had no UCT-quality programs but received additional EF since 2022, of which 2 under the FSW. In particular, since the June 2023 extension of the higher CALs, only 1 RCF was approved (as of end-August, 2024).

87. Reverting the RCF CALs to the pre-pandemic level upon the completion of the 2024 PRGT Review would result in a significant contraction of LICs' EF borrowing space. While most LICs have EF borrowing space at or above 50 percent of quota at the current temporarily higher CALs, the borrowing space would decline substantially if CALs would abruptly revert to pre-pandemic levels. As of end-2024, most of the 38 non-presumed blenders that accessed the RCF since the beginning of the pandemic would be left with an RCF borrowing space at zero or well below 50 percent of quota, since they will start repaying these credits only at the end of 2025 (Annex XI). This could constrain the Fund's capacity to provide urgent BoP support in situations where a UCT arrangement is either not necessary or not feasible.

Staff Proposal

88. Staff proposes to extend the RCF CALs until end-December 2025 with the aim of reviewing them before, taking into account the outcome of the upcoming Review of RFI CALs. As part of the work to prepare the upcoming general review of GRA access limits, staff has reflected on the interactions between the limits under the RCF and the RFI and noted the value of coordinating the approaches between these. Staff also recognizes the need to address progressive erosion of the Fund's EF expressed in percentage of quotas when scaled to countries' GDP or external financing needs. In this regard, staff suggests revisiting the issue of RCF CAL in relation to the outcomes of the upcoming general review of GRA access limits, to maintain a coordinated approach between the discussion on the RFI and the RCF. Since the Review of GRA access limits will be completed after the completion of the 2024 PRGT Review, a transitory provision is needed to preserve EF borrowing space and avoid an automatic drop of the RCF CALs to pre-pandemic levels

at the date of the completion of the PRGT Review. Staff proposes extending the current RCF CALs until end-December 2025 to provide sufficient time for their review once the Review of GRA Access Limits is completed. Should the quota increase under the 16th GRQ becomes effective before that date, RCF CALs will be revised down to 70 percent of quota for the regular window, 105 percent of quota for the ESW, and to 125 percent of quota for the LNDW, to broadly preserve their level in SDR terms. In the same manner, annual access limits under the RCF would be reduced to 35 percent of quota for the RCF regular window and the ESW, and to 55 for the LNDW, while the per arrangement cap would be resized to 17.5 percent of quota once the quota increase under the 16th GRQ becomes effective (see Annex XIII).[61]

D. Promoting the Precautionary Use of the SCF

Motivation

89. Precautionary use of the SCF is an essential part of the PRGT lending toolkit that provides multiple benefits. In line with the GRA precautionary facilities, the precautionary use of the SCF is meant to provide immediate financing in case shocks materialize, thereby assuring markets upfront that the impact of such risks is limited. In addition, program conditionality is expected to help create policy space to better deal with external shocks that have become more prevalent and diverse in nature. These benefits seem particularly relevant in the case of frontier market countries for whom it is important to sustain market access or catalyze additional external support (Annex XII).

90. To the extent that some precautionary arrangements are not drawn, greater commitments may not translate fully into additional subsidy needs. Since 2010, 21 percent of quota allotments under PRGT precautionary arrangements were ultimately drawn. In addition, precautionary arrangements could reduce the need for drawing PRGT arrangements through their positive impact on market access and external support. Increased precautionary use of the SCF could thus be a tool to meet the insurance needs of frontier markets and accelerate their graduation to the GRA, while containing PRGT resource needs overall.

Staff Proposal

91. Staff sees scope for increased outreach that could better highlight the SCF's benefits and facilitate its use. Survey results (Annex XII. Figure 3) demonstrate that the benefits of precautionary arrangements for frontier markets might not be fully internalized. Increased information sharing on the breadth of available PRGT lending tools and their respective benefits, and proper support on using the facilities tailored to different BoP needs, could address this knowledge gap and promote the use of the precautionary SCF, with countries drawing on it where suitable.

[61] The adjusted limits are rounded up from the value that would be needed to exactly preserve the SDR value of limits after the 16th GRQ quota increase. The expected impact on PRGT demand can be accomodated within the estimated lending envelope.

92. Staff does not see a need to consider policy changes to facilitate the precautionary use of the SCF. Against the background of the multiple successive shocks in recent years coupled with frequent interruptions of market access, it is difficult to attribute the infrequent precautionary use of the SCF to a specific set of factors. Since the primary reason cited by mission chiefs for the limited take-up of precautionary SCFs was the prevalence of actual and protracted BoP needs, staff does not see a pressing need for policy changes to encourage greater use of the facility. Any consideration of potential policy changes would require a comprehensive analysis, including in a perspective that integrates potential implications for other precautionary facilities in the Fund's lending toolkit.

E. Streamlining the Requirements on Poverty Reduction Strategies

Motivation

93. PRGT-supported programs aim to support the creation of a stable and sustainable macroeconomic position consistent with poverty reduction. Enabling members with BoP problems to make progress towards, restore, or maintain a stable and sustainable macroeconomic position consistent with poverty reduction is the broad objective of PRGT-supported programs. The PRS policy was originally introduced to strengthen the link between program design and poverty reduction as well as to foster program ownership. The effectiveness of the Fund's approach toward supporting poverty reduction goals through PRGT-supported programs has not been comprehensively assessed since 2015, so these goals require a comprehensive assessment.[62] Feedback from country teams suggests a need to streamline the PRS procedural requirements, while strengthening programs' link to poverty reduction goals. Around a fifth of the surveyed mission chiefs[63] identified challenges with the current requirements that were seen as administratively cumbersome[64], unevenly enforced, and added little to program design by relying on documents that are often overly ambitious. Besides streamlining the process and documentation requirements, a key suggestion was for greater use of the Staff Report to make the case that the authorities have credible development and PRSs in place.

[62] Currently, a Poverty Reduction and Growth Strategy (PRGS) is required under PRGT arrangements with an initial duration of more than two years. Initially the PRGS papers were developed with the help of IMF and WB staff, and required also for WB financing. The WB no longer requires a PRGS for its IDA financing, although all Country Partnership Frameworks remain explicitly anchored on national development strategies.

[63] In September 2023, a comprehensive survey was conducted targeting Fund mission chiefs to gather insights on the PRGT facilities and financing architecture. The survey successfully garnered responses from 39 mission chiefs, covering 42 PRGT countries. Areas of focus included the overall architecture of PRGT facilities, the duration and structure of financial arrangements, the PRS process and procedural requirements, access policy, as well as operational issues within the current framework. The feedback collected through this survey has been instrumental in identifying areas for improvement and ensuring the PRGT facilities remain responsive to the evolving needs of the member countries.

[64] The PRS Policy encompasses the content and timeliness requirements (and good practice guidelines) of PRGS, modalities for their issuance, staff and external assessment, publication, and implementation monitoring requirements.

Staff Proposal

94. Staff proposes conducting a stand-alone review of the Fund's PRS policy. Considering the time elapsed since the 2015 policy review and the 2019 operational streamlining to strengthen program links to poverty reduction, and the expansion of Fund engagement in new areas that are closely related to poverty reduction and growth such as governance, social spending, climate, fragility, and gender, a full PRS policy review appears warranted. The review would address concerns highlighted in the mission chief survey while also seeking and responding to feedback from country authorities. It would take stock of the role of PRSs in LICs and in Fund-supported programs, the experience with the implementation of the current PRS policy, and the current WB approach to assessing PRSs. It would seek to ensure that PRGT-supported programs continue supporting economic policy and reform agendas rooted in country-owned PRSs. The proposed review would also explore ways to further streamline procedures, ensure congruence with other development partners, and enhance domestic ownership of PRSs.

ENTERPRISE RISK ANALYSIS

95. Staff has identified enterprise risks with potentially large impact for each of the main pillars of staff's reform proposals, which require prudent mitigation strategies.

96. Enterprise risks assessment for staff's lending policy proposals, including with regard to the self-sustained lending envelope and interest rate differentiation.

- **Business risks – Analytical accuracy.** The future demand for PRGT financing in LICs may be underestimated in staff's central scenario, as unexpected additional external shocks could increase their BoP needs. As discussed in paragraph 28, annual reviews of the adequacy of PRGT resources, as well as the periodic Reviews of PRGT Facilities and Finances would provide an opportunity for staff to reassess the evolving lending demand in comparison to the PRGT's self-sustained lending capacity and suggest contingency measures as needed (Box 6).

- **Financial risk – Credit.** The reform options for tiered interest rates could increase debt service of Tier 2A and 2B countries to the Fund. While the impact is expected to be modest, there may be some negative feedback loops from the higher interest rates affecting countries' capacity to repay and thus the Fund's credit risk. Staff assesses the risk to be contained, as (1) the poorest LICs (almost half of the entire PRGT eligible countries) would retain access to zero-interest rate borrowing, (2) LICs affected by the reform of the interest rate mechanism generally rely less on Fund finances and are already used to (much more) expensive market borrowing, and (3) the debt sustainability impact of the proposed interest rate changes, including on IDA rates, would likely be very limited. The impact of the new interest rate mechanism on the PRGT will be assessed in the periodic Reviews of PRGT Facilities and Finances. The impact on borrowers will be assessed in the context of the proposed targeted PRGT review to take place in three years' time. Further reforms will be proposed as mitigation strategies in case the associated credit risk is unacceptable.

- **Operational Risk.** There may also be operational human capital risks linked to resource constraints and allocation in applying the proposed changes to the PRGT lending framework, given the existing human resource pressures. Mitigation strategies include reprioritization of workstreams and hiring, better communication to help staff navigate the changes or reallocating functional department support.

97. Enterprise risks assessment for strengthening PRGT finances, regarding mobilizing internal resources and the investment portfolio.

- **Financial risk - Operational income and cashflow** may arise from suspending the reimbursement of the GRA for PRGT administrative expenses, and the possible distribution of GRA net income/general reserves. There could be implications for both the GRA (e.g. the speed of the accumulation of precautionary balances may be affected) and the PRGT (e.g. the timing of transfers to the PRGT may be affected by conditions in the GRA). A key mitigant to the above risk is the Fund's diversified income model. Moreover, any distribution of GRA resources would depend on a holistic assessment of the adequacy of precautionary balances and the Fund's financial position. Taking into account the impact of the proposed policy changes discussed in the *Review of Charges and the Surcharge Policy— Reform Proposals* (forthcoming), estimated projected net income of the General Resources Account generated during FY2025 to 2029 could allow for possible distributions, to members, of SDR 6.9 billion cumulatively, while preserving the capacity to further increase precautionary balances by about SDR 1.6 billion. Further details can be found in the accompanying Board paper on GRA reserve distribution.

- **Risks to the investment portfolio.** Investment returns are subject to market risk which could lead to lower-than-expected resources for PRGT lending and jeopardize the self-sustainability of the PRGT. This risk is mitigated through an appropriate investment policy established for the specific purpose, risk tolerance, and horizon of the underlying assets, including performance monitoring and reporting at the Investment Oversight Committee and the Board.

- **Reputational Risk.** Charging positive interest rates on PRGT members could be controversial, despite changed global financial conditions and historical precedents. Advocates for LICs will likely object to the Fund asking any of its PRGT eligible member countries to pay interest on PRGT financing. Staff is developing a communication strategy that will emphasize the continued provision of zero-interest rate loans to the poorest countries, and the enhanced volumes of support that the reforms will enable for the comparatively better-off LICs. Moreover, the strategy will stress that, even for the better off LICs, support will continue to be provided on terms considerably more favorable than the commercial rates for these countries. It will highlight that the access norm is expected to adequately cover prospective demand for concessional financing, while access limits will provide flexibility for countries facing larger needs.

- **Business risk - Geopolitical Tensions.** Distribution of GRA reserves or income, and also the sale of gold, would be a controversial decision among member states. An effective and inclusive communication strategy will also be important to minimize this risk.

98. Enterprise risks assessment from not implementing reform proposals:

- **Financial Risk – adequacy and liquidity of Fund resources.** In the absence of the new bilateral subsidy contributions at the scale of the proposed measures in this paper, the PRGT's annual self-sustained commitment capacity would fall to about SDR 1 billion by 2027. This would severely limit the IMF's capacity to support its LIC members with concessional financing.

- **Business risk – Member engagement.** The above scenario will hinder the Fund fulfilling its mandate of supporting the LICs in a shock prone world.

- **Reputational risks – Both objectivity and credibility.** Fund's credibility will be at risk, through increased concerns over evenhandedness in program engagement.

- **Strategic risk.** Over time, such a situation could give rise to strategic risks to the Fund, including a weakening of the global safety net, a shift away from borrowers to other sources of financing and a weakening of multilateralism.

99. Staff assesses the enterprise risks associated with inaction are more significant in impact and likelihood than the risks associated with the policy proposals. With already elevated PRGT financing needs and a more shock prone world, keeping the current policy mix would lead to insufficient PRGT resources with a much higher likelihood, and could prevent the Fund from fulfilling its mandate. Staff have proposed mitigating strategies for risks associated with the proposals, which cannot be ruled out, while remaining risks have a low probability to occur. The main mitigant of inaction risks would be severe rationing of concessional credit, requiring considerable changes to the access policy to be enforced (Box 6). In addition, LIC members are also eligible to request financing under the GRA—with less favorable lending terms.

Box 6. Mitigating Measures for Insufficient PRGT Resources

PRGT resources can be insufficient when some risks identified in this section materialize, or in the scenario of inaction. Other policy responses to balance supply with demand could include measures to constrain demand through tightening access limits and norms or restoring hard caps. Alternatively, measures to increase lending capacity include increasing interest rates, additional bilateral fundraising, and/or sub-optimal internal resources options, all of which will entail a significant reduction in the PRGT lending envelope envisaged in staff's baseline estimate.

The proposal of facilitating generation of PRGT subsidy and reserve resources through a distribution of GRA net income/reserves faces uncertainty regarding the size of resources available for distribution and the risk of leakage. If these challenges cannot be overcome the following measures would need to be considered, but would likely still entail a significant reduction in the size of PRGT lending.

- **Internal Resources:** While a further five-year extension of the suspension of the reimbursement of PRGT expenses to the GRA would reduce PRGT outflows by about SDR 100 million a year, enabling lending

Box 6. Mitigating Measures for Insufficient PRGT Resources (concluded)

to be around SDR 400-500 million a year higher for the duration of the suspension, this would still leave capacity well short of anticipated demand.

- **Gold sales.** In principle, even a sale of a relatively small portion of the Fund's gold holdings could provide significant resources to help restore sustainability of the PRGT. However, the sale of gold is unlikely to garner the required political support in the near term, but the issue could be revisited in the medium to longer term for example, if demand from LICs exceeds projections. To garner the required political support in the near term, but the issue could be revisited in the medium to longer term for example, if demand from LICs exceeds projections.

- **Additional bilateral fundraising (not linked to a distribution).** Directors' feedback suggests that the scope for further bilateral fundraising for subsidy resources not linked to a distribution (particularly grants) at the current juncture is limited, given tight budget constraints, donor fatigue, and competing fundraising initiatives, including the parallel IDA21 replenishment process and other trusts such as the RST and Catastrophe Containment and Relief Trust (CCRT). Despite this, the prospect of PRGT lending falling to SDR 1 billion a year could act as a catalyst for some donors to provide additional support.

- **Further increasing interest rates.** PRGT capacity could be further increased (and demand perhaps further constrained) by additional increases in interest rates beyond what is outlined in paragraph 35, particularly for Tier 1 countries, but the scope will be limited by the potential implications for debt sustainability and the PRGT's mandate to provide concessional financing to LICs.

- **Suspension of PRGT eligibility for a subgroup of countries.** As an example, this could involve graduating all countries above the IDA operational income cutoff, or suspending their eligibility until the PRGT is replenished. However, this would be at odds with decades of practice that has erred on the side of keeping LICs above the income threshold eligible for some time to guard against the risk of reversals and ensure a higher degree of concessionality for countries that are still very vulnerable, and for which all-GRA terms would not be appropriate.

If, as appears likely, the above measures are insufficient to bring supply close to the level of projected demand, severe measures will also be needed to constrain demand and avoid committing the corpus of the Reserve Account:

- **Tightening access limits and norms or restore hard caps.** Although staff is already recommending a lowering of the PRGT norm to 145 percent of quota in the baseline, demand would need to be further constrained through 1) the reintroduction of hard caps on exceptional access under the PRGT (as was the case before the July 2021 PRGT reform); 2) the introduction of per-arrangement caps beyond presumed blenders; 3) reductions in access limits and/or the norm (including a lower norm for countries with higher credit exposure); 4) increasing the portion of GRA financing in blended arrangements; and 5) modifying eligibility policies to accelerate graduation.

ISSUES FOR DISCUSSION

- Do Directors support the proposed changes to PRGT lending policies?
- Do Directors support the financing proposals to close the gap in PRGT subsidy resources?
- Do Directors support the proposed approach for managing PRGT loan resources?

- Do Directors agree with the proposed refinements to the investment strategy to support greater variability in cash flows under the new financing framework?
- Do Directors agree with the changes to the graduation criteria from the PRGT-eligible list and the clarification of the market access criterion?
- Do Directors agree with the list of PRGT-eligible countries?
- Do Directors agree with the adjustment to the PS-HCC framework?
- Do Directors support maintaining the RCF CAL at current levels until end-2025, with a downward revision of all RCF access limits related to the 16th GRQs increases as proposed?
- Do Directors support having a standalone PRS review?

Annex I. The Historical Evolution of the Fund's Concessional Lending

The Fund began lending on concessional terms in the mid-1970s and has adapted its concessional lending framework since then making it into a modern architecture of concessional facilities permanently available to low-income members.

1. The Subsidy Account was established in 1975 to reduce borrowing costs from the Oil Facility for the Fund's most seriously affected members facing BoP needs exacerbated by the oil price shock. This gave birth to the Fund's concessional lending.

2. The Trust Fund, using the proceeds of sales of 1/6 of the Fund's pre-Second amendment gold, was established in 1976 to provide additional concessional assistance on "first credit tranche" conditions to support BoP adjustment efforts of LICs. The use of a trust structure—apart from the GRA—has allowed greater flexibility in providing different lending terms to members and in mobilizing resources.[1]

3. The Structural Adjustment Facility (SAF) created in 1986 and funded with the repayments of Trust Fund loans into the newly created Special Disbursement Account (SDA) explicitly recognized that LICs may face protracted BoP problems that are distinct from BoP needs in the context of GRA financing. The SAF envisaged the adoption of a comprehensive three-year policy framework of structural reforms that anchored annual loan disbursements.

4. The Enhanced Structural Adjustment Facility (ESAF) Trust was established in 1987 to channel additional concessional resources made available mostly from a broad range of contributors in the form of loans and grants to support LICs facing protracted BoP problems and undertaking structural adjustment programs.[2] The ESAF became the main vehicle of the Fund's concessional financing with quantitative conditionality, differentiated access rules, and enhanced performance monitoring in comparison to the SAF.

5. The Poverty Reduction and Growth Facility (PRGF) Trust was created by reforming the ESAF Trust in 1999 in a broad revamp of the international LIC financing architecture that put country ownership and poverty reduction squarely at the center. Conditionality became more selective and focused on actions that were critical to achieving the program's macroeconomic objectives. The PRGF, like its predecessors the SAF and ESAF, was geared towards helping countries' resolve protracted BoP problems. In the mid-2000s, the Exogenous Shock Facility (ESF) within the PRGF Trust

[1] The Trust Fund provided loans at a lower interest rate (0.5 percent per year) and a longer maturity (10 years) compared with financing under the GRA.

[2] The repayments of Trust Fund loans and SAF loans were used to fund a reserve account and subsidy resources while relying on borrowed resources to fund the principal of loan disbursements and bilateral subsidy contributions.

(then renamed PRGF-ESF Trust) was established to strengthen the Fund's concessional emergency assistance to LICs hit by sudden and exogenous shocks.

6. The PRGT was established in 2009 as the successor of the PRGF-ESF Trust and as part of a sweeping reform of the architecture of concessional lending facilities designed to cover all types of BoP needs. Three lending facilities were created: the ECF as the Fund's main upper credit tranche (UCT)-quality tool for providing medium-term support to LICs with protracted BoP problems; the SCF as a UCT-quality financing tool for LICs with short-term BoP needs; and the RCF to provide LICs with rapid financing with limited conditionality to meet urgent BoP needs. The facilities were broadly aligned with those under the GRA, making blending of concessional and non-concessional resources operationally more seamless. The 2009 reform also enhanced the financial structure of the PRGT.[3]

7. Since the 2009 reform, two comprehensive reviews were completed, along with several other reforms, but the basic PRGT architecture has remained unchanged. The reviews/reforms were aimed at providing more flexible and tailored support to evolving LICs' financing needs, while ensuring that the PRGT remains financially sustainable.

- *The 2012-13 comprehensive review* refined the lending toolkit and streamlined operations, alongside establishing a self-sustaining financial framework.
- The 2015, targeted reforms increased access limits to EF instruments, set the interest rate on RCF to zero, and adjusted the blend of PRGT and GRA financing from 1:1 to 1:2 in the context of the work on Financing for Development.
- *The 2018-19 comprehensive review* endorsed a one-third increase in the overall access limits along with stronger safeguards for exceptional access requests, among other changes. Other reforms included changes to the blending rules, increases in the maximum length of ECF and SCF arrangements, and raising RCF access limits, including for FCS and countries vulnerable to large natural disasters.
- *The 2021 ad-hoc review* responded to the pandemic by increasing the access limit to 145/435 (AAL/CAL) and aligning them with the GRA for the first time. The review simplified the blending rules and eliminated hard access caps for the poorest LICs.
- *The 2023 targeted interim review of access limits under the PRGT* raised the PRGT access limits to 200/600, in line with the temporarily increased access limits under the GRA.

[3] In particular by introducing dedicated subsidy accounts for each facility in addition to the GSA to accommodate donor preferences.

Annex II. IMF and WB Collaboration

The IMF and the WB have a long-standing collaboration in supporting LICs. This annex presents the various areas of collaboration, which resulted also in many joint products such as the IMF-WB DSAs and Financial Sector Stability Assessments (FSSAs), as well as joint initiatives in particular on debt such as HIPC, support to the G20 Common Framework, and launch of the Global Sovereign Debt Roundtable (GSDR).

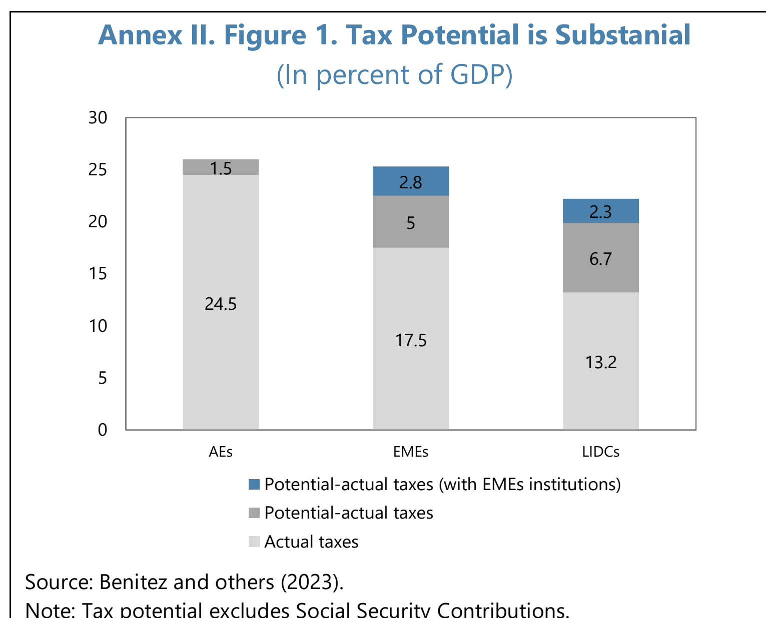
1. External Financial Support. As structural reforms and domestic resource mobilization (DRM) take time to deliver results, support from bilateral and multilateral development partners through concessional loans and grants is key. The IMF and the WB play different but complementary roles. The former focuses on smoothing adjustment to support economic programs that address members' BoP problems, while the latter typically provides longer-term resources to promote economic and social progress. That said, both institutions deliver the exceptional financing that is needed to cover financing gaps; together they have played a significant countercyclical role in helping LICs respond to the COVID-19 pandemic and subsequent shocks. The PRGT Review and the IDA21 replenishment will enable this complementary support to LICs also in the time ahead.

2. Country-Specific Action on Debt. The median LIC spends over twice as much on external debt service as a share of revenue than it did a decade ago.[1] In some countries, restoring debt sustainability requires action on debt in addition to domestic adjustment and new financing in the context of Fund programs. The IMF and WB support country-specific debt workouts, including under the G20 Common Framework, and launched in 2023, jointly with the G20 Presidency, the GSDR to support greater common understanding among stakeholders on debt and debt restructuring challenges. In addition to facilitating further progress on debt restructuring processes to address unsustainable debt cases, the Fund and the WB are working with the G20, the Paris Club, and other partners, including under the GSDR, on ways to help countries address liquidity challenges.

3. Structural Reforms and DRM. The IMF and the WB are strengthening their partnership to achieve tangible results for LICs, building on their respective comparative advantages. This collaboration has been recently intensified in the area of DRM to help LICs realize important untapped tax revenue potential—estimated to be about 6.7 percentage points of GDP higher than that for emerging market economies and advanced economies (Benitez and others, 2023, see Annex II. Figure 1). Specifically, the IMF and the WB have developed a joint domestic revenue mobilization initiative (JDRMI) to support coordination and implementation of policy priorities that are driving DRM, namely: (1) improving public revenue; (2) enhancing spending efficiency; and (3) developing domestic public debt markets. The two institutions also collaborate in designing social safety nets and social protection programs to mitigate the impact of these and other reforms.

[1] See IMF Managing Director Kristalina Georgieva's Statement at the Conclusion of the Third Meeting of the G20 Finance Ministers and Central Bank Governors, July 2024.

Annex II. Figure 1. Tax Potential is Substanial
(In percent of GDP)



Source: Benitez and others (2023).
Note: Tax potential excludes Social Security Contributions.

4. Social Spending. The IMF engages with its members on macrocritical social spending issues, designing broad policy frameworks and providing country-specific support. Given the WB expertise and knowledge on these issues, the two institutions collaborate closely to ensure consistency of policy messages and improve traction, and leveraging the WB's experience in designing and implementing social spending schemes.

5. Tackling Climate Change. LICs face significant risks from climate change, including increased vulnerability to extreme weather events, food insecurity, and economic instability. The two institutions' Enhanced Cooperation Framework for Climate Action aims to support efforts by country authorities to bring together development partners, the private sector and civil society to address the effects of climate change. The IMF also provides financial support to LICs through the Resilience and Sustainability Trust (RST) alongside policy advice and capacity development to help vulnerable countries build climate resilience and integrate climate risks into their macroeconomic frameworks. The WB's Country Climate and Development Reports (CCDR) and the IMF's Climate Policy Diagnostics and Climate Macroeconomic Assessment Programs (CMAP) are important inputs for these lending operations. At the same time, the WB offers long-term financing and technical assistance for climate-resilient infrastructure projects and renewable energy initiatives. It also provides to some members the option to include Climate Resilient Debt Clauses (CRDCs) in their IBRD loans and IDA credits that permit the borrower to defer debt service payments of the loan for up to two years, following the occurrence of a pre-specified natural disaster.

6. Governance. The IMF and the WB collaborate to strengthen governance in LICs. This often involves a focus on enhancing public financial management, including public procurement and transparency. The two institutions also jointly assess compliance with international transparency standards in 12 policy areas through the Standards and Codes Initiative. The IMF closely collaborates with the WB on governance diagnostic missions to identify and address governance challenges in a broader array of areas.

Annex III. Estimating Demand for PRGT Financing

This annex presents the methodology underlying staff's projections on future demand for PRGT financing as well as different scenarios, the range of which reflects the significant uncertainties in these forecasts. Staff develops short- and medium-term estimates based on a bottom-up exercise for 2024 and WEO external GFN projections for 2025-29, and proposes a transition path for demand that is consistent with long-term estimates based on the likelihood and size of access to PRGT resources. As a first step, staff estimates that long-term demand will likely average between SDR 2.0 and 3.4 billion annually. In the medium-term, demand could be about SDR 0.4 billion higher consistent with gradual adjustment to recent shocks. The lower end of the range broadly corresponds to historical averages for access levels while avoiding erosion in real terms. The upper end reflects sustained higher demand and access. In a second step, staff derives a central scenario consistent with proposed lending policies that balances financing needs and available resources. Long-term lending under the central scenario is estimated between SDR 2.5-3.0 billion. Medium-term demand could be about SDR 0.5 billion higher.[1]

1. **Structure.** This annex sets out the methodology for estimating short-term (2024), medium-term (2025 to 2029), and long-term demand (from 2030) and discusses the impact of large nominal programs on demand projections. It then draws on scenario analysis to estimate a credible demand range before narrowing it down to derive a targeted lending envelope for the self-sustained PRGT balancing financing needs, access policies, and resource availability.

Estimating Short-Term Demand

2. **New PRGT commitments could reach about SDR 7 billion in 2024.** New Board approved PRGT commitments in 2024 stood at SDR 3.5 billion by end August. Further possible financing requests, informed by consultations with country teams, could bring this to up to about SDR 7 billion in new lending commitments, however some of this demand could spill over into 2025 if more time is needed for program negotiations.

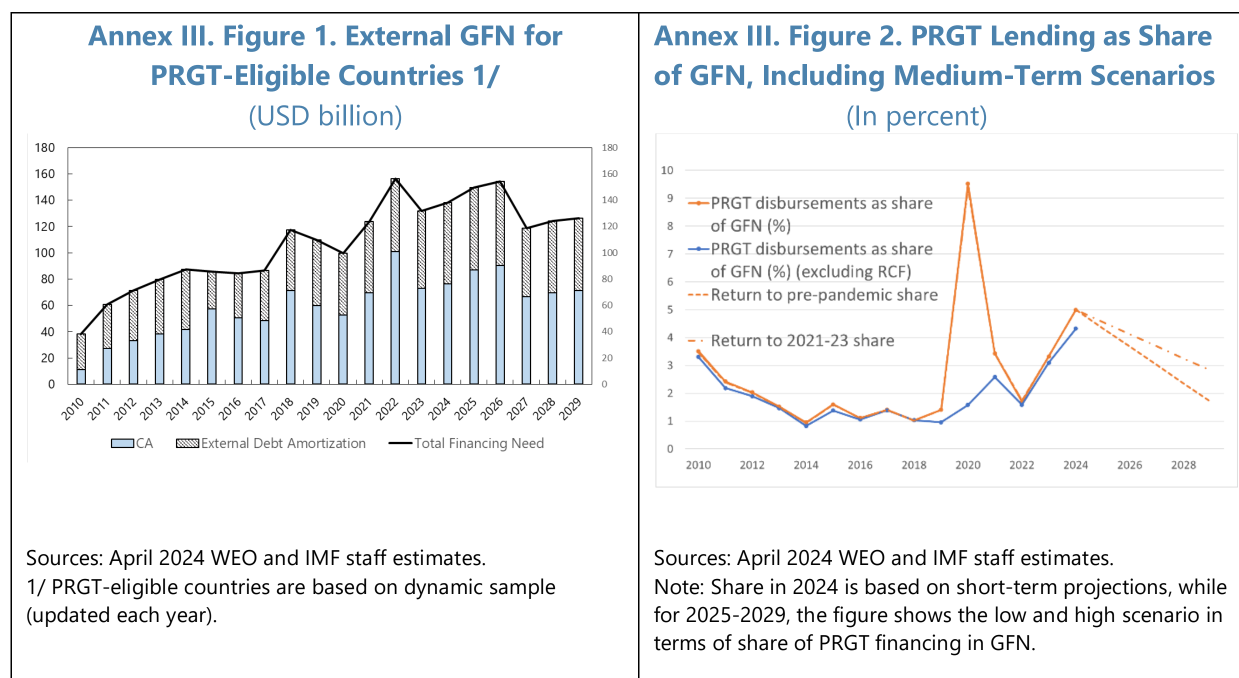
Estimating Medium-Term Demand

3. **Staff's medium-term demand estimate is anchored on the expected contribution of PRGT lending to the financing of countries' external GFN.** External GFN were calculated as a sum of the current account deficit and external debt amortization[2] for each country using April 2024

[1] Demand estimates are on a subsidy-use basis. They exclude undisbursed, precautionary SCFs for which no subsidy resources would be required. This is in line with the approach taken during the 2018-19 Review of Facilities for LICs and past experience. This assumption lowers estimated average annual lending by about SDR 0.2 billion.

[2] The calculation of GFN is based on a dynamic sample and takes PRGT-eligibility for each year into account. The external debt amortization is calculated by summing up amortization of the long-term external debt and end-period stock of short-term external debt. Using end-period short term stock of debt is used instead of the short-term debt amortization as it turns out to be more conservative in this sample.

WEO data, aggregated across PRGT-eligible countries (Annex III. Figure 1).[3] To anchor the medium-term projections, staff first analyzed the share of aggregate PRGT disbursements in total GFN since 2010. It was relatively stable at or below 2% between 2011 and 2019 (Annex III. Figure 2). It increased dramatically in 2020 reflecting significant amounts of EF through the RCF during the COVID-19 pandemic. Excluding the RCF support, the share has been less volatile albeit higher in the post-pandemic years compared with the 2010s. While the share appears very high in 2023-24, it is of the same order of magnitude as observed in the aftermath of the Global Financial Crisis (GFC). A higher share of PRGT financing in GFN is in line with the countercyclical role of the Fund—with the Fund providing more financing in crisis periods, when other financing sources, including private flows retreat.



Annex III. Figure 1. External GFN for PRGT-Eligible Countries 1/
(USD billion)

Sources: April 2024 WEO and IMF staff estimates.
1/ PRGT-eligible countries are based on dynamic sample (updated each year).

Annex III. Figure 2. PRGT Lending as Share of GFN, Including Medium-Term Scenarios
(In percent)

Sources: April 2024 WEO and IMF staff estimates.
Note: Share in 2024 is based on short-term projections, while for 2025-2029, the figure shows the low and high scenario in terms of share of PRGT financing in GFN.

4. **Medium-term PRGT demand projections are based on the assumed evolution of the share of PRGT lending in projected external GFN as reported in the April 2024 WEO.** The starting point is the share of PRGT lending projected in 2024 based on expected disbursements of SDR 5.2 billion (including disbursement from existing commitments and projected new commitments of around SDR 7 billion in 2024, as described above), representing 5 percent of the projected external GFN. Demand scenarios assume a gradual decrease in the share of the PRGT disbursements in GFN over the next 5 years towards a longer-term level (see scenario analysis below). This downward path reflects the expectation that the effects of extraordinary shocks dissipate, macroeconomic adjustments in LICs take hold, and financing gaps narrow, as was

[3] Aggregate GFN decreases in 2027-28 due to the assumption that several PRGT countries will graduate from the PRGT and are thus dropped from the sample over which the GFN is calculated.

observed after previous crisis episodes.[4] Annual demand for PRGT financing (i.e., the level of commitments for each year of the projection) is calculated by applying the assumed share of PRGT disbursements in GFN to the corresponding WEO GFN projection for each year of the projection, and then distributing the disbursements into annual commitments using plausible assumptions about program phasing.

Estimating Long-Term Demand

5. **Projections of long-term demand for PRGT financing reflect assumptions about the likelihood and access of PRGT financing requests.** The approach follows the methodology used in previous PRGT Reviews. The model applies assumptions on: (1) the probability of countries accessing PRGT resources each year; (2) access levels per facility; (3) trend growth of per country access levels over time to avoid erosion of access in real terms;[5] and (4) blending status and graduation from PRGT eligibility.[6] Longer-term demand is defined as the projected average demand over the next decade that is assumed to reflect average annual lending from 2030.

Large Nominal Programs

6. **Demand estimates take into account that a few large nominal programs could have a significant impact on demand.** The scenarios include a buffer of SDR 0.3 billion in annual demand reflecting that large nominal arrangements could increase demand beyond what is assumed in the long-term demand model. This buffer seeks to address the tension between the long-term demand model assuming access at the average quota of PRGT-eligible countries and the observation over recent years that new commitments for ECF/SCF arrangements were higher than this assumption suggests. Specifically, the new commitments averaged SDR 1.4 billion between 2010 and 2023 instead of SDR 1 billion, which would have been the case if requests had been on average at the applicable norm multiplied by the average quota of PRGT-eligible countries (Annex III. Table 1). The observed deviation from expected demand is driven by a few large programs between 2021 and

[4] A decline in the share of PRGT lending to external GFN does not necessarily mean a larger burden sharing for other official sector financing, as larger private flows are expected to cover a larger share of the external GFN as market conditions improve, thus reducing the exceptional financing gap.

[5] Access per PRGT-eligible country is assumed to grow by 6.25 percent from 2028 onwards based on average historical and projected growth of nominal GDP of PRGT-eligible countries.

[6] The assumptions fully reflect the results of the 2024 PRGT eligibility review (Annex IX) which proposes some adjustments to the framework and the addition of the Arab Republic of Syria to the list of PRGT-eligible countries. Over time the number of PRGT-eligible countries is assumed to fall from 70 to 62 countries by the end of 2034 while the number of presumed blenders remains broadly unchanged reflecting a balance between graduation and reaching blend status.

2023 (Annex IV). Staff considers it possible that a similar pattern could re-occur over the projection horizon and therefore reflects this possibility in the demand projections.[7]

Annex III. Table 1. Average Versus Counterfactual Commitments for PRGT Arrangements
(non-blended arrangements; 2010-2023; in SDR billion)

	Actual commitments	Counterfactual commitments at average PRGT quota and applicable norm	Difference
Annual Average (2010-2023)	1.39	1.04	0.35
Annual Average (2010-2019)	0.86	0.82	0.04
Annual Average (2021-2023)	3.46	1.87	1.59

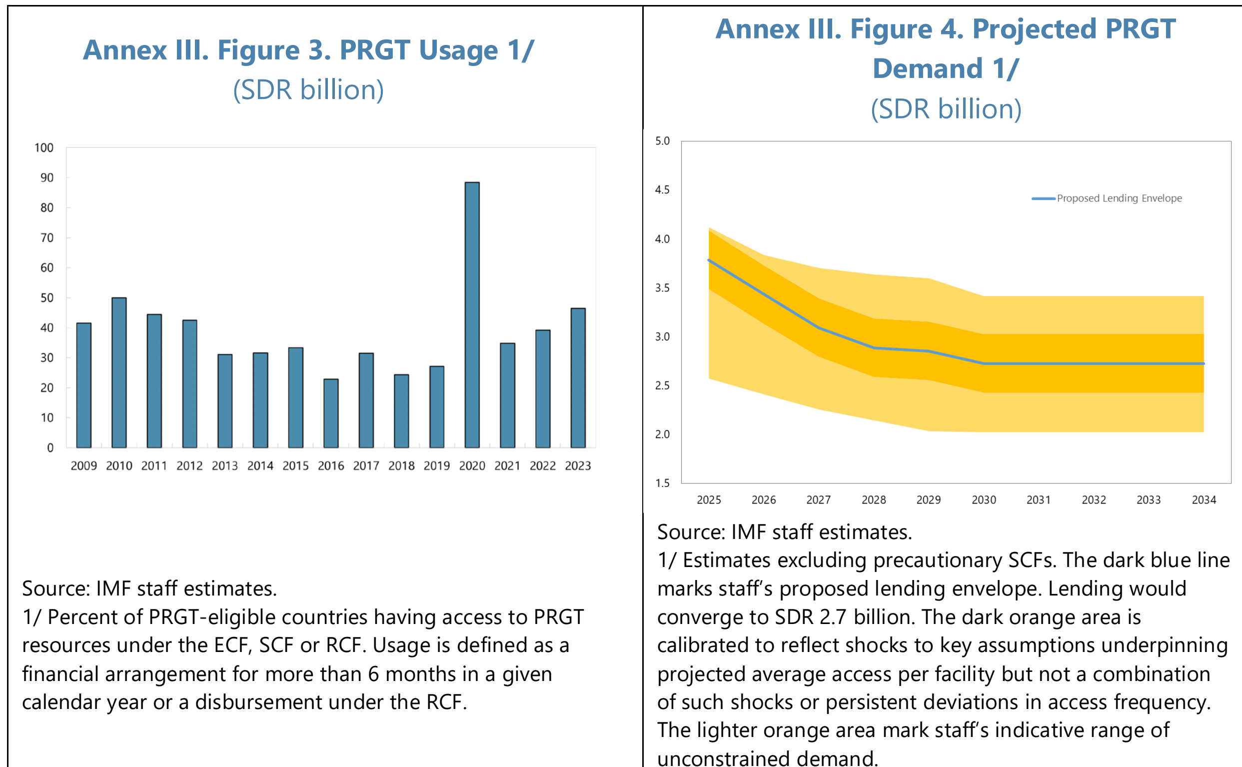
Source: IMF staff estimates.

The Demand Scenarios for PRGT Lending

- **Low demand scenario.** The scenario broadly reflects a return to pre-pandemic patterns of PRGT demand. In such a scenario, staff estimates average annual medium-term demand of SDR 2.3 billion and long-term lending of SDR 2.0 billion. Specifically, short- to medium-term demand projections in the low scenario assume that the share of PRGT disbursements in GFN will gradually decline and reach the pre-pandemic average level by 2029 (Annex III. Figure 2). Over the long term, staff assumes that demand for UCT-quality programs would remain broadly in line with pre-pandemic averages. A small increase in the frequency of requests for EF is assumed to take into account the expected more shock-prone world, along with somewhat higher average access levels. For example, an average three-year ECF would entail access at 135 percent of quota compared to a past average of about 120 percent of quota (2010-2023).

- **High demand scenario.** The high demand scenario assumes sustained strong demand and elevated access levels. Staff estimates annual average demand in the medium-term of SDR 3.8 billion and SDR 3.4 billion in the long term. Short- to medium-term projections assume the share of PRGT disbursements to decline only to the average of the pandemic period (2021-23, Annex III. Figure 2), while the external GFN are assumed to be 10 percent higher than suggested by the WEO projections to reflect additional shocks. In the long-term projections, staff calibrates the probability of access for UCT-quality programs on past high-demand episodes, such as the period following the global economic and financial crisis and the COVID-19 pandemic (Annex III. Figure 3). Specifically, the scenario assumes that about one-third of PRGT-eligible countries would have access to an ECF/SCF arrangement simultaneously. In addition, the frequency of EF would double compared to the pre-pandemic period. Moreover, average access would be significantly higher than in the past, reflecting larger BoP needs consistent with a significantly more shock-prone world: a typical three-year ECF would entail access of 200 percent of quota.

[7] The occurrence of large nominal programs is implicitly included in the short- to medium-term projections, given that the projected share is taking into account averages over 2010-2023. The size of the effect varies across scenarios.



Annex III. Figure 3. PRGT Usage 1/ (SDR billion)

Source: IMF staff estimates.
1/ Percent of PRGT-eligible countries having access to PRGT resources under the ECF, SCF or RCF. Usage is defined as a financial arrangement for more than 6 months in a given calendar year or a disbursement under the RCF.

Annex III. Figure 4. Projected PRGT Demand 1/ (SDR billion)

Source: IMF staff estimates.
1/ Estimates excluding precautionary SCFs. The dark blue line marks staff's proposed lending envelope. Lending would converge to SDR 2.7 billion. The dark orange area is calibrated to reflect shocks to key assumptions underpinning projected average access per facility but not a combination of such shocks or persistent deviations in access frequency. The lighter orange area mark staff's indicative range of unconstrained demand.

7. **Next, staff derived a central lending envelope taking into account access policies as well as financing constraints in addition to members' projected needs.** Estimated long-term lending from 2030 on would range between SDR 2.5 and 3.0 billion with a central estimate of SDR 2.7 billion, while lending over the medium-term (2025-2029) would average SDR 3.2 billion (Annex III. Figure 4). This central scenario has the following assumptions:

- **Access policies.** Annual and cumulative access limits would remain aligned with current GRA access limits,[8] while the norm would be reset to 145 percent of quota (pre-2023 temporary increase in access limits). The scenario takes into account the estimated elasticity of average access levels to the distance between access limits and norms of 0.1, which implies on average 10 percent higher ECF/SCF arrangement size compared to the case where the annual and cumulative access limits returned to 145/435 percent of quota, respectively.[9]

- **Short- to medium-term projections.** The share of PRGT disbursements in GFN would be consistent with the mid-point between the 2010-19 and 2021-23 averages, while the increase of

[8] 200/600 percent of quota. Baseline estimates have been developed by maintaining these limits. The proposed lending envelope, and related subsidy costs, may be able to accommodate some deviations in the limits, in relation to the anchoring role of the norm in the actual lending and costs.

[9] The elasticity of the deviation of mean access from the median access in response to changes in the distance between limits and the norm is estimated at 0.1 for concessional extended arrangements, using a sample of non-blenders over the 1988-2020 period.

access levels relative to the norm would be reflected by augmenting the resulting commitments by 10 percent for the demand attributed to non-blenders.

- **Long-term projections.** The starting point for the estimate is average access in line with the norm for ECF/SCF arrangements, adjusted for the greater distance between access levels and the norm, and for the large nominal programs observed since 2021. These adjustments bring average access under a three-year ECF close to 190 percent of quota instead of 145 percent of quota. More than two-thirds of this increase reflects the assumption on large nominal programs, with the rest being due to the wider distance between norm and access limits. Program likelihood would fall between what is assumed for the low and high demand scenarios, respectively. This would cover temporary but not sustained periods of high demand as well as an increase in the number of EF requests compared with the pre-pandemic decade.

- **Sensitivity of long-term lending envelope estimates.** Long-term lending projections are sensitive to the assumption to avoid access erosion in real terms, the impact from the greater distance between the norm and access limits, the adjustment for large nominal programs, and graduation assumptions (Annex III. Table 2). Modifying any of these assumptions adds or subtracts broadly SDR 0.3 billion to estimated long-term demand, consistent with a demand range of SDR 2.5 and 3.0 billion.

Annex III. Table 2. Sensitivity of Long-Term Demand Projections

(Central Scenario; in SDR billion)

	Lending Envelope	Difference
Baseline long-term demand	2.73	
Assumption		
Access growth to start in 2026 instead of 2028	3.03	0.30
Access growth to start in 2030 instead of 2028	2.52	-0.21
No effect from higher distance norm/access limits	2.54	-0.19
No ajustment for large nominal access cases	2.43	-0.30
No countries graduate over next decade	2.88	0.15
No SCFs will be precautionary	2.91	0.18

Source: IMF staff estimates.

Annex IV. The Role of Access Norms – History and Economic Implications

This annex explains the role and evolution of access norms in PRGT lending. It highlights the critical role that the norm has had in guiding the level of access under arrangements. In practice, a strong correlation can be observed between the norm and the median size of programs over time. However, compared to the median, average program access has displayed more volatility around the norm, especially during major global shocks. Reaffirming the anchoring role of the norm is critical to guide access decisions and help contain concessional lending to the self-sustained lending envelope of PRGT.

The Role of Access Norms in Fund's Concessional Lending

1. **Access norms have emerged as a distinctive feature of the Fund's concessional facilities, reflecting the necessity to use scarce concessional resources efficiently.** Norms play a critical role in guiding access decisions, particularly in the context of protracted BoP problems, which are common in LICs, and where it can be difficult to accurately assess the size of short- to medium-term BoP needs and calibrate program access accordingly. However, norms are neither ceilings nor floors, and should not be viewed as entitlements. Actual access has always and should continue to be determined on a case-by-case basis.[1] Other policies also govern access levels (Annex IV. Box 1). This nuanced approach allows tailoring support to members' unique economic circumstances, while preserving an efficient use of PRGT's scarce resources.

Annex IV. Box 1. Access Limits and Caps as Safeguards for the PRGT Resources

In addition to norms, access limits and caps safeguard PRGT resources by framing access decisions.

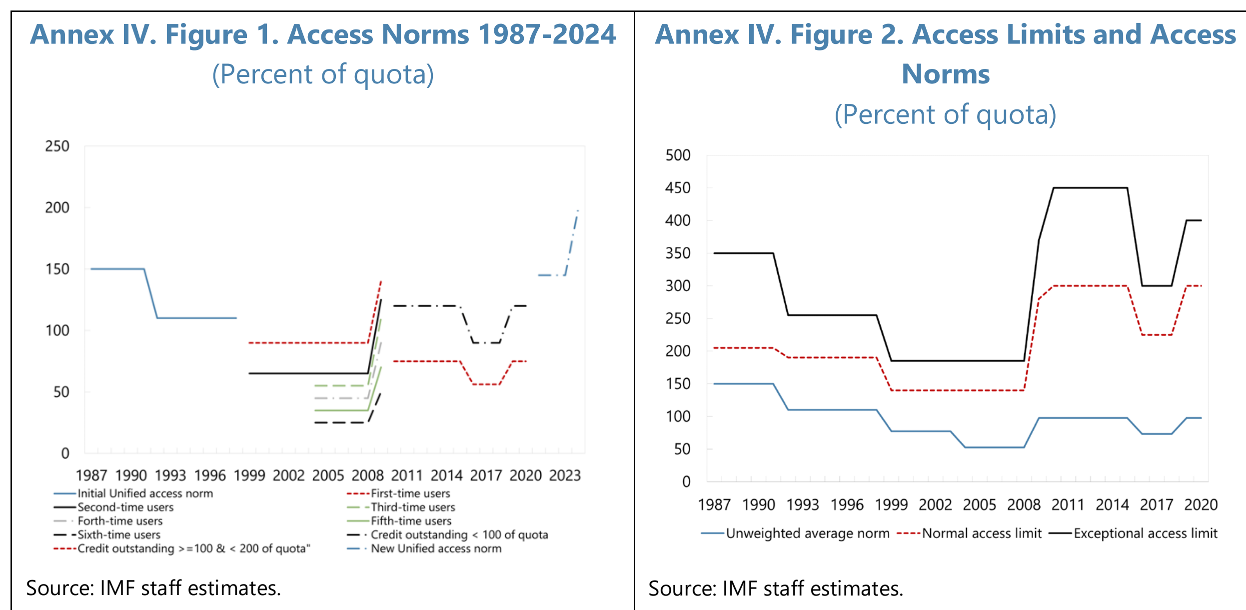
- *Normal access limits* (annual and cumulative) serve as a key pillar of the safeguards framework by triggering the application of higher scrutiny and policy requirements under the EA framework for eligible countries, and limit access to the others.

- *Access caps* provide further constraints on the use of PRGT resources. In 2021, hard caps were abolished for the poorest LICs (those eligible for EA framework, currently 31 out of the 69 PRGT-eligible countries) but maintained for the others. Hard caps (at normal access limits) apply to all countries that meet the income criterion for presumed blending when a new financing request (including augmentation/rephasing) is made. Presumed blenders are also constrained by a per-arrangement cap aligned with the access norm.

2. **The history of access norms illustrates the evolving tension between addressing LICs' BoP problems and ensuring the sustainability of the Fund's concessional financing.** Since their introduction in 1987 under the ESAF, access norms have undergone at least 10 adjustments to reflect shifts in global economic conditions, the evolving architecture of Fund concessional financing, and outcomes of successive General Reviews of Quotas. Key milestones included the initial setting of norms in percent of countries' quotas, subsequent adjustments to counteract erosion relative to GDP

[1] Access is determined case-by-case based on i) the member's BoP need, ii) the strength of the program and the member's capacity to repay, and iii) the member's outstanding Fund credit and record of past use.

and trade indicators, introduction of a tiered norm structure,[2] and changes in response to exceptional global challenges. In 2021, a unified norm of 145 percent of quota was introduced for three-year arrangements under the ECF and eighteen-month arrangements under the SCF. A temporary increase to 200 percent of quota was approved in December 2023, as part of the temporary increase in PRGT access limits, to bolster the Fund's support to LICs in response to the extraordinarily challenging economic environment (see Annex IV. Figures 1 and 2, Annex IV. Table 1).



Annex IV. Figure 1. Access Norms 1987-2024
(Percent of quota)

Source: IMF staff estimates.

Annex IV. Figure 2. Access Limits and Access Norms
(Percent of quota)

Source: IMF staff estimates.

Annex IV. Table 1. Evolution of Norms for PRGT UCT Facilities

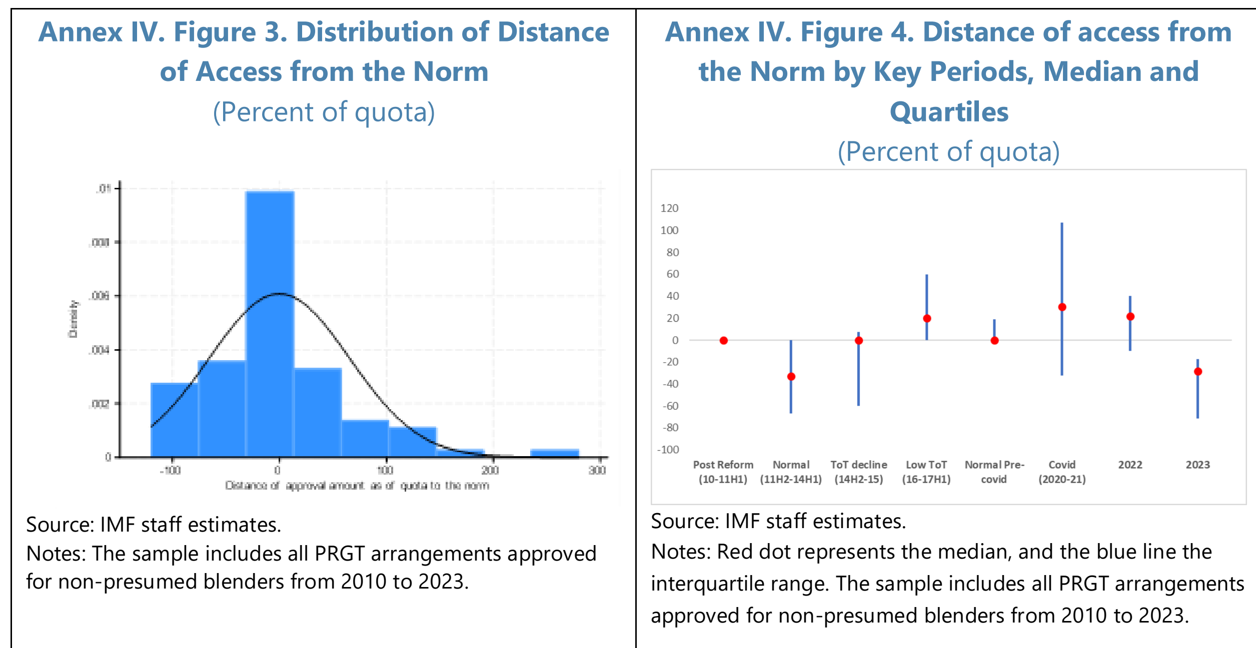
		Thresholds (% quota)		**3-year ECF = 18-months SCF Norm** (% quota), if outstanding concessional credit:		
Start date	**End date**	**Threshold 1**	**Threshold 2**	**Below Threshold 1**	**At Threshold 1 or above and below Threshold 2**	**Above Threshold 2**
July 24, 2009	July 1, 2015	100	200	120	75	n.a.
July 2, 2015	January 25, 2016	150	300	180	112.5	n.a.
January 26, 2016	May 24, 2019	75	150	90	56.25	n.a.
May 25, 2019	July 14, 2021	100	200	120	75	n.a.
July 15, 2021	December 7, 2023	-	-	145	145	145
December 8, 2023	Current	-	-	200	200	200

Source: IMF staff estimates.

[2] In 1999, a tiered system of norms was introduced for the first- and second-time users with lower access norms for successive arrangements. In 2004, PRGF access norm tiering was extended for third and subsequent arrangements (up to the sixth one), with further tapering of access. With the creation of the PRGT in 2009 this system was reformed to reduce operational complexity, with only two tiers of norms, based on the credit outstanding (Annex III. Table 1).

Norms Anchored Median Access Over Time, but Large Programs Recently Led to an Upward Drift of Average Program Size

3. Access norms served as a strong anchor for the median size of PRGT arrangements, albeit with considerable variance along the economic cycle. During 2010-23, median program access across all PRGT arrangements approved for non-presumed blenders was equal to the norm (see Annex IV. Figure 3).[3] However, there was considerable variance in country-specific access levels around the norm, with both the median and average program access deviating from the norm along the economic cycle. This was particularly the case for ECF arrangements, where median and average program access was above the norm in 2017 after a sharp decline in commodity prices, and even more so during the recent crisis periods of the COVID-19 pandemic and the war in Ukraine, when oil and food prices surged (see Annex IV. Figure 4). By contrast, median program access remained at or below the norm in calmer episodes.[4]



Annex IV. Figure 3. Distribution of Distance of Access from the Norm
(Percent of quota)

Source: IMF staff estimates.
Notes: The sample includes all PRGT arrangements approved for non-presumed blenders from 2010 to 2023.

Annex IV. Figure 4. Distance of access from the Norm by Key Periods, Median and Quartiles
(Percent of quota)

Source: IMF staff estimates.
Notes: Red dot represents the median, and the blue line the interquartile range. The sample includes all PRGT arrangements approved for non-presumed blenders from 2010 to 2023.

[3] The calculation of the variable of interest, i.e. the distance between the requested size of arrangement and the applicable norm, takes into account policies specifying norms for 36-month ECF and 18-month SCF, and adjusts the applicable norm to reflect the actual length of arrangement at approval. Augmentations and extensions of programs are excluded to preserve comparability across arrangements at the time of program approval. Tiering of the norm in place until mid-2021, was explicitly taken into account. The sample excludes 6 arrangements that fell in the highest tier based on the outstanding Fund credit, for which the norm was undefined in the policy and access was guided by case-specific considerations only, including exceptional access limits, strength of the program, expectations of future need for Fund support, and the repayment schedule. The sample includes the PRGT portion of two blended arrangements requested by non-presumed blenders (Ethiopia's 2019 ECF-EFF and Somalia's 2020 ECF-EFF).

[4] The analysis excludes presumed blenders as the norm played a different role for these countries since 2013, setting a cap on the PRGT portion in blended arrangements. Including presumed blenders would lead to lower medians and averages than what is presented in this annex.

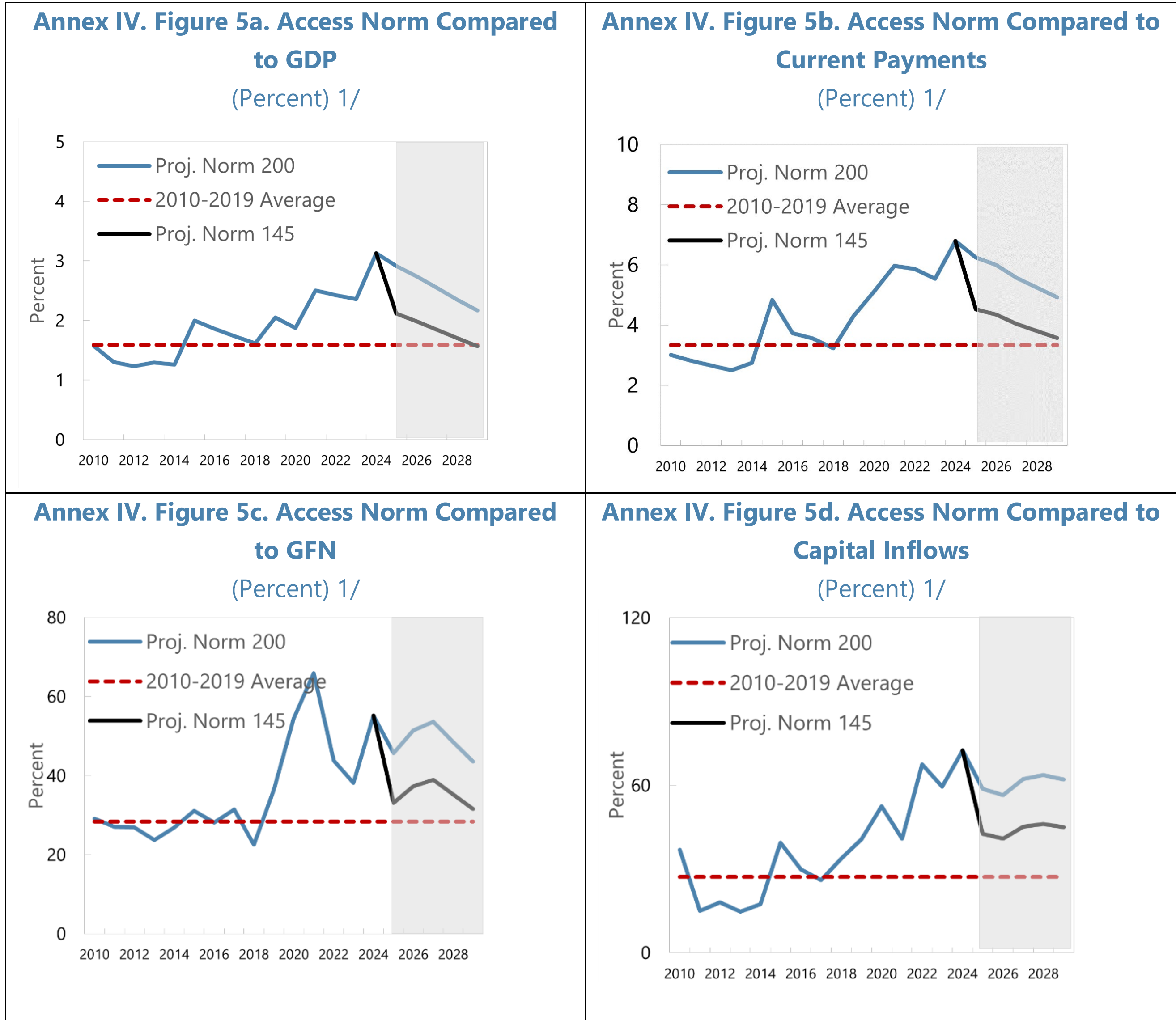
4. In recent years, a few above-norm programs for countries with large quotas have led to sizable deviations from the norm and significantly weighed on PRGT finances. In 2019 and since the Covid-19 pandemic, a few countries with quotas exceeding SDR 300 million requested UCT-quality programs with access surpassing the norm by over 100 percent of their respective quotas. This has led to additional PRGT commitments totaling SDR 5.4 billion above what would have resulted from access at the norm. These cases were justified by the specific BOP needs of the countries involved (since the norm is only a guide), while remaining in normal access territory. They, however, underline the importance of reaffirming the role of the norm to anchor program access in standard cases. They also motivate staff's suggestion to incorporate, as part of the estimate of future demand for PRGT financing, a buffer to account for cases that require support above the norm, especially for countries with large quota size (see Annex III on demand estimate).

Reaffirming the Role of Access Norm, and Reverting it to 145 Percent of Quota

5. Access norms have provided an efficient guide for PRGT access over the years, while necessitating regular adjustments to account for access erosion and major economic crises. Access norms, along with access limits and caps, have been adjusted periodically to address erosion relative to the established metrics of demand such as GDP, trade, and external financing needs. Adjustments also occurred in response to higher financing needs arising from adverse global economic developments. These periodic recalibrations ensured that access limits, norms and caps remained aligned with the evolving economic landscape. At the same time, they helped to maintain the anchoring role of the norm.

6. Reverting the access norm for 3-year ECFs and 18-month SCFs to 145 percent of quota would keep the norm scaled to economic variables at a level larger than before the pandemic.[5] Changes in access limits and norms since 2020 have led to an increase in the ratio between the norm and relevant metrics of demand above their 2010-19 averages (Annex IV. Figures 5a-5d). This upward move was important to accommodate the increased needs of PRGT countries during the recent period of extraordinary shocks. As the effects of these shocks dissipate and countries adjust, a return of the norm to 145 percent of quota would imply more conservative ratios that better align future lending with the PRGT's supply side constraints, while still accommodating a lending envelope consistent with a more shock-prone world and larger on average than in the decade before the Covid-19 pandemic.

[5] The ratios are calculated by dividing the unweighted average access norm applied to the median quota of the sample of the PRGT-eligible countries by the median value of the respective economic indicator of the same sample.



Annex IV. Figure 5a. Access Norm Compared to GDP
(Percent) 1/

Annex IV. Figure 5b. Access Norm Compared to Current Payments
(Percent) 1/

Annex IV. Figure 5c. Access Norm Compared to GFN
(Percent) 1/

Annex IV. Figure 5d. Access Norm Compared to Capital Inflows
(Percent) 1/

Sources: WEO April 2024 and IMF staff estimates.
1/ The ratio is calculated by dividing the unweighted average access norm applied to the median quota of the sample of the PRGT-eligible countries by the median value of the respective economic indicator of the same sample.

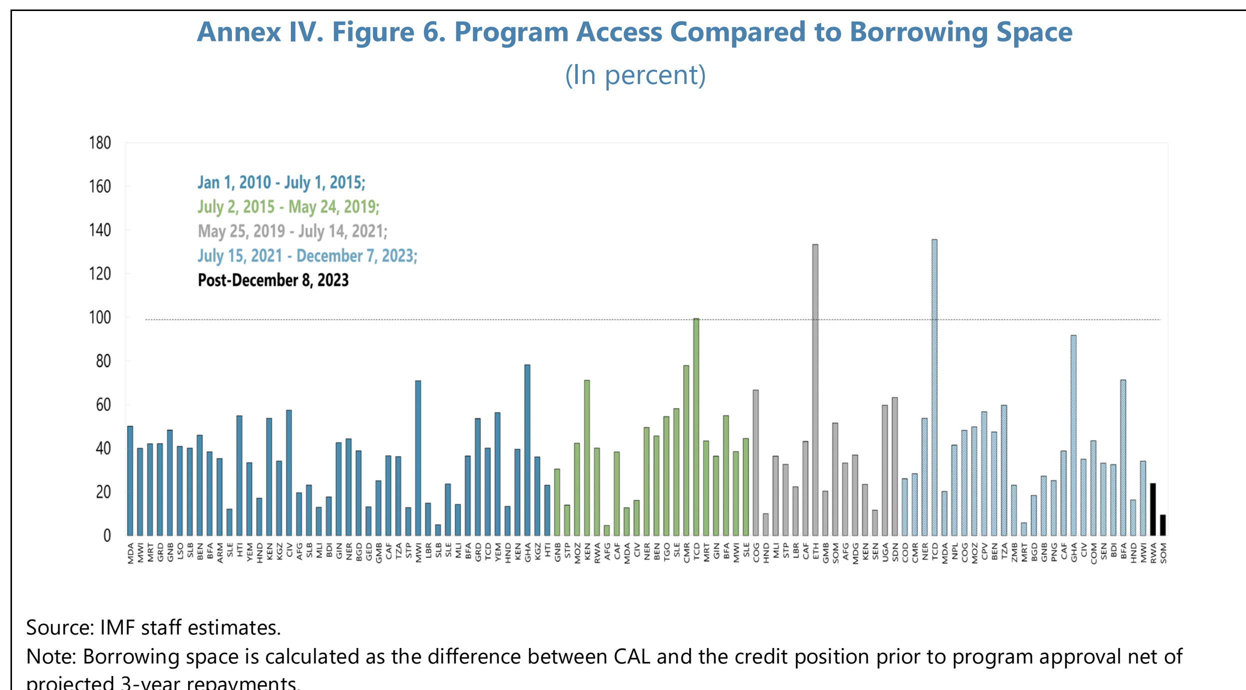
Flexibility in Individual Cases while Anchoring Access

7. **While access limits, caps and norms have generally moved in tandem, the distance between the norm and the CAL has increased over time, supporting flexibility in determining access.** In 1987, when the norm was introduced, the ratio between the norm and CAL was set at 3/4, offering limited room to support countries with needs above the norm. Over time, the distance between the norm and the CAL widened and the ratio stabilized at 1/3 since the establishment of the PRGT in 2009. Greater room between the norm and CAL allows more flexibility to support countries with higher needs, while anchoring the median program access at a level consistent with PRGT resources.

8. The wider distance between the norm and normal access limits under staff's proposal is explicitly taken into account in staff's demand estimates. Reducing the norm to 145 percent of quota, while maintaining the PRGT access limits at 200/600 percent of quota, is expected to slightly increase the average size of PRGT-funded programs for non-presumed blenders compared to a scenario where the norm and the annual and cumulative access limits return to 145/435 percent of quota and the distance between them remains unchanged.[6] This is consistent with historical experience: when norm and access limits moved in tandem, program access increased with the norms, but additional borrowing space created by increases in access limits remained only partially used, confirming that the norm rather than the limits plays a crucial anchoring role for access. Indeed, average program size remained below 50 percent of the available borrowing space in various periods (Annex IV. Figure 6) and only a handful of PRGT countries reached CALs.

Annex IV. Figure 6. Program Access Compared to Borrowing Space

(In percent)



Source: IMF staff estimates.

Note: Borrowing space is calculated as the difference between CAL and the credit position prior to program approval net of projected 3-year repayments.

[6] The elasticity of the deviation of mean access from the median access in response to changes in the distance between limits and the norm, is estimated at 0.1 for concessional arrangements, using a sample of non-blenders over the 1988-2020 period.

Annex V. Blending Policy

This annex presents how the blending policy works and staff's assessment that it has been effective in targeting the Fund's limited resources to the poorest countries, and thus remains adequate.

Background and Definitions

1. The IMF has long used blending rules and access caps to optimize the use of PRGT's scarce resources, including by prioritizing the poorest LICs. Prior to the 2009 reforms, blending GRA and concessional resources aimed to preserve scarce concessional resources for countries with limited access to non-concessional financing or where only concessional support was appropriate. Simultaneously, blending signaled progress for countries transitioning towards emerging market status. The 2009 reforms encouraged more systematic blending for higher-income LICs including those with market access, which became more numerous with the advent of the frontier markets class of LICs attracting investor interest. The 2015 review modified the standard blending ratio of PRGT to GRA funds from 1:1 to 1:2 to partly offset a 50 percent increase in access levels and to reflect the increased access to market funding by presumed blenders. Until 2021, all PRGT-eligible countries were subject to hard caps for their borrowing under the PRGT, with the poorest LICs eligible for PRGT exceptional access, beyond normal access limits but still with a cap. The combination of blending rules and differentiated caps ensured the targeting of PRGT resources towards the poorest.

2. In 2021, blending rules and access caps underwent significant refinements to prioritize further access to concessional resources. Blending rules were made more robust and less complex. Adjustments to the income threshold and market access threshold were introduced to avoid countries flipping back and forth too frequently between blend and non-blend status (Annex V. Box 1). In addition, access caps were removed for the poorest LICs—roughly half of PRGT-eligible countries—allowing these countries to receive financing fully from the PRGT, including beyond normal access limits, as long as they fullfil the PRGT exceptional access criteria. Meanwhile, the higher-income PRGT-eligible nonpresumed blenders remain subject to caps (equal to the normal annual and cumulative access limits), with presumed blenders facing an additional per-arrangement cap, set at the unified norm.[1]

[1] For presumed blenders, the AAL could also become binding given the 1:2 ratio and 3-year arrangement (i.e, PRGT access equivalent to one year of three-year evenly phased arrangement), depending on the respective levels of the norm and AAL in terms of quota at the time of the commitment.

Annex V. Box 1. Criteria for Presumed Blending

Under the current blending policy, which was reformed in 2021,[1] countries are presumed to blend if they (i) meet the income criterion for blending and (ii) do not have debt vulnerabilities that limit their access to international financial markets. Countries that do not meet one or both criteria are not required to blend.

A country is deemed to meet the income criterion for blending if its GNI per capita has exceeded the IDA operational cutoff by at least 5 percent for two consecutive years. Having met the income threshold, the country continues to meet it provided that income per capita does not fall below 95 percent of the IDA operational cutoff.[2] Should income per capita fall below this level, the country no longer meets the income criterion.

A country is deemed to have debt vulnerabilities that limit its access to international financial markets if it is assessed to be (i) in debt distress or (ii) at high risk of debt distress and either (a) has had limited past market access as specified under the blending policy or (b) is a small/micro state.

The blending framework hence focuses primarily on countries' per capita income, but also takes into account the impact of debt vulnerabilities on access to financial markets.

[1] See *Fund Concessional Financial Support for LICs—Responding to the Pandemic*.
[2] The IDA operational cutoff is based on GNI per capita (Atlas method) and is updated annually in July.

Staff Assessment

3. Staff assesses that the current blending policy has been effective in targeting the Fund's limited concessional resources to the poorest LICs and remains adequate.

- **Targeting PRGT resources.** As noted, current blending rules are primarily income-based to appropriately target PRGT resources to the poorest countries, while taking into account market access difficulties associated with debt vulnerabilities or small population size. For example, since July 2021, the GRA's share in the Fund's overall financial support to LICs amounted to 30 percent, representing 9 blended arrangements (totaling SDR 13.9 billion commitments, SDR 6 billion from the GRA) out of 42 total PRGT arrangements amounting to SDR 19.9 billion).

Annex V. Table 1. IMF lending to LICs July 2021-July 2024

	Number	Quota 1/, 2/	Total access (PRGT +GRA)	Access in percent of quota	PRGT	GRA
ECF-EFF	9	2,931	8,943	305	2,981	5,962
ECF	20	5,000	9,831	197	9,831	-
RCF	12	1,668	907	54	907	-
SCF	1	160	200	125	200	-
Total	**42**		**19,881**		**13,919**	**5,962**

Source: IMF data.
1/Total quotas of the beneficiary countries.
2/Amounts expressed in millions of SDR.

- **Blending criteria result in broadly stable country groupings.** Annex V. Table 2 lists countries that have adjusted their blending status since the 2021 ad-hoc PRGT review. Initially, 19 countries were categorized as presumed blenders under the revised criteria outlined in the 2021 PRGT

review paper's Annex III. Table 3. As of July 2024, there are 20 presumed blenders with three countries (Comoros, Ghana, and Lao PDR) removed from the July 2021 list as their debt risk ratings worsened, and four countries added to the list, with three (Cabo Verde, Mauritania, and the Federated States of Micronesia) due to improvement to their debt risk rating and one (Kyrgyz Republic) due to meeting the income criterion and having a moderate risk of debt distress. Tajikistan met the blending income criterion in 2024 but was exempted from blending due to its high risk of debt distress and limited access to international markets. The absence of reversal on meeting the income criterion[2] since the 2021 policy changes underscores the framework's enhanced stability (a key objective of the 2021 reform).

Annex V. Table 2. Countries Whose Blending Status has Changed Since the 2021 Review

	Size	Removed/ added from the list	Year	2021		2024	
				2020 GNI/Capita	Risk of debt distress (May 2021)	2022 GNI/Capita	Risk of debt distress (March 2024)
Comoros	Small	Removed	2021	1450	Moderate	1,610	High
Lao PDR		Removed	2022	2480	High	2,120	In debt distress
Ghana		Removed	2023	2230	High	2,340	In debt distress
Kyrgyz Republic		Added	2024	1160	Moderate	1,700	Moderate
Mauritania		Added	2022	1640	High	2,150	Moderate
Micronesia, Fed. States of	Micro	Added	2023	4070	High	4,150	Moderate
Cabo Verde	Small	Added	2022	3060	High	4,280	Moderate

Source: IMF data.

- **Blending ratio.** The current 1:2 PRGT-to-GRA blending ratio, set in 2015 to further prioritize PRGT resources and reflect increased market access among presumed blenders, was assessed appropriate in the subsequent PRGT reviews (2018-19 and 2021). Despite the current challenging market conditions, staff sees the current blending ratio as still appropriate. Increasing the PRGT share would amplify subsidy costs amid strained PRGT resources, while expanding the GRA component would potentially render the share of PRGT financing so small as to become meaningless.

[2] Staff has analyzed the evolution of GNI per capita across LICs from 2009 through 2023 and can identify only six cases where a country meeting the income criterion, later fell below the 95 percent of the IDA cutoff level. These countries are Yemen, Tajikistan, Sudan, Zambia, Lesotho, and Myanmar. Three—Yemen, Sudan, and Myanmar—of the six cases reflect large declines in income levels linked to serious internal conflict—a situation involving fundamental changes in economic circumstances that clearly warrant re-classification to lower-income status.

Annex VI. Interest Rates Under the PRGT: Evolution Over Time and Staff Proposal

This annex presents the evolution of the PRGT interest rate mechanism and staff's proposal for a tiered interest rate mechanism that relies on a floating PRGT interest rate with differentiated pricing across three groups of PRGT borrowers, consistent with the blending policy. In addition to staff's proposal, the annex also discusses two alternative mechanisms, a fixed-band structure and a floating rate system with only two tiers, which staff assesses as less desirable than the proposal.

Evolution of the PRGT Interest Rate Mechanism[1]

1. **The PRGT interest rate mechanism was adopted in 2009 as part of a new architecture for the IMF's concessional facilities.** Before this comprehensive reform, the Fund's concessional lending was traditionally extended at a uniform rate of 50 basis points (bp). The mechanism introduced in 2009 aimed at increasing the concessionality of PRGT financing; preserve the PRGT's scarce resources; avoid permanently zero interest rates; tailor financial terms to LICs' needs and capacity; and limit fluctuations in concessionality. Despite several modifications since its rollout, the mechanism continued to set interest rates based on discreet SDRi thresholds and lending facility (Annex VI. Table 1).

2. **Since the inception of the mechanism in 2009, no positive interest rate has been charged on PRGT credit.** In 2009, the Executive Board granted interest waivers on all credit outstanding during 2010-16 when LICs faced considerably unfavorable global economic environment. Between 2016 and 2023, interest rates remained at zero on the basis of the prevailing low global interest rates. In June 2023, although global interest rates were on the rise, the Board postponed the review of the mechanism for two years and kept the interest rates on all PRGT credit at zero given the difficult environment and high uncertainty facing LICs as well as the desirability of considering all policies regarding LIC facilities at once in the context of the 2024 PRGT Review.[2]

3. **While applying the current mechanism in this review would be simple and achieve some subsidy savings, it has less desirable features than staff's proposed tiered interest rate structure.** The less desirable features include: interest rates that are differentiated across lending facilities but not across borrowers; weak passthrough from the SDRi to PRGT lending rates given the wide thresholds bands and the fact that interest rates are reviewed every two years, with the level of interest rates linked to the average SDRi over the most recently observed 12 months; and the decision to set the interest rate on RCF loans permanently to zero in 2015, which further weakened the link between the PRGT's borrowing cost and its lending rates.

[1] Also see *Fund Concessional Financial Support for LICs—Responding to the Pandemic* (Annex XII).

[2] *PRGT—Review of Interest Rate Structure—Postponement*.

Annex VI. Table 1. Evolution of the Current Interest Rate Mechanism for the Fund Concessional Facilities[1]
(In percent)

A. January 2010 - July 2015 [2,3,4]			
SDR rate thresholds	ECF	RCF	SCF
SDR rate < 2	0.00	0.00	0.25
2 ≤ SDR rate ≤ 5	0.25	0.25	0.50
SDR rate > 5	0.50	0.50	0.75
B. July 2015 - December 2016 [3,4]			
SDR rate thresholds	ECF	RCF	SCF
SDR rate < 2	0.00	0.00	0.25
2 ≤ SDR rate ≤ 5	0.25	0.00	0.50
SDR rate > 5	0.50	0.00	0.75
C. December 2016 - June 2019 [5]			
SDR rate thresholds	ECF	RCF	SCF
SDR rate ≤ 0.75	0.00	0.00	0.00
0.75 < SDR rate < 2	0.00	0.00	0.25
2 ≤ SDR rate ≤ 5	0.25	0.00	0.50
SDR rate > 5	0.50	0.00	0.75
D. July 2019 - July 2023 [6,7]			
SDR rate thresholds	ECF	RCF	SCF
SDR rate < 2	0.00	0.00	0.00
2 ≤ SDR rate ≤ 5	0.25	0.00	0.25
SDR rate > 5	0.50	0.00	0.50

[1] This is based on the average SDR rate over the most recently observed 12-month period.
[2] An Interest Rate Mechanism for the Fund's Concessional Facilities was approved by the Executive Board in July 2009; it was in effect for January 7, 2010-July 2015.
[3] A temporary waiver of interest payment for PRGT-eligible members on all outstanding concessional loans was approved by the Executive Board in July 2009, became effective on January 7, 2010 and further extended in December 2011, December 2012, and December 2014 until end-December 2016, after which the mechanism would apply.
[4] The interest rate charge on RCF lending was set to zero as of July 2015.
[5] In December 2016, the IMF Executive Board approved a new Interest Rate Mechanism and set zero rates on all low-income country lending facilities through end-2018, which was subsequently extended to end-June 2019.
[6] In June 2019, the IMF Executive Board approved a modification of the Interest Rate Mechanism and set zero rates on all low-income country lending facilities through end-June 2021, which was subsequently extended to end-July 2021. The application of the mechanism in July 2021 resulted in an extension of the zero interest rate through July 2023.
[7] In June 2023, the Board postponed the biannual review of the current mechanism to end-July 2025 and kept the interest rates on all PRGT credit at zero until the completion of the 2024 PRGT Review.

A New Interest Rate Mechanism for the PRGT

Country Grouping

4. Staff proposes differentiating interest rates consistent with the blending policy. Differentiating interest rate (price approach) consistent with the existing tiered PRGT access structure (volume approach) would ensure a coherent framework focusing PRGT resources and most favorable lending terms on the poorest LICs, while supporting all PRGT-eligible countries through differentiated levels of concessionality until their eventual graduation from PRGT-eligibilty.

5. Applying the same tiering as for the blending policy would highlight the key role of per capita income for both the volume and pricing of concessional lending. The proposed mechanism would have two main groups, the lowest income group and the higher income group, with the lowest income group or Tier 1 remaining at 0 interest rate, and the higher income group or Tier 2 being charged a positive interest rate.

6. Consistent with the blending policy, the group of higher-income PRGT borrowers would be divided into two subgroups based on the robustness of their market access, which is closely linked to debt sustainability. The higher income group would be divided into two subgroups based on their ability to meet the market criterion under the blending policy, with the countries with debt vulnerabilities being charged a lower rate. Staff's proposal would be to keep an interest-free lending for the poorest LICs (Tier 1), and a differentiated positive interest rate for the higher-income LICs, at 70 percent of SDRi (Tier 2A) or 40 percent of SDRi (Tier 2B) depending on the market access criterion under the blending policy. (see Annex VI. Table 2).

Annex VI. Table 2. Application of the Blending Policy for the Tiered Interest Rate Mechanism

	Income Criterion	Market access criterion	Access to PRGT	Interest rate on new post-reform PRGT arrangements
Tier 1 (lowest income)	Do not meet	Not applicable	Uncapped, non-presumed blenders	0 percent
Tier 2 (higher income)	Meet	**Tier 2A**: Meet	Presumed blenders (1:2 PRGT:GRA) with PRGT access capped per arrangement at the norm; and at the AAL/CAL	70 percent of SDRi
		Tier 2B: Do not meet	Non-presumed blenders with PRGT access capped at the AAL/CAL	40 percent of SDRi

Operational Modalities

7. The proposed differentiated interest rates would apply only to PRGT commitments under new arrangements approved after the reform's effectiveness date of May 1, 2025. To reduce adverse and unanticipated effects on PRGT borrowers' debt sustainability in the early phases of its application, the new PRGT interest rate terms would be applied to credit under new arrangements approved after the date the new interest rate mechanism becomes effective. A country's tier at the time of program approval would determine the interest rate terms applied to all disbursements under that particular arrangement, including augmentations and extensions. Credit arising from disbursements made under existing arrangements in place at the time the new interest rate mechanism becomes effective, as well any credit that may be disbursed in the future in the

event of augmentations of access under such existing arrangements, would not be subject to the new terms.

8. PRGT interest rates under staff's proposal would be adjusted to reflect changing global financial market developments. Interest rates would be updated weekly with the SDRi (as is the case for GRA lending). These adjustments would be automatic as is the case for the weekly changes in the GRA Basic Rate of Charge. Automatic adjustments are warranted to keep the PRGT interest rates more aligned with evolving financial conditions and PRGT subsidy costs.

Subsidy Savings

9. Staff's proposal reduces overall subsidy needs. Based on the above calibration for the interest rates, and reflecting staff's baseline assumptions for future PRGT lending and the SDRi, staff's proposal could lower subsidy needs by SDR 2.3 billion, significantly more than the SDR 1.3 billion that could be generated by the application of the current mechanism (assuming the waiver on its application is lifted in July 2025).

Alternative Interest Rate Mechanisms

10. Reflecting guidance by Executive Directors, staff explored two alternatives for a new PRGT's interest rate mechanism. The parameters for each alternative, which would be applied only to PRGT credits committed after the effective date of application of the new interest rate mechanism as under staff's proposal (see also below), were calibrated to ensure affordable interest rates for the country groups defined above (Annex VI. Table 3).

- **Alternative 1: A fixed band.** This alternative would modify the PRGT's current interest rate mechanism by applying different interest rates to each tier and adjusting the SDRi bands for changing interest rates.

- **Alternative 2: A floating interest rate with less differentiation.** The PRGT interest rates would be linked to the SDRi as in staff's proposal, but the interest rate structure would be simpler, that is, Tiers 2A and 2B would be charged the same PRGT interest rate (PRGTi).

Annex VI. Table 3. Alternative PRGT Interest Rate Mechanisms
(In percent)

Staff's Proposal: A Floating Interest Rate with Differentiation Across Tiers			
	Tier 1	Tier 2A	Tier 2B
	0	0.7 * SDRi	0.4 * SDRi
Alternative 1: A Fixed Band			
SDRi Thresholds	Tier 1	Tier 2A	Tier 2B
SDRi < 0.5	0	0.50	0
0.5 ≤ SDRi < 2.5	0	1.00	0.25
2.5 ≤ SDRi < 4.5	0	3.00	0.50
SDRi ≥ 4.5	0	5.00	1.00
Alternative 2: A Floating Interest Rate with Less Differentiation Across Tiers			
	0	0.55 * SDRi	

11. While these two alternatives can also economize subsidy resources, staff's proposal strikes a better balance between differentiation and subsidy savings. These alternatives can yield subsidy savings that are comparable to those under staff's proposal (Annex VI. Table 4). However, in staff's view, they imply less favorable tradeoffs compared to staff's proposal (Annex VI. Table 5). On balance, relative to Alternative 1, a floating interest rate under staff's proposal would provide a stronger link between global interest rates and the PRGT interest rates, creating a more robust mechanism to protect PRGT subsidy resources. Relative to Alternative 2, staff's proposal would ensure better differentiation across PRGT-eligible countries, lessening the potential impact on Tier 2B's debt vulnerabilities. In addition, compared to Alternative 2, staff's proposals also ensures relatively more favorable terms to Tier 1 and Tier 2B countries compared to Tier 2A borrowers, which would be broadly analogous to the differentiation in the Resilience and Sustainability Trust (RST)—all PRGT's Tier 1 countries and most Tier 2B countries are in the RST's Group A which enjoys the most favorable RST terms, while most Tier 2A countries are in the RST's Group B which faces somewhat higher borrowing cost. Overall, staff's proposal is also operationally simple and based on an automatic, rules-based mechanism similar to the one that already serves the GRA well.

Annex VI. Table 4. Subsidy Savings under Alternative Interest Rate Mechanisms

Alternative Interest Rate Mechanisms[1]	Subsidy Savings (units as indicated) [2]	
	SDR billion	Percent of Subsidy Needs
Central Proposal: A Floating PRGTi with More Differentiation	2.3	25
Alternative 1: A Fixed Band	2.4	26
Alternative 2: A Floating PRGTi with Less Differentiation	2.3	25
Memorandum Items:		
Application of the Current Mechanism [3]	1.3	14

Source: IMF staff estimates.
[1] Assumes an average lending envelope of the SDR 3 bn in 2025-34 and SDR 2.7 bn thereafter. It also assumes resumption of PRGT reimbursement to the GRA for asministrative expenses in FY2027.

Annex VI. Table 4. Subsidy Savings under Alternative Interest Rate Mechanisms (concluded)

[2] Subsidy needs are estimated at SDR 9.1 bn, assuming zero interest rates for all PRGT facilities. Estimates for subsidy needs are in 2025 NPV terms and would represent the needed one-time injection of new resources into the PRGT to finance the Trust in perpetuity.

[3] Assumes lending envelope of SDR 3 billion and interest rate of 25 bp applies to all ECF and SCF credit outstanding starting in 2025.

Annex VI. Table 5. Pros and Cons of Alternative Interest Rate Mechanisms

Alternative	Pros	Cons
Staff's Proposal	Differentiates across LICs. Introduces stronger link with market rates. Better aligns the PRGT's borrowing rates (interest costs) to its lending rates (interest income). Depending on updating modalities, can be made more automatic, less subject to adjustment delays. Provides higher concessionality than any other IMF lending instrument.	Exposes borrowers to some interest rate volatility.
Alternative 1	Differentiates across LICs. Shields borrowers from excessive fluctuations of interest rates. Greater predictability for Fund operations. Provides higher concessionality than any other IMF lending instrument.	Weaker pass-through from SDRi, leaving PRGT finances with greater interest rate risk. Absent an automatic, rules-based modality for periodic updates, it requires more frequent Board involvement. Not aligned with rolling updates of country tiers. To generate sufficient subsidy savings requires a relatively higher interest rate on Tier 2A, but this tier could be perceived as sharing a disproportionate burden.
Alternative 2	Similar to staff's proposal. Simpler interest rate structure than that under staff's proposal.	Exposes borrowers to some interest rate volatility. Differentiates PRGT borrowers less than staff's proposal. Potentially stronger impact on Tier 2B's debt vulnerabilities than staff's proposal and alternative 1.

Annex VII. Financial Impact of the New Interest Rate Mechanism on PRGT Countries

This annex discusses staff's analysis of the financial implications of the proposed tiered interest rates. The analysis suggests that the reform would have a limited and manageable impact on debt service costs, even under extreme scenarios. In a joint analysis with the WB, staff also estimates the combined impact of the anticipated changes in IDA and PRGT lending terms on select members' DSAs and concludes that the impact would be limited.

Impact of the Tiered Interest Rate on Grant Elements

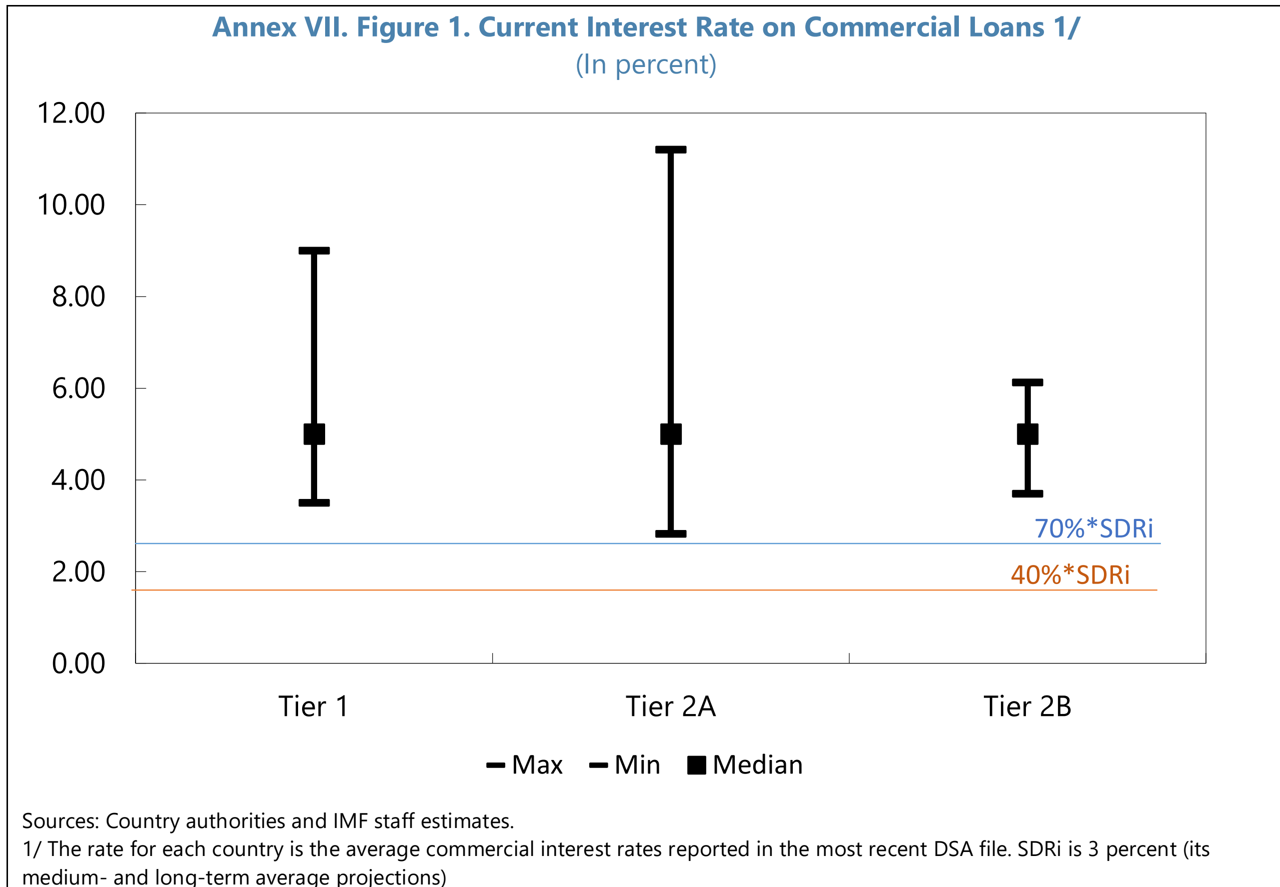
1. **The application of the proposed interest rate mechanism would preserve the concessionality of the PRGT relative to the GRA.** The proposed interest rate mechanism would prioritize support for the poorest members by setting the interest rate to zero percent for Tier 1 countries (unchanged grant element from current situation). Higher-income countries (Tier 2A and 2B countries) would experience a reduction in the grant element of their PRGT loans, with larger cuts for the more resilient Tier 2A group, but would continue to benefit from PRGT loans offering significantly more favorable terms compared to funding from the GRA and even more so from commercial lenders (Annex VII. Table 1 and Annex VII. Figure 1).

Annex VII. Table 1. Grant Elements Implication of Various Interest Rate Tiering Options

	All Tiers	**Tier 1**	**Tier 2B**	**Tier 2A**			
	PRGT	**PRGT**	**PRGT**	**PRGT**	**Blend PRGT/GRA 3/**		**GRA 4/**
PRGT interest rates coef.1/	**0**	**0**	**0.40**	**0.70**	**0**	**0.70**	
RCF							
Interest rate	*0.00*	*0.00*	*1.20*	*2.10*	*2.67*	*3.37*	*4.00*
Grant element 2/	32.18	32.18	24.59	18.92	13.12	8.70	*3.59*
ECF							
Interest rate	*0.00*	*0.00*	*1.20*	*2.10*	*2.67*	*3.37*	*4.00*
Grant element 2/	32.18	32.18	24.59	18.92	16.68	12.26	*8.93*
SCF							
Interest rate	*0.00*	*0.00*	*1.20*	*2.10*	*2.67*	*3.85*	*4.00*
Grant element 2/	26.17	26.17	20.05	15.49	11.12	4.43	*3.59*
RSF 5/		**Group A**	**Group A**		**Group B**		**Group C**
Interest rate		2.25	2.25		3.75		3.95
Grant element 2/		29.06	29.06		13.23		10.91

Source: IMF staff estimates.
1/ Coefficients to the SDRi.
2/ Discount rate at 5 percent and SDRi at 3 percent.
3/ The blend PRGT/GRA match each PRGT facility with the corresponding GRA facility with an access ratio of 1:2. It covers RCF/RFI, ECF/EFF and SCF/SBA.
4/GRA charges include 50 bps service charge and 100 bps basic margin.
5/ RST charges include for Group A countries (non-presumed blenders, Tier 1 and Tier 2B): 55 bps margin up to an interest rate cap of 2.25 percent and no service charge; Groups B countries (presume blenders, Tier 2A and non-PRGT eligible small states with GNI per capita below 10 times the IDA operational cutoff): 75 bps margin and 25 bps service charge; and Group C countries (all other RST eligible countries) : 95 bps margin with 50 bps service charge.

Annex VII. Figure 1. Current Interest Rate on Commercial Loans 1/
(In percent)



Sources: Country authorities and IMF staff estimates.
1/ The rate for each country is the average commercial interest rates reported in the most recent DSA file. SDRi is 3 percent (its medium- and long-term average projections)

Impact of the Tiered Interest Rate on Debt Service Costs

2. **The proposed reform is expected to have a limited and manageable impact on the debt service of affected countries, even under extreme scenarios.** The effective interest rate on PRGT credits—and consequently, the debt service—will increase gradually as disbursements from new commitments start to replace pre-reform credits. Even over a longer period, the impact on the debt service is expected to remain manageable according to IMF staff analysis:

- **Staff simulated the effects of the policy change on the two higher income subgroups by using a representative country for each group**, which would be typical in terms of outstanding credit to the IMF.[1] The simulation took into account extreme shock scenarios with repeated arrangements.[2] The simulations show the yearly additional debt service as a percentage of

[1] The representative country in Tier 2A and Tier 2B is the country corresponding to the median PRGT credit outstanding at end-2023 excluding countries without Fund credit for each subgroup.

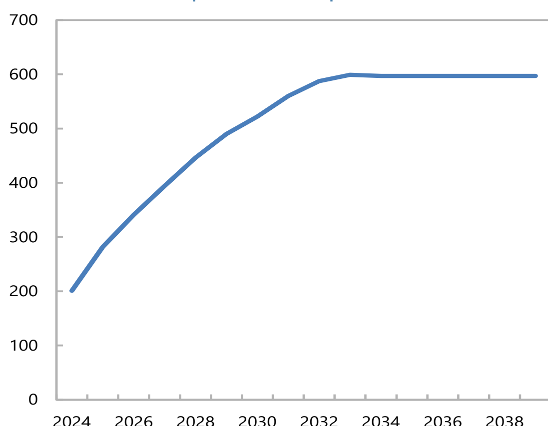
[2] For the representative Tier 2A country there is only one shock scenario with the access calibrated at 90 percent of quota for the PRGT and 180 percent of quota for the GRA in order to maintain the long-term combined GRA and PRGT credit outstanding just below the GRA CAL of 600 percent of quota. For Tier 2B there are two access scenarios: (i) access at the norm (145 percent of quota) with repeated arrangements and (ii) access at 255 percent of quota, which maintain the long-term IMF credit outstanding just below the CAL of 600 percent of quota.

government revenues for the representative Tier 2A countries would gradually increase, as new lending replaces old outstanding credit, peaking at 0.23 percent in 2033, while for the representative Tier 2B countries, the peak is slightly higher at 0.27 percent in 2032 (Annex VII. Figure 2).

Annex VII. Figure 2. Median Tier 2A and Tier 2B Countries: Impact of the Interest Rate Tiering, 2024-39

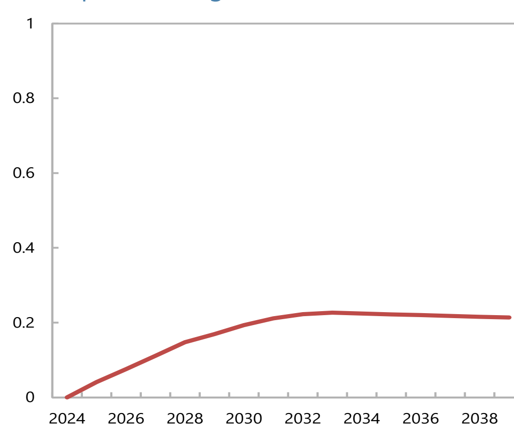
Tier 2A Median Country, Stock of IMF Credit 1/

(In percent of quota)



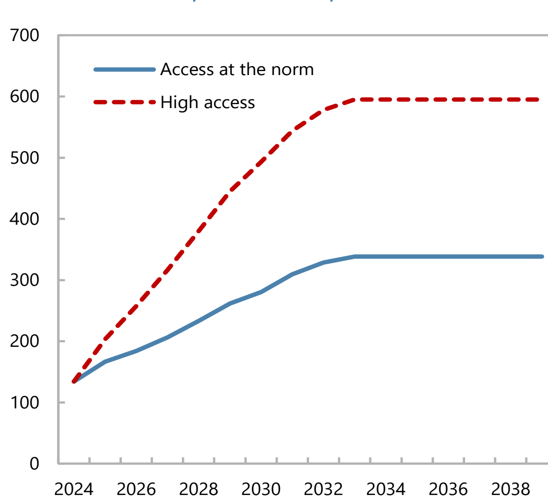
Tier 2A Median Country, Additional Debt Service to the Fund

(In percent of government revenues)



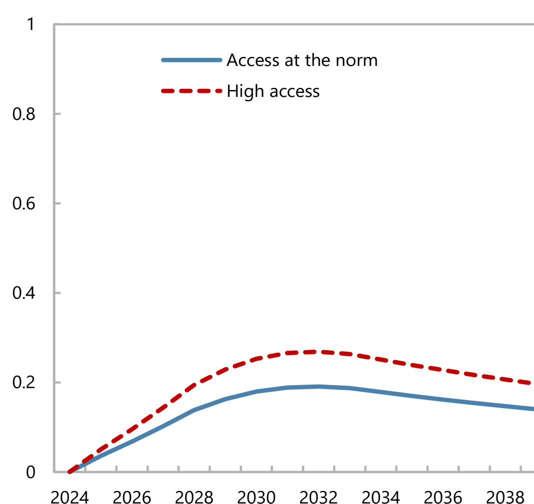
Tier 2B Median Country, Stock of IMF Credit 2/

(In percent of quota)



Tier 2B Median Country, Additional Debt Service to the Fund

(In percent of government revenues)



Source: IMF staff calculations.
1/ For Tier 2A (only one scenario) the access is calibrated at 90 percent of quota for the PRGT to bring the long term combined GRA and PRGT credit outstanding closer to the CAL without triggering PS-HCC.
2/ For Tier 2B there are two access scenarios: access at the norm (145 percent of quota) with repeated arrangements and access at 255 percent of quota, which brings the long-term IMF credit outstanding closer to the CAL of 600 percent of quota without triggering PRGT EA.

- **To further assess the resilience of these assessments against potential fluctuations in the SDRi, a larger shock**—equivalent to two standard deviations[3]—was applied to the SDRi over a three-year period from 2026 to 2029. Even under this scenario, the maximum projected impacts on debt service ratio to government revenues remains moderate, estimated at an additional debt service of about 0.29 percent of government revenues for Tier 2A and 0.39 percent for Tier 2B.

3. This analysis highlights the benefit of the proposed policy change. It demonstrates that affected countries will experience only modest increases in debt service under both standard and extreme scenarios, while enabling a larger lending envelope to address the growing needs of LICs. Complementary Fund-supported reforms, such as those focused on domestic revenue mobilization, will enhance macroeconomic stability and further mitigate the impact of these policy changes on member countries.

Combined Effect of Proposed Changes to IMF and IDA Lending Terms on Public Debt Vulnerabilities

4. The impact of the proposed PRGT and IDA policy changes[4] on LIC public debt vulnerabilities is influenced by the level of outstanding IMF credit owed by LICs and their existing debt fragilities. In terms of credit outstanding, LICs with the highest exposure to Fund credit (exceeding 10 percent of their total external debt) are predominantly Tier 1 countries, which, according to the IMF staff proposal, would not be subject to changes in PRGT lending terms (Annex VII. Figure 3). However, some of these countries could still be potentially affected by IDA policy changes. In terms of debt vulnerabilities, a country's sensitivity to PRGT and IDA lending term changes can be gauged by how close its solvency and liquidity indicators are to the four applicable external debt burden thresholds set by the Debt Sustainability Framework for LICs (LIC-DSF).[5] Specifically, countries whose indicators are nearer to these thresholds are more vulnerable to shifts in financing conditions. Moreover, exceeding these thresholds within the relevant projection horizon could trigger a mechanical signal for a change in the risk or debt sustainability assessments.[6] The

[3] The standard deviation of SDRi for the period 2000 to April 2024 is estimated at 1.52 percent.

[4] The current WB staff proposal would include the following key changes: 1) limiting the provision of grants to maintain IDA's long term financial sustainability; 2) offering a choice between higher concessionality or higher volumes for some grant-recipient countries with grants being a default option for these countries; and 3) providing an option of floating-rate loans for some borrowers with limited debt sustainability concerns, with a possibility to opt for fixed-rate loans with some trade-offs in financing volume. All these changes would not apply to IDA-eligible small states.

[5] The solvency indicators are the present value (PV) of public and publicly guaranteed (PPG) external debt-to-exports and the PV of PPG external debt-to-GDP ratios, while the liquidity indicators are the PPG external debt service-to-exports and the PPG external debt service-to-revenue ratios (see Annex VII. Figure 4).

[6] The relevant time horizon is the first 10 forecast years for low- or moderate-risk countries (as a breach during this period, if sustained, suggests a mechanical signal of high risk), and between the 5th and the 10th forecast years for high-risk countries (as a sustained breach beyond the medium term can signal a change in the sustainability assessment). Countries already in debt distress are excluded from this analysis.

latest DSAs indicate that most Tier 2B countries are at high risk of debt distress—with some nearing the sustainability thresholds beyond the medium term—while several Tier 2A countries are also close to these thresholds (Annex VII. Figure 4). Therefore, stress-test scenario analysis is essential to better assess the potential debt-related impact of the proposed policy changes.

5. IMF staff analysis suggests that—even under an extreme stress-test scenario—only a few countries could breach prudent external debt thresholds with the proposed interest rate mechanism.[7] This extreme stress-test scenario assumes that countries would borrow the maximum additional amount possible under current lending policies in a single instance. Despite this increase in borrowing, most countries would still remain below the four applicable external debt burden thresholds. For each country, the analysis estimates how the solvency and liquidity indicators would rise as a result of borrowing the maximum amount under the proposed lending terms. These heightened indicators are then assessed against the applicable thresholds to check for breaches over the relevant projection horizon, potentially triggering a mechanical signal for a worsening in risk or debt sustainability assessments.[8] The analysis shows that two Tier 2A and three Tier 2B countries could possibly breach the most binding external debt thresholds under this extreme stress-test scenario.

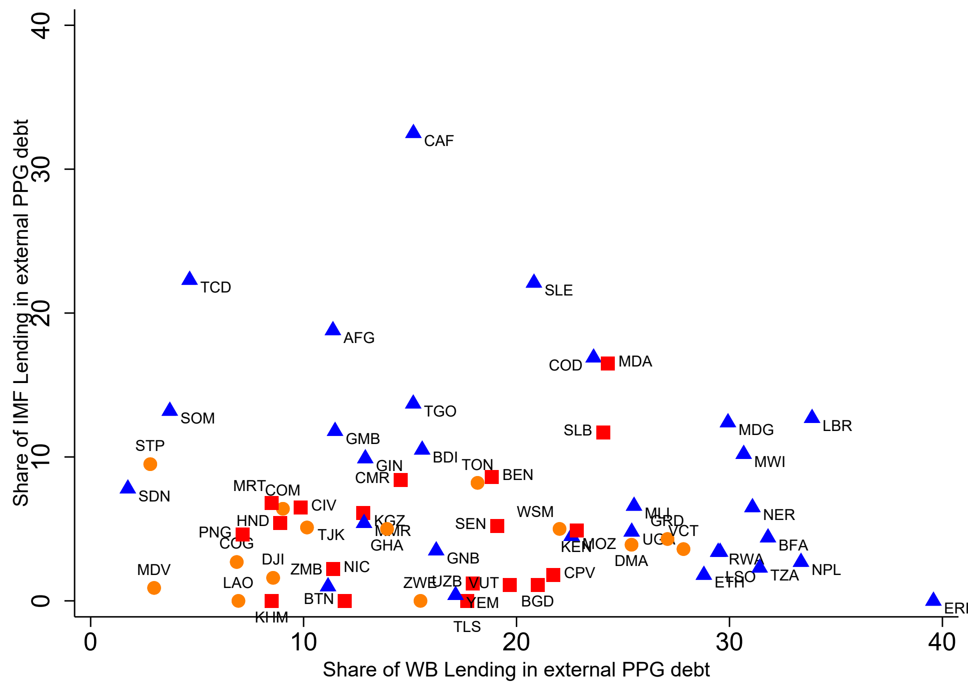
6. It is unlikely that any additional countries would risk breaching the most binding external debt burden thresholds under the proposed changes to IDA lending terms. The analysis focuses on countries that may be jointly affected by the proposed changes to PRGT and IDA lending terms. Most of these countries are in Tier 2A and have lower debt vulnerabilities than those in Tier 2B. According to proposals currently being considered for IDA, some countries may be offered floating-rate loans (instead of fixed-rate loans) with larger financing. Simulations for this scenario, particularly for countries potentially affected by both PRGT and IDA changes, show that while both solvency and liquidity indicators could deteriorate, no new breaches of external debt burden thresholds would be expected. Importantly, these risks are mitigated by the fact that borrower countries are unlikely to accept terms that worsen their debt outlook. Most of the other countries potentially affected by the IDA lending term changes are in Tier 1, which is not impacted by PRGT policy changes. It is worth noting that the details of the proposed changes to IDA lending terms are still being finalized.

[7] In the assessment, it is assumed that changes to PRGT interest rates apply only to new PRGT arrangements.

[8] It is important to note that this assessment reflects the raw risk signal, while the final risk rating also incorporates judgment and discounts one-off breaches for countries at low or moderate risk. Furthermore, breaches beyond the medium term may not necessarily trigger a change in the sustainability assessment for high-risk countries. This is for example the case when the rating is not based on breaches of sustainability thresholds in the first four forecast years, but rather brought by judgment reflecting other long-term considerations.

Annex VII. Figure 3. Shares of IMF and WB Borrowing in Total External Public and Publicly Guaranteed Debt

(Percent)



Source: IMF staff estimates based on WB IDS database.

Notes: Country groups:

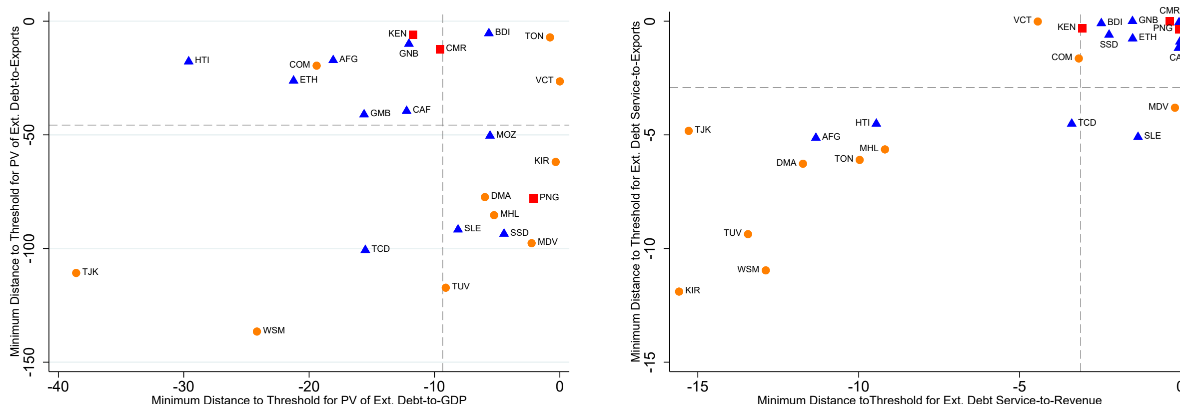
▲ **Tier 1**-PRGT-eligible members with the lowest incomes that do not qualify for blending PRGT and GRA resources;

■ **Tier 2A**-Higher-income PRGT-eligible members without significant debt vulnerabilities, which do not restrict their access to international financial markets, and are therefore considered presumed blenders;

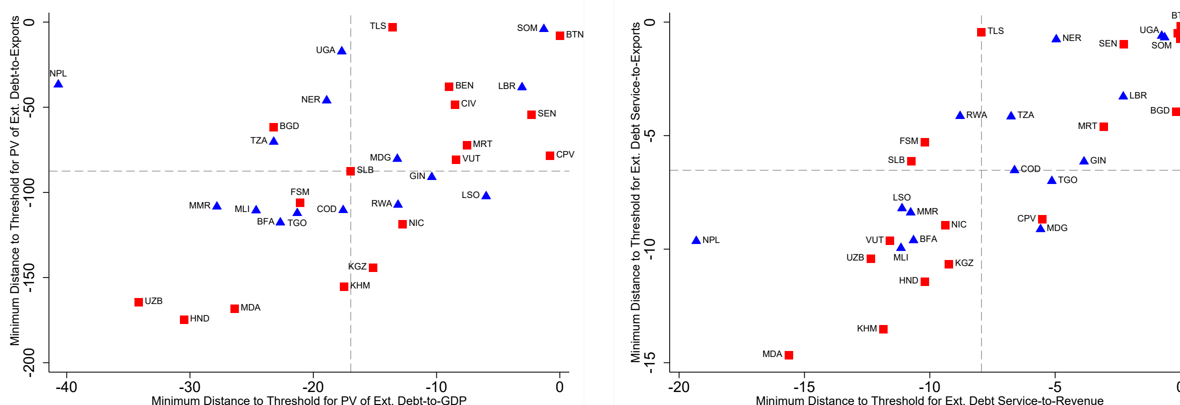
● **Tier 2B**-Higher-income PRGT-eligible members that meet the income criterion but are classified as non-presumed blenders due to debt vulnerabilities that limit their access to international financial markets.

Annex VII. Figure 4. Risk of External Debt Distress and Countries' Tiers in PRGT Borrowing

Countries at High Risk of External Debt Distress



Countries at Low and Moderate Risk of External Debt Distress



Source: IMF staff analysis of the latest LIC-DSF country analyses.

Notes: Shown are the unstressed minimum absolute distances (from below) to the applicable two solvency (left-hand side) and two liquidity (right-hand side) external debt thresholds, based on current PRGT lending terms and countries' exposure. Countries closer to the sustainability thresholds are more vulnerable to shifts in financing conditions. If a country's debt burden indicator increases by more than the minimum distance to the corresponding threshold, it can trigger a mechanical signal for a change in its risk or debt sustainability assessment. Countries already in debt distress are excluded from this analysis.

Country groups:
▲ **Tier 1**-PRGT-eligible members with the lowest incomes that do not qualify for blending PRGT and GRA resources;
■ **Tier 2A**- Higher-income PRGT-eligible members without significant debt vulnerabilities, which do not restrict their access to international financial markets, and are therefore considered presumed blenders;
● **Tier 2B**- Higher-income PRGT-eligible members that meet the income criterion but are classified as non-presumed blenders due to debt vulnerabilities that limit their access to international financial markets.

Annex VIII. Strengthening and Streamlining PRGT Safeguards

This annex takes stock of the evolution of the PRGT safeguards framework and presents staff's proposal.

Background

1. **The PRGT relies on several safeguards to preserve scarce concessional resources and mitigate credit risks to the Fund (Annex VIII. Table 1).** Exceptional Access was introduced prior to the overhaul of the concessional lending framework in 2009,[1] with the aim of safeguarding Fund resources. The HAP safeguards were introduced in 2009, initially limited to requiring a debt sustainability analysis (DSA) and an informal board meeting when the projected access level meets a threshold within a given period (flow trigger).

2. **PRGT safeguards have been expanded and adjusted over the years as the Fund increased its financial support to LICs.** The 2019 PRGT Review introduced, as part of the HAP, a stock trigger for high exposure to the PRGT and strengthened the information requirements for informal Board meetings to further enhance scrutiny of debt sustainability and capacity to repay.[2] In 2020, the PS-HCC were introduced to cover the situation of high combined access to GRA and PRGT resources. Finally, as high demand for Fund financing led to increases in access limits following the COVID-19 pandemic, the Enhanced Safeguards for Debt Sustainability and Capacity to Repay (ES) were introduced in March 2021 to address heightened concerns over debt vulnerability and capacity to repay associated with higher access compared with the pre-pandemic period.[3]

3. **The strengthening of the PRGT safeguards over time, and the elevated debt vulnerabilities in LICs, have led to an increasing activation of safeguards.** Since 2015, 11 country requests, out of which 9 translated into a PRGT arrangement,[4] have led to the use of the HAP. Following their introduction in March 2021, the ES were triggered for 19 arrangements, out of which 14 were linked to the debt risk rating criterion (Annex VIII. Table 2). This reflects the elevated debt challenges in LICs, with 54 percent of LICs at high risk of, or in debt distress at the end of 2023. Four countries met the ES flow trigger but not the HAP flow trigger since March 2021.[5]

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[1] Prior to 2009, the PRGF had a provision for access in exceptional circumstances but did not define the nature of those circumstances. EA was granted only in the context of arrears clearance to Liberia and Zambia.

[2] These included mandatory DSA charts (optional previously), a preliminary assessment of the member's risk of debt distress, a discussion of any deficiencies in the quality/transparency of public debt data, and an assessment of capacity to repay the Fund with an updated capacityo repay table.

[3] See *Temporary Extensions and Modifications Of Access Limits In The Fund's Lending Facilities*. The ES were further elaborated and endorsed by the Board in July 2021. See *Fund Concessional Financial Support For LICs—Responding To The Pandemic*.

[4] The last two country requests translated into an actual program after a delay during which the HAP triggers were increased and no longer applied at program approval.

[5] By contrast, there have been only a handful of PRGT EA cases (Ethiopia (2019), Somalia (2020), and Chad (2021)) and one PS-HCC case, Ghana (2023).

Annex VIII. Table 1. Current PRGT Safeguards

	Triggers	Requirements
HAP	Flow trigger: Access above 240 percent of quota in any 36-month period Stock trigger: Credit outstanding above 300 of quota at any point during the arrangement *A DSA update is required for access above 80 percent of quota in any 24-month period*	Early engagement with the Board through an informal Board meeting once Management agrees that the request, augmentation, or rephasing associated with the access could be appropriate (see Annex VII table 5 for the details of the information requirement for the informal Board meeting).
EA 1/ 2/	Access above the PRGT Access limits (200/600 until end-2024)	
PS-HCC 2/	Combined GRA and PRGT access above the GRA access limits (200/600 until end-2024)	
ES 3/	Trigger 1: PRGT request or augmentation with access above 100 percent of quota annually or 300 percent of quota cumulatively. Trigger 2: PRGT request or augmentation by a country at high risk of, or in, overall debt distress.	To be implemented in Staff Reports at program approval or augmentation requests that trigger the safeguards. Trigger 1 met: • A granular discussion of the composition and evolution of debt (ES1A) • An enhanced CtR analysis informed by cross-country comparisons of metrics of Fund exposure (ES1B) Trigger 2 met: • Discussion of the explicit program objectives to reduce debt vulnerabilities (ES2)

1/ Only countries that do not meet the income criterion for blending at the time when a new financing request (including augmentation/rephasing) are eligible for PRGT EA.

2/ For EA criteria see paragraph 16 of the 2023 Handbook of IMF Facilities in Low Income Countries. For the PS-HCC criteria and procedural requirements see Box 2a and Box 2b of the 2023 Handbook of IMF Facilities in Low Income Countries.

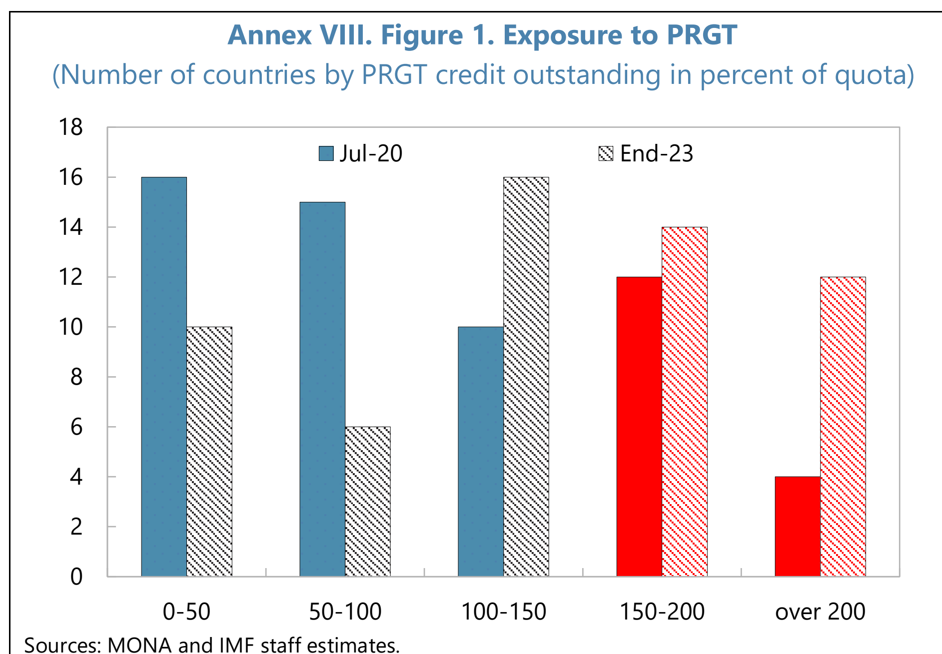
3/ See Box 3 of the 2023 Handbook of IMF Facilities in Low Income Countries and the 2022 Guidance Note on the Enhanced Safeguards for debt Sustainability and Capacity to Repay.

Annex VIII. Table 2. Countries with Programs that have Triggered the Safeguards from March 2021 to March 2024 1/

		ES	ES	ES	HAP	HAP	EA	PS-HCC
Country	Approval date	High/In debt distress	Above 100% of quota annually	Above 300% of quota cumulatively	PRGT Access Above 240% of quota over 36 months	PRGT Credit Outstanding Above 300% of quota		
Madagascar	Mar-21							
Kenya	Apr-21	Y						
Senegal	Jun-21							
Uganda	Jun-21							
Sudan	Jun-21	Y	Y		Y			
Cote d'Ivoire	Jul-21							
Cabo Verde	Jul-21		Y					
Niger	Dec-21			Y		Y		
Chad	Dec-21	Y	Y	Y	Y	Y	Y	
Moldova	Dec-21							
Nepal	Jan-22							
Congo, Republic Democratic of	Jan-22							
Mozambique	May-22	Y						
Cameroon	Jun-22	Y						
Benin	Jul-22							Y
Tanzania	Jul-22		Y					
Zambia	Aug-22	Y						
Mauritania	Jan-23							
Bangladesh	Jan-23							
Guinea Bissau	Jan-23	Y						
Papua New Guinea	Mar-23	Y						
Central African Republic	Apr-23	Y						
Ghana	May-23	Y	Y	Y	Y	Y		
Congo, Republic of	May-23	Y	Y					
Comoros	Jun-23	Y						
Senegal	Jun-23							
Burundi	Jul-23							
Burkina Faso	Sep-23			Y		Y		
Honduras	Sep-23							
Malawi	Nov-23	Y						
Rwanda	Dec-23		Y					
Somalia	Dec-23							
Gambia	Jan-24	Y						
Togo	Mar-24	Y						
		15	7	4	3	4	1	1

1/ Of the 34 arrangements approved between March 2021 and March 2024, 13 (shaded) did not activate the safeguard measures.

4. **Robust and efficient risk management will be essential in the period ahead.** With PRGT credit outstanding already high (Annex VIII. Figure 1) and debt vulnerabilities elevated in many LICs, the proposed lending envelope will entail large risks for the Fund. At the same time, the existing safeguards framework has become quite complex with multiple and overlapping triggers. This puts a premium on making the framework more nimble and better equipped to mitigate risks effectively without overburdening the Fund's policy framework.



Staff Proposals

5. Staff proposes to keep the EA framework unchanged but to introduce a single coherent framework for high access—the "Strengthened Policy Safeguards (SPS)". This would be achieved by consolidating the current HAP and ES.[6] The new SPS framework, which is divided into three categories SPS1, SPS2 and SPS3 (see Annex VIII. Table 3), would preserve the respective objectives of the two existing sets of safeguards (the HAP and the ES), while enhancing their operational efficiency by harmonizing and streamlining the triggers. Specifically, staff proposes:

- **Linking the flow triggers of the new SPS to the PRGT access norm and simplifying their calculation.** The flow triggers would be applied on a per-arrangement basis and specified as a multiple of the norm so that they can adjust automatically with the norm. This change would support the anchoring role of the norm. Specifically, access above 125 percent of the norm would trigger the requirement of a granular discussion of a country's debt composition and evolution (ES1A) and an enhanced analysis of the capacity to repay the Fund (ES1B); and access above 150 percent of the norm would necessitate an informal Board meeting. All ES requirements would continue to apply for countries at high risk of or in debt distress. These revised flow triggers would be activated at lower levels of access than is currently the case under the HAP and ES,[7] consistent with the need to step up the scrutiny of increased risks to the

[6] It should be noted that the IEO is currently advancing its evaluation of the EA policy (i.e., the PRGT EA and the GRA EA, and which will also include the PS-HCC). Finalization of the evaluation is expected for end-2024.

[7] For all ECF cases, representing 88 percent of the PRGT programs since 2010, the flow triggers will activate at lower program access levels than in the current policy. However, for the SCF, the flow triggers will activate at slightly higher access levels than in the current policy as countries using SCF are subject to stronger requirements to restore macroeconomic stability.

borrowers and the Fund. The stock trigger for the new safeguard would remain unchanged from the current trigger of 300 percent of quota.[8]

- **Strengthening Executive Board oversight.** The new SPS would require the inclusion of granular analysis of a country's debt composition and evolution (ES1A) and enhanced capacity to repay analysis (ES1B) in the informational requirements underpinning informal Board discussions when reaching the threshold of 150 percent of the norm. The same requirements would be triggered by the unchanged 300 percent of quota stock trigger. The information requirements would also be harmonized with those required when the PS-HCC applies (Annex VIII. Table 6).

Annex VIII. Table 3. Proposed Changes in the Safeguards Framework 1/

Safeguards	Current Framework		
	Requirement	Triggers (in percent of quota) 1/	
ES1A	Granular discussion of the composition and evolution of debt	Flow (annual PRGT access)	100
		Stock (credit outstanding)	300
		Debt risk ratings	High/in distress
ES1B	Enhanced CtR analysis informed by cross-country comparisons of metrics of Fund exposure	Flow (annual PRGT access)	100
		Stock (credit outstanding)	300
		Debt risk ratings	High/in distress
ES2	Explicit program objective to reduce debt vulnerabilities	Debt risk ratings	High/in distress
HAP	Informal Board meeting	Flow (PRGT access during 36-month	240
	(ES1A & ES1B not included in the informational requirement)	Stock (credit outstanding)	300
EA	Informal Board meeting	Flow (PRGT access during 12-month	200
	(ES1A & ES1B not included in the informational requirement)	Stock (credit outstanding)	600
Safeguards	Proposed Strengthened Policy Safeguards (SPS) Framework		
	Requirement	Triggers (in percent of quota unless otherwise specified) 1/	
SPS1 (ES1A and ES1B)	Granular discussion of the composition and evolution of debt; and Enhanced CtR analysis informed by cross-country comparisons of metrics of Fund exposure	Flow (access per arrangement)	125% of the norm (181)
		Stock (credit outstanding)	300
SPS2 (HAP+ES1A and ES1B)	Informal Board meeting	Flow (access per arrangement)	150% of the norm (218)
	(ES1A & ES1B included in the informational requirement)	Stock (credit outstanding)	300
SPS3 (ES1A, ES1B, ES2)	Granular discussion of the composition and evolution of debt + Enhanced CtR analysis + Explicit program objective to reduce debt vulnerabilities	Debt risk ratings	High/in distress
EA	Informal Board meeting	Flow (PRGT access during 12-month period)	200
	(ES1A & ES1B not included in the informational requirement)	Stock (credit outstanding)	600

* The norm-based flow triggers are shown assuming 3-year ECF and 18-month SCF
1/ The triggers apply when the stated percent of quota thresholds are exceeded.

6. A *de minimis* threshold for the application of the high access safeguards would be retained. That said, it would increase from 15 percent of quota per arrangement to 25 percent of quota, in light of the limited number (4, including two blenders) of PRGT programs since 2010 with access below 25 percent of quota. The *de minimis* exception does not apply to countries at high risk of, or in, debt distress. New DSAs are required for all new program requests and when there are

[8] Currently, Chad is above the stock trigger and 24 countries are less than 145 percent of quota (the norm) below the stock trigger. Based on current arrangements and active requests, staff projects that Ethiopia and Uganda would be above the stock trigger in 2030, while another 19 countries would be less than 145 percent of quota below the stock trigger.

significant changes, which would typically be the case for augmentations, so the DSA-related triggers would no longer apply.

Robustness Checks

7. The proposed flow triggers have been calibrated to strengthen the risk-based approach of the safeguards. The current flow triggers account for past disbursements that fall under the applicable period for which the triggers are determined. The proposed new triggers would complement the unchanged stock triggers with flow triggers per new arrangement (not only the flow under a certain period). SPS for ECF arrangements (representing 88 percent of the PRGT arrangements approved since 2010) would in practice be activated at lower access levels than under the current policy.[9] For SCF arrangements, the triggers would be activated at higher access levels, consistent with the stronger policy requirements associated with SCFs.

8. Applying the proposed framework on programs approved recently would have maintained a comparable level of scrutiny. All countries in debt distress or high risk of debt distress would fall under the same level of scrutiny, given that the ES and SPS3 are fully aligned. The application at program approval of the stock and flow triggers for SPS2 to all programs approved since March 2021 would have brought under Executive Board scrutiny the same countries that triggered the HAP. For SPS1, the application of the new threshold would not have captured two countries that triggered the ES flow trigger—Tanzania and Rwanda, both at moderate risk of debt distress with less than 200 percent of quota PRGT credit outstanding—but would have brought Uganda under the ES (Annex VIII. Table 4 and Annex VIII. Figure 2).

9. The proposed SPS would ensure strong, risk-based safeguards while avoiding unnecessary burdens when SPS are not needed. The new framework would streamline the process for IMF staff and the Executive Board by making it more straightforward to determine whether any of the SPS would be triggered and the specific safeguards that would be applicable to an arrangement (Annex VIII. Table 5 for examples). The PRGT EA framework would remain unchanged.

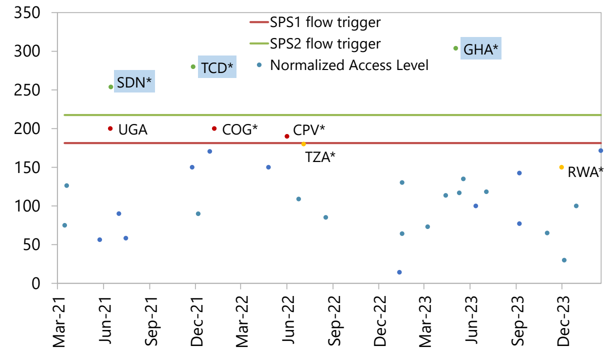
[9] For a 3-year ECF (18-month SCF), the annualized flow trigger for SPS1 is approximately 60 percent (121 percent) of quota, compared to 100 percent of quota per year for the ES. The annualized flow trigger for SPS2 is 73 percent (145 percent) of quota, compared to 80 percent of quota for the HAP.

Annex VIII. Table 4. Application of the SPS1 and SPS2 Flow Triggers since March 2021

Trigger at 25% above the norm 1/	Trigger at 50% above the norm	Program approval date	DSA risk rating at program appoval	PRGT Outstanding as of end 2023 2/
Sudan*	Sudan	Jun-21	D	157
Chad^*	Chad	Dec-21	D	379
Ghana^*	Ghana	May-23	D	223
Uganda		Jun-21	M	250
Congo, Rep^		Jan-22	D	194
Cabo Verde^		Jun-22	M	214
6	*3*			

Sources: MONA and IMF staff estimates.
^ for countries that triggered the ES flow trigger and * for countries that triggered the HAP flow trigger under the current policy
1/ Access levels are prorated to a 3-year ECF arrangement and 18-month SCF arrangement to be comparable with 145 percent of quota norm.
2/ Colors associated with credit outstanding indicate how far credit outstanding stands relative to the current HAP stock trigger (300 percent of quota).

Annex VIII. Figure 2. Application of the SPS1 and SPS2 Flow Triggers since March 2021



Sources: IMF Data and IMF staff estimates.
*Countries that met the flow trigger for the ES under the current policy
Countries shaded are those that met the flow trigger for HAP under the current policy

Annex VIII. Table 5. Examples of SPS Application

Case	Access in % of Quota	Duration in months	Facility	Applicable norm in % of Quota	SPS1 Trigger: 125% of norm	SPS1 Met?	SPS2 Trigger: 150% of norm	SPS2 Met?	Comment
					At approval				
I	180	36	ECF	145	181	N	218	N	
II	250	36	ECF	145	181	Y	218	Y	
III	250	48	ECF	193	242	Y	290	N	Norm is prorated to 48 months
IV	250	60	ECF	242	302	N	363	N	Norm is prorated to 60 months
V	250	18	SCF	145	181	Y	218	Y	
VI	250	30	SCF	193	242	Y	290	N	Norm is capped at 193 (pro-rated norm for a 24 month SCF)
VII	25	NA	RCF	25	31	N	38	N	SPS2 could apply if the stock trigger is met
					50 percent of quota ECF augmentation to cases I and III without extension				
I	180+50=230	36	ECF	145	181	Y	218	Y	Applicable norm is unchanged
III	250+50=300	48	ECF	193	242	Y	290	Y	Applicable norm is unchanged
					50 percent of quota ECF augmentation to cases I and III with 6 months extension of the arrangement				
I	180+50=230	36+6=42	ECF	169	211	Y	254	N	Applicable norm prorated to 42 months
III	250+50=300	48+6=54	ECF	218	272	Y	326	N	Applicable norm prorated to 54 months

Source: IMF staff estimates.

Annex VIII. Table 6. Proposed Harmonization of the Information Requirement of Board Consultations

Current Information Requirement		Proposed Changes
PS-HCC	**PRGT EA/HAP**	**New Proposal Harmonizing the two and adding the ES requirement for the SPS**
1. The factors underlying the exceptional Balance of Payments need in the current or capital account, taking into account financing from donors.	1. The factors underlying the large Balance of Payments need, taking into account financing from donors.	1. The factors underlying the large Balance of Payments need, taking into account financing from donors.
2. A brief summary of main policy measures and the macro framework;	2. A brief summary of main policy measures and the macroeconomic framework	2. A brief summary of main policy measures and the macroeconomic framework
3. The assessment of a reasonably strong prospect of success under the third criterion will require, in addition to the specifications under the criterion, an assessment of capacity to repay including a capacity to repay table;	3. The expected strength of the program and an assessment of the capacity to repay the Fund, including an updated capacity-to-repay table.	3. The assessment of a reasonably strong prospect of success including the member's adjustment plans and its institutional and political capacity to deliver that adjustment.
4. The impact on Fund resources, including the impact on the Fund's concessional resources;	4. An analysis of debt vulnerabilities, including the identification of potential data weaknesses and discussion of results from "realism" tools included in the LIC-DSF.	4. An enhanced CtR analysis informed by cross-country comparisons of metrics of Fund exposure (ES1B) including relevant charts and CtR table.
5. An analysis of debt vulnerabilities, including a preliminary DSA assessment and typically DSA charts;	5. A reference to the impact on the Funds concessional resources	5. The impact on Fund resources, including the impact on the Fund's concessional resources;
6. A discussion of any deficiencies in the quality/transparency of public debt data;	6. The likely timetable for discussion with authorities	6. An analysis of debt vulnerabilities, including a preliminary DSA assessment and typically DSA charts. In SPS cases with high risk or in debt distress, have explicit program objective to reduce debt vulnerabilities
7. The likely timetable for discussion with authorities; and	7. An SEI table.	7. A more granular discussion of the composition and evolution of debt, with a particular focus on external debt that is more difficult to restructure (ES1A).
8. A Selected Economic Indicators table.	8. DSA charts	8. A discussion of any deficiencies in the quality/transparency of public debt data 9. The likely timetable for discussion with authorities; and 10. A Selected Economic Indicators table.

Annex IX. 2024 Review of Eligibility to Use the Fund's Facilities for Concessional Financing

The Review of the PRGT eligibility framework and of the list of PRGT-eligible members was last completed in 2020 and is normally carried out every two years. The 2022 Review was initiated but ultimately postponed, considering the exceptional level of uncertainty and spillovers associated with the war in Ukraine. Staff assesses that the current eligibility framework remains generally appropriate and proposes two targeted adjustments related to (1) the time period and sources of the data used to assess market access and (2) the framework for assessing serious short-term vulnerabilities (SSTV) when considering higher-income countries' potential graduation. Based on the revised eligibility framework, staff proposes to add the Syrian Arab Republic to the list of PRGT-eligible countries. No graduation from PRGT eligibility is proposed at this time. All changes are taken into account in the 2024 PRGT Review, notably when estimating the long-term lending envelope.

Background and Current Framework

1. **The current PRGT eligibility framework, which was adopted in 2010, ringfences the use of scarce concessional resources to Fund members that meet specific criteria.** PRGT resources are reserved for members with income levels below a certain threshold, taking into account whether they can access international financial markets on a durable and substantial basis, as well as the presence of SSTV. The eligibility framework has different criteria for entry and graduation, with the latter setting higher standards to limit the risk of premature graduation (Annex IX. Box 1). The framework was approved by the Executive Board in early 2010 and reviewed regularly since then, most recently in 2020.[1]

2. **A review of the adequacy of current PRGT eligibility, entry, and graduation criteria and of the list of PRGT-eligible countries is needed in conjunction with the 2024 PRGT Review.** In the 2020 review, Directors agreed that the rule-based PRGT eligibility framework was still broadly adequate to ensure evenhandedness and preserve scarce concessional resources for low-income countries (LICs). Directors approved some minor adjustments to the market access criterion and post-graduation transition period, endorsed the proposed graduation of Guyana,[2] and no new entry to the list. The 2024 Review of PRGT Facilities and Financing not only offers the opportunity for

[1] The PRGT eligibility criteria and the related eligibility list have been reviewed five times since the establishment of the framework in 2010, in 2012, 2013, 2015, 2017, and 2020, respectively. These reviews introduced changes to the eligibility framework to favor small and micro states (2012, 2013), higher thresholds for graduation relative to entry (2013), methodological refinements to improve the assessment of market access (2015, 2020), a broadening of the assessment of debt vulnerabilities (2015), and restrictions to the applicability of the short-term vulnerability criterion (2015) or clarifications on how it should be assessed (2020). For a more detailed discussion, see Box 2 and Proposed Decisions, IMF, *Eligibility to use the Fund Facilities for Concessional Financing*, March 2020

[2] See IMF, *Eligibility to use the Fund Facilities for Concessional Financing*, March 2020.

undertaking the PRGT eligibility review that could not be finalized in 2022, but it also uses its findings on the list of eligible countries for the estimates of demand for PRGT lending.

3. The framework's eligibility criteria are closely linked to the PRGT instrument's key objectives and are designed to limit risks of graduation reversal. A member eligibility to access PRGT concessional financing is conditional on the country's per capita income levels and ability to borrow from international financial markets on a durable and substantial basis (see Annex IX. Box 1). To limit the risk of premature graduation from PRGT-eligibility and re-entry to the list, graduation criteria are set at higher standards—in terms of thresholds and fulfilment over time—than entry criteria. Additionally, potential graduations would only be proposed in the absence of SSTV.[3]

4. The PRGT eligibility framework continues to maintain broad alignment with the WB's IDA eligibility framework. The criteria for graduation from the PRGT list have similarities to those used for IDA graduation.[4] Both frameworks are based on the IDA operational cutoff (i.e., the GNI per capita cutoff level set by the WB—US$1,335 since July 1, 2024), and have special provisions for small states, with the PRGT framework having also additional provisions for microstates.

5. Divergences between IDA- and PRGT-eligible countries reflect differences in the mandates of the WB and IMF as well as respective timing of their review cycles. As of July 2024, seventy-seven countries are eligible to receive IDA resources, while sixty-nine are eligible under the PRGT. The two lists are aligned except in eight cases.[5] While PRGT eligibility does not affect a country's ability to access financing under the GRA, IDA-eligible countries can access IBRD financing, only if assessed to be IBRD-creditworthy.

Annex IX. Box 1. Current Criteria for Entry and Graduation from PRGT Eligibility and Proposed Changes[1]

Entry

A member would be added to the list of PRGT-eligible countries if:

i. its annual per capita gross national income, based on the latest available qualifying data, is (a) below the operational International Development Association (ID) cutoff, or (b) less than twice the IDA operational cutoff for small countries (countries with population below 1.5 million but not less than

[3] Eleven of the graduated countries currently have a higher GNI per capita than at the time of graduation, the exceptions being Angola and Nigeria. Pakistan graduated in 2010 based on meeting the market access criterion, and while its current GNI per capita is higher than it was at graduation, it is only about 12 percent above the income entry threshold and it has declined in three of the last 5 years, reflecting sluggish growth since graduation and the impact of recent global shocks. As a consequence, there is a risk that Pakistan could fall below the entry threshold in the event of a large new shock. All graduates have accessed international markets at least three out of the last five years according to IDS data, except Guyana, which has a GNI per capita of US$20,360, around 15 times the GNI per capita entry threshold.

[4] See, Box 2, IMF, *Eligibility to Use the Fund's Facilities for Concessional Financing, 2017*.

[5] Moldova graduated from IDA in 2020 but remains eligible for PRGT financing. Conversely, seven countries that are not-PRGT eligible have access to IDA resources: Fiji, Nigeria and Pakistan have blended access to IDA and IBRD resources, and Guyana, Kosovo, Syrian Arab Republic, and Sri Lanka have access to IDA-only resources.

Annex IX. Box 1. Current Criteria for Entry and Graduation from PRGT Eligibility and Proposed Changes (continued)

200,000), or (c) less than five times the IDA operational cutoff for microstates (countries with population below 200,000); and

ii. the sovereign does not have the capacity to access international financial markets on a durable and substantial basis. The market access criterion for entry is assessed using the same tests as for graduation (see below) except that market access under the first alternative test exists where bond issuance or disbursements under commercial loans during *at least two of the last five years* are equivalent to a cumulative amount of *at least 25 percent of quota*.

Graduation

Income Criterion: The country's annual per capita GNI:

- has been above the IDA operational cutoff for at least the last five years (for which qualifying data are available); and
- has not been on a declining trend in the same period (comparing the first and final years of the available data); and
- is currently (a) at least twice the operational IDA cutoff, or (b) at least three times the IDA operational cutoff for small countries, or (c) at least six times the IDA operational cutoff for microstates.

Or:

Market Access Criterion: The sovereign has the capacity to access international financial markets on a durable and substantial basis, as measured by one of the following two tests.

- Public sector issuance or guaranteeing of external bonds or by disbursements under public and publicly guaranteed external commercial loans in international markets during *at least three of the last five years* for which data are available, in a cumulative amount over that period equivalent to *at least 50 percent of the country's quota* at the Fund at the time of the assessment.[2] External bonds and commercial loans issued or contracted in markets that are not integrated with broader international markets do not qualify, including loans or bonds subsidized or guaranteed (partially or fully) by official external entities (including foreign governments and foreign public sector entities as well as international organizations), and loans from foreign state-owned banks.
- A country would also be deemed to meet the market access criterion if there were convincing evidence that the sovereign could have tapped international markets on a durable and substantial basis, even though the scale or duration of actual public-sector borrowing fell short of the specified thresholds. This would be a case-specific assessment, considering such relevant factors as the volume and terms of recent actual borrowing in international markets and the sovereign credit rating.

Both tests of the market access criterion would take into account bonds/loans issued, contracted, or guaranteed by non-sovereign public-sector debtors, where such a debtor's ability to access international markets is assessed to be an indicator of the sovereign's creditworthiness.[3] As a further safeguard, countries would be considered candidates for graduation under the market access criterion only if:

- their annual per capita GNI is above the IDA operational cutoff; and
- their annual per capita GNI has not been on a declining trend during the last five years for which qualifying data are available (comparing the first and last relevant annual data).

Annex IX. Box 1. Current Criteria for Entry and Graduation from PRGT Eligibility and Proposed Changes (concluded)

And:

Absence of serious short-term vulnerabilities: In addition to meeting at least one of the above two criteria, the country should not face serious short-term vulnerabilities. The assessment of these vulnerabilities requires, in particular, the absence of risks of a sharp decline in income or of a loss of market access, as well as limited debt vulnerabilities, as indicated by the latest Debt Sustainability Analysis (DSA), and a confirmation that overall debt vulnerabilities have remained limited since the DSA was conducted.

~~For a member whose annual per capita GNI exceeds the applicable income graduation threshold by 50 percent or more, graduation from PRGT eligibility will not be subject to the assessment of serious short-term vulnerabilities. However, an assessment by the Executive Board of serious short-term vulnerabilities will be required where such members have "IDA grant-only" or "IDA loan-grant mix" status at the World Bank, in which case graduation will depend on an assessment that the member does not have such serious short-term vulnerabilities.~~[4]

[1] IMF (2009) and the Decision on PRGT Eligibility Criteria, IMF (2012, 2013, 2015, 2017 and 2020)
[2] If the amount of issuance or guarantee of external bonds and of disbursements under external commercial loans in a single year for which qualifying data are available totals less than two percent of the member's quota at the time of the assessment, then that year shall not count towards meeting the graduation duration threshold.
[3] Borrowing by a public corporation will generally not be assessed as an indicator of the sovereign's creditworthiness where such borrowing is based on the public corporation's own balance sheet (including by collateralizing its own assets) and is not guaranteed by the sovereign.
[4] This paragraph is proposed for deletion in this Review.

Proposed Changes and Refinements

6. **Staff assesses the current PRGT eligibility framework to remain generally appropriate, while proposing two targeted adjustments.** The current criteria for graduation have worked well in the past, providing for timely graduation where appropriate, while avoiding premature graduation: there have been no cases of re-entry to PRGT eligibility following graduation. Moreover, in almost all cases annual GNI per capita of graduated countries continued to increase, and all but one member had durable and substantial access to international financial markets as defined by the market access criterion. That said, staff sees a strong case for proposing two targeted adjustments to account for data lags in the evaluation of the market access criterion, and to better reflect recent developments in the global environment and recent adjustments in IDA policies.

Relevant Time Period and Data Sources in the Application of the Market Access Criterion

7. **The current framework leads to situations where countries could be wrongly assessed as not meeting the past market access criterion.** The current approach to assess the market access criterion, adopted in the 2020 Eligibility Review, is to useWB's use WB's IDS data over the most recent five-year period for which complete annual data exist as the primary data source for assessing past market access.[6] This approach is also applied in the PRGT framework for determining which

[6] The database and reference period used to assess market access were reviewed and modified twice since the adoption of the eligibility framework. In 2015, the WB IDS, which had been the single data source used until then, was supplemented with Dealogic to reduce the significant lag in data availability. The 2020 Review identified discrepancies

(continued)

countries are presumed to blend PRGT and GRA resources. However, IDS data is reported only with a significant lag,[7] and there may be cases where a country has accessed international markets more recently than signaled by available annual IDS data, which, if included in the assessment of past market access, would result in the country meeting the market access criterion.

8. **Staff proposes to include debt issuance data from sources other than IDS for the recent period not covered by IDS data.** This adjustment would be applicable to cases where such inclusion would satisfy the past market access test for entry or graduation and where past market access would otherwise not be satisfied, due to the lag in IDS data availability.[8]

9. **This minor revision represents a limited modification to the change made in the 2020 PRGT eligibility review.[9]** The implementation of this refinement would differentiate between two cases:

- Countries that tapped the markets more recently than reported by IDS data, and which would meet the market access criterion based on the more recent information. For these countries, the applicable five-year period for assessing past market access shall include the calendar year of the issuance not covered by IDS that causes the country to meet the market access criterion plus the preceding four years.[10] Dealogic would become the primary source of data for the period not

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between IDS and Dealogic data due to shortcomings in the coverage and classification of loans in Dealogic. Accordingly, the most recent 5-year period IDS data was retained as main source of data for the assessment of past market access, while Dealogic would be used to inform the assessment of the SSTV and of the "could have tapped" international financial markets test.

[7] IDS publishes complete annual data every December for the previous calendar year. Thus, the lag in data availability ranges from a minimum of 12 months (in December when the data become available) to 23 months in November of the following year. While IDS data is available with a significant lag compared to other sources, including Dealogic, it is usually more complete. IDS higher level of completeness underlies the general policy to primarily rely on this database as the primary source of information to assess market access. See also *IMF, Eligibility to Use the Fund's Concessional Financing, March 2020*.

[8] *De minimis* borrowing continues to be excluded from the "duration" threshold, both for the period covered by IDS and, where relevant, for more recent data. Thus, if any borrowing in a single year for which qualifying data is available amounts to less than 2 percent of the member's quota at the time of the assessment, that year shall not count toward meeting the duration threshold. However, such amounts continue to count against the cumulative market access issuances ("scale" threshold).

[9] The 2020 PRGT eligiblity review established the use of IDS data over a common five-year period as the primary data source to assess past market access.

[10] Any borrowing in the calendar year preceding the assessment, and/or within the calendar year in which the assessment is conducted, that is not covered by IDS data, will be included in the market access assessment when such borrowing, added to the borrowing in the previous three or four calendar years (as applicable) for which IDS data is available, causes the country to meet the past market access test. For reasons of practicability, the market access assessment will have a cutoff date of two months before the issuance of the paper for the Board meeting for which the assessment is relevant. Market access data that becomes available after that date will not be included in the assessment. This cutoff date ensures that staff will have adequate time to confirm the market access data with the authorities and prepare the necessary analysis and documentation, including, in case of requests of financing, to

(continued)

covered by IDS, together with any other information on the member borrowing available to staff. Whenever a country is assessed as meeting the past market access test, staff would confirm all market access data with the country authorities, consistent with current practices.

- For all other countries, the applicable five-year period to assess past market access shall continue to be the most recent five-year period for which IDS data is available.

10. This proposal represents a limited modification to the changes made in 2020, when it was decided to use only IDS as the primary source of past market access data. Although it may result in the use of different databases and time spans to assess past market access across countries, in practice it is likely to only affect a limited number of countries in a borderline situation. On balance, staff believes that this refinement is warranted to address those situations where countries would fail to be considered for graduation under the market access criterion only due to lack of timely IDS data, despite *de facto* having more recently tapped the markets—providing a more exact and clearly-defined way to measure market access than the "could have tapped" test. Further, staff proposes to extend the application of this treatment to the determination of past market access under the PRGT framework for presumed blending, which does not include a "could have tapped" test. The proposed refinement is consistent with the objective of preserving the Fund's scarce concessional resources for the use of the most vulnerable members. Moreover, it is expected to affect only a small number of countries.

Minimizing Risks of Premature Graduation

11. The current framework calls for automatic graduation of LICs with relatively high income. The existing framework, as modified in 2015, requires countries which GNI per capita exceeding the income graduation threshold by at least 50 percent to graduate from PRGT eligibility automatically, without an assessment of their exposure to potential SSTV, with an exception for countries that have "IDA-grant only" or "IDA loan-grant mix" status at the WB at the time when such an assessment should be conducted.

12. Staff assesses that the exemption from assessing SSTV for LICs with relatively high income has become obsolete. The provisions of the framework appear no longer appropriate, nor aligned with the mandate of the PRGT to support the most vulnerable part of the Fund membership, preventing premature graduation. The current context of heightened uncertainty and a more shock-prone environment calls for greater scrutiny when considering potential graduation of PRGT eligible countries. In an environment of increased uncertainty and higher probability of non-economic, disruptive shocks (wars, climate events), relatively higher GNI per capita do not necessarily protect LICs from the risk of a sharp decline of income, a loss of market access, or/and heightened debt vulnerabilities. Moreover, in recent years, IDA terms have been modified to take into account each country's level of income and debt when allocating loans and grants. For instance, the 50 percent loan/50 percent grant mix for countries at moderate risk of debt distress has been replaced by a full

reach understandings with the authorities on the type of lending instrument, depending on whether presumed lending is required.

100 percent loan financing as part of the IDA20 replenishment. This evolution makes the distinction between access to IDA loans or IDA grants increasingly less relevant in the context of identifying countries with potential vulnerabilities.

13. Staff proposes to reinstate the requirement to assess and confirm the absence of SSTV for all eligible countries (Annex IX. Box 2). The staff proposal aims to ensure that the PRGT eligibility framework continues to limit the risks of premature graduation (and/or possible reversals) in the context of a more shock-prone world. Staff's proposal, while maintaining a broad alignment with IDA eligibility framework, would shield PRGT policies from further evolution of IDA policies, that seem to increasingly move away from past reliance on the "IDA-grant only" or "IDA loan-grant mix" status. Re-aligning the PRGT eligibility framework to its original design would acknowledge the higher probability and diversity of non-economic, disruptive shocks compared to the past. Recent developments, and a more shock-prone world justify the need to assess SSTV in all cases, including for higher income LICs, given the elevated uncertainty that the effects of such shocks can entail on PRGT-eligible countries.

Assessment of the List of Countries Eligible for PRGT Entry and Graduation

14. The Syrian Arab Republic meets the criteria for eligibility and is proposed for addition to the list of PRGT-eligible countries.[11] Syria meets the income threshold for PRGT eligibility. Its GNI per capita was US$560 in 2021, the latest available data. The WB resumed publication of annual GNI per capita for Syria in December 2021, after almost a decade of missing data due to the unavailability of reliable official economic statistics, based on recent, consistent publication of National Accounts data by the Syrian Central Bureau of Statistics, updating also past data. The data show that per capita GNI peaked at US$2,610 in 2011 and fell to the lowest point of US$560 in 2021. Syria does not have the capacity to access international financial markets on a durable and substantial basis as defined by the market access criterion: 1) Syria has not accessed international financial markets in the past five years according to WB IDS data, and 2) there is no convincing evidence that it could do so, given that it is in a state of default on international debt, it is subject to extensive economic sanctions, and it is not rated by credit rating agencies.

15. Seventeen countries meet the market access criterion, the income criterion, or both and could be considered for possible graduation. Nine of these countries are not considered for graduation at this time due to their significant debt vulnerabilities—DSA assessment of high risk of external debt distress or debt distress (listed in black in Annex IX. Table 1). The remaining eight countries that are not currently at risk of debt distress or in debt distress are not proposed for graduation after assessing their risks to face SSTV, including, but not limited to, the risk of a sharp decline in income, or of a loss of market access. The assessment for these countries (listed in blue in Annex IX. Table 2) includes information on the criteria met, the current economic outlook, including risks faced, and Fund engagement.

[11] The last IMF mission to Syria was a staff visit in January 2011. The last Article IV consultation was concluded in March 2010. Syria is IDA-only eligible since 2017, although currently an inactive IDA country, in non-accrual status since 2012.

Annex IX. Table 1. PRGT-Eligible Countries: Graduation Criteria

Country	Meets the income criterion for graduation	Meets market access definition associated with market access graduation criterion [1/]	Meets GNI per capita threshold associated with market access graduation criterion [2/]	Debt Distress (as of end-June 2024)	Country	Meets the income criterion for graduation	Meets market access definition associated with market access graduation criterion [1/]	Meets GNI per capita threshold associated with market access graduation criterion [2/]	Debt Distress (as of end-June 2024)
Afghanistan				*High*	Mali				Moderate
Bangladesh	Y		Y	Low	*Marshall Islands*			*Y*	*High*
Benin		Y	Y	Moderate	Mauritania			Y	Moderate
Bhutan			Y	Moderate	Micronesia			Y	Moderate
Burkina Faso				Moderate	Moldova	Y		Y	Low
Burundi				*High*	*Mozambique*				*High*
Cambodia			Y	Low	Myanmar				Low
Cameroon		*Y*	*Y*	*High*	Nepal			Y	Low
Cabo Verde	Y		Y	Moderate	Nicaragua			Y	Moderate
Central African Republic				*High*	Niger				Moderate
Chad				*High*	*Papua New Guinea*	*Y*	*Y*	*Y*	*High*
Comoros			*Y*	*High*	Rwanda		Y		Moderate
Congo, Rep.			*Y*	*In debt distress*	*Samoa*				*High*
Congo, Dem. Rep.				Moderate	*São Tomé and Principe*			*Y*	*In debt distress*
Côte d'Ivoire	Y	Y	Y	Moderate	Senegal		Y	Y	Moderate
Djibouti			*Y*	*In debt distress*	*Sierra Leone*				*High*
Dominica	*Y*		*Y*	*High*	Solomon Islands				Moderate
Eritrea				*In debt distress*	Somalia				Moderate
Ethiopia		*Y*		*High*	*South Sudan*				*High*
Gambia, The				*High*	*St. Lucia*	*Y*		*Y*	*High*
Ghana		*Y*	*Y*	*In debt distress*	*St.Vincent and the Grenadines*	*Y*		*Y*	*High*
Grenada	*Y*		*Y*	*In debt distress*	*Sudan*				*In debt distress*
Guinea			Y	Moderate	*Tajikistan*			*Y*	*High*
Guinea-Bissau				*High*	Tanzania		Y		Moderate
Haiti			*Y*	*High*	Timor-Leste				Moderate
Honduras	Y		Y	Low	Togo		Y		Moderate
Kenya		*Y*	*Y*	*High*	*Tonga*				*High*
Kiribati			*Y*	*High*	*Tuvalu*			*Y*	*High*
Kyrgyz Republic			Y	Moderate	Uganda		Y		Moderate
Lao PDR		*Y*		*In debt distress*	Uzbekistan		Y	Y	Low
Lesotho				Moderate	Vanuatu			Y	Moderate
Liberia				Moderate	*Yemen*				*High*
Madagascar				Moderate	*Zambia*		*Y*		*In debt distress*
Malawi				*In debt distress*	*Zimbabwe*			*Y*	*In debt distress*
Maldives	*Y*	*Y*	*Y*	*High*					

Sources: WB, IDS, WDI, and Dealogic.

Notes: Italics indicate countries in debt distress or at high risk of debt distress. Countries that meet the income criterion for graduation are marked in yellow, those that meet the market access criterion (excluding de minimis issuances) are marked in blue, and those meeting both are marked in green.

1/ Market access under the market access graduation criterion is evidenced by public sector issuance or guaranteeing of external bonds or disbursements under PPG external commercial loans in international markets during at least three of the last five years, excluding de minimis issuances (below 2 percent of quota), and in a cumulative amount equivalent to at least 50 percent of quota.

2/ Under the income safeguard component of the market access criterion, countries can be considered candidates for graduation only if their annual per capita GNI is above 100 percent of the IDA operational cutoff (based on the latest qualifying data) and their annual per capita GNI has not been on a declining trend during the last five years.

Annex IX. Table 2. Members that Meet at Least One of the Graduation Criteria

	Meets criterion1/	DSA rating	IDA Status	Percentage deviation from income graduation threshold	Percentage deviation from income threshold for PRGT entry	Market Access frequency in the last five years (excludes de minimis)2/	Cumulative Market Access in the last five years (% current Quota) 2/
Bangladesh	Income	Low	IDA	7.1	114.2	0/5	0.0
Benin	Market	Moderate	IDA	-46.1	7.9	5/5	2032.1
Cabo Verde	Income	Moderate	Blend	6.9	60.3	3/5	22.3
Cameroon	Market	High	Blend	-38.2	23.6	5/5	355.5
Côte d'Ivoire	Income and Market	Moderate	IDA	0.0	100.0	5/5	1295.9
Dominica	Income	High	Blend	11.4	33.6	1/5	96.3
Ghana	Market	In debt distress	IDA	-12.4	75.3	5/5	1454.3
Grenada	Income	In debt distress	Blend	22.3	46.8	0/5	0.8
Honduras	Income	Low	IDA	8.6	117.2	1/5	172.5
Kenya	Market	High	Blend	-21.0	58.1	5/5	814.7
Maldives	Income and Market	High	IDA-grant only	175.4	313.1	5/5	4269.7
Moldova	Income	Low	Graduated 2020	128.8	357.7	0/5	0.0
Papua New Guinea	Income and Market	High	Blend	6.4	112.7	4/5	343.2
Senegal	Market	Moderate	IDA	-37.8	24.3	5/5	817.4
St. Lucia	Income	High	Blend	54.8	85.8	0/5	0.0
St.Vincent and the Grenadines	Income	High	Blend	25.7	50.9	0/5	0.0
Uzbekistan	Market	Low	Blend	-11.6	76.8	4/5	723.8

Sources: WB, IDS, WDI, and Dealogic.
Notes: Countries with low or moderate risk of external debt destress are highlighted in blue
1/ The assessment of market access is based on 2018-22 IDS data
2/ For the countries that would meet the market criterion with low or moderate DSA rating (Benin, Côte d'Ivoire, Senegal, Uzbekistan), the market access data spans to July 15, 2024 using Dealogic in consultations with national authorities.

Financing Implication

16. **The financial implications of the proposals are fully reflected in staff's estimates on future PRGT finances presented in the PRGT review**. Staff's projected future lending demand, the envisaged target for the self-sustained lending envelope, and the associated financing needs have taken into account the implications of the proposals of this eligibility review. These include: a) the adjustments to the time period and sources of the data used to assess market access; b) the modification of the framework for assessing SSTV; c) that no country is proposed for graduation from PRGT eligibility at this time; and d) the addition of the Syrian Arab Republic to the list of PRGT-eligible countries.

Assessments of Countries that meet the Graduation Criteria and are Not at High Risk of Debt Distress or in Debt Distress

Bangladesh

- **Background**. The growth momentum has moderated on the back of continued import compression and monetary tightening, while inflationary pressures remain elevated. A sudden and unprecedented reversal of the financial account intensified pressures on FX reserves and the exchange rate. The authorities have kept the fiscal deficit in check and moved to greater exchange rate flexibility, which is expected to stabilize the macroeconomic outlook and external position. Social unrest led to an unexpected change in government in August. Bangladesh has ECF-EFF and RSF arrangements approved in January 2023. Bangladesh is at low risk of external debt distress.

- **Assessment.** Staff proposes to maintain Bangladesh's PRGT eligibility given the presence of SSTV that could result in a sharp decline of its income.

- **Income criterion.** Bangladesh meets the income criterion for graduation. Its 2023 GNI per capita was US$2,860, or 114.2 percent above the IDA cutoff threshold and 7.1 percent above the relevant income graduation threshold.

- **Market access criterion.** Bangladesh does not meet the market access criterion for graduation, not having accessed international markets in the last five years.

- **SSTV.** Bangladesh is exposed to significant SSTV, further heightened by the uncertainty resulting from the change in government after recent massive public uprising. Spillover effects from high international commodity and food prices and global financial tightening could undermine future growth. Failure to maintain uninterrupted and consistent implementation of the new exchange rate regime could trigger disorderly adjustment, with further exchange rate depreciation and inflation. Additional short-term vulnerabilities could result from the problems in the banking system including elevated NPLs, domestic security concerns, refugee-related expenditure from the Rohingya crisis in neighboring Myanmar, amplified political uncertainty, and extreme weather events.

Benin

- **Background.** Benin's economy remains dependent on traditional exports, such as cotton and cashew nuts, and on its main trad partner Nigeria. While macroeconomic performance has remained strong in 2022 and 2023, the economy faces regional headwinds, including the closure of the border with Niger and declining BCEAO reserves. Benin is currently under an ECF-EFF arrangement approved in July 2022 and an RSF arrangement approved in December 2023. Benin did not issue bonds in 2022 nor 2023 and only re-entered international capital markets in February 2024 with the issuance of a US$750 million Eurobond. Benin is at moderate risk of external debt distress, with limited space to absorb shocks.

- **Assessment.** *Staff proposes to maintain Benin's PRGT eligibility given the presence of SSTV that could result in a loss of market access, heightened debt vulnerabilities and a sharp decline of its income.*

- **Income criterion.** Benin does not meet the income criterion for graduation, having a 2023 GNI per capita of US$1,440, or 7.9 percent above the IDA cutoff threshold and 46.1 percent below the relevant income graduation threshold.

- **Market access criterion.** Benin meets the market access criterion by a substantial margin. It accessed international markets in five of the last five years in an amount equivalent to 2,032.1 percent of its IMF quota.

- **SSTV.** Benin faces significant risks to future market access, including from uncertainty about regional security challenges, which could weigh on investor confidence. Benin's GNI per capita is above the PRGT eligibility threshold by only 7.9 percent, making it vulnerable to reverse graduation in the event of shocks. The lack of diversification of Benin's economy makes it vulnerable to price and weather-related shocks. Economic transformation is slow with a large agricultural sector that remains rain dependent. The financial market is shallow, and the banking sector suffers from weak profitability, poor credit quality, and elevated credit concentration, posing another source of risk.

Cabo Verde

- **Background.** Cabo Verde's macroeconomic performance in 2023 was robust, with strong real GDP growth and a record primary fiscal surplus, low inflation, and a prudent level of reserves to protect the peg. Public debt remains on a downward path, albeit still at very high—and above pre-pandemic—levels, and the financial sector remains resilient. The near-term outlook is favorable but has moderated from recent highs. An ECF arrangement was approved in June 2022, followed by an RSF in January 2024. Cabo Verde is at moderate risk of external debt distress, with limited space to absorb shocks.

- **Assessment.** Staff proposes to maintain Cabo Verde's PRGT eligibility given the presence of SSTV that could result in a sharp decline of its income and heightened debt vulnerabilities.

- **Income criterion.** Cabo Verde meets the income criterion for graduation, with a 2023 GNI per capita of US$4,280, or 60.3 percent above the IDA cutoff threshold and 6.9 percent above the relevant income graduation threshold.

- **Market access criterion.** Cabo Verde does not meet the market access criterion, having accessed international markets in three of the last five years for an amount equivalent only to 22.3 percent of its IMF quota.

- **SSTV.** Cabo Verde faces significant risks to future growth, including from the small size of its economy and lack of export diversification, as well as from weakened demand in major tourism markets, and exposure to external price shocks. Fiscal risks stem from possible failure to advance SOE reforms, while financial stability risks may arise from large sovereign exposures and high NPLs. Cabo Verde is extremely vulnerable to climate shocks and is one of the most water-scarce countries in the world. Cabo Verde's high risk of overall public debt distress is another source of vulnerability.

Côte d'Ivoire

- **Background.** Côte d'Ivoire's agriculture-reliant economy and highly concentrated coastal areas are highly exposed to climate shocks. Although Côte d'Ivoire's economy remained resilient amid recent shocks and despite the still difficult global environment, it is increasingly vulnerable to climate events and exposed to large spillovers and migrants' influx from regional instability.

Agricultural production has declined sharply mostly due to adverse weather conditions (cocoa production is the largest in the world and contributes to a sizeable share of national GDP and employment), although a significant rise in prices cushioned the impact on the BoP. Looming risks include weak external demand, tightening financial conditions, repeated weather shocks and disease outbreaks. Côte d'Ivoire has an ECF-EFF arrangement approved in May 2023 and an RSF arrangement approved in April 2024. Reflecting investor confidence, Côte d'Ivoire raised around US$2.6bn through Eurobond issuances in January 2024. Côte d'Ivoire is at moderate risk of external debt distress, with limited space to absorb shocks.

- **Assessment.** *Staff proposes to maintain Côte d'Ivoire's PRGT eligibility given the presence of SSTV that could result in a sharp decline of its income, loss of market access, and heightened debt vulnerabilities.*

- **Income criterion.** Côte d'Ivoire meets the income criterion for graduation, with 2023 GNI per capita of US$2,670, or 100 percent above the IDA cutoff threshold and exactly equal to the relevant income graduation threshold.

- **Market access criterion.** Côte d'Ivoire meets the market access criterion by a substantial margin. It accessed international markets in five of the last five years in an amount equivalent to 1,295.9 percent of its IMF quota.

- **SSTV.** Côte d'Ivoire faces significant risks to future market access, including from uncertainty about regional security challenges, fragmentation, and a possibly weaker-than-anticipated recovery in pooled regional FX reserves, which could weigh on investor confidence. Côte d'Ivoire remains dependent on commodity exports, especially cocoa, exposing it to price swings and crop failures. Public debt increased significantly over the last few years with external debt growing as a share of total debt. Though the risk of external debt distress is currently moderate, debt vulnerability metrics would deteriorate should revenue mobilization underperform. Exports and market financing shocks would have a significant negative impact on Côte d'Ivoire's external debt sustainability.

Honduras

- **Background.** Over the past decade, Honduras' GDP per capita growth has lagged behind regional peers due to low investment and extreme weather events. Yet, its economic performance in 2023 exceeded expectations, driven by strong domestic demand and high public investment. Inflation peaked in 2022 but declined to the central bank's target range by end-2023, and the fiscal deficit outperformed targets. Honduras is under ECF-EFF arrangements approved in September 2023. In June 2020, Honduras issued a 10-year US$600 million bond, and the authorities plan to return to international markets. Honduras is at low risk of external debt distress.

- **Assessment.** *Staff proposes to maintain Honduras' PRGT eligibility given the presence of SSTV that could result in a sharp decline of its income.*

- **Income criterion.** Honduras meets the income criterion for graduation, with a GNI per capita of US$2,900 in 2023, which is 117.2 percent above the IDA cutoff threshold and 8.6 percent above the relevant income graduation threshold.

- **Market access criterion.** Honduras does not meet the market access criterion for graduation, as it only accessed international markets in one of the last five years, in an amount equivalent to 172.5 percent of its current IMF quota.

- **SSTV.** Honduras' growth is projected to decelerate driven by lower US growth, affecting maquila exports and remittances. Honduras faces significant risks from its long-standing social challenges, including very high poverty and inequality rates. Crime, weak governance, and corruption drive migration and hinder economic opportunities, with a high degree of informality, reliance on remittances, and exports concentration. Structural issues, especially in the energy sector, stifle investment. Honduras is highly vulnerable to climate shocks, necessitating substantial adaptation investment. Honduras is exposed to high levels of volatility and potentially large shocks that could negatively impact its income and, in extreme cases of climate or financing shocks, reverberate on its debt position, worsening its outlook.

Moldova

- **Background.** After a weak recovery in 2023 from the adverse spillovers from the war in Ukraine and the energy price shock, growth appears to be accelerating while uncertainty is receding. The projections are for a relatively robust medium-term growth as structural reforms for EU accession progress. Since end-2023, inflation has remained within the target band, while the fiscal deficit was lower than expected, and the current account deficit has improved from a peak in 2022. Moldova has ECF-EFF and RSF arrangements approved in January 2022 and December 2023, respectively, and it is at low risk of external debt distress.

- **Assessment.** *Staff proposes to maintain Moldova's PRGT eligibility given the presence of SSTV that could result in a sharp decline of its income.*

- **Income criterion.** Moldova meets the income criterion for graduation by a significant margin, with 2023 GNI per capita US$6,110, which is 357.7 percent above the IDA cutoff threshold and 128.8 percent above the relevant income graduation threshold.

- **Market access criterion.** Moldova does not meet the market access criterion for graduation, not having accessed international markets in the last five years.

- **SSTV.** The war in Ukraine continues to pose significant uncertainty and risks (Transnistria, refugees, exchange rate). New energy shocks would weaken the outlook, worsen fiscal and external balances, and strain households. Political tensions, including linked to upcoming elections, could reverse the reform and EU accession momentum, lead to spending overruns, and weigh on external support. Insufficient progress on anti-corruption and governance reforms would undermine the business environment and growth. Vulnerability to extreme weather is also a risk.

Senegal

- **Background.** Senegal economy is resilient amidst headwinds, with higher real growth projected for 2023, driven by strong agricultural and tertiary-sector activity. In the medium term, growth will be supported by hydrocarbon exports. The fiscal deficit has been improving since 2022 and the current account deficit is expected to narrow significantly over the medium term with the start of export-oriented hydrocarbon production. Senegal has ECF-EFF and RSF arrangements approved in June 2023. Senegal issued US$750 million in Eurobonds in June 2024 and is at moderate risk of external debt distress, with limited space to absorb shocks.

- **Assessment.** Staff proposes to maintain Senegal's PRGT eligibility given the presence of SSTV that could result in a sharp decline in income, in a loss of market access and in heightened debt vulnerabilities.

- **Income criterion.** Senegal does not meet the income criterion for graduation, with 2023 GNI per capita US$1,660, which is 24.3 percent above the IDA cutoff threshold and 37.8 percent below the relevant income threshold for graduation.

- **Market access criterion.** Senegal meets the market access criterion for graduation by a substantial margin. It accessed international markets in five of the last five years in an amount equivalent to 817.4 percent of its IMF quota.

- **SSTV.** Senegal remains notably vulnerable to a potential tightening of financial conditions that may impede future market access, including from shocks to the prices of key global commodities, regional security challenges, and delays in the materialization of reforms envisioned by the incoming political leadership. Domestic risks include renewed social discontent, negative spillovers from neighboring countries unrest, further delays in the start of oil and gas production, and more intense droughts and floods, which would damage agricultural production. Materialization of such risks could affect public finances and the quality of economic policies, causing loss of market access and a decline in income.

Uzbekistan

- **Background.** Uzbekistan's economy is robust, with improving real growth in 2023 driven by far-reaching structural reforms and increases in financial flows. Medium-term growth will be supported by strong domestic demand, energy price reforms, and privatization of SOEs. The fiscal deficit increased in 2023 and the current account deficit widened, driven by strong investment growth. Uzbekistan issued US$660 million in Eurobonds in October 2023 and US$1.5 billion in Eurobonds in May 2024. Uzbekistan is at low risk of external debt distress.

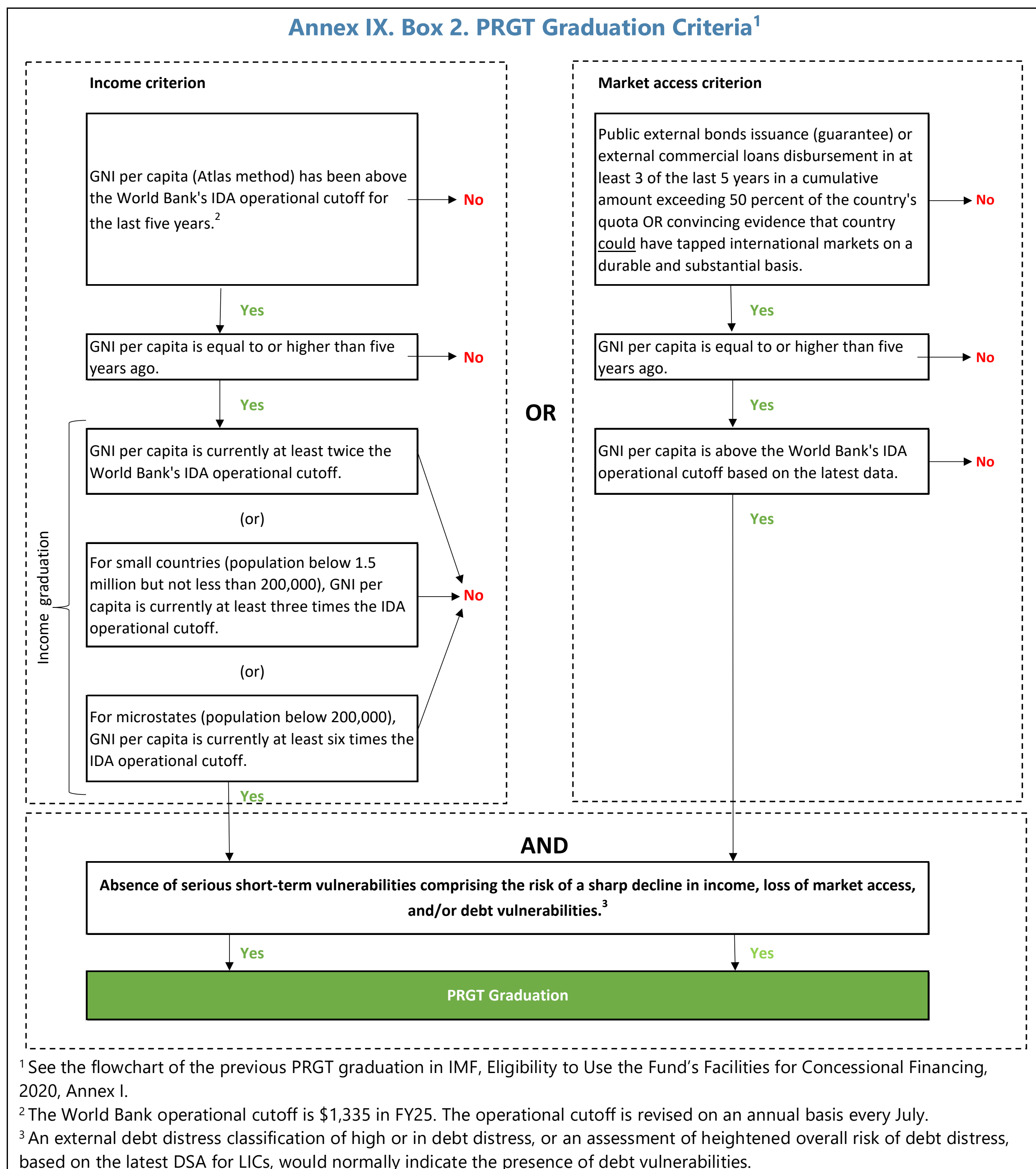
- **Assessment.** Staff proposes to maintain Uzbekistan's PRGT eligibility given the presence of SSTV that could result in a sharp decline of its income and a loss of market access.

- **Income criterion.** Uzbekistan does not meet the income criterion for graduation, as its 2023 GNI per capita is US$2,360, which is 76.8 percent above the IDA cutoff threshold and 11.6 percent below the relevant income threshold for graduation.

- **Market access criterion.** Uzbekistan meets the market access criterion for graduation, having accessed international markets in four of the last five years in an amount equivalent to 723.8 percent of quota.

- **SSTV.** Uzbekistan faces significant risks of a loss of market access and a decline in per capita income below the entry threshold. External risks include geoeconomic spillovers, commodity price volatility, and an abrupt global slowdown. Domestic risks include slower-than-planned fiscal consolidation, weaker bank balance sheets, or materialization of contingent liabilities from state banks, SOEs, and public-private partnerships. Materialization of such risks could affect public finances and the quality of economic policies, causing a loss of market access and a decline in income.

Annex IX. Box 2. PRGT Graduation Criteria[1]



[1] See the flowchart of the previous PRGT graduation in IMF, Eligibility to Use the Fund's Facilities for Concessional Financing, 2020, Annex I.

[2] The World Bank operational cutoff is $1,335 in FY25. The operational cutoff is revised on an annual basis every July.

[3] An external debt distress classification of high or in debt distress, or an assessment of heightened overall risk of debt distress, based on the latest DSA for LICs, would normally indicate the presence of debt vulnerabilities.

Annex X. Fine-Tuning the Policy Safeguards for High Combined Credit Exposure (PS-HCC)

This annex summarizes the discussions in the November 2023 informal Board paper.

1. **Under current policies, the PS-HCC have a stronger debt sustainability requirement than the GRA EA framework for countries where debt is sustainable but not with high probability.** Under the GRA EA framework, the policy allows EA when debt is considered sustainable but not with a high probability, provided that financing from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources. The PS-HCC framework differentiates two cases in situations where the "high probability" threshold is not met ex ante: (1) For PRGT-eligible countries using the LIC-DSF, which is the case for the large majority, it requires to restore debt sustainability with a high probability (operationalized by "Low" or "Moderate" LIC-DSF risk ratings) either (i) within 36 months from Board approval of the financing request or within the period of a newly approved arrangement (whichever is longer); or (ii) within the remaining period of an arrangement, in the case of an augmentation or rephasing request. (2) For PRGT-eligible countries whose debt sustainability is assessed under the SRDSF, it requires the application of the GRA EA framework.

2. **The current PS-HCC framework could lead to undesirable outcomes.** For example, the requirement to fully restore "Low" or "Moderate" LIC-DSF ratings apply regardless of countries' ability to tap private capital markets. This may lead to higher adjustments than warranted, or deeper and in an extreme case even unnecessary debt restructurings that would add complexity to program design. The current framework could also push countries to delay seeking Fund support for fears that it might trigger a loss of market access if, for example, the market perceives a restructuring to be part of the eventual Fund-supported program. Alternatively, the current PS-HCC framework could incentivize a PRGT-eligible country with market access to seek additional GRA financing that triggers the GRA EA only to avoid the PS-HCC, even if GRA financing comes on less favorable terms, and against the standing practice that PRGT-eligible members are encouraged to borrow first from the concessional PRGT up to the applicable access limits to minimize debt servicing costs.[1]

3. **Staff proposes a targeted adjustment to the PS-HCC framework, to align its debt sustainability criterion with that under the GRA EA, for LICs that meet GRA EA market access criterion (GRA EA3) (Annex X. Table 1).** No change is proposed for countries that do not meet the GRA EA3. Specifically, where the member's debt is considered sustainable but not with a high probability, and the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund (including to the PRGT), combined access above the current PS-HCC thresholds would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the

[1] See *Financing for Development: Enhancing the Financial Safety Net for Developing Countries—Further Considerations*.

safeguards for Fund resources. For the application of this criterion, financing provided from sources other than the Fund may include, inter alia, financing obtained through any intended debt restructuring. This criterion would apply only to public debt. However, the analysis of such public debt sustainability would incorporate any potential contingent liabilities of the government, including those potentially arising from private external indebtedness.

4. Assessment of safeguards to Fund resources under the proposed PS-HCC debt criterion would be aligned with that for the GRA EA2 criterion. Specifically, the assessment would be aligned with the requirements presented in the acting chair's summing up on The Fund's Lending Framework and Sovereign Debt—Further Considerations, Executive Board Meeting 16/4 (Annex VIII), which sets forth three options by which EA2 could be met in "gray zone cases": (1) the member retains market access, or the volume of its private claims falling due during the program is small, such that sufficient private exposure could be maintained without the need for a restructuring of their claims; (2) a reprofiling of private claims falling due; or (3) financing from official bilateral creditors could be provided either through an extension of maturities on existing claims and/or in the form of new financing commitments. In line with the application for the GRA EA2, there would be no presumption that any particular option for meeting the requirements would apply. Rather, the choice would depend on the circumstances of the particular case, and it would need to be justified accordingly. In assessing the PS-HCC debt criterion, staff will use the same methodology for countries that use the LIC-DSF as that used to assess GRA EA2 for those who use the SRDSF, albeit adapting it to the extent that it needs to rely on the LIC-DSF.

5. The assessment of market access would also be aligned with the GRA EA3. The assessment would need to determine, on a forward-looking basis, whether a member has the ability to tap private capital markets on a sustained basis through the contracting of loans and/or issuance of securities across a range of maturities, regardless of the currency denomination of the instruments, and at reasonable interest rates. This would require the exercise of judgment on a case-by-case basis, considering factors such as evolution of sovereign spreads and credit ratings over time, program assumptions on commercial financing, and the scale and evolution of nonresident holdings of domestic-currency debt.

6. The proposed targeted policy adjustment is expected to be relevant only for a narrow set of countries, with only a minor impact on the demand for blended Fund financing. In practice, the proposed adjustment would most likely affect presumed blenders (PBs), given their reliance on blended resources and access to private capital markets. Among PBs, countries with (i) combined GRA/PRGT exposure near the PS-HCC threshold (currently 600 percent of quota) and (ii) high risk of debt distress could be the most likely immediate beneficiaries. The market access requirement and additional rules to assess safeguards to Fund resources built under the proposal, will ensure that only members with adequate debt sustainability as per the revised standard would benefit. The implications for the demand for blended Fund financing are also expected to be limited. As the proposed change is narrow in scope, the amended PS-HCC criteria are not expected to lead to significantly larger demand for combined GRA and PRGT financing.

Annex X. Table 1. Proposed Alignment of the PS-HCC Debt Sustainability Criterion with that Under the GRA EA for LICs that Meet the GRA EA Market Access Criterion (GRA EA3)

	PS-HCC (current)	**PS-HCC (Proposed)**
Criterion 2	Risks to the sustainability of public debt are adequately contained. This is evidenced by • *For members for whom use of the Bank-Fund Debt Sustainability Framework for Low Income Countries (the "LIC-DSF") is warranted*: o A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. This is generally considered to be met for countries that are assessed under the LIC-DSF as having low or moderate overall risk of public debt distress; or o Where the member's public debt is not assessed to be sustainable with high probability, combined access above the proposed thresholds will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (i.e., to a point where application of the LIC-DSF would yield a rating of low or moderate overall risk of public debt distress) (i) within 36 months from Board approval of the financing request or within the period of a newly approved arrangement (whichever is longer) or (ii) within the remaining period of an arrangement, in cases where the Board approves an augmentation or rephasing request. *For members for whom use of the MAC DSA is warranted: the debt sustainability requirements for providing exceptional access to GRA resources are met.*	Risks to the sustainability of public debt are adequately contained. This is evidenced by • *For members for whom use of the Bank-Fund Debt Sustainability Framework for Low Income Countries (the "LIC-DSF") is warranted*: o A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. This is generally considered to be met for countries that are assessed under the LIC-DSF as having low or moderate overall risk of public debt distress; or o Where the member's public debt is not assessed to be sustainable with high probability, combined access above the proposed thresholds will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (i.e., to a point where application of the LIC-DSF would yield a rating of low or moderate overall risk of public debt distress) (i) within 36 months from Board approval of the financing request or within the period of a newly approved arrangement (whichever is longer) or (ii) within the remaining period of an arrangement, in cases where the Board approves an augmentation or rephasing request; o provided that in cases where the member's public debt is assessed to be sustainable but not with high probability and the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund (including the PRGT) combined access above the proposed thresholds will be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources (including PRGT resources). In applying the more flexible standard where debt is sustainable but not with high probability, BUFF/16/9 Corr. 1 would apply. *For members for whom use of the MAC DSA is warranted: the debt sustainability requirements for providing exceptional access to GRA resources are met.*

Annex XI. RCF Cumulative Access Limits

Reverting access limits of the RCF now would not leave sufficient emergency borrowing space for many LICs. This situation is different from RFI limits for GRA borrowers and reflects the longer repayment periods of PRGT resources.

1. The COVID-19 pandemic, and the spillovers of the war in Ukraine, have led to several temporary modifications to EF access limits. After the COVID-19 outbreak, annual access limits (AALs) and CALs under the EF instruments—the RFI in the GRA and the RCF under the PRGT—were temporary increased (Annex XI. Table 1). In addition, following the war in Ukraine and a surge in food prices, a temporary and now-elapsed FSW was established under both the RFI and the RCF with additional 50 percent of quota added to AALs and 25 percent of quota added to CALs for countries that accessed the FSW.

2. Since then, most of the EF access limits were brought back to the pre-pandemic levels and the FSW has expired. The notable exception to the roll-back of the exceptional measures involves the temporarily higher CALs under the RCF.

3. In June 2023, the Board approved an extension of the temporary higher CALs under the RCF until the completion of the Review of the PRGT Facilities and Financing. Specifically, the CALs were kept at 150 percent of quota for the Exogenous Shock window (ESW) and at 183.33 percent of quota for the Large Natural Disaster window (LNDW), both 50 percent of quota above their pre-pandemic levels. An extra 25 percent of quota increase to the CAL was also extended for countries that accessed the FSW under the RCF.[1]

[1] Similar extension of the additional 25 percent of quota increase to the CAL was approved until end-2026 for countries that accessed the FSW under the RFI. The additional 25 percent quota increase to the CAL is applicable only for the RFI regular window and RCF exogenous shock window.

Annex XI. Table 1. Emerging Financing Instruments Access Limits (In percent of quota) 1/

	Pre-pandemic period	Pandemic until 12/31/21	Higher CALs 1/1/22-6/30/24	Current since 7/1/24
RFI: regular window 2/				
annual access limit	50	100	50	50
cumulative access limit	100	150	150	100
RFI: LNDW				
annual access limit	80	130	80	80
cumulative access limit	133.33	183.33	183.33	133.33
RCF: regular window				
annual access limit	50	50	50	50
cumulative access limit	100	100	100	100
RCF: ESW 2/				
annual access limit	50	100	50	50
cumulative access limit	100	150	150	150
RCF: LNDW				
annual access limit	80	130	80	80
cumulative access limit	133.33	183.33	183.33	183.33

1/ Disbursements (purchases) from all RCF (RFI) windows are included in the calculation of AALs and CALs
2/ The CALs of countries that accessed the FSW are higher by 25 percent of quota— until end-2026 for the RFI regular window and until the completion of the current PRGT review for RCF ESW.

4. The extension of the higher RCF CALs has enabled LICs to preserve access to EF in a more shock-prone world without compromising IMF lending policy standards. Under the temporarily higher RCF CALs, most LICs have maintained a borrowing space under the RCF at or above 50 percent of quota (Annex XI. Figure 1). At the same time, the extension of the higher RCF CALs has not impeded the transition from EF to UCT-quality programs: among the 51 PRGT-eligible countries that received EF in 2020-2021, 34 countries resumed or transitioned to new UCT-quality programs, 14 did not request follow-up financial support from the Fund, and only 3 countries had no UCT-quality programs but requested additional EF since 2022, out of which 2 under the FSW.[2] Since 2022, and apart the disbursements under the FSW, only two RCFs were approved.[3]

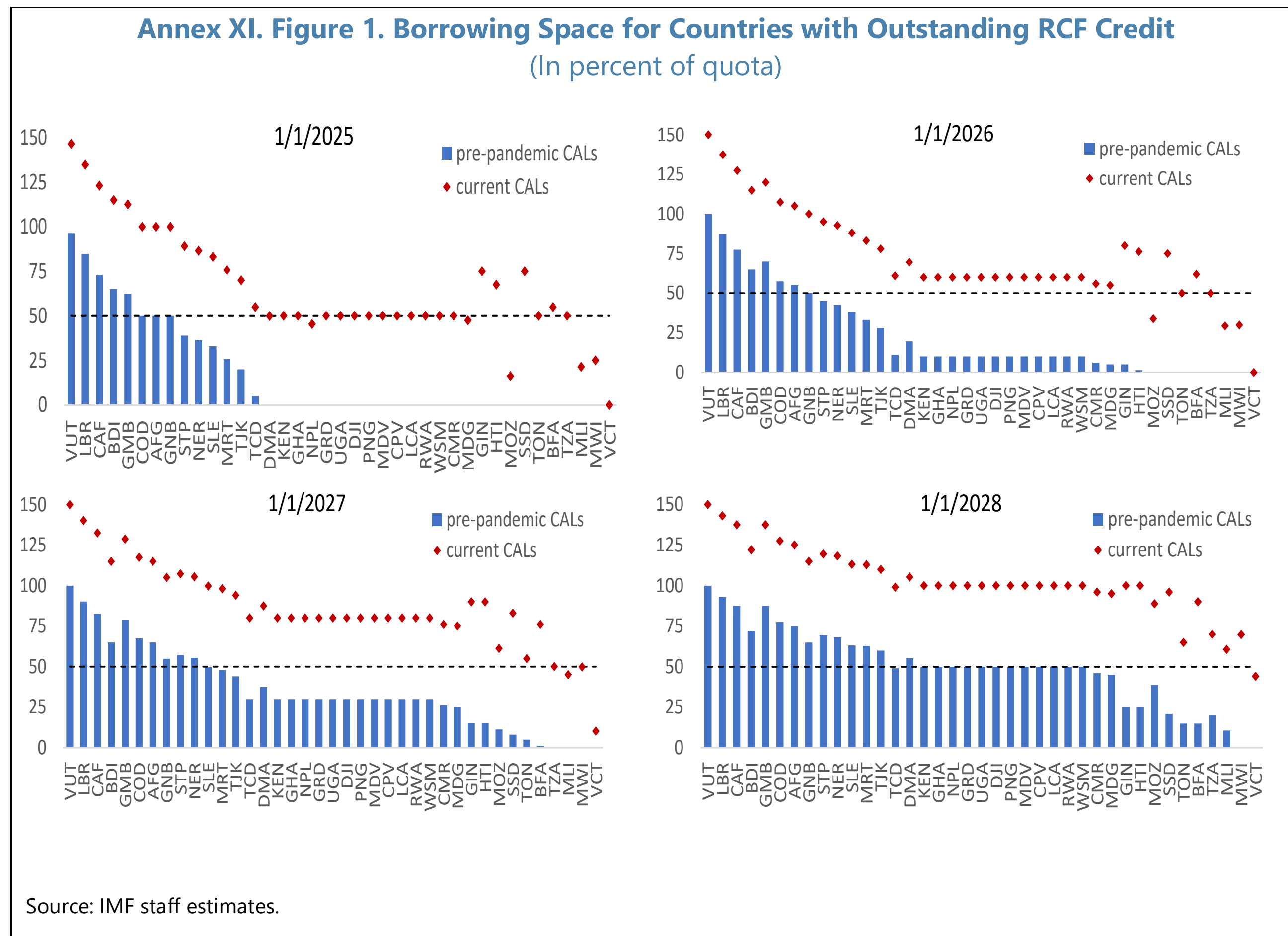
5. Reverting the RCF CALs to their pre-pandemic level would result in a significant contraction of LICs' EF borrowing space. With a grace period of 5½ years, countries that tapped the RCF during the peak of the Covid-19 pandemic in the Spring of 2020 will start repaying these credits only at the end of 2025. While most LICs have EF borrowing space at or above 50 percent of quota at the current temporarily higher RCF CALs, the borrowing space would decline substantially if CALs would abruptly revert to pre-pandemic levels. Most of the 38 non-presumed blenders that accessed the RCF since the beginning of the pandemic would be left with an RCF borrowing space at

[2] Tonga requested RCF in January 2021 and July 2022, Haiti – in April 2020 and January 2023, and South Sudan – in November 2020, April 2021, and March 2023. The 2023 RCF requests by Haiti and South Sudan were under the FSW. South Sudan has an active Staff-Monitored Program with Executive Board Involvement to establish a track record of policy implementation toward an ECF.

[3] Five countries benefited from the FSW under the RCF (Burkina Faso and Malawi, now both under an ECF arrangement, and Guinea, Haiti, and South Sudan), and one under the RFI (Ukraine). Since 2022, apart these five RCF FSW cases in 2022-23, only two RCFs were approved, for Tonga (July 2022) and Guinea (May 2024).

zero or well below 50 percent of quota, until they would gradually repay their past exposure. It would take until the end of 2027 for these countries to restore a borrowing space of 50 percent or above under the RCF. This could constrain the Fund's capacity to provide urgent BoP support in situations where a UCT arrangement is neither necessary nor feasible (Annex XI. Figure 1).

Annex XI. Figure 1. Borrowing Space for Countries with Outstanding RCF Credit
(In percent of quota)



Source: IMF staff estimates.

Annex XII. Reflections on the Use of the Stand-by Credit Facility

During the April informal Board discussion, several Directors asked IMF staff to review the experience with the SCF, including on a precautionary basis. The recent decline in the number of SCF arrangements can likely be explained by a more difficult global environment that gave rise to more protracted BoP needs across LICs, as well as the availability of alternatives for policy signaling in the Fund's toolkit. Staff is of the view that the SCF continues to play an important role in the PRGT facilities architecture. It suggests promoting knowledge of the SCF among IMF staff and member countries, while policy changes do not seem to be warranted at this stage.

A. Promoting the Use of the Precautionary SCF

1. The SCF provides concessional financing to LICs with actual or potential short-term BoP needs, and can be used on a precautionary basis. The purpose of an SCF arrangement is to assist eligible member countries in implementing economic programs aimed at achieving, maintaining, or restoring a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. This means that a stable and sustainable macroeconomic position should be typically achieved during the 12-36 months duration of an SCF arrangement.[1] In line with precautionary arrangements in the GRA, precautionary use of the SCF is meant to provide countries that do not have an actual BoP need at the time of the request access to immediate financing in case such BoP need materializes. This feature provides upfront assurance to markets and other stakeholders that the member will remain in a strong position to cover potential financing gaps for example due to a temporary loss of market access linked to adverse global economic and financial conditions.

2. Since 2010, the use of the SCF primarily sought to ensure against or respond to external shocks (Annex XII. Table 1). Thirteen SCFs were approved between 2010 and 2023 (totaling commitments of SDR 1.673 billion upon approval), with total drawings amounting to SDR 0.72 billion to date. Seven out of the 13 SCF arrangements were used by blenders (SBA-SCF). The eight precautionary SCF arrangements, most by presumed-blenders, primarily aimed at strengthening market confidence, catalyzing financing, and facilitating external adjustment, while providing needed financing in case of external shocks.[2] The 5 non-precautionary SCF arrangements resulted from temporary external shocks from adverse Terms-of-Trade changes (Mozambique, Rwanda and Solomon Islands), climate events (Rwanda), and the COVID-19 pandemic (Senegal).

[1] Consecutive SCF arrangements are possible, provided that they do not result in a member country having SCF arrangements for more than 3 years out of any 6-year period (excluding precautionary use).

[2] Eight arrangements were precautionary (SDR 1.1 billion). Two of those (Tanzania 2012 and Honduras 2019) eventually saw drawings, accounting for 21 percent of the total allotted quota since 2010.

Annex XII. Table 1. SCF Use and Motivation

Country	Year of Approval	Facility	Augmentation	Extension	Percent of GDP at approval	Percent of Quota at approval	Precautionary	Main motivation at program approval
GEORGIA	2012	SBA-SCF	No	No	2.33	166	Y	No BoP need. To ensure against external shocks, strenghten market confidence, help adjustment.
HONDURAS	2010	SBA-SCF	No	No	1.26	100	Y	No BoP need. To ensure against external shocks, catalyze donor budgetary assistance, help adjustment.
	2014	SBA-SCF	No	No	0.95	100	Y	No BoP need, but large and longer-term vulnerabilitied identified. Precautionary due to high costs otherwise during CB recapitalization. Additional insurance against external shocks given low reserve coverage.
	2019	SBA-SCF	Yes	Yes	1.24	90	Y	No BoP need. To ensure against external risks, focus on structural reform agenda.
KENYA	2015	SBA-SCF	No	Yes	1.05	180	Y	No BoP need, but larger and longer-term vulnerabilities identified, with high risks.
	2016	SBA-SCF	No	Yes	2.07	196	Y	No BoP need. To ensure against external shocks in light of low reserves.
MOZAMBIQUE	2015	SCF	No	No	1.78	180		Temporary BoP need due to sharp decline in international commodity prices and FDI, revenue from
RWANDA	2016	SCF	No	Yes	2.23	90		Temporary BOP need due to collapse of mining exports.
	2023	SCF	No	No				Temporary BOP need due to climate shock.
SENEGAL	2021	SBA-SCF	Yes	No	2.31	140		Temporary BOP need due to COVID.
SOLOMON ISLANDS	2010	SCF	No	No	2.27	120		Temporary BOP need due to challenging external environment and narrow production base (stoppage in
	2011	SCF	No	No	0.76	50	Y	No BoP need following preceeding SCF. To ensure against external shocks and to anchor the medium-term policy agenda.
TANZANIA	2012	SCF	No	Yes	0.58	75	Y	No BoP need. To ensure against external shocks, secure continued market confidence.

Source: MONA.

3. **The SCF plays a unique and useful role within the overall PRGT facilities architecture by providing concessional support to PRGT-eligible members to address short-term BoP needs.** Experience suggests that such needs tend to arise particularly in frontier markets.

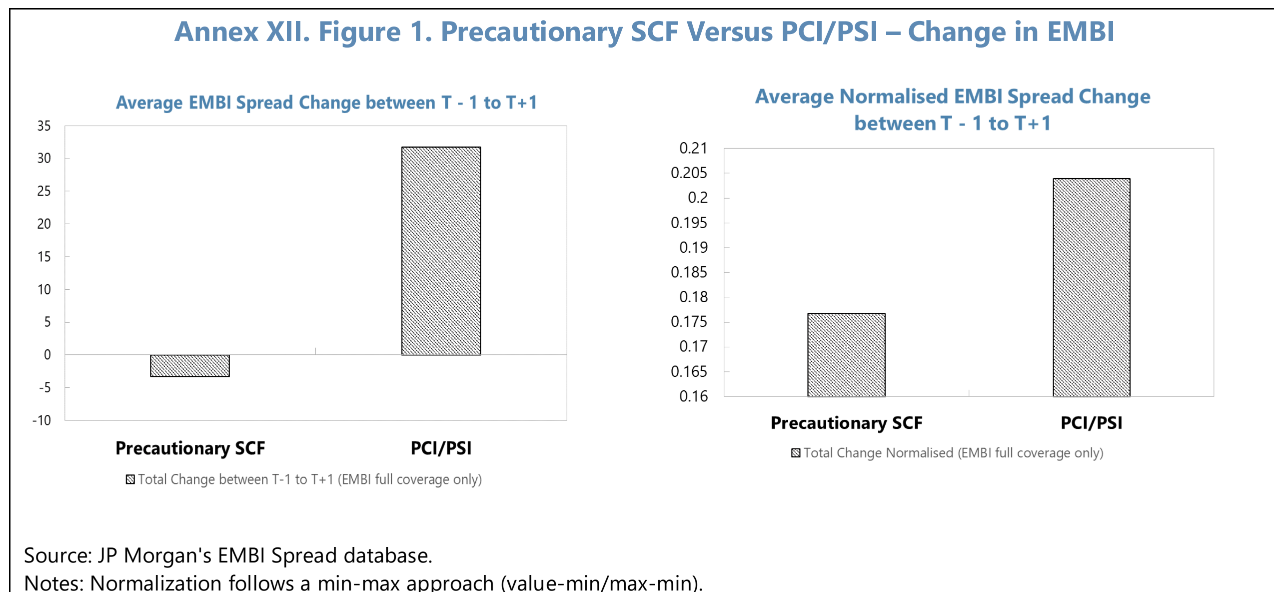
4. **Less frequent use of the SCF in recent years can be attributed to several factors that, however, may be less relevant in the future.** First, increased market access of more advanced LICs in the pre-pandemic period at comparably low interest rates made recourse to Fund financing less important for frontier market countries. Second, the sizeable shocks experienced by LICs since the start of the Covid-19 pandemic has increased the prevalence of protracted BoP needs, making ECF arrangements the appropriate financing instrument, with its longer arrangement duration, more affordable terms, and more flexibility on adjustment path and timing.

5. **Staff believes that the SCF has specific features that maintain its relevance, including compared to the Policy Coordination Instrument (PCI) that was launched in 2017.**[3] This holds true even if precautionary SCF arrangements involve an availability fee of 0.15 percent of undrawn

[3] Presumed blenders requesting a precautionary SBA-SCF would also be subject to SBA commitment fees. The latter depend on access (0.15 percent on committed amounts up to 115 percent of quota, 0.30 percent on committed amounts between 115 and 575 percent of quota, and 0.60 percent on committed amounts exceeding 575 percent of quota). If the SCF remains precautionary no subsidy resources are used. Only if amounts are drawn the interest rate differential starts to be subsidized.

amounts (reimbursed for portions that are drawn). First, a precautionary SCF arrangement provides a stronger signal of insurance to donors and investors compared with a PCI, with stronger potential to impact positively sovereign borrowing costs (Annex XII. Figure 1), catalyze external financing, and strengthen reserves (Annex XII. Figure 1). The catalytical role, in particular, has been confirmed by increased net official development assistance (ODA) and official aid in actual cases of use of precautionary SCF arrangements (Annex XI. Figure 2).[4] Finally, there is complementarity across instruments: in recent years, several PRGT-eligible countries have started with a PCI and later transitioned to a disbursing SCF arrangement (Tanzania 2012, Mozambique 2015, Rwanda 2016 and 2023, and Senegal 2021).

Annex XII. Figure 1. Precautionary SCF Versus PCI/PSI – Change in EMBI



Source: JP Morgan's EMBI Spread database.
Notes: Normalization follows a min-max approach (value-min/max-min).

6. Mission chief survey results broadly confirmed the considerations outlined above and underscored that the SCF remains an important part of the PRGT facilities architecture (Annex XII. Figure 3).[5] As expected, the prevalence of protracted BoP needs was cited by mission chiefs of PRGT-eligible countries as the primary reason for not selecting the SCF. Several mission chiefs also pointed to difficulties in distinguishing between short-term and protracted BoP needs, which favored the choice of the ECF. That said, the majority of survey respondents viewed the SCF (including its precautionary use) as valuable components of the PRGT lending toolkit.

7. Consistent with the discussion above, there is a case for promoting knowledge on the SCF among IMF staff and country authorities, while no policy changes seem warranted at this time.

[4] Countries with non-precautionary SCFs have usually received more official aid at the onset of the program—indicating that non-precautionary SCFs are mostly used by lower-income PRGT countries.

[5] The survey was directed at 8 country teams with firsthand SCF experience, encompassing all the 13 past or ongoing SCF arrangements, in addition to another 30 country teams that have requested a new program since 2021. 21 country teams have responded to the survey (turnout of 60 percent). The survey focused on the mission chiefs' views on the role of the SCF within the Fund's toolkit and explored reasons behind its limited use.

Annex XII. Figure 2. SCFs and Development Assistance

(Net Official Development Assistance + Official Aid, billions of constant 2021 USD)

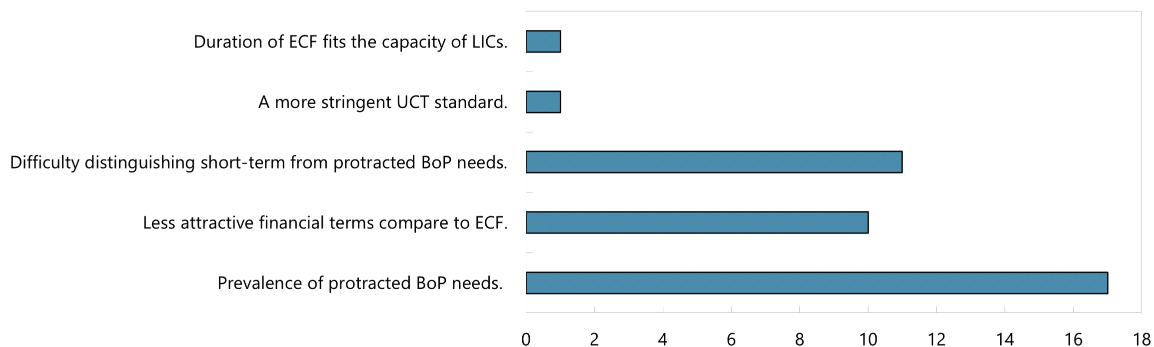
Sources: WDI and IMF staff estimates.

Note: Average net flows are calculated around approval years in countries with precautionary (or non-precautionary) SCFs. Two-year averages are used in case of approvals in two consecutive years.

Annex XII. Figure 3. Survey Responses - Summary

The nature of the BoP need, cost considerations and difficulty to distinguish short-term from protracted BoP needs were cited as main reasons for an infrequent use of SCF. These factors align with the considerations influencing their teams' choice of facility.

What explains the infrequent use of SCF relative to ECF by LICs



Source: IMF staff estimates.

Annex XIII. Current and Proposed Access Limits, Norms, Safeguard and Market Access Thresholds

Access Limits (in percent of quota)	Current 1/	Proposals 1/	Proposals after the 16th GRQ becomes effective
Annual/cumulative access limits			
All PRGT-facilities-normal	200/600	200/600	135/405
RCF (regular window) 2/	50/100	50/100	35/70
RCF (exogenous shock window) 2/	50/150	50/150	35/105
RCF (large natural disasters window) 2/	80/183.3	80/183.3	55/125
Per disbursement limit			
RCF (regular window)	25	25	17.5
Norms			
3-year ECF 3/	200	145	100
18-month SCF 4/	200	145	100
RCF (annual access under the regular window)	25	25	17.5
Blending proportions applicable to members presumed to blend (PRGT:GRA) 5/	1:2 with concessional access capped at 200 percent of quota per arrangement (all GRA thereafter)	1:2 with concessional access capped at 145 percent of quota per arrangement (all GRA thereafter)	1:2 with concessional access capped at 100 percent of quota per arrangement (all GRA thereafter)
Triggers for procedural safeguards on high access procedures (HAP)/strengthened policy safeguards (SPS)			
Total access in any 24-month period—for DSA (update) 5/	80	N/A	N/A
An informal Board Meeting as soon as management agrees that a new or augmented high access arrangement could be appropriate: HAP/SPS2 6/	Total access in any 36-month period in excess of 240 percent of quota, **or** total PRGT credit outstanding to exceed 300 percent of quota at any point during the program period	Total access per arrangement (at program approval or augmentation) exceed 150 percent of the applicable norm, **or** total PRGT credit outstanding to exceed 300 percent of quota at any point during the program period	Total access per arrangement (at program approval or augmentation) exceeding 150 percent of the applicable norm, **or** total PRGT credit outstanding to exceed 200 percent of quota at any point during the program period
Triggers for enhanced safeguards (ES)/strengthened policy safeguards (SPS)			
ES1a and ES1b / SPS1	Annual access in excess of 100 percent of quota, **or** cumulative access in excess of 300 percent of quota at any point during the program period **or** at high risk of debt distress or in debt distress	Total access per arrangement (at program approval or augmentation) exeeding 125 percent of the applicable norm, **or** total PRGT credit outstanding to exceed 300 percent of quota at any point during the program period **or** at high risk of debt distress or in debt distress	Total access per arrangement (at program approval or augmentation) exeeding 125 percent of the applicable norm, **or** total PRGT credit outstanding to exceed 200 percent of quota at any point during the program period **or** at high risk of debt distress or in debt distress

Access Limits (in percent of quota)	Current 1/	Proposals 1/	Proposals after the 16th GRQ becomes effective
ES2 and (ES1a and ES1b) /SPS3	High risk of debt distress or in debt distress	High risk of debt distress or in debt distress	High risk of debt distress or in debt distress
De minimis **threshold for the application of the HAP/SPS**	15	25	15
Triggers related to Lapse of Time procedures			
Augmentations above which Lapse of Time procedures are not permitted	15	15	10
Market access metrics			
PRGT eligibility entry market access criterion: Minimum 5-year cumulative issuance/disbursement of commercial loans during at least two out of the five years	25	25	20
PRGT eligibility graduation market access criterion: Minimum 5-year cumulative issuance/disbursement of commercial loans during at least three out of the five years	50	50	35
Minimum issuance for a year to count	2	2	1.5

1/ PRGT annual and cumulative access limits were temporarily increased to 200 and 600 percent of quota, respectively, on December 7, 2023, for the period until end-2024. The limits would be maintained. The proposed reduction of the cap on access to PRGT resources per arrangement under the blending policy from 200 percent of quota to 145 percent would not affect any approved PRGT commitments under existing arrangements where the PRGT portion exceeds 145 percent of quota. However, new requests by presumed blenders (including under existing arrangements) will be subject to the new cap.
2/ Access limits under the exogenous shock window and large natural disaster window were temporarily increased in response to the Covid-19-related financing needs of the members. The CALs of these two windows under the RCF would remain at 150 and 183.33 percent of quota until the end of 2025 (105 and 125 percent of quota after the 16th GRQ becomes effective). Any RFI (a GRA instrument) access in the case of blending would also count towards these limits. The CAL for the RCF exogenous shock window would be adjusted upwards by 25 percent of quota (17.5 percent of quota after the 16th GRQ becomes effective) until 2026 for countries that benefited from the expired Food Shock Window.
3/ The access norm for ECF arrangements longer than 3 years would be prorated upwards to maintain the norm at 145/3 per year (100/3 after the 16th GRQ becomes effective).
4/ The norm for access under an 18-month SCF arrangement is set equal to that of the 3-year ECF arrangement, varying proportionately with the length of the SCF arrangement, up to the amount allowable under a 2-year SCF arrangement (266.67 percent of quota under the current norm, 193.33 percent of quota under the proposed norm and 133.33 percent of quota after the 16th GRQ becomes effective).
5/ To streamline the safeguards, this requirement would no longer apply because a DSA is required in all program requests and when there is significant change in circumstances.
6/ An early informal meeting is also required if the financial request involves exceptional access to concessional financing.

INTERNATIONAL MONETARY FUND

September 27, 2024

PROPOSAL FOR A DISTRIBUTION FRAMEWORK FOR GRA RESOURCES TO FACILITATE GENERATION OF ADDITIONAL PRGT SUBSIDIES

EXECUTIVE SUMMARY

The Fund's current strong financial position and healthy income outlook provide a unique opportunity for its membership to come together to consider the distribution of GRA resources (i.e., net income and/or reserves) to facilitate the generation of additional subsidy resources for the PRGT to ensure its adequate long-term self-sustained lending capacity. The SDR 25 billion medium-term target for precautionary balances (PBs) was reached in late FY2024, buttressing the strength of the Fund's balance sheet. Taking into account the impact of the proposed policy changes discussed in the *Review of Charges and the Surcharge Policy—Reform Proposals* (SM/24/256, 9/27/24), projected net income of the General Resources Account (GRA) generated during FY2025 to 2029 is estimated to remain strong, at about SDR 8.6 billion in cumulative terms, reflecting growing investment income and continued robust lending income.

Responding to Executive Directors' feedback in earlier Board discussions and subsequent consultations, this paper proposes a distribution framework for GRA resources that provides maximum flexibility to members while preserving the financial viability of the PRGT. This framework would keep GRA finances strong, allowing for a further increase of PBs. It would facilitate the generation of subsidy resources for the PRGT to ensure a self-sustained annual lending capacity of about SDR 2.7 billion, consistent with the broader strategy proposed in the context of the 2024 PRGT Review, which would enable the Fund to continue to provide adequate balance of payments support to eligible Low-Income Countries (LICs) on appropriate financing terms. It would also give members sufficient time to complete domestic processes to commit or provide new PRGT subsidy resources, ensuring budget neutrality over time and broad-based participation, while providing maximum flexibility for the disposition of their share in the distribution when available, as for past distributions.

Under the proposed framework, the Board would agree on a multi-year distribution plan, including a maximum cumulative distribution amount of SDR 6.9 billion from GRA resources. Starting after the end of Financial Year 2025, annual amounts would be determined by the Executive Board, either as the disposition of net income of the relevant year and/or a reduction of the Fund's general reserve, subject in all cases to the financial position of the GRA.

The framework would include the establishment of an administered account, the Interim Placement Administered Account (IPAA). The IPAA would hold the amounts transferred from the GRA. Under the terms of the IPAA, the principal would be available to each member in proportion to their quota shares once commitments have been received from members for new PRGT subsidy resources equivalent to at least 90 percent of the maximum cumulative distribution amount. Pending such assurances, interest income on the principal amount would be periodically transferred to the PRGT.

The decisions establishing the framework would be adopted by the Executive Board on the understanding that such framework, i.e., the multi-year distribution plan and the terms of the IPAA are acceptable to all members. The proposed framework reflects consultations with members through their Executive Directors to develop a mechanism that supports the distribution of GRA net income and/or general reserve to help generate critical PRGT subsidies, while giving members sufficient time for domestic processes and maximum flexibility in the modalities of the disposition of their share of the distribution.

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Glossary

FY	Fiscal Year
GRA	General Resources Account
IPAA	Interim Placement Administered Account
MYDP	Multi-Year Distribution Plan
PBs	Precautionary Balances
PRGT	Poverty Reduction and Growth Trust
SDR	Special Drawing Rights

INTRODUCTION AND BACKGROUND

1. **Discussions to date in the context of the 2024 Review of Poverty Reduction and Growth Trust (PRGT) Facilities and Financing (2024 PRGT Review) have indicated very broad support for restoring PRGT self-sustainability, including by distributing General Resources Account (GRA) resources to facilitate members' bilateral contributions to the PRGT.** The Fund's current financial position is strong, with the SDR 25 billion target for precautionary balances (PBs) having been reached in late FY2024 and the income outlook robust. [1] This strong financial backdrop creates a unique opportunity to both further increase GRA reserve accumulation and facilitate generation of additional PRGT subsidies. As discussed in the main 2024 PRGT Review paper, to support a self-sustained PRGT annual lending envelope of SDR 2.7 billion, the residual subsidy gap stands at about SDR 5.9 billion (in 2025 present value terms) taking into account i) potential savings from the proposed interest rate framework, ii) a further suspension of reimbursement of the PRGT to GRA for administrative costs, and iii) possible additional bilateral contributions.[2] In the previous discussions, Directors have indicated broad support for using GRA resource distributions to facilitate additional bilateral contributions from members that are needed to close this residual subsidy gap, subject to a high level of assurances for such contributions by members (equivalent to 90 percent of the distribution amounts, in line with past practice to ensure broad participation).

2. **Consultations with the membership suggest that it may take time to achieve the required level of assurances from individual members for new PRGT subsidy contributions in the context of the proposed GRA resource distributions.** Members have requested that staff develop a distribution mechanism that would address the need for more time to provide individual assurances, with budget neutrality for members' contributions over time. Against this backdrop, staff has consulted extensively on an approach that could garner support from members. The approach is based on several overarching principles:

- Have the **entire membership come together** to agree on a viable solution for the PRGT's self-sustainability.
- Ensure that members have **sufficient time to complete domestic processes** to commit their share/equivalent amounts of the GRA distribution for PRGT subsidies. Given current constraints in some member countries, the mechanism should accommodate potentially long delays in reaching the necessary threshold of assurances, while ensuring budget neutrality of contributions over time.

[1] After factoring in the proposed changes in the basic margin and the surcharge policies, projected cumulative net operating income for the period FY2025-29 under baseline projections would reach about SDR 8.6 billion. See *Review of Charges and the Surcharge Policy—Reform Proposals* (SM/24/256, 9/27/24).

[2] See *2024 Review of the Poverty Reduction and Growth Trust (PRGT) Facilities and Financing—Reform Proposals* (SM/24/252, 9/24/24). For documents prepared as background for the earlier, informal Board discussions, see *2024 Review of the PRGT Facilities and Financing—Initial Considerations* (FO/DIS/24/23), and *2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing—Reform Proposals* (FO/DIS/24/58).

- Ensure **broad participation**, such that the distribution amounts become available to members, only once assurances for PRGT subsidy contributions have been received from members equivalent to at least 90 percent of the maximum cumulative distribution amounts (hereinafter, "sufficient assurances"), which is in line with past approaches.[3]

- Provide maximum **flexibility for members** on how to provide their contributions to the PRGT when the distribution amounts become available, with members expected to make pledged amounts available.

- Ensure that the **PRGT will remain financially viable** during the interim period where sufficient assurances for PRGT contributions have not yet been received. This is critical as the PRGT faces an urgent funding need as elaborated in the 2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing—Reform Proposals (SM/24/252, 9/24/24).

3. **Building on these principles, this paper proposes that the Executive Board adopt a GRA resource distribution framework (hereinafter "the Framework") to facilitate generation of additional PRGT subsidy resources.** This Framework would provide for the placement of the annual amounts from GRA into a newly established administered account, and for using interest income from this account for PRGT subsidies until sufficient assurances from members have been obtained.

THE PROPOSED DISTRIBUTION FRAMEWORK

This section discusses the legal basis, and policy and operational aspects of the proposed Framework, including the multi-year distribution plan and a new administered account, and the assurances that would be sought from members, along with the various options for members to direct their share of the distribution.

A. Legal Basis and Precedents

4. **The legal basis for distributions of the Fund's net income and General Reserve is specified in the Articles of Agreement (Article XII, Section 6).** Article XII, Section 6(a) requires that the Fund determine annually what part of its net income shall be placed either to General or Special Reserve or distributed. Moreover, pursuant to Article XII, Section 6 (d), the Fund may decide at any time to distribute any part of the General Reserve, and such distributions must be made to all members in proportion to their quotas. A *distribution of net income* requires an Executive Board decision taken by a majority of votes cast, while a *general reserve distributio*n requires a 70 percent majority of the total voting power (6(d)). In addition, Article XII specifies that such distributions are to

[3] The effectiveness of the distribution decisions under the 2012 and 2013 General Reserve distributions attributable to windfall profits from the 2009-10 gold sales were conditional on obtaining assurances from members for new PRGT subsidy contributions equivalent to at least 90 percent of the aggregate distribution amount.

be made in SDRs, and that either the Fund or the member may decide that a distribution be made in the member's own currency (6(e)).

5. In 2012 and 2013, the Fund approved two partial distributions of the Fund's General Reserve for amounts attributed to profits from the 2009-2010 sale of post second amendment gold to facilitate bilateral PRGT subsidy contributions by members.[4] The effectiveness of the 2012 and 2013 distributions were conditional on obtaining assurances from members to provide PRGT subsidy contributions equivalent to at least 90 percent of the aggregate distribution amount. At the time, the membership was in a position to provide such assurances within 12 months in each case. Once the required assurances had been secured, the distributions became effective and were made available to members. Once the assurances were received, members were given several options to direct their share in the distribution, including direct transfers to the PRGT, temporary placement in an interim account pending completion of domestic processes, or placement to an account of the member.

6. While the 2012/2013 experience is instructive to inform the current proposed approach, some members have indicated that significant time may be needed for them to provide assurances. This means that there will be a critical period of time during which the PRGT subsidy gap would remain unfilled, while the distribution amounts are yet to become available to members. Under the proposed Framework, it would be possible to place any interest income generated in the administered account in the PRGT until sufficient assurances have been provided by members and the distribution becomes available to members for disposition.

B. Key Elements of the Proposed Distribution Framework

7. The proposed Framework builds on the past models for distribution of GRA resources, while providing members with more time to PRGT subsidy resources, and in the interim ensuring continued financial viability of the PRGT. The Framework consists of (i) a multi-year distribution plan (MYDP), and (ii) the establishment of an interim administered account, the Interim Placement Administered Account (IPAA). The MYDP would establish a maximum cumulative amount for distribution of GRA resources from net income and/or General Reserves, and provide for annual decisions on the amounts of resources to be transferred from the GRA and placed into the IPAA, subject to the adequacy of financial position of the GRA. The IPAA would hold the amounts until they are made available to members. The IPAA instrument would govern the use of the resources in the administered account: these amounts would be held in SDRs, and would be made available for members according to their quota shares once the sufficient assurances have been received (the "principal amounts"). In the interim, any interest income would be periodically transferred to the PRGT's Subsidy Reserve Account. Staff and Management are consulting with the membership

[4] The Articles specify no substantive criteria for net income or reserve distributions, nor are any noted in the Commentary accompanying the Second Amendment of the Articles of Agreement. Article XII, Section 6(d) was added to the Articles of Agreement in the context of the Second Amendment. Among other differences, the Articles prior to the Second Amendment provided only for the payment of distributions out of net income and not out of the general reserve. See *Proposed Second Amendment to the Articles of Agreement—A Report by the Executive Board to the Board of Governors*, 1976, Part II, Chapter L, paragraphs 1-5; and *Legal Aspects of Article XII, Section 6* (SM/66/130, 12/15/66).

regarding the acceptability of the proposed Framework. The Executive Board would be establishing the Framework with the understanding that the Framework is acceptable to all members. The details are elaborated below.

C. Multi-year Distribution Plan

8. It is proposed that the Executive Board approve an MYDP, with a maximum cumulative distribution amount of SDR 6.9 billion to facilitate the generation of additional subsidy resources for the PRGT. As discussed in the 2024 PRGT Review paper, taking into account other policy and financing measures, the residual PRGT subsidy gap stands at SDR 5.9 billion in 2025 present value terms, corresponding to a cumulative total of SDR 6.9 billion, assuming a 10 percent leakage rate (see Table 1).[5] For the sake of simplicity and transparency, staff proposes that the MYDP be anchored on the maximum cumulative amount SDR 6.9 billion, which is projected to generate additional subsidy resources broadly in line with the PRGT's resource gap.

9. The targeted cumulative distribution of SDR 6.9 billion would be achieved through a series of annual transfers of resources from the GRA into the IPAA. The placements of resources into the IPAA could take place annually over several years[6] and up to targeted maximum cumulative amount. Each placement of GRA net income into the IPAA would require a separate Executive Board decision with a majority of the votes cast. If the amounts came from the General Reserve, this would require an Executive Board decision with a 70 percent majority of the total voting power.

10. The specific amount made available for an annual placement into the IPAA at any given point would be subject to Board approval. As a matter of policy, any distributions of GRA resources should be justified based on adequacy of the GRA's financial position. This assessment would need to take into account the level of PBs and the Fund's income outlook, both of which change over time and may be uncertain. This implies that the annual amounts available for placement into the IPAA, as well as the timeframe to reach the maximum cumulative amount of SDR 6.9 billion, may also be uncertain.[7] The targeted nominal cumulative amount could be reached through five annual distributions of about SDR 1.4 billion, assuming 10 percent leakage. While the starting point would be to aim for uniform annual placements, the amounts would be adjusted up or down as needed depending on actual GRA income and PB outcomes. Therefore, the time period

[5] The exact amount of GRA resource distributions needed to generate SDR 5.9 billion would vary with the rate of leakage.

[6] In principle, an alternative option would be to provide a one-time general reserve distribution. However, if done upfront, this option would temporarily reduce precautionary balances below their target level, and if done once precautionary balances reach a specified level, it would imply no cash flows to the PRGT in the interim. If no disbursements are made by the time at which the PRGT's Subsidy Accounts' resources are fully committed, it would necessitate a temporary reduction in PRGT commitments to the current self-sustaining level of SDR 1 billion a year.

[7] The Fund's income position going forward will depend significantly on GRA credit outstanding, the future decisions regarding GRA charges, surcharges, and fees, and the Fund's investment income. See FO/DIS/24/81, 8/30/24.

required for reaching the targeted level could be shorter (longer) if the Fund's net income turned out to be higher (lower) over the next five years, assuming an unchanged target for PBs.[8]

Table 1. Flows from Interim Placement Administered Account (IPAA) to PRGT and Contribution to PRGT Subsidy Needs
(in SDR billion)

	2025 - 2030
Transfer of GRA resources to IPAA (cumulative) [1]	6.9
Transfer of interest income from IPAA to PRGT (cumulative) [2]	0.6
Transfer of Principal from IPAA to PRGT [3]	6.2
Sum of transfer from IPAA to PRGT (nominal)	6.8
Sum of transfer from IPAA to PRGT (in 2025 present value)	5.9

Source: IMF staff estimates

[1] Assumes 5 annual placements of SDR 1.38 billion into the IPAA following the end of the IMF's financial year.

[2] Quarterly transfers of interest income to the PRGT.

[3] Assumes that 90% of the total principal in the IPAA (SDR 6.9 billion) will be transferred to the PRGT after five years.

D. Interim Placement Administered Account

11. Staff proposes that the Executive Board establish the IPAA to hold the amounts transferred from GRA pending sufficient assurances. The IPAA would have the following key elements:

- As with all Administered Accounts established under Article V, Section 2(b) of the Articles of Agreement, the IPAA would be administered by the Fund as Administrator and subject to oversight by the Executive Board. Resources held in the IPAA, including investment returns, would be legally owned by the Fund and administered on terms consistent with the IPAA Instrument. [9]

- Placement of resources from the GRA to the IPAA would be made in SDRs and held in SDRs.[10]

[8] In the event that the required assurances for new PRGT subsidy contributions reach 90 percent of the maximum cumulative distribution amount before the cumulative limit of placements to the IPAA has been reached, all principal resources in the IPAA would be made available to members in accordance with their quota share at the time the relevant part of the principal was placed into the IPAA, and new placements of distribution amounts would be passed on to members on a pass through basis as directed by the relevant member.

[9]See *Office Memorandum from the Acting Secretary to the Executive Board,* "Frequently Asked Questions on IMF Trusts and Administered Accounts," dated November 2, 2011 (FO/DIS/11/222).

[10] SDRs are safe assets, and would provide a safeguard to members that the principal value of their share of the potential distribution would not be put at risk.

- Under the terms of the proposed IPAA instrument, interest at the SDRi rate on the balances in the IPAA would be transferred to the PRGT's Subsidy Reserve Account periodically.

- Under the terms of the IPAA, a member's share in the principal amount would be available to individual members for disposition based on their quota shares only after the sufficient assurances have been received.

- Until sufficient assurances have been received, resources held in the IPAA would effectively be "encumbered" due to the inherent uncertainty about when and/or whether the sufficient assurances would be secured and the principal amounts would be available to members.[11]

- The terms of the IPAA specify a time limit of 5 years to hold resources in the account at which point the Executive Board could decide, with a majority of votes cast, to extend the time limit or return the aggregate distribution amount to GRA.

- As in the past, once the sufficient assurances have been received, members would be given various options on how to direct their shares of the resources in the IPAA (see next section), and

- If the assurances for the cumulative maximum distribution amount have been reached prior to the maximum distribution amount having been placed to the IPAA, any balances in the IPAA would be made available to members for disposition, and any future amounts placed into the IPAA would also be made available immediately to members, provided that the sufficient assurances remain in place.

E. PRGT Contribution Assurances and Distribution Modalities

12. Members will be requested to provide a single assurance for the PRGT. The assurance could indicate that members consent to the direct transfer of their full share of the cumulative distribution to the PRGT, or pledge an equivalent (or different) amount from other sources. Once sufficient assurances for new PRGT contributions in an aggregate amount of SDR 6.2 billion, i.e., 90 percent of the total amount to be distributed, have been received, they would be assumed to remain valid, unless the member provides notice that its commitment of new resources be amended or withdrawn.[12] At any time the member could renew or withdraw its commitment.[13] Following

[11] While the objective of the framework is to reach sufficient assurances and make the principal amounts held in the IPAA available to members, under the framework the amounts may be returned to the GRA after 5 years. if sufficient assurances have not been reached.

[12] Securing a lower level of assurance would undermine the 2024 PRGT review, including the PRGT's envisaged long term lending envelope of SDR 2.7 billion, hampering the Fund's efforts to support the poorest and most vulnerable countries. Reflecting Executive Directors desire that LICs benefit from the process, a 90 percent assurance threshold was adopted by the Board under the 2012 and 2013 General Reserve distributions attributable to windfall profits from the sale of gold.

[13] It should be noted that a member's assurance does not legally guarantee its later contribution of the full or any amount previously committed but it could provide a reasonable basis to proceed with a distribution.

approval of the proposed decisions at the conclusions of the 2024 PRGT Review, all members would receive a letter from the Managing Director seeking their commitment for new PRGT contributions that would be facilitated by the distributions. Staff would periodically update the Executive Board regarding progress towards obtaining sufficient assurances. The Managing Director would inform the Executive Board once sufficient assurances have been received and at that time the resources would be made available to individual members in line with the instructions members have provided regarding the use of their share.

13. As under the 2012 and 2013 general reserve distributions, members would be provided a broad range of modalities to direct their share in the distribution once the assurances of SDR 6.2 billion have been reached.[14] Consistent with past practices, the Managing Director would contact each member's Governor of the Fund, who would then communicate to the Fund the member's preferences regarding the treatment of its share of the reserve or net income distribution, once it is available, subject to sufficient assurances being received.[15] Members could be offered to choose among three basic options: i) direct transfer of their share from the IPAA to the PRGT's Subsidy Reserve Account (SRA), ii) temporary placement of their share in an Interim Administered Account, and iii) distribution to other accounts designated by members (see Annex III for more details). Distributions under each of the three options would normally be implemented by using SDRs, except that, as for the 2012 and 2013 general reserve distributions, a member's own currency would be used for distributions to members with overdue repurchase obligations to the GRA. Member preferences can be communicated via response to the MD's letter (see Annex I for more details). Members not in a position to contribute to the sufficient assurances would receive their full share of the conditional distribution upon release of the distribution.

ISSUES FOR DISCUSSION

- Do Directors agree with the proposed framework for GRA distributions to generate critical PRGT subsidy while giving members sufficient time to complete domes processes?
- Do Directors support the proposed multiyear GRA distribution plan with a maximum cumulative distribution amount and an annual distribution subject to the adequacy of the GRA financial position?
- Do Directors support the proposed establishment of the Interim Placement Administered Account and its terms?

[14] For more details, please see Annex VII in FO/DIS/24/23.

[15] The Managing Director's communication to the IMF Governors would contain templates for communications for members to use when responding to the Managing Director regarding the intended use of their share of the distribution.

Annex I. Modalities to Facilitate Members' Subsidy Contributions to the PRGT

A range of modalities could be offered to accommodate members' preferences and differences in their domestic approval processes thereby facilitating members' voluntary bilateral subsidy contributions to the PRGT.

The following basic options could be offered to members for channeling their share of resources made available to them from the IPAA (or an equivalent amount) to the PRGT:

Direct transfer from the IPAA to the PRGT. Under this option members would instruct the Fund to transfer their share of the resources in the IPAA to the Subsidy Reserve Account (SRA).

- **Temporary placement in an Interim Administered Account.** Members using this option would request that their share of the distribution made available to them from the IPAA be placed temporarily in an interim account to be administered by the Fund, pending members' further instructions as to their subsequent disposition. Such a placement could be combined with a pledge that, following the resolution of the necessary domestic processes, the member would contribute its share of the distribution to SRA.

- **Placement to SDR Account, or any other account identified by member, possibly combined with a pledge.** Members could choose to directly transfer all or part of their shares of the resources made available to them from the IPAA into their SDR account. This could be combined with a pledge to separately provide grants or other pledges of a similar magnitude to the at another time.

- **Members would be consulted regarding their preferences on use of their share of the distribution well in advance of any distribution taking place.** Members could specify that their share of the distribution be allocated towards more than one of the above purposes. From the Fund's perspective, such distributions would be made available to Fund members. While recognizing that members' domestic legal and institutional frameworks vary, the Managing Director would contact each member's Governor of the Fund, who would then communicate to the Fund the member's preferences regarding the treatment of its share of the resources made available to them from the IPAA. Their responses would help ascertain whether sufficient assurances are in place to make principal resources from the IPAA available to members.

INTERNATIONAL MONETARY FUND

October 7, 2024

2024 REVIEW OF THE POVERTY REDUCTION AND GROWTH TRUST FACILITIES AND FINANCING—PROPOSED REFORMS—PROPOSED DECISIONS

Approved By
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Prepared by staff of the Legal, Finance, and Strategy Policy and Review Departments.

INTRODUCTION

1. This paper sets forth the proposed decisions that are needed to implement staff's proposals in the paper "**2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing—Reform Proposals" (SM/24/252)** and its supplement, "**2024 Review of the Poverty Reduction and Growth Trust Facilities and Financing—Proposal for a Distribution Framework for GRA Resources to Facilitate Generation of Additional PRGT Subsidies**" (SM/24/252, Sup. 1) ("Supplement 1"). It also implements the proposals in **Review of the Poverty Reduction and Growth Trust Investment Strategy (EBS/24/104)** (the "Companion Paper"). This supplement summarizes key aspects of the proposed decisions.

2. Ten decisions are proposed for adoption by the Executive Board:

- The first decision (Decision I) would implement the proposed amendments to the Poverty Reduction and Growth Trust in the following key ways: (i) modification of the interest rate mechanism to introduce a tiered interest rate structure in the PRGT based on the thresholds that apply under the policy on blending; (ii) amendment of the overall normal and cumulative access limits applicable to all loans under the PRGT; (iii) extension of the temporarily-higher cumulative access limits under the RCF; and (iv) reduction of access limits and quota-based thresholds upon the effectiveness of the quota increases under the 16th General Review of Quotas. In addition, this proposed decision implements the proposal made in the Companion Paper for the creation of a new, long-term investment account (the "LTIA") within the PRGT to centralize resources contributed by members for investment under the proposed long-term investment strategy (see Decision VII), and makes consequential changes to the PRGT Instrument to provide for the creation of the new account in the PRGT.

- Decision II would implement the proposed changes to the blending policy by (i) introducing a new regime to address changes in GNI per capita following a GDP rebasing, and (ii) stipulating that the per arrangement cap on access to PRGT financing shall be set at the PRGT access norm.

- Decision III would implement the proposed changes to the Board decision on PRGT eligibility by requiring that an assessment of serious short-term vulnerabilities be conducted in all cases prior to graduation from PRGT eligibility.

- Decision IV would modify the PRGT eligibility list by adding the Syrian Arab Republic to the list.

- Decision V would amend the decision on Policy Safeguards for High Combined Credit (PS-HCC) by modifying the criterion on debt sustainability to align it with the debt sustainability criterion under the GRA EA policy for LICs that meet the GRA EA market access criterion.

- Decision VI increases the limit applicable to the Managing Director's authority to receive loan account resources to the Trust to an amount of SDR 87 billion.

- Decision VII implements the proposal made in the Companion Paper for revisions to Guidelines for Investing Poverty Reduction and Growth, Resilience and Sustainability, Poverty Reduction and Growth-Heavily Indebted Poor Countries, and Catastrophe Containment and Relief Trust Assets (the "Investment Guidelines") to separate PRGT investment assets into two portfolios, reflecting different investment horizons and, in particular, a long-term investment portfolio.

- Decision VIII amends the decision on the investment of temporary resources to generate income for the PRGT, pursuant to the proposed change in the Investment Guidelines, to clarify that investments in the long-term investment strategy are to be centralized in the LTIA.

- Decision IX creates a new administered account, the Interim Placement Administrative Account ("IPAA"), under Article V, Section 2(b) for the interim placement of GRA net income/reserves to the IPAA pending assurances from members regarding new PRGT subsidy contributions as further set out in Supplement 1 to this paper.

- Decision X provides for a framework decision on the distribution of GRA net income and/or reserves to facilitate contributions to the PRGT's subsidy accounts.

3. **Redlined versions of the underlying decisions showing the proposed amendments are attached for the convenience of Executive Directors.** The redlined texts are those of the PRGT Instrument, the decision on blended access to PRGT and GRA financing ("Blending Decision"), the decision on PS-HCC and the decision on eligibility to use the Fund's facilities for concessional financing. See Annex I of this supplement.

4. **The proposed decisions do not cover all the proposals in the main paper**. Accordingly, these proposed decisions are to be read in conjunction with the summing up of the Board's discussion of the paper. Specifically, the proposals on the changes to PRGT access norms, high

access safeguards and the introduction of strengthened policy safeguards, inter alia, are to be covered by Executive Board endorsement in the summing up.

SUMMARY OF DECISIONS

5. Modification of the interest rate mechanism to introduce a tiered interest rate structure in the PRGT (paragraphs 30 – 41 of the main paper). Proposed Decision I implements the proposal to apply a new system of interest rates to PRGT loans (under the ECF, SCF and RCF) approved on or after May 1, 2025. The following are some of the key elements of the decision:

a. Outstanding balances, and access under the RCF and arrangements approved up to or in place as of April 30, 2025 (including disbursements following augmentations of access or extension of such arrangements) would not be affected by the new interest rate mechanism. For such outstanding balances and credit under these arrangements and RCF disbursements, the zero-interest rate regime would apply without further review.

b. Under the new interest rate mechanism, differentiated interest rates would apply to outstanding balances under new loans approved on or after May 1, 2025 depending on the "tier" to which the borrowing country belongs on the date of Board approval of the arrangement or RCF disbursement, as described below.[1]

c. The tiers would be based on the thresholds under the blending policy, and the applicable interest rate regimes would be as follows:

   i. Tier 1 would comprise PRGT-eligible members which do not meet the income criterion for presumed blending and the applicable interest on PRGT loans would be zero percent.

   ii. Tier 2A would comprise countries that meet all the criteria for presumed blending. Interest on new PRGT loans for these members would be charged at 70 percent of the SDR interest rate per annum.

   iii. Tier 2B would comprise countries that meet the income criterion for presumed blending but face elevated debt vulnerabilities that limit their access to international financial markets, as defined in the Blending Decision. Interest on new PRGT loans for these members would be charged at 40 percent of the SDR interest rate per annum.

d. A transitional provision is proposed to address circumstances where a member would meet the income criterion for blending as a result of GDP rebasing. In those circumstances, the change of tiers for blending (proposed Decision II) and the application of the new interest rate mechanism (proposed Decision I) would require reaching the income

[1] As part of the proposed amendments to the PRGT Instrument, it is proposed that interest payable on outstanding Trust loans be billed on a quarterly basis and payable "promptly" at the end of each financial quarter.

threshold for two consecutive years not including the year in which the rebased GDP is released.

6. Amendment of the overall normal and cumulative access limits under the PRGT, and extension of the cumulative access limits under the RCF (paragraphs 48 – 49, 88 of the main paper). Proposed Decision I would also implement the following proposals on access:

a. Effective January 1, 2025, establish the limit on overall access of each eligible member to PRGT resources under all facilities at an annual limit of 200 percent of quota and a cumulative limit of 600 percent of quota cumulative, net of scheduled repayments.

b. Extend the temporarily-higher cumulative access limits under the RCF until end-December 2025 (paragraph 88).

c. Deflate the overall annual and cumulative access limits, the annual and cumulative limits under the RCF and other quota-based thresholds specified in the decision when the Executive Board determines that the general conditions for the effectiveness of quota increases under the Sixteenth General Review of Quotas have been met (paragraph 59, Annex XIII of the main paper).

7. Creation of the LTIA (paragraphs 72 – 77 of the main paper). Proposed Decision I creates, as part of the PRGT amendment, a new long-term investment account, the LTIA, as proposed in the Companion Paper. The LTIA provides a vehicle for centralizing contributions to the PRGT to be invested in the long-term investment strategy set out in the Companion Paper. The LTIA's terms are modeled on the existing Deposit and Investment Account. For purposes of the LTIA, the Managing Director is authorized to enter, on behalf of the PRGT, into bilateral investment agreements with contributors. The proceeds of the borrowed resources will be invested in accordance with guidelines adopted by the Trustee (see below on proposed investment strategy). The resources derived from net investment earnings attributable to contributors will normally be transferred to the SRA at the final maturity of the related agreement; provided, however, that the Managing Director is also authorized to agree with individual contributors on transfers prior to the final maturity of the agreement. It is further proposed, to enhance flexibility for potential contributors, that a contributor to the LTIA also be given the option to request that its share of resources derived from net investment earnings be transferred to the General Subsidy Account instead of the SRA. The resources in the LTIA are held separately from the other accounts of the PRGT; consistent with existing practice, PRGT assets, including those in the LTIA, can be invested jointly under mandates that provide for a clear attribution of the relative share of the invested assets to the various accounts of the PRGT.[2] An encashment regime is provided for whereby a contributor may request, upon a representation of a balance of payments need, the early repayment of the principal amount of the

[2] Under the current record keeping arrangements, detailed attribution is made of the share of each account in the investments. Moreover, FIN maintains a share allocation record of individual contributors and income earned on their investment and their share of resources in an account. This will allow the calculation of the current value of each contributor's principal amount in the LTIA.

borrowed resources. The encashment would be funded from resources in the LTIA attributed to the contributor. A contributor exercising its encashment rights would be required to reconstitute the value of the principal amount as soon as possible once its balance of payments position improves. Repayment of the principal amount under a deposit or investment agreement with a contributor under all circumstances (including at maturity, encashment, or termination of the account) will be made exclusively from resources attributed to the deposit or other investment of that principal amount, and the net investment earnings thereon, net of cumulative interest previously paid to the contributor.

8. Consequential amendments of the PRGT Instrument. Proposed Decision I also makes consequential amendments to the PRGT Instrument resulting from the establishment of the LTIA. This includes making the provisions on the LTIA "protected provisions" under Section IX of the PRGT Instrument that can only be amended with the consent of contributors to the LTIA.

9. Modification to the blending rules (paragraph 34, 47 of the main paper)**.** In addition to establishing a transitional arrangement, as noted in paragraph 5 (d) above for members that would meet the income criterion for blending as a result of GDP rebasing (including members that performed such rebasing in the past since March 11, 2020, the date when Covid-19 was declared a pandemic), Proposed Decision II also establishes the use of the norm as the per arrangement cap on the use of PRGT resources in blending cases. In addition, the decision would reduce the current 200 percent of quota per arrangement cap on PRGT resources, in place temporarily through December 31, 2024, to 135 percent of quota, upon determination that the general conditions for effectiveness of the quota increases under the 16th General Review of Quotas have been met, in the event this happens before January 1, 2025.

10. Modification of the provision on assessment of serious short-term vulnerabilities for graduation from PRGT eligibility (paragraph 80 of the main paper). Proposed Decision III implements the proposal to require an assessment of the presence/absence of serious short-term vulnerabilities in all cases prior to proposing the graduation of a member from PRGT eligibility. Under the current framework, members whose income GNI per capita exceeds the IDA graduation threshold by 50 percent or more may automatically graduate without the assessment of SSTV unless certain criteria are met. In addition, similar to the quota-based thresholds for access, the quota-based thresholds of market access for entry onto and graduation from PRGT eligibility would similarly be reduced once a member's quota increases under the Sixteenth General Review of Quotas. Staff proposes the addition of one country to the PRGT Eligibility list (proposed Decision IV).

11. Amendment of the criterion on debt sustainability under the PS-HCC (paragraph 84 of the main paper). Proposed Decision V would implement the proposal to align the PS-HCC debt sustainability criterion with that under the GRA EA policy for LICs that meet the GRA EA market access criterion.

12. Increase in the borrowing limit. Proposed Decision VI implements an increase in the cumulative borrowing limit of the PRGT in order to accommodate a loan contribution agreement from the United States and to meet expect demand for PRGT loan resources over the medium to

long term. The proposal will increase the borrowing limit by SDR 16 billion, from SDR 71 billion to SDR 87 billion. All existing PRGT lenders have been consulted regarding this decision.

13. Amendment to Investment Guidelines and Decision on the Investment of Temporary Resources. Based on the proposals made in the Companion Paper regarding the proposed amendment to the Investment Guidelines, Proposed Decision VII amends the existing Guidelines to separate the PRGT's investment assets into two portfolios to reflect different investment horizons. The revised Investment Guidelines are set in Annex II to this Supplement. This decision requires a majority of 70 percent of the total voting power given the provisions of Article V, Section 12(h) of the Fund's Articles of Agreement regarding investment of SDA assets. In addition, Proposed Decision VIII amends the existing decision on the Investment of Temporary Resources to Generate Income for the Fund's Trusts,[3] to clarify that contributor resources to the PRGT and which are to be invested in the long-term investment strategy are to be centralized in the LTIA.

14. Distribution Framework consisting of Establishment of Interim Placement Administered Account and Multi-Year Distribution Plan. Decisions IX and X give effect to staff's proposals in Supplement 1 to the main paper for a GRA resource distribution framework, including a Multi-Year Distribution Plan (MYDP) and the establishment of the Interim Placement Administered Account (IPAA). In particular, Decision IX establishes the IPAA on the terms set out in Attachment II to this Supplement pursuant to Article V, Section 2(b) and authorizes prescribed holders and participants to conduct SDR operations that are necessary to give effect to the IPAA under Article XXVII, Section 3. Decision IX sets out the MYDP to provide for distributions from the Fund's GRA net income and/or reserves in a cumulative amount of SDR 6.9 billion to be held in the IPAA on an interim basis, pending sufficient assurances (i.e., equivalent to 90 percent of the cumulative distributions amount, SDR 6.21 billion) of contributions by members for new subsidy contributions to the PRGT.[4] The proposed IPAA instrument:

a. sets out that GRA resources placed to the account will be made available to members upon notification by the Managing Director to the Executive Board that sufficient financing assurances representing commitments of SDR 6.21 billion in new subsidy contributions to the PRGT have been received.[5] If this notification is not sent within 5 years of the first placement of resources to the IPAA , the Board may decide to extend the period or return the resources to the GRA (paragraph 5);

b. provides that interest earned on resources placed to the IPAA be transferred on a quarterly basis to the PRGT's Subsidy and Reserve Account (paragraph 6); and

[3] Decision No. 16253-(17/10), adopted July 28, 2017 (as amended).

[4] Any placement of net income or general reserve distribution would include the shares of members without a recognized government for Fund purposes.

[5] Any new contributions made by members to the PRGT Subsidy and Reserve Account after the date of the effectiveness of the proposed decisions IX and X would count towards meeting the target for new subsidy resources.

c. provides for the possibility of amendment of its terms by a decision of the Executive Board, except that certain key provisions also require acceptance of all members of the Fund to the amendment (paragraph 10).

MAJORITIES AND CONSENT REQUIREMENTS

15. The proposed decisions, except for Proposed Decision VII, may be adopted by a majority of the votes cast and, with respect to the changes to the PRGT Instrument, do not require the consent of current contributors to the PRGT's loan and subsidy accounts. The creation of the new LTIA requires amendments to a number of so-called "protected provisions" listed in Section IX of the PRGT instrument.[6] While this provision states that these provisions cannot be amended, it has consistently been interpreted that the Fund (as Trustee) may amend these provisions but that such amendments would require the consent of contributors to the extent that their interests are affected by the amendments, and protected provisions have been amended on many occasions in the past.[7] The proposed creation of the LTIA does not affect the interests of current subsidy and loan account contributors. The LTIA rather creates a new source of funding for the SRA or the General Subsidy Account and does not affect the use of existing subsidy contributions in those accounts. As the amendments, therefore, do not affect the interests of current contributors, their consent is not required for the proposed changes to protected provisions.[8] Moreover, no special majority is prescribed for the authorization of SDR transactions with the IPAA.

16. Proposed Decision VII requires support from 70 percent of the total voting power. Proposed Decision VII involves the modification of the Investment Guidelines and impact SDA resources. As such, under Article V, Section 12(h), decisions involving rules and regulations for the investment of SDA resources require a seventy percent majority of the total voting power.

17. Decisions IX and X are proposed on the understanding that they are acceptable to all Fund members.

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[6] The creation of the new LTIA requires amendments to the following "protected provisions": Section I, paragraph 2; Section III, paragraphs 4 and 5; Section IV, paragraphs 4 and 6, and Section IX.

[7] For a more extensive discussion of protected provisions and consent requirements, see The Multilateral Debt Relief Initiative (G-8 Proposal) and Its Implications for the Fund—Further Considerations—Supplemental Information (pages 11- 14).

[8] For prior cases of changes to protected provisions that also did not require consent from contributors, see Modalities of a Gold Pledge for Use of ESAF Trust Resources under the Rights Approach and Selected Operational Issues in ESAF Arrangements

Proposed Decisions

The following decisions, which may be adopted by a majority of the votes cast except for Decision VII which may be adopted by a seventy percent majority of the total voting power, are proposed for adoption by the Executive Board. Decisions IX and X are adopted on the understanding that the proposed Interim Placement Account and the GRA Distribution Framework are acceptable to all members:

Decision I. Amendments to the PRGT Instrument

The Instrument to Establish the Poverty Reduction and Growth Trust (the "PRGT Instrument"), Annex to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended, along with its Appendices, shall be further amended as follows:

1. Section I, paragraph 2 of the PRGT Instrument shall be amended to read as follows:

"The operations and transactions of the Trust shall be conducted through a General Loan Account, an ECF Loan Account, an SCF Loan Account, and an RCF Loan Account (the latter four accounts collectively referred to herein as the "Loan Accounts"), a Reserve Account, a General Subsidy Account, an ECF Subsidy Account, an SCF Subsidy Account, an RCF Subsidy Account, an ESF Subsidy Account, a Subsidy Reserve Account (the latter six accounts collectively referred to herein as the "Subsidy Accounts"), a Deposit and Investment Account, and a Long-Term Investment Account. The resources of the Trust shall be held separately in these Accounts."

2. The first sentence of Section II, paragraph 2(a)(A) of the PRGT Instrument shall be amended to read as follows:

"(a)(A) With effect from January 1, 2025, the overall access of each eligible member to the resources of the Trust under all facilities of the Trust as specified in Section I, Paragraph 1(a) shall be subject to

(i) an annual limit of 200 percent of quota; and (ii) a cumulative limit of 600 percent of quota, net of scheduled repayments, provided that these percentages of quota shall be immediately reduced to 135 percent of quota and 405 percent of quota, respectively, upon an Executive Board determination that the two general conditions for the effectiveness of quota increases under the Sixteenth General Review of Quotas specified in paragraph 3 of the Board of Governors Resolution No. 79-1, adopted December 15, 2023, have been met. A reduction in access limits under this subparagraph shall not cause members to be subject to the exceptional access criteria set forth in subparagraphs (1)-(4) below of this paragraph if they were not subject to such criteria when the access limits were reduced. The exceptional access criteria will apply if, after the reduction in access limits the Executive Board approves access to PRGT resources (i) under a new arrangement, (ii) through augmentation of access under an arrangement that was in place before the reduction in access limits, or (iii) through an outright loan under the RCF , in an amount that would cause the member to exceed the overall annual or cumulative access limits in place at that time.

3. With effect from January 1, 2025, Section II, paragraphs 2(a)(B)(iii)(I) and (a)(B)(iii)(II) shall be deleted.

4. Section II, paragraph 2(b) of the PRGT Instrument shall be further amended to read as follows:

a. The reference to “Subject to the provisions in subparagraphs (i) to (v) below” shall be revised to read “Subject to the provisions in subparagraphs (i) to (vi) below”.

b. The final sentence of paragraph 2(b)(ii) shall be revised to read “For the period from June 21, 2021 to December 31, 2025, the above cumulative access limit shall be 183.33 percent of quota, net of scheduled repayments”.

c. In paragraph 2(b)(iii) the text "an annual access limit of 100 percent of quota from April 6, 2020 to December 31, 2021 and to" is deleted, and the text "from April 6, 2020 to the date of the Executive Board decision completing the next Comprehensive Review of PRGT Facilities in 2024/2025" is revised to read "from April 6, 2020 to December 31, 2025"

d. In paragraph 2(b)(iv), the text "until the date of the Executive Board decision completing the next Comprehensive Review of PRGT Facilities in 2024/25" shall be revised to read "until December 31, 2025"

e. A new subparagraph (vi) shall be added to read as follows:

(vi) If the Executive Board determines that the general conditions for the effectiveness of quota increases under the Sixteenth General Review of Quotas specified in paragraph 3 of the Board of Governors Resolution No. 79-1 (December 15, 2023) have been met and this determination takes place on or prior to December 31, 2025, the following access limits shall apply:

(I) the percentage of quota referred to in Section II, paragraph (b) with regard to the annual and cumulative access limits under the RCF shall be changed, respectively, to 35 and 70 percent of quota.

(II) the percentage of quota referred to in Section II, paragraph (b)(i) with regard to the maximum limit on a disbursement under the RCF shall be changed to 17.5 percent.

(III) the percentages of quota referred to in Section II, paragraph (b)(ii) with regard to the annual and cumulative access limit for members experiencing urgent balance of payments needs resulting from the natural disasters as specified in paragraph

(b)(ii) shall be changed, respectively, to 55 and 125 percent of quota.

(IV) the percentage of quota referred to in Section II, paragraph (b)(iii) with regard to the cumulative access limit for members experiencing urgent balance of payments needs resulting primarily from a sudden and exogenous shock shall be changed, to 105 percent of quota.

(V) the percentage of quota referred to in Section II, paragraph (b)(iv) with regard to the cumulative access limit specified in subparagraph 2(b)(iii) above for members that have received financing under the RCF under this paragraph (b)(iv) shall be changed to 122.5 percent of quota.

5. The percentage of quota specified in Section II, paragraph 2(h) of the PRGT Instrument with regard to the Executive Board consideration of requests for augmentations on a lapse-of-time basis shall be changed from 15 to 10 percent of quota, upon the Executive Board determination that the general conditions for the effectiveness of quota increases under the Sixteenth General Review of Quotas specified in paragraph 3 of the Board of Governors Resolution No. 79-1 (December 15, 2023) have been met.

6. Section II, Paragraph 4 (a) and (b) of the PRGT Instrument shall be amended to read as follows:
(a) Interest on outstanding balances of Trust loans, and credit under ECF and SCF arrangements and under the RCF approved through April 30, 2025, shall be charged at a rate of zero percent per annum.
(b) Subject to the provisions of Section IV.A, paragraph 5, the interest rates on the outstanding balances of Trust loans under ECF and SCF arrangements, and under the RCF, approved on or after May 1, 2025, shall be as specified below.

(i) For an eligible member that, at the time of the Board approval of the above-specified RCF disbursement or of the ECF or SCF arrangement, does not meet the income criterion for presumed blending, as set forth in paragraph 1(a) of Decision No. 17082-(21/71), adopted July 14, 2021 (the "Blending Decision"), interest on all loans under the arrangement, including as it may be extended or augmented, and interest on the Trust loan under the RCF, shall be charged at the rate of zero percent per annum (hereinafter "Tier 1" interest rate);

(ii) Except as specified in subparagraph (iv) below, for an eligible member that, at the time of Board approval of an RCF loan or of an ECF or SCF arrangement, meets the income criterion for presumed blending, as set forth in paragraph 1(a) of the Blending Decision, and does not face debt vulnerabilities that limit its access to international financial markets as defined in paragraph 1(b) of the Blending Decision, interest on all loans under the arrangement, including as it may be extended or augmented, and interest on the Trust loan under the RCF shall be charged at 70 percent of the SDR interest rate per annum (hereinafter "Tier 2A" interest rate).

(iii) Except as specified in subparagraph (iv) below, for an eligible member that, at the time of Board approval of an RCF loan or of an ECF or SCF arrangement, meets the income criterion for presumed blending, as set forth in paragraph 1(a) of the Blending Decision, but faces debt vulnerabilities that limit its access to international financial markets as defined in paragraph 1(b) of the Blending Decision, interest on all loans under the arrangement, including as it may be extended or augmented, and interest on the Trust loan under the RCF, shall be charged at 40 percent of the SDR interest rate per annum (hereinafter "Tier 2B" interest rate); and

(iv) The following approach shall be adopted in cases involving GDP rebasing. Where a member does not meet the income criterion for presumed blending and its GNI per capita does not exceed the IDA operational cutoff by at least 5 percent as of the year

before a new rebased GDP is published, it shall not be deemed to have met the income criterion until the member's annual GNI per capita has exceeded the prevailing IDA operational cutoff by at least 5 percent for two consecutive years, not including the year in which the official rebased GDP data is released. For a transitional period, with regard to a member which completed its GDP rebasing after March 11, 2020 and not later than April 30, 2025, the income criterion will be met when the member's annual GNI per capita has exceeded the prevailing IDA operational cutoff by at least 5 percent for two consecutive years after, and not including, 2025.

(v) Interest payment shall be due promptly at the end of each IMF financial quarter, in line with the schedule of interest payments to PRGT lenders and with the billing cycle of the GRA and SDR Department

7. In Section II, Paragraph 6 of the PRGT Instrument, the text "provided that modification of the interest rate shall apply to interest accruing after the effective date of the modification" is deleted.

8. Section IV.A. paragraph 1(a) shall be amended to read as follows:

(a) The resources held in the General Subsidy Account shall consist of:

(i) the proceeds of donations made to the Trust for the General Subsidy Account;

(ii) the proceeds of loans made to the Trust for the General Subsidy Account;

(iii) transfers from the Special Disbursement Account in accordance with Section F of Decision No. 14354-(09/79);

(iv) transfers from the Reserve Account in accordance with Section V, Paragraph 5(b)(ii) of this Instrument;

(v) net earnings from investment of resources held in that Account;

(iv) transfers from the Deposit and Investment Account in accordance with Section IV.B, paragraph 3 of this Instrument and transfers from the Long-term Investment Account in accordance with Section IV.C, paragraph 3 of this Instrument;

9. Section IV.A, paragraph 1(f)(iii) shall be amended to read as follows:

"(iii) transfers from the Deposit and Investment Account in accordance with Section IV.B, paragraph 3 of this Instrument and transfers from the Long-Term Investment Account in accordance with Section IV.C, paragraph 3 of this Instrument;"

10. Section IV.A, paragraph 6(b)(i) shall be amended to read as follows:

"(i) Any resources remaining in the General Subsidy Account shall be used in a manner consistent with paragraph 4(a) of this Section (i) to reduce to the fullest extent possible the interest rate paid by borrowers in accordance with Section II, paragraphs 4(a), (b), and (c) on loans from the PRGT, by means of payments to such borrowers, and (ii) to fund transfers to the ENDA/EPCA Subsidy Account needed to subsidize the rate of charge on any remaining outstanding GRA purchases in accordance with the terms of the ENDA/EPCA Subsidy Account. Any resources remaining after that subsidization and transfer shall be distributed to the Fund, donors, and creditors that have contributed to the General Subsidy Account, in proportion to their contributions, including donors and creditors of resources transferred from other Subsidy Accounts upon their termination. The resources representing the Fund's share in such distribution shall be transferred to the Special Disbursement Account. Any resources attributable to transfers from the Deposit and Investment Account or from the Long-Term Investment Account shall be transferred to the respective account."

11. Section IV.A, paragraph 6(b)(vi) shall be amended to read as follows:

"(vi) Any resources remaining in the Subsidy Reserve Account shall be used in a manner consistent with paragraph 4(f) of this Section to reduce to the fullest extent possible the interest rate paid by borrowers in accordance with Section II, paragraphs 4(a), (b), and (c) on loans from the PRGT, by means of payments to such borrowers. Any resources remaining after that subsidization and not attributable to the Deposit and Investment Account or the Long-Term Investment Account shall be transferred to the General Subsidy Account, provided that a contributor may request that its share in any remaining resources be returned to it. Any resources attributable to transfers from the Deposit and Investment Account or the Long-Term Investment Account shall be transferred to said Accounts, respectively."

12. Section IV of the PRGT Instrument shall be amended to include the following new section C to establish the Long-term Investment Account:

"**Section IV.C. Long-Term Investment Account**

Paragraph 1. *Purpose and Resources*

The purpose of the Long-Term Investment Account is to provide a separate vehicle under which the Trust can pool and centralize borrowed resources for generating investment earnings under a long-term investment strategy for the benefit of the Subsidy Reserve Account, or at the request of a contributor, the General Subsidy Account. The resources held in the Long-Term Investment Account

shall consist of the proceeds from long-term investment agreements with contributors and the net earnings on the investment proceeds.

Paragraph 2. *Borrowing for the Long-Term Investment Account*

(a) The Trustee may enter into investment agreements with the Long-Term Investment Account with the aim of generating long-term net investment earnings from the investment of the resources borrowed ("Long Term Investment Agreements"). For this purpose, the Managing Director of the Trustee is authorized to enter into Long-Term Investment Agreements and agree to their terms and conditions with contributors to the Long-Term Investment Account. The borrowed resources shall be invested in accordance with guidelines adopted by the Trustee.

(b) The agreements may provide for the right of a contributor to request the early repayment of the principal amount under its Long-Term Investment Agreement upon representation of a balance of payments need. The contributor shall reconstitute any withdrawn amount as its balance of payments and reserve position improves.

Paragraph 3. *Use of Resources*

(a) Resources in the Long-Term Investment Account derived from net investment earnings shall be transferred to the Subsidy Reserve Account at the final maturity of the investment agreement such resources are attributable to; provided that, with the consent of the contributor, the Managing Director is authorized to transfer to the Subsidy Reserve Account at an earlier time resources attributable to that contributor's Long-Term Investment Agreement, to meet the subsidization needs of the Trust.

(b) A contributor may prescribe that investment earnings in the Long-Term Investment Agreement attributable to that contributor's investment be directed to the General Subsidy Account instead of the Subsidy Reserve Account.

Paragraph 4. *Termination Arrangements*

Upon completion of the subsidy operations authorized by this Instrument, the Trustee shall wind down the affairs of the Long-Term Investment Account. Contributors shall be repaid the principal of their investment and any remaining investment earnings or losses attributed to it.

Paragraph 5. *Repayment of the principal amount and payment of interest to a contributor*

Repayment of the principal amount and any payment of interest to a contributor on any borrowing for the Long-Term Investment Account, including repayment upon maturity, early repayment in accordance with Section IV.C, paragraph 2(b), or repayment in accordance Section IV.C, paragraph 4, shall be made exclusively from resources attributed to the investment of this principal amount and the net investment earnings thereon, net of the cumulative interest previously paid to the contributor.

13. Section VIII, Paragraph 2(a) shall be amended to read as follows:

> "(a) Termination and liquidation of the Subsidy Accounts shall be made in accordance with the provisions of Section IV.A, paragraph 6. Termination and liquidation of the Deposit and Investment Account shall be made in accordance with the provisions of Section IV.B, paragraph 4. Termination and liquidation of the Long-Term Investment Account shall be made in accordance with the provisions of Section IV.C, paragraph 4".

12. In Section IX of the PRGT Instrument, the words "Section IV.C;" shall be inserted before the words "Section V".

Decision II. Amendments to Blending Policy Decision

1. Decision No. 17082-(21/71), adopted July 14, 2021, as amended, shall be revised as follows:

(a) Paragraph 1(a) shall be revised to read as follows:

"a. Income: A member meets the income thresholds for presumed blending if its annual per capita gross national income (GNI) has exceeded the prevailing operational cutoff for assistance from the International Development Association (IDA) by at least 5 percent for two consecutive years (the "income threshold"). Notwithstanding the above, where a member does not meet the income criterion and its GNI per capita does not exceed the IDA operational cutoff by at least 5 percent as of the year before a new rebased GDP is published, it shall not be deemed to have met the income criterion until the member's annual GNI per capita has exceeded the prevailing IDA operational cutoff by at least 5 percent for two consecutive years, not including the year in which the official rebased GDP data is released. For a transitional period, with regard to a member which completed its GDP rebasing after March 11, 2020 and not later than April 30, 2025, the income criterion will be met when the member's annual GNI per capita has exceeded the prevailing IDA operational cutoff by at least 5 percent for two consecutive years after, and not including, 2025."

(b) With effect from January 1, 2025, Paragraph 2 shall be revised to read as follows:

"A request by a Presumed Blender for access to PRGT resources shall be approved only in a blend with access to resources in the General Resources Account (GRA). The mix of PRGT

and GRA resources shall be provided in a ratio of one to two of PRGT resources to GRA resources, subject to a per arrangement cap on access to PRGT resources set at the norm applicable to ECF and SCF arrangements and subject to the overall limits on access to the PRGT set out in Section II, Paragraph 2 of this Instrument"

(c) With immediate effect, a new sentence shall be added at the end of paragraph 3 to read as follows:

"The cap on access to PRGT resources of 200 percent of quota per arrangement shall be reduced to 135 percent of quota immediately upon an Executive Board determination that the general conditions for the effectiveness of quota increases under the Sixteenth General Review of Quotas specified in paragraph 3 of the Board of Governors Resolution No. 79-1 (December 15, 2023) have been met."

2. With effect from January 1, 2025, paragraph 3 of Decision No. 17082-(21/71), adopted July 14, 2021, as amended, shall be deleted.

Decision III. Amendments to Decision on Eligibility to Use the Fund's Facilities for Concessional Financing

Decision No. 14521-(10/3), adopted January 11, 2010, as amended, shall be revised as follows:

1. The last two sentences of subparagraph B (3) of paragraph 1 beginning with "For a member whose annual per capita GNI" and ending with "such serious short-term vulnerabilities." are deleted.

2. Subparagraph C (1) of paragraph 1 is revised to read as follows:

(1) The issuance or guarantee by a public debtor of external bonds in international markets, or disbursements under external commercial loans contracted or guaranteed by a public debtor in international markets that (i) for the purposes of subparagraph (A) occurred during at least two of the last five years for which qualifying data are available (the "entry duration threshold"), and has been in a cumulative amount equivalent to at least fifty percent of the member's quota in the Fund at the time of the assessment (the "entry scale threshold") provided that (a) if the member's quota increase under the Fourteenth General Review of Quotas has become effective, the cumulative amount shall be equivalent to at least 25 percent of the member's quota, and provided further that, if the member's quota increase under the Sixteenth General Review of Quotas has become effective, such cumulative amount shall be equivalent to at least 20 percent of the member's quota and (b) if the amount of issuance or guarantee of external bonds and of disbursements under external commercial loans in a single year for which qualifying data are available totals less than two percent of the member's quota in the Fund at the time of the assessment, or less than 1.5 percent of quota if the member's quota increase under the Sixteenth General Review of Quotas has become effective, that year shall not count towards meeting the entry duration threshold, or (ii) for the purposes of Paragraph (B)(2), occurred during at least three of the last five years for which qualifying data are available (the "graduation duration threshold"), and has been in a cumulative amount equivalent to at least one hundred percent of the member's quota in the Fund at the time of the assessment (the graduation scale threshold"), provided that (a) if the member's quota increase under the Fourteenth General Review of Quotas has become effective, the cumulative amount shall be equivalent to at least 50 percent of the member's quota and provided further that if the member's quota under the Sixteenth General Review of Quotas has become effective, such cumulative amount shall be equivalent to at least 35 percent of the member's quota and (b) if the amount of issuance or

guarantee of external bonds and of disbursements under external commercial loans in a single year for which qualifying data are available totals less than two percent of the member's quota at the time of the assessment, or less than 1.5 percent of quota if the member's quota increase under the Sixteenth General Review of Quotas has become effective that year shall not count towards meeting the graduation duration threshold, or"

Decision IV. Amendments to the PRGT-eligibility List

In light of the criteria set forth in Decision No. 14521-(10/3), adopted January 11, 2010, as amended, the list annexed to Decision No. 8240-(86/56) SAF, adopted March 26, 1986, as amended, shall be amended by adding the Syrian Arab Republic to the list.

Decision V. Amendments to the Decision on Policy Safeguards for High Combined GRA and PRGT Credit

Paragraph 3(b)(A)(II) of Decision No. 16873-(20/91), adopted on September 9, 2020, is amended as follows:

"II. Where the member's public debt is assessed to be sustainable but not with high probability (which includes cases where the member's overall risk of public debt distress is assessed to be high or in debt distress) or where the member's debt is assessed to be unsustainable ex ante, access to resources in excess of the HCC Thresholds will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (generally considered to be met for countries that are assessed under the LIC-DSF to be at low or moderate overall risk of public debt distress) (i) within 36 months from Board approval in the case of a new Fund arrangement, purchase under the RFI or loan under the RCF, or within the period of the new arrangement, whichever is longer, or (ii) within the remaining period of an arrangement, in cases where the Board

approves a request for an augmentation or a rephasing of access under the arrangement; provided that, in cases where the member's public debt is assessed to be sustainable but not with high probability and the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund (including to the PRGT) combined access above the proposed thresholds will be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources (including PRGT resources). In applying the more flexible standard where debt is sustainable but not with a high probability, BUFF/16/9, Corr. 1 will apply.

Decision VI. Amendment to the PRGT Cumulative Borrowing Limit

The Managing Director, having consulted with all creditors of the Poverty Reduction and Growth Trust (PRGT), is authorized to confirm that she does not intend to enter into borrowing agreements for the Loan Accounts of the PRGT if the cumulative commitments under such agreements exceed SDR 87.0 billion, except after consultation with all PRGT creditors regarding the justification for such additional borrowing and the adequacy of the PRGT's Reserve Account in relation thereto.

Decision VII. Amendment to the Guidelines for Investing PRG, RS, PRG-HIPC, and CCR Trusts' Assets

Pursuant to Article V, Section 12(h) of the Articles of Agreement and Section VII, paragraph 3 of the Instrument to Establish the Poverty Reduction and Growth Trust, annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended, Section V, paragraph 3(a) and Section VI, paragraph 4(a) of the Instrument to Establish the Resilience and Sustainability Trust annexed to Decision 17231-(22/37), Section IV, paragraph 1 of the Trust for Special Poverty Reduction and

Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations, annexed to Decision No. 11436-(97/10), adopted February 4, 1997, as amended, and Section IV, paragraph 1 of the Instrument to Establish the Catastrophe Containment and Relief Trust, annexed to Decision No. 14649-(10/64), adopted June 25, 2010, as amended, the Fund adopts the Guidelines for Investing PRG, RS, PRG-HIPC, and CCR Trust Assets as set forth in the attachment to this decision. The Guidelines for Investing PRG, PRG-HIPC, and CCR Trust Assets adopted by Decision No. 17233-(22/63), adopted April 13, 2022 are hereby repealed.

Attachment to Proposed Decision VII- Guidelines for Investing PRG, RS, PRG-HIPC, and CCR Trusts' Assets

GENERAL PROVISIONS

Investment Assets

1. These Guidelines establish the investment objectives and policies to guide the investment of resources of the Poverty Reduction and Growth Trust ("PRG Trust"), the Resilience and Sustainability Trust ("RS Trust"), the Trust for Special Poverty and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations ("PRG-HIPC Trust") and the Catastrophe Containment and Relief Trust ("CCR Trust") (each a "Trust," and collectively the "Trusts").

2. The resources of each Trust that are available for investment ("Investment Assets") shall be subject to these Guidelines.

Responsibilities of the Managing Director

3. The Managing Director is responsible for implementing the investment policies set out in these Guidelines.

4. In carrying out the Managing Director's responsibilities, the Managing Director shall (a) establish effective decision-making and oversight arrangements; (b) take the necessary measures, including the adoption of policies and procedures, that seek to avoid actual or perceived conflicts of interest; (c) adopt responsible investing principles that incorporate environmental, social, and governance (ESG) considerations into the investment process to support the investment objectives of the Trust Assets and to uphold the Fund's reputation; and (d) establish specific risk control measures and put in place mechanisms to monitor their observance by asset managers.

5. In connection with the adoption of measures under paragraph 4, the Managing Director shall consult with the Executive Board regarding key conflicts of interest policies and arrangements and responsible investment principles and arrangements.

6. The Managing Director shall provide annual reports to the Executive Board on the investment activities of the Trusts. Ad hoc reports shall be prepared as warranted by market or other developments.

External Asset Managers

7. The Investment Assets of the Trusts shall be managed by external managers, except that the Managing Director is authorized to manage: (a) investments in obligations of the Bank for International Settlements (BIS) and central bank deposits; and (b) other Investment Assets of the Trusts on an interim basis following the termination of an external asset manager and pending the transfer of the assets to another external asset manager.

8. The Managing Director shall only select external asset managers of the highest professional standards and shall take into account their proven skills and track record suitable to achieve the investment objectives and to carry out the investment strategies set out under these Guidelines.

Custody Arrangements

9. The Managing Director shall establish adequate measures for the safekeeping and custody of the Investment Assets of the Trusts.

Audit

10. The Investment Assets of the Trusts shall be audited by the Fund's external auditors and included in the annual financial statements of the Fund.

Review of the Guidelines and Conflict of Interest Policies

11. The Executive Board shall review these Guidelines and the Fund's relevant conflict of interest policies at least every five years.

INVESTMENT OF ASSETS OF THE PRG TRUST

Investment Objectives and Portfolios

12. The Investment Assets of the PRG Trust shall be invested taking into account the purposes of these assets (a) to generate income to support the self-sustaining operations of the PRG Trust, (b) to provide security to lenders to the PRG Trust, and (c) to provide adequate liquidity for the PRG Trust's operational needs.

13. The Investment Assets of PRG Trust shall be invested in a (a) Long-Term Portfolio with the objective of generating a margin of 100 basis points above the three-month SDR rate, over a long-term investment horizon of at least 10 years, and (b) a Short-Term Portfolio with the objective of enhancing returns and providing liquidity to meet the short-term operational needs of the PRG Trust over a short to medium-term horizon. The specific allocation between the Long-Term Portfolio and the Short-Term Portfolio shall be determined by the Managing Director.

Target Asset Allocation

14. The Long-Term Portfolio shall be invested according to the following allocation target: (a) 40 percent in a short duration fixed-income component, (b) 30 percent in a component of corporate bonds, (c) 10 percent in a component of global government bonds, and (d) 20 percent in a component of global equities.

15. The Short-Term Portfolio shall be invested in a liquidity component designed to meet the short-term disbursement needs of the PRG Trust, and a short duration fixed-income component, with the specific allocation between these two components to be established by the Managing Director.

Eligible Investments and Investment Management

16. The liquidity component shall be limited to BIS deposits and central bank deposits, in each case with a maximum maturity of up to one year and denominated in SDR or currencies included in the SDR basket.

17. (a) The following guidelines and arrangements apply to the short duration fixed-income component:

i. The short duration fixed-income component shall consist of two tranches, a shorter-duration Tranche 1 and a longer-duration Tranche 2 and shall have a maximum average duration of 3 years.

ii. Tranche 1 assets shall be managed actively. Eligible asset classes for Tranche 1 are Group 1 and Group 2 asset classes as defined in paragraph 17(b) below.

iii. Tranche 2 assets shall be managed according to a buy-and-hold investment approach. Eligible asset classes for Tranche 2 are Group 1 asset classes as defined in paragraph 17(b) below.

iv. Asset transfers between Tranche 1 and Tranche 2 and the allocation to Tranche 1 and Tranche 2 of future inflows to, and outflows from, the short duration fixed-income component shall be determined by the Managing Director.

(b) The following guidelines shall apply to Group 1 and Group 2 asset classes:

i. "Group 1 asset classes" shall be limited to:

A. debt obligations issued by national governments of members or their central banks.

B. debt obligations issued by national agencies of members.

C. debt obligations issued by supranational institutions; and

D. obligations issued by the BIS, including without limitation deposits with the BIS and MTIs,

all of which shall be denominated in SDR or the currencies included in the SDR basket.

ii. "Group 2 asset classes" shall be limited to:

A. debt obligations issued by national governments of members, or their central banks denominated in non-SDR currencies selected by the Managing Director or, upon the authorization by the Managing Director, by external managers, provided that any currency selection shall be based on ex-ante criteria determined by the Managing Director.

B. debt obligations denominated in SDR or the currencies included in the SDR basket, comprising: (I) securities issued by subnational governments; (II) mortgage-backed and other asset-backed securities; (III) covered bonds; and (IV) short-dated unsecured corporate bonds; and

C. cash-equivalent investments with maturities of one year or less, that are denominated in SDR or the currencies included in the SDR basket.

(c) Up to the maximum 40 percent of the total value of the short duration fixed-income component may be invested in Group 2 asset classes, and the breach of this limit shall require prompt action to bring the short duration fixed-income component back within the established limit.

18. The Managing Director shall establish the parameters for determining the specific assets eligible for the corporate bond, global government bond and global equity components, and for duration and currency requirements for the corporate bond and global government bond components. On an exceptional basis, the Managing Director may permit the inclusion of debt obligations issued by national governments of members or their central banks in the corporate bond component.

19. The components of corporate bonds, global government bonds, and global equities shall be managed passively, with the exception of emerging market equities which may be managed actively.

20. In addition to investing in the assets as set out above, residual cash balances may be held temporarily uninvested, or in the short-term instruments sponsored by the custodian(s) or an affiliate.

Rebalancing

21. Based on modalities established by the Managing Director, the allocation of the Investment Assets in the Long-Term Portfolio of the PRG Trust shall be rebalanced at least annually to minimize deviation from the allocation targets under paragraph 14 above or more frequently in the event of significant deviation.

Minimum Credit Ratings

22. Except for obligations of the BIS, central bank deposits, uninvested cash balances and equities, all assets in which the PRG Trust invests must have a credit rating equivalent to at least BBB- for corporate bonds and BBB+ for all other assets (based on Standard & Poor's long-term rating scale) by a major credit rating agency at the time of acquisition. The Managing Director may establish higher credit ratings for eligible individual asset classes.

23. In cases where an asset is not directly rated, the Managing Director may determine whether a credit rating may be inferred for such asset in a manner that is consistent with market practice.

Divestment

24. Any eligible investment that ceases to meet the rating threshold under paragraph 22 or otherwise becomes ineligible after acquisition shall be divested within three months, except that corporate bonds which fail to meet the rating threshold under paragraph 22 after acquisition may be divested or continue to be retained in accordance with modalities established by the Managing Director.

Limits on Investment Activities

25. The Managing Director shall establish adequate safeguards against short selling and financial leverage.

26. Derivatives may be used for managing interest rate risk, currency hedging, or reducing costs in the context of portfolio balancing, benchmark replication and market access. The currency composition of the liquidity, short duration fixed income, corporate bond, and global government bond components shall be aligned with, or hedged to, the SDR basket composition.

INVESTMENT OF ASSETS OF THE RS TRUST

Investment Management and Objectives

27. The Investment Assets of the RS Trust shall be invested taking into account the purposes of these assets (a) to generate income to support RS Trust operations, (b) to provide security for RS Trust loans, and (c) to provide adequate liquidity for the RS Trust's withdrawal needs.

28. The Investment Assets of the RS Trust shall be invested in liquidity and short duration fixed-income components, with the specific allocation between these two components to be established by the Managing Director.

29. The liquidity component shall be managed to meet the operational needs of the RS Trust.

30. The short duration fixed-income component shall be managed in accordance with paragraph 32 below. The investment objective of the short duration fixed-income component of the RS Trust is to achieve investment returns in SDR terms that exceed the 3-month SDR interest rate by a margin of 50 basis points over time while minimizing the frequency and extent of negative returns and underperformance over an investment horizon of three to four years.

Eligible Investments

31. The liquidity component shall be limited to BIS deposits and central bank deposits, in each case with a maximum maturity of up to one year and denominated in SDR or currencies included in the SDR basket.

32. (a) The following guidelines apply to the short duration fixed-income component:

i. The short duration fixed-income component shall consist of two tranches, a shorter-duration Tranche 1 and a longer-duration Tranche 2 and shall have a maximum average duration of 3 years.

ii. Tranche 1 assets shall be managed actively. Eligible asset classes for Tranche 1 are Group 1 and Group 2 asset classes as defined in paragraph 32(b) below.

iii. Tranche 2 assets shall be managed according to a buy-and-hold investment approach. Eligible asset classes for Tranche 2 are Group 1 asset classes as defined in paragraph 32(b) below.

iv. Asset transfers between Tranche 1 and Tranche 2 and the allocation to Tranche 1 and Tranche 2 of future inflows to, and outflows from, the short duration fixed-income component shall be determined by the Managing Director.

(b) The following guidelines shall apply to Group 1 and Group 2 asset classes:

i. "Group 1 asset classes" shall be limited to:

A. debt obligations issued by national governments of members or their central banks.

B. debt obligations issued by national agencies of members.

C. debt obligations issued by supranational institutions; and

D. obligations issued by the BIS, including without limitation deposits with the BIS and MTIs,

all of which shall be denominated in SDR or the currencies included in the SDR basket.

ii. "Group 2 asset classes" shall be limited to:

A. debt obligations issued by national governments of members, or their central banks denominated in non-SDR currencies selected by the Managing Director or, upon the authorization by the Managing Director, by external managers, provided that any currency selection shall be based on ex-ante criteria determined by the Managing Director.

B. debt obligations denominated in SDR or the currencies included in the SDR basket, comprising: (I) securities issued by subnational governments; (II) mortgage-backed and other asset-backed securities; (III) covered bonds; and (IV) short-dated unsecured corporate bonds; and

C. cash-equivalent investments with maturities of one year or less, that are denominated in SDR or the currencies included in the SDR basket.

(c) Up to the maximum 40 percent of the total value of the short duration fixed-income component may be invested in Group 2 asset classes, and the breach of this limit shall require prompt action to bring the short duration fixed-income component back within the established limit.

33. In addition to investing in the assets as set out above, residual cash balances may be held temporarily uninvested, or in the short-term instruments sponsored by the custodian(s) or an affiliate.

Minimum Credit Ratings

34. Except for obligations of the BIS, central bank deposits, and uninvested cash balances, all assets in which the RS Trust invests must have a credit rating equivalent to at least BBB- for corporate bonds and BBB+ for all other assets (based on Standard & Poor's long-term rating scale) by a major credit rating agency at the time of acquisition. The Managing Director may establish higher credit ratings for eligible individual asset classes.

35. In cases where an asset is not directly rated, the Managing Director may determine whether a credit rating may be inferred for such asset in a manner that is consistent with market practice.

Divestment

36. Any eligible investment that ceases to meet the rating threshold under paragraph 34 or otherwise becomes ineligible after acquisition shall be divested within three months, except that corporate bonds which fail to meet the rating threshold under paragraph 34 after acquisition may be divested or continue to be retained in accordance with modalities established by the Managing Director.

Limits on Investment Activities

37. The Managing Director shall establish adequate safeguards against short selling and financial leverage.

38. Derivatives may be used for managing interest rate risk, currency hedging, or reducing costs in the context of portfolio balancing, benchmark replication and market access. The currency composition of the liquidity and short duration fixed-income components shall be aligned with, or hedged to, the SDR basket composition.

OTHER TRUST ASSETS

Investment Objectives

39. The Investment Assets of the PRG-HIPC and CCR Trusts shall be invested to enhance returns subject to the liquidity requirements of each Trust while limiting the risk of impairment of capital over an investment horizon of no more than three years.

Eligible Investments

40. The Investment Assets of each of the PRG-HIPC and CCR Trusts shall be invested in a liquidity component and an investment component, with the specific allocation between the two components determined by the Managing Director.

41. The liquidity component shall be limited to BIS deposits and central bank deposits, in each case with a maximum maturity of up to one year and denominated in SDR or currencies included in the SDR basket.

42. The investment component shall be limited to marketable obligations issued by a member or by a national official financial institution of a member that are denominated in SDR; marketable obligations issued by a member or by a national official financial institution of a member whose currency is in the SDR basket and that are denominated in the currency of that member; marketable obligations issued by international financial organizations and denominated in SDR or in a currency in the SDR basket; and deposits with a commercial bank, a national financial institution of a member, or an international financial institution that are denominated in SDR or in a currency in the SDR basket.

43. The investment component shall have a maximum average duration of three years.

Investment Management

44. The liquidity component shall be managed to meet the operational needs of the respective trust.

45. The investment component shall be managed actively except for investments in obligations of the BIS and central bank deposits managed by the Managing Director.

Currency Composition Rebalancing

46. The currency composition of the Investment Assets of the PRG-HIPC and CCR Trusts shall be rebalanced periodically to the SDR basket composition.

Minimum Credit Ratings

47. Except for obligations of the BIS, central bank deposits and uninvested cash balances, all assets in which the PRG-HIPC Trust and CCR Trust invest must have a credit rating equivalent to at least A (based on Standard & Poor's long-term rating scale) by a major credit rating agency at the time of acquisition.

48. In cases where an asset is not directly rated, the Managing Director may determine whether a credit rating may be inferred for such asset in a manner that is consistent with market practice.

Divestment

49. Any eligible investment that ceases to meet the rating threshold in paragraph 47 or otherwise becomes ineligible after acquisition shall be divested within three months.

Limits on Investment Activities

50. The Managing Director shall establish adequate safeguards against short selling and financial leverage.

51. Derivatives shall be prohibited except for forwards entered into for purposes of currency hedging with eligible issuers under paragraph 42.

Use of Currencies

52. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used, or, when an exchange of currencies is involved, with the consent of the issuers of such currencies.

Decision VIII. Amendment to the Decision on Investment of Temporary Resources to Generate Income to Contribute to PRG, PRG-HIPC, and CCR Trusts

Paragraph 1(b) of Decision No. 16253-(17/70), adopted July 28, 2017, as amended, shall be further amended to read as follows:

"b. Contributor resources being invested to generate income for contributions to a Trust may be invested:

(i) in the same manner as the investment assets of the Trust (except for the PRG Trust which is addressed in (iii) and (iv) below), subject to the provisions applicable to the investment of these assets, as provided under the Guidelines for Investing PRG, RS, PRG-HIPC and CCR Trusts' Assets approved by the Executive Board in Decision No.[Decision VII], and as may be amended from time to time ("Trust Guidelines"), or

(ii) in obligations of the Bank for International Settlements (BIS), subject to the same provisions under the Trust Guidelines that apply to the investment assets of the Trusts being invested in BIS obligations, or

(iii) with respect to resources invested to generate income for contributions to the PRG Trust, in the same class of high-quality short duration fixed-income assets that a component of the investment assets of the PRG Trust is invested in accordance with the Trust Guidelines. The

foregoing resources shall be centralized in the Deposit and Investment Account of the PRG Trust; or

(iv) with respect to resources invested to generate income for contributions to the PRG Trust over a long-term horizon, in the long-term portfolio of the PRG Trust in accordance with the Trust Guidelines. The forgoing resources shall be centralized in the Long-Term Investment Account of the PRG Trust."

Decision IX. Establishment of the Interim Placement Administered Account and Prescribed SDR Operations

1. Pursuant to Article V, Section 2(b), the Fund adopts the Instrument to Establish the Interim Placement Administered Account ("IPAA") that is attached to this decision.

2. In accordance with Article XVII, Section 3, the Fund prescribes that:

(a) an SDR Department participant or a prescribed holder, by agreement with an SDR Department participant or a prescribed holder and at the instruction of the Fund, may transfer SDRs to that participant or prescribed holder in effecting a transfer to or from the IPAA, or in effecting a payment due to or by the Fund in connection with financial operations under the IPAA; and

(b) operations pursuant to these prescriptions shall be recorded in accordance with Rule P-9.

Attachment to Proposed Decision IX – Instrument to Establish the Interim Placement Administered Account

To help fulfill its purposes, the International Monetary Fund (the "Fund") has adopted this Instrument to Establish the Interim Placement Administered Account (the "Account") in accordance with Article V, Section 2(b) of the Articles of Agreement, which Account shall be governed by, and administered in accordance with, the following provisions:

Paragraph 1. Purpose of the Account

Pursuant to the efforts undertaken by the membership to enhance the Fund's ability to provide financial support to low-income countries, the purpose of the Account is to hold placements of the Fund's net income and / or reserves in accordance with the distribution policy adopted by the Fund under Decision No. [Proposed Decision X]- (the "Distribution Policy"), pending the receipt of sufficient assurances in accordance with paragraph 5(a) from members of their willingness to contribute resources to the subsidy accounts of the Poverty Reduction and Growth Trust, established by Decision No. 8769-(87/176) ESAF, as amended, (the "PRGT").

Paragraph 2. Resources of the Account

The resources held in the Account (hereinafter "Resources") shall consist of:

(a) direct transfers to the Account pursuant to placements, made by the Fund, of net income and/or reserves from the General Resources Account in accordance with the Distribution Policy; and

(b) net earnings from interest earned on the Resources placed to the Account.

Paragraph 3. Unit of Account

The SDR shall be the unit of account.

Paragraph 4. Media of payment and exchange of resources.

(a) Payments made by the Account shall be made in SDRs or such other media as may be determined by the Fund;

(b) All transactions to and from this Account involving SDRs shall be made in accordance with such arrangements as may be made by the Fund for the holding and use of SDRs.

Paragraph 5. Use of the Resources of the Account

(a) Subject to paragraph 5(b) below, amounts placed to the Account from the General Resources Account shall be held pending notification by the Managing Director to the Executive Board that the Fund has received assurances for new PRGT subsidy contributions equivalent to at

least SDR 6.21 billion. Upon receipt of such notification by the Executive Board, the Resources in the Account shall be made available to members in accordance with their quota shares at the time of each placement to the Account and disposed of in line with member instructions, including by way of direct transfers to the PRGT, transfers to an interim administered account to hold such resources pending further instructions or to the account of the member in the SDR Department, or any other account identified by the member.

(b) If the notification contemplated in paragraph 5(a) is received by the Executive Board before the maximum cumulative distribution amount under the Distribution Policy is placed to the Account, any Resources placed in the Account after the notification shall be passed on to the members in accordance with their quota shares and disposed of in accordance with the instructions of each member.

(c) If the notification contemplated in paragraph 5(a) has not been sent by the fifth anniversary of the first placement to this account pursuant to the Distribution Policy, the Resources held in the Account at that time shall be returned to the General Resources Account by no later than the end of the financial year in which the anniversary occurs, provided that the Executive Board may, by a majority of votes cast, decide to extend this period for such period as it considers appropriate .

Paragraph 6. Authority to Transfer Interest Income

The interest income earned on the Resources held in the Account shall be transferred on a quarterly basis from the Account to the Subsidy Reserve Account (SRA) of the PRGT.

Paragraph 7. Administration of the Account

(a) Assets held in the Account are held in the name of the Fund and shall be kept separate from the assets and property of all other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet any liabilities, obligations or losses incurred in the administration of the Account; nor, except as provided in this Instrument, shall the assets of the Account be used to discharge or meet any liabilities, obligations or losses incurred in connection with any such other accounts of, or administered by, the Fund.

(b) The Fund shall maintain separate financial records and financial statements for the Account. The financial statements for the Account shall be expressed in SDRs and prepared in accordance with accounting principles followed by the Fund.

(c) The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions conducted through the Account. The audit shall relate to the financial year of the Fund.

(d) The Fund shall report on the resources and position of the Account in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the audit report of the external audit firm on the Account.

(e) Subject to the provisions of this Instrument, the Fund, in administering the Account, shall apply, *mutatis mutandis*, the same rules and procedures as apply to operations of the General Resources Account of the Fund.

(f) The Managing Director is authorized (i) to make all arrangements, including the establishment of accounts in the name of the Fund, with such depositories as she deems necessary to carry out the operations of the Account, and (ii) to take all other measures she deems necessary to implement the provisions of this Instrument.

Paragraph 8. Fees

No charge shall be levied in respect of the services rendered by the Fund in the administration, operation, and termination of this Account.

Paragraph 9. Period of Operation and Liquidation

The Account shall be terminated by the end of the fiscal year in which the last placement to the Account in accordance with the Distribution Policy has been made and its resources have been disposed of in accordance with paragraph 5.

Paragraph 10. Amendments

The provisions of this Instrument may be amended only by a decision of the Fund; provided that any changes to paragraphs 5(a), 6, 9 and 10 shall require a decision of the Fund and that they are acceptable to all members.

Paragraph 11. Settlement of Questions

Any questions arising under this Instrument between a member and the Fund shall be settled by mutual agreement.

Decision X. GRA Resource Distribution Framework

1. The Fund adopts the General Resources Account (GRA) Resource Distribution Framework (Framework), consisting of a Multi-Year Distribution Plan (MYDP) and the establishment of the Interim Placement Administered Account (IPAA).

2. The Fund approves the MYDP for a cumulative amount equivalent to SDR 6.9 billion for distributions of net income or general reserve. Such distributions are to start when the Executive Board considers the FY 25 annual income disposition, and thereafter would take place on an annual basis until the cumulative amount reaches SDR 6.9 billion.

3. Any distribution contemplated under the MYPD is subject to a decision to be adopted by the Executive Board in the context of the annual disposition of net income and/or a decision to reduce the general reserve confirming that, in the opinion of the Executive Board, the income position, reserve position and precautionary balances of the Fund justify a distribution of net income and/or a reduction of the general reserve.

4. All distributions made pursuant to this decision shall be placed to the IPAA subject to the terms of the IPAA Instrument.

Annex I. Redlined Decisions

Poverty Reduction and Growth Trust Instrument- Redlined Text Showing the Proposed Modifications

Introductory Section

To help fulfill its purposes, the International Monetary Fund (hereinafter called the "Fund") has adopted this Instrument establishing the Poverty Reduction and Growth Trust (hereinafter called the "Trust"), which shall be administered by the Fund as Trustee (hereinafter called the "Trustee"). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

Section I. *General Provisions*

Paragraph 1. *Purposes*

....

Paragraph 2. *Accounts of the Trust*

The operations and transactions of the Trust shall be conducted through a General Loan Account, an ECF Loan Account, an SCF Loan Account, and an RCF Loan Account (the latter four accounts collectively referred to herein as the "Loan Accounts"), a Reserve Account, a General Subsidy Account, an ECF Subsidy Account, an SCF Subsidy Account, an RCF Subsidy Account, an ESF Subsidy Account, ~~and~~ a Subsidy Reserve Account (the latter six accounts collectively referred to herein as the "Subsidy Accounts"), ~~and~~ a Deposit and Investment Account and a Long-Term Investment Account. The resources of the Trust shall be held separately in these Accounts.

Paragraph 3. *Unit of Account*

....

Section II. *Trust Loans*

Paragraph 1. *Eligibility and Conditions for Assistance*

....

Paragraph 2. *Amount of Assistance*

(a)(A) ~~Except as specified in sub-paragraph (B) below,~~ With effect from January 1, 2025, the overall access of each eligible member to the resources of the Trust under all facilities of the Trust as specified in Section I, Paragraph 1(a) shall be subject to (i) an annual limit of ~~145~~ 200 percent of quota; and (ii) a cumulative limit of ~~435~~ 600 percent of quota, net of scheduled repayments provided that these percentages of quota shall be immediately reduced to 135 percent of quota and 405 percent of quota, respectively, upon an Executive Board determination that the two general conditions for the effectiveness of quota increases under the Sixteenth General Review of Quotas specified in paragraph 3 of the Board of Governors Resolution No. 79-1, adopted December 15, 2023, have been met. A reduction in access limits under this subparagraph shall not cause members to be subject to the exceptional access criteria set forth in subparagraphs (1)-(4) below of this paragraph if they were not subject to such criteria when the access limits were reduced. The exceptional access will apply if, after the reduction in access limits, the Executive Board approves access to PRGT resources (i) under a new arrangement, (ii) through augmentation of access under an arrangement that was in place before the reduction in access limits or (iii) through an outright loan under the RCF, in an amount that would cause the member to exceed the overall annual or cumulative access limits in place at that time. The Trustee may approve access in excess of these limits if all of the following criteria are satisfied: ....

.....

**[1](a)(B)(iii)(I) During the period from December 7, 2023 to December 31, 2024, the overall access of each eligible member to the resources of the Trust under all facilities of the Trust specified in Section I, Paragraph 1(a) shall be subject to (i) an annual limit of 200 percent of quota; and (ii) a cumulative limit of 600 percent of quota, net of scheduled repayments.

** (a)(B)(iii)(II) The expiration of the temporary increase in access limits set forth in Section II, paragraph 2(a)(B)(iii)(I) above shall not cause members to be subject to the observance of the criteria for exceptional access to the PRGT after December 31, 2024 if they were not subject to such criteria as of that date, unless following December 31, 2024, the Executive Board approves access to PRGT resources under a new arrangement, or through an augmentation of access under an arrangement that was in place on December 31, 2024, or through an outright disbursement under the RCF, in an amount that would cause the member to exceed the overall annual or cumulative access limits in place at that time.

(b) Subject to the provisions in subparagraphs (i) to ~~(v)~~ (vi) below the access of each eligible member under the RCF shall be subject to an annual limit of 50 percent of quota, and a cumulative limit of 100 percent of quota, net of scheduled repayments, including where the assistance is requested to address an urgent balance of payments need resulting primarily from a sudden and exogenous shock and the member's existing and prospective policies are sufficiently strong to address the exogenous shock:

(i) each disbursement shall not exceed 25 percent of quota except where the member requests assistance under the RCF to address an urgent balance of payments need resulting primarily from a sudden and exogenous shock (including a large natural disaster under (ii) below);

(ii) the annual and cumulative access limits under the RCF shall be 80 percent of quota and 133.33 percent of quota, net of scheduled repayments, respectively, where (a) the member requests assistance under the RCF to address an urgent balance of payments need resulting from a natural

[1]** Paragraph 2 of Proposed Decision 1 deletes these provisions effective on January 1, 2025.

disaster that occasions damage assessed to be equivalent to or to exceed 20 percent of the member's gross domestic product (GDP) and (b) the member's existing and prospective policies are sufficiently strong to address the natural disaster shock. ~~For the period from June 21, 2021 to December 31, 2021, the above annual access limit shall be 130 percent of quota and~~ For the period June 21, 2021 to ~~the date of the Executive Board decision completing the next Comprehensive Review of PRGT Facilities in 2024/2025,~~ December 31, 2025 the above cumulative access limit shall be 183.33 percent of quota, net of scheduled repayments;

(iii) 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 for the period from April 6, 2020 to December 31, 2021, and to~~ a cumulative access limit of 150 percent of quota, net of scheduled repayments for the period from April 6, 2020 to ~~the date the Executive Board decision completing the next Comprehensive Review of PRGT facilities in 2024/25;~~ December 31, 2025;

(iv) for a period from September 30, 2022 to March 32, 2024, the Fund may approve financing of up to 50 percent of quota to help a member address an urgent balance of payments need associated with acute food insecurity, increased costs of cereal and fertilizer imports, or cereal exports shortfalls. Access under this subparagraph (iv) shall be fully additional to the annual access limits established under this subparagraph 2(b). A member's access to financing under this subparagraph shall increase the cumulative access limit referred to in subparagraph 2(b)(iii) above to 175 percent of quota until ~~the date of the Executive Board decision completing the next Comprehensive Review of PRGT Facilities in 2024/25~~ December 31, 2025. Before approving financing under this window, the Fund shall be satisfied that the member has an urgent balance of payments need associated with one of the following:

(1) acute food insecurity that is inflicting serious economic disruption within the member on such a scale as to warrant a concerted international effort to support the member. In assessing the qualification of members under this subparagraph (iv)(1), the Executive Board would take into account whether the member faces acute food insecurity as defined by the Food and

Agriculture Organization (FAO) and World Food Programme (WFP) or a major food crisis per the United Nations Global Report on Food Crisis (UNGRFC), in both cases, based on the most recent publicly available data; or

(2) increased prices of cereal or fertilizer imports that negatively impact the member's external current account where such negative impact amounts to at least 0.3 percent of GDP over a 12-month period, as specified in more detail in SM/22/229; or

(3) cereal exports shortfalls, where the projected negative shock to cereal exports, benchmarked against the previous year, exceeds 0.8 percent of projected GDP for the compensable year; and

(v) outstanding credit by a member under the rapid-access component of the ESF or outstanding purchases from the General Resources Account under emergency post conflict/natural disaster assistance covered by Decision No. 12341-(00/117), shall count towards the annual and cumulative limits applicable to access under the RCF. With effect from July 1, 2015, any purchases from the General Resources Account under the Rapid Financing Instrument shall count towards the annual and cumulative limits applicable to access under the RCF.

(vi) If the Executive Board determines that the general conditions for the effectiveness of quota increases under the Sixteenth General Review of Quotas specified in paragraph 3 of the Board of Governors Resolution No. 79-1 (December 15, 2023) have been met and this determination takes place on or prior to December 31, 2025, the following access limits shall apply:

(I) the percentage of quota referred to in Section II, paragraph (b) with regard to the annual and cumulative access limits under the RCF shall be changed, respectively, to 35 and 70 percent of quota.

(II) the percentage of quota referred to in Section II, paragraph (b)(i) with regard to the maximum limit on a disbursement under the RCF shall be changed to 17.5 percent.

(III) the percentages of quota referred to in Section II, paragraph (b)(ii) with regard to the annual and cumulative access limit for members experiencing urgent balance of

payments needs resulting from the natural disasters as specified in paragraph (b)(ii) shall be changed, respectively, to 55 and 125 percent of quota.

(IV) the percentage of quota referred to in Section II, paragraph (b)(iii) with regard to the cumulative access limit for members experiencing urgent balance of payments needs resulting primarily from a sudden and exogenous shock shall be changed, to 105 percent of quota.

(V) the percentage of quota referred to in Section II, paragraph (b)(iv) with regard to the cumulative access limit specified in subparagraph 2(b)(iii) above for members that have received financing under the RCF under this paragraph (b)(iv) shall be changed to 122.5 percent of quota.

.....

**[2](h) The amount of resources committed to a qualifying member under an ECF or SCF arrangement may also be increased by the Trustee in an ad-hoc review between scheduled reviews under the arrangement to address an increase in the underlying balance of payments problems of the qualifying member where the problem is so acute that the augmentation cannot await the next scheduled review under the arrangement. The Trustee, however, shall not approve requests for augmentation at an ad hoc review if the scheduled review associated with the most recent availability date preceding the augmentation request has not been completed. In support of a request for augmentation between scheduled reviews under an ECF or SCF arrangement, the member will describe in a letter of intent the nature and size of its balance of payment difficulties, and any information relevant to program implementation, including exogenous developments. Before approving such augmentation, the Trustee shall be satisfied that the program remains on track to achieve its objectives at the time of the augmentation, based on the information provided by the member, and, in particular, that the member is in compliance with any continuous

[2] ** Paragraph 4 of Proposed Decision 1 proposes a change in the percent of quota limit (from 15 to 10 percent) for Executive Board consideration of augmentations requests on a lapse of time basis under this provision, upon effectiveness of the general conditions for quota increases under the 16th GQR.

performance criteria or that a waiver of nonobservance is justified and that all prior actions have been met. Requests for augmentation of access that do not exceed 15 percent of quota would be considered for approval on a lapse-of-time basis as provided for in Decision/A/13207, as amended. Following its approval by the Trustee, the augmentation of access under the arrangement will not exceed the amount immediately needed by the member in light of its balance of payments difficulties and will become available to the member in a single disbursement, which the member may request at any time until the availability date of the next scheduled disbursement under the ECF or SCF arrangement. A program review following an augmentation of access under the arrangement between scheduled reviews would be expected to include a comprehensive review of policies under the program. In order to allow the Trustee to undertake such a comprehensive assessment of the member's policies, this review may not be completed on a lapse of time basis.

(i) Any commitment shall be subject to the availability of resources to the Trust.

....

Paragraph 4. *Terms of Loans*

(a) ~~Effective August 1, 2021, and subject to the provisions of Section IV.A, paragraph 5, interest on the outstanding balance of Trust loans shall be charged at the rate of zero percent per annum on loans under the ECF, the SCF, the ESF, and the RCF~~ Interest on outstanding balances of Trust loans, and credit under ECF and SCF arrangements and under the RCF approved through April 30, 2025, shall be charged at a rate of zero percent per annum.

(b) ~~The interest rates for loans outstanding under the ECF and the SCF as specified under paragraph (a) shall be subject to periodic reviews to take account of developments in world interest rates, with such first review to be completed by July 31, 2025, and subsequent reviews every two years thereafter. In the context of such reviews, and subject to the provisions of Section IV.A, paragraph 5, the interest rate on the outstanding balances of loans under the ECF and SCF shall normally be determined by the Trustee as follows:~~

~~(i) If the SDR interest rate (average rate over the most recently observed 12-month period) is less than 2 percent, the interest rate shall be established or maintained, as the case may be, at zero percent per annum for ECF and SCF loans;~~

~~(ii) If the SDR interest rate (average rate over the most recently observed 12-month period) is between 2 percent and 5 percent, the interest rate shall be established or maintained, as the case may be, at 0.25 percent per annum for ECF and SCF loans;~~

~~(iii) If the SDR interest rate (average rate over the most recently observed 12-month period) is greater than 5 percent, the interest rate shall be established or maintained, as the case may be, at 0.5 percent per annum for ECF and SCF loans. (c) Notwithstanding the provisions of paragraph (a) or any interest rate determined in terms of the provisions of paragraph (b), interest at a rate equal to the SDR interest rate shall be charged on the amounts of any overdue interest on or overdue repayments of Trust loans~~.

Subject to the provisions of Section IV.A, paragraph 5, the interest rates on the outstanding balances of Trust loans under ECF and SCF arrangements, and under the RCF, approved on or after May 1, 2025, shall be as specified below.

- For an eligible member that, at the time of the Board approval of the above-specified RCF disbursement or of the ECF or SCF arrangement, does not meet the income criterion for presumed blending, as set forth in paragraph 1(a) of Decision No. 17082-(21/71), adopted July 14, 2021 (the "Blending Decision"), interest on all loans under the arrangement, including as it may be extended or augmented, and interest on the Trust loan under the RCF, shall be charged at the rate of zero percent per annum (hereinafter "Tier 1" interest rate);

- Except as specified in subparagraph (iv) below, for an eligible member that, at the time of Board approval of an RCF loan or of an ECF or SCF arrangement, meets the income criterion for presumed blending, as set forth in paragraph 1(a) of the Blending Decision, and does not face debt vulnerabilities that limit its access to international financial markets as defined in

paragraph 1(b) of the Blending Decision, interest on all loans under the arrangement, including as it may be extended or augmented, and interest on the Trust loan under the RCF shall be charged at 70 percent of the SDR interest rate per annum (hereinafter "Tier 2A" interest rate).; and

- Except as specified in subparagraph (iv) below, for an eligible member that, at the time of Board approval of an RCF loan or of an ECF or SCF arrangement, meets the income criterion for presumed blending, as set forth in paragraph 1(a) of the Blending Decision, but faces debt vulnerabilities that limit its access to international financial markets as defined in paragraph 1(b) of the Blending Decision, interest on all loans under the arrangement, including as it may be extended or augmented, and interest on the Trust loan under the RCF, shall be charged at 40 percent of the SDR interest rate per annum (hereinafter "Tier 2B" interest rate).

- The following approach shall be adopted in cases involving GDP rebasing. Where a member does not meet the income criterion for presumed blending and its GNI per capita does not exceed the IDA operational cutoff by at least 5 percent as of the year before a new rebased GDP is published, it shall not be deemed to have met the income criterion until the member's annual GNI per capita has exceeded the prevailing IDA operational cutoff by at least 5 percent for two consecutive years, not including the year in which the official rebased GDP data is released. For a transitional period, with regard to a member which completed its GDP rebasing after March 11, 2020 and not later than April 30, 2025, the income criterion will be met when the member's annual GNI per capita has exceeded the prevailing IDA operational cutoff by at least 5 percent for two consecutive years after, and not including, 2025.

- Interest payment shall be due promptly at the end of each IMF financial quarter, in line with the schedule of interest payments to PRGT lenders and with the billing cycle of the GRA and SDR Department.

(c) Notwithstanding the provisions of paragraph (a) or any interest rate determined in terms of the provisions of paragraph (b), interest at a rate equal to the SDR interest rate shall be charged on the amounts of any overdue interest on or overdue repayments of Trust loans.

(d) Trust loans shall be disbursed in a freely usable currency as decided by the Trustee. They shall be repaid, and interest paid, in U.S. dollars or other freely usable currency as decided by the Trustee. The Managing Director is authorized to make arrangements under which, at the request of a member, SDRs may be used for disbursements to the member or for payment of interest or repayments of loans by the member to the Trust.

(e) The Trustee may not reschedule the repayment of loans from the Trust.

(f) Trust loans under the ECF, RCF and ESF shall be repaid in ten equal semi-annual installments beginning not later than five and a half years from the date of each disbursement and completed at the end of the tenth year after that date. Trust loans under the SCF shall be repaid in nine equal semi-annual installments beginning not later than four years from the date of each disbursement and completed at the end of the eighth year after that date.

…..

Paragraph 6. *Modifications*

Any modification of these provisions will affect only loans made after the effective date of the modification.~~, provided that modification of the interest rate shall apply to interest accruing after the effective date of the modification~~.

Section III. *Borrowing for the Loan Account*

……

Section IV.A. *Subsidy Accounts*

Paragraph 1. *Resources*

(a) The resources held in the General Subsidy Account shall consist of:

(i) the proceeds of donations made to the Trust for the General Subsidy Account;

(ii) the proceeds of loans made to the Trust for the General Subsidy Account;

(iii) transfers from the Special Disbursement Account in accordance with Section F of Decision No. 14354-(09/79);

(iv) transfers from the Reserve Account in accordance with Section V, Paragraph 5(b)(ii) of this Instrument;

(v) net earnings from investment of resources held in that Account;

(vi) transfers from the Deposit and Investment Account in accordance with Section IV.B, paragraph 3 of this Instrument and transfers from the Long-term Investment Account in accordance with Section IV.C, paragraph 3 of this Instrument.

(b) ….

(c)…..

(d)…..

(e)….

(f) The resources held in the Subsidy Reserve Account shall consist of:

(i) the proceeds of donations made to the Trust for the Subsidy Reserve Account;

(ii) the proceeds of loans made to the Trust for the Subsidy Reserve Account;

(iii) transfers from the Deposit and Investment Account in accordance with Section IV.B, paragraph 3 of this Instrument and transfers from the Long-Term Investment Account in accordance with Section IV.C, paragraph 3 of this Instrument;

(iv) net earnings from investment of resources held in that Account;

(v) payments of overdue principal or interest or interest thereon under Trust loans, and payments of interest under Trust loans to the extent that payment has been made to a creditor from the Subsidy Reserve Account; and

(vi) repayments of the principal under Trust loans, to the extent that resources in the Subsidy Reserve Account have been used to make payments to a creditor due to a difference in timing between scheduled principal repayments to the creditor and principal repayments under Trust loans.

Paragraph 2. *Donations*

.....

Paragraph 3. *Borrowing*

....

Paragraph 4. *Authorized Use of Subsidy Accounts*

....

Paragraph 5. *Calculation of Subsidy*

....

Paragraph 6. *Termination of Accounts*

(a) ….

(b) Upon completion of the subsidy operations authorized by this Instrument, the Fund shall wind up the affairs of the Subsidy Accounts. The Fund may also wind up the affairs of any Subsidy Account other than the General Subsidy Account prior to the completion of the overall subsidy operations authorized by this Instrument, if the Fund deems this to be appropriate. In case of termination of a Subsidy Account in accordance with this subparagraph, the remaining resources shall be used as follows:

(i) Any resources remaining in the General Subsidy Account shall be used in a manner consistent with paragraph 4(a) of this Section (i) to reduce to the fullest extent possible the interest rate paid by borrowers in accordance with Section II, paragraphs 4(a), (b), and (c) on loans from the PRGT, by means of payments to such borrowers, and (ii) to fund transfers to the ENDA/EPCA Subsidy Account needed to subsidize the rate of charge on any remaining outstanding GRA purchases in accordance with the terms of the ENDA/EPCA Subsidy Account. Any resources remaining after that subsidization and transfer shall be distributed to the Fund, donors, and creditors that have contributed to the General Subsidy Account, in proportion to their contributions, including donors and creditors of resources transferred from other Subsidy Accounts upon their termination. The resources representing the Fund's share in such distribution shall be transferred to the Special Disbursement Account. Any resources attributable to transfers from the Deposit and Investment Account or from the Long-Term Investment Account shall be transferred to that account.

(ii) ……

(iii) ……

(iv) ……

(v) ……

(vi) Any resources remaining in the Subsidy Reserve Account shall be used in a manner consistent with paragraph 4(f) of this Section to reduce to the fullest extent possible the interest rate paid by borrowers in accordance with Section II, paragraphs 4(a), (b), and (c) on loans from the PRGT, by means of payments to such borrowers. Any resources remaining after that subsidization and not attributable to the Deposit and Investment Account or the Long-Term Investment Account shall be transferred to the General Subsidy Account, provided that a contributor may request that its share in any remaining resources be returned to it. Any resources attributable to transfers from the Deposit and Investment Account or the Long-Term Investment Account shall be transferred to that Account.

(vii) ....

Section IV.B. *Deposit and Investment Account*

....

Section IV.C. Long-Term Investment Account

Paragraph 1. *Purpose and Resources*

The purpose of the Long-Term Investment Account is to provide a separate vehicle under which the Trust can pool and centralize borrowed resources for generating investment earnings under a long-term investment strategy for the benefit of the Subsidy Reserve Account, or at the request of a contributor, the General Subsidy Account. The resources held in the Long-Term Investment Account shall consist of the proceeds from long-term investment agreements with contributors and the net earnings on the investment proceeds.

Paragraph 2. *Borrowing for the Long-Term Investment Account*

(a) The Trustee may enter into investment agreements with the Long-Term Investment Account with the aim of generating long-term net investment earnings from the investment

of the resources borrowed ("Long Term Investment Agreements"). For this purpose, the Managing Director of the Trustee is authorized to enter into Long-Term Investment Agreements and agree to their terms and conditions with contributors to the Long-Term Investment Account. The borrowed resources shall be invested in accordance with guidelines adopted by the Trustee.

(b) The agreements may provide for the right of a contributor to request the early repayment of the principal amount under its Long-Term Investment Agreement upon representation of a balance of payments need. The contributor shall reconstitute any withdrawn amount as its balance of payments and reserve position improves.

Paragraph 3. *Use of Resources*

(a) Resources in the Long-Term Investment Account derived from net investment earnings shall be transferred to the Subsidy Reserve Account at the final maturity of the investment agreement such resources are attributable to; provided that, with the consent of the contributor, the Managing Director is authorized to transfer to the Subsidy Reserve Account at an earlier time resources attributable to that contributor's Long Term-Investment Agreement, to meet the subsidization needs of the Trust.

(b) A contributor may prescribe that investment earnings in the Long-Term Investment Agreement attributable to that contributor's investment be directed to the General Subsidy Account instead of the Subsidy Reserve Account.

Paragraph 4. *Termination Arrangements*

Upon completion of the subsidy operations authorized by this Instrument, the Trustee shall wind down the affairs of the Long-Term Investment Account. Contributors shall be repaid the principal of their investment and any remaining investment earnings or losses attributed to it.

Paragraph 5. *Repayment of the principal amount and payment of interest to a contributor*

Repayment of the principal amount and any payment of interest to a contributor on any borrowing for the Long-Term Investment Account, including repayment upon maturity, early repayment in accordance with Section IV.C, paragraph 2(b), or repayment in accordance Section IV.C, paragraph 4, shall be made exclusively from resources attributed to the investment of this principal amount and the net investment earnings thereon, net of the cumulative interest previously paid to the contributor.

Section V. *Reserve Account*

……

Section VI. *Transfer of Claims*

……

Section VII. *Administration of the Trust*

……

Section VIII. *Period of Operation and Liquidation*

Paragraph 1. *Period of operation*

The Trust established by this Instrument shall remain in effect for as long as is necessary, in the judgment of the Fund, to conduct and to wind up the business of the Trust.

Paragraph 2. *Liquidation of the Trust*

(a) Termination and liquidation of the Subsidy Accounts shall be made in accordance with the provisions of Section IV.A, paragraph 6. Termination and liquidation of the Deposit and Investment Account shall be made in accordance with the provisions of Section IV.B, paragraph 4. Termination

and liquidation of the Long-Term Investment Account shall be made in accordance with the provisions of Section IV.C, paragraph 4.

(b) All other resources, if any, shall be used to discharge any liabilities of the Trust, other than those incurred under Section IV.A, and any remainder shall be transferred to the Special Disbursement Account of the Fund.

Section IX. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except this Section and Section I, paragraphs 1 and 2; Section III, paragraphs 4 and 5; Section IV.A, paragraphs 4 and 6; Section IV.B; Section IV.C; Section V; Section VI; Section VII, paragraph 2(a) and (b); and Section VIII, paragraph 2(b).

……

Blended Access to Financing under the PRGT and the GRA -- Redlined Text Showing the Proposed Modifications

1. A member that is included in the list of members annexed to Decision No. 8240-(85/56) SAF, as amended (i.e., a member eligible for financing under the Poverty Reduction and Growth Trust (PRGT), hereinafter "member") is a "Presumed Blender" in accordance with the criteria set forth below:

a. Income: A member meets the income thresholds for presumed blending if its annual per capita gross national income (GNI) has exceeded the prevailing operational cutoff for assistance from the International Development Association (IDA) by at least 5 percent for two consecutive years (the "income threshold"). Notwithstanding the above, where a member does not meet the income criterion and its GNI per capita does not exceed the IDA operational cutoff by at least 5 percent as of the year before a new rebased GDP is published, it shall not be deemed to have met the income criterion until the member's annual GNI per capita has exceeded the prevailing IDA operational cutoff by at least 5 percent for two consecutive years, not including the year in which the official rebased GDP data is released. For a transitional period, with regard to a member which completed its GDP rebasing after March 11, 2020 and not later than April 30, 2025, the income criterion will

be met when the member's annual GNI per capita has exceeded the prevailing IDA operational cutoff by at least 5 percent for two consecutive years after, and not including, 2025. Once a member has met the income threshold, it shall be deemed to continue to meet the threshold unless its annual per capita GNI falls below 95 percent of the IDA operational cut-off.

b. Absence of debt vulnerabilities that limit market access: A member that meets the income threshold as defined in Paragraph 1.a shall be presumed to blend unless it faces debt vulnerabilities that limit its access to international financial markets. A member will be considered to face debt vulnerabilities that limit its access to international financial markets if it is (i) in debt distress or (ii) at high risk of debt distress and either (a) does not meet the criterion of capacity to access international financial markets on a durable and substantial basis for the purpose of graduation from the PRGT eligibility as set forth in Paragraph 1(C)(1)(ii) of Decision No. 14521-(10/3), adopted January 11, 2010, as amended (the "PRGT Eligibility Decision") or (b) is a "small country" or a "microstate", as such terms are defined in paragraph 1 (D) of the PRGT Eligibility Decision.

2. A request by a Presumed Blender for access to PRGT resources shall be approved only in a blend with access to resources in the General Resources Account (GRA). The mix of PRGT and GRA resources shall be provided in a ratio of one to two of PRGT resources to GRA resources, subject to ~~a cap on access to PRGT resources of 145 percent of quota per arrangement~~ a per arrangement cap on access to PRGT resources set at the norm applicable to ECF and SCF arrangements and subject to the overall limits on access to the PRGT set out in Section II, Paragraph 2 of this Instrument.

**[3] 3. During the period from December 7, 2023 to December 31, 2024, the cap on access to PRGT resources per arrangement specified in paragraph 2 above shall be increased to 200 percent of quota. The expiration of the temporary increase in the per arrangement access cap set forth in this paragraph shall not affect commitments under existing arrangements that were approved prior to such expiration. The cap on access to PRGT resources of 200 percent of quota per arrangement shall be

[3]** Decision II deletes this paragraph with effect from January 1, 2025.

reduced to 135 percent of quota immediately upon an Executive Board determination that the general conditions for the effectiveness of quota increases under the Sixteenth General Review of Quotas specified in paragraph 3 of the Board of Governors Resolution No. 79-1 (December 15, 2023) have been met.

Decision No. 17082-(21/71),
July 14, 2021
Amended, December 15, 2023

Policy Safeguards for Countries Seeking Access to Fund Financial Support that would Lead to High Levels of Combined GRA and PRGT Exposures - *Redlined Text Showing the Proposed Modifications*

1.Subject to paragraphs 5 and 6 below, and with a view to enhancing safeguards for the use of resources in the General Resources Account (GRA) and the Poverty Reduction and Growth Trust (PRGT), respectively, the Fund will not approve any of the following financing requests in the GRA or under the PRGT in an amount above the High Combined GRA and PRGT Credit Thresholds defined in paragraph 2 below, unless it is satisfied that the criteria set forth in paragraph 3 below and the procedural requirements set forth in paragraph 4 below are met:

(i) a new arrangement in the GRA or under the PRGT;

(ii) a purchase under the Rapid Financing Instrument (RFI) or a loan under the Rapid Credit Facility (RCF);

(iii) an augmentation of access under an arrangement in the GRA or under the PRGT; or

(iv) a rephasing of scheduled purchases or disbursements under an arrangement approved after September 9, 2020 ~~[insert date of Board approval of the new policy]~~ when access under the arrangement has not previously exceeded the thresholds specified in paragraph 2.

2. For the purpose of this Decision, High Combined GRA and PRGT Credit (hereinafter "HCC") arises when a member's annual or cumulative access (net of scheduled repurchases and repayments) to the sum of resources in the GRA and under the PRGT exceeds, in quota terms, the equivalent of the annual or the cumulative limit (net of scheduled repurchases) applicable to the access by members to GRA resources set forth in paragraph 2 of Decision No. 14064-(08/18), adopted February 22, 2008, as amended (hereinafter the "HCC Thresholds"). The HCC Thresholds shall adjust automatically to any changes in the access limits set forth in Decision No. 14064-(08/18), adopted February 22, 2008, as amended (hereinafter, the "GRA Access Decision").

3. Subject to paragraph 5 below, the criteria that must be satisfied for purposes of paragraph 1 of this Decision are as follows:

(a) The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or capital account, resulting in a need for Fund financing that cannot be met without giving rise to access in excess of the HCC Thresholds.

(b) Risks to the sustainability of public debt are adequately contained, which shall be evidenced by, and subject to, the standards set forth below:

A. For members subject to the Bank-Fund Debt Sustainability Framework for Low-Income Countries (the "LIC-DSF"):

I. A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. This is generally considered to be met for countries that are assessed under the LIC-DSF to be at low or moderate overall risk of public debt distress; or

II. Where the member's public debt is assessed to be sustainable but not with high probability (which includes cases where the member's overall risk of public debt distress is assessed to be high or in debt distress), or where the member's debt is assessed to be unsustainable ex ante, access to resources in excess of the HCC Thresholds will only be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, restores public debt sustainability with high probability (generally considered to be met for countries that are assessed under the LIC-DSF to be at low or moderate overall risk of public debt distress) (i) within 36 months from Board approval in the case of a new Fund arrangement, purchase under the RFI or loan under the RCF, or within the period of the new arrangement, whichever is longer, or (ii) within the remaining period of an arrangement, in cases where the Board approves a request for an augmentation or a rephasing of access under the arrangement; provided that, in cases where the member's public debt is assessed to be sustainable but not with high probability and the member has prospects of gaining or regaining access to private capital markets within a timeframe and on a scale that would enable the member to meet its obligations falling due to the Fund (including to the PRGT) combined access above the proposed thresholds will be made available if the combination of the member's policies and financing from sources other than the Fund, which may include debt restructuring, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources (including PRGT resources). In applying the more flexible standard where debt is sustainable but not with a high probability, BUFF/16/9, corr. 1 will apply.

B. For members subject to assessments of debt sustainability under the Debt Sustainability Framework for Market Access Countries, this criterion will be met where a rigorous and systematic analysis indicates that the same debt sustainability requirements that apply to exceptional access in the GRA, set forth in paragraph 3(b) of the GRA Access Decision and in BUFF/16/9 (1/27/2016), are met.

(c) The member's policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

ELIGIBILITY TO USE THE FUND'S FACILITIES FOR CONCESSIONAL FINANCING—PRGT ELIGIBILITY CRITERIA

1. The following criteria for entry and graduation shall, respectively, guide Executive Board decisions to add members to, and remove members from, the list annexed to Decision No. 8240-(86/56) SAF, as amended (the "PRGT-eligibility list"):

(A) *Criteria for entry*: A member will be added to the PRGT--eligibility list if (i) its annual per capita gross national income ("GNI"), based on the latest available qualifying data, is (a) below the International Development Association ("IDA") operational cut-off; or (b) less than twice the IDA operational cut-off if the member qualifies as a "small country" under the definition set forth in subparagraph (D); or (c) less than five times the IDA operational cut-off if the member qualifies as a "microstate" under the definition set forth in subparagraph (D); and (ii) the sovereign does not have capacity to access international financial markets on a durable and substantial basis as defined in subparagraph (C).

(B) Criteria for graduation: A member will be removed from the PRGT-eligibility list if it meets either or both the income and market access criteria specified in (1) and (2) below, and does not face serious short-term vulnerabilities as specified in (3) below:

(1) *Income Criterion*: the member's annual per capita GNI (i) has been above the IDA operational cut-off for at least the last five years for which qualifying data are available; (ii) has not been on a declining trend over the same period, comparing the first and last relevant annual data; and (iii) based on the latest qualifying annual data, is (a) at least twice the IDA operational cut-off; or (b) at least three times the IDA operational cut-off if the member qualifies as a "small country" under the definition set forth in subparagraph (D); or (c) at least six times the IDA

operational cut-off if the member qualifies as a "microstate" under the definition set forth in subparagraph (D).

(2) *Market Access Criterion*: (i) the sovereign has the capacity to access international financial markets on a durable and substantial basis as defined in subparagraph (C); (ii) the member's annual per capita GNI is above 100 percent of the IDA operational cut-off based on the latest qualifying annual data; and (iii) the member's annual per capital GNI has not been on a declining trend over the last five years for which qualifying data are available, comparing the first and last relevant annual data.

(3) *Absence of serious short-term vulnerabilities*: the member does not face serious short-term vulnerabilities, which shall require in particular (i) the absence of risks of a sharp decline in the member's income, or of a loss of its market access (where relevant); (ii) limited debt vulnerabilities as indicated by the most recent debt sustainability analysis, including, for members whose debt has been assessed under the Debt Sustainability Framework for Low-Income Countries, an external debt distress classification of moderate or less and does not face a heightened overall risk of debt distress reflecting significant vulnerabilities related to domestic debt and/or private external debt; and (iii) confirmation that overall debt vulnerabilities remain limited, taking into account developments and prospects since the most recent debt sustainability analysis~~. For a member whose annual per capita GNI exceeds the applicable income graduation threshold in (1) above by 50 percent or more, graduation from PRGT eligibility will not be subject to the assessment of serious short-term vulnerabilities defined in this subparagraph (3). Such an assessment by the Executive Board will however be required if the member has an "IDA-grant only" or "IDA loan-grant mix" status at the World Bank, in which case graduation will depend on an assessment that the member does not have such serious short-term vulnerabilities.~~

(C) For the purposes of subparagraphs (A) and (B)(2), the sovereign's capacity to access international financial markets on a durable and substantial basis shall be evidenced by either of the following:

(1) The issuance or guarantee by a public debtor of external bonds in international markets, or disbursements under external commercial loans contracted or guaranteed by a public debtor in international markets that (i) for the purposes of subparagraph (A) occurred during at least two of the last five years for which qualifying data are available (the "entry duration threshold"), and has been in a cumulative amount equivalent to at least fifty percent of the member's quota in the Fund at the time of the assessment (the "entry scale threshold")provided that (a) if the member's quota increase under the Fourteenth General Review of Quotas has become effective, the cumulative amount shall be equivalent to at least 25 percent of the member's quota and provided further that, if the member's quota increase under the Sixteenth General Review of Quotas has become effective, such cumulative amount shall be equivalent to at least 20 percent of the member's quota and (b) if the amount of issuance or guarantee of external bonds and of disbursements under external commercial loans in a single year for which qualifying data are available totals less than two percent of the member's quota in the Fund at the time of the assessment, or less than 1.5 percent of quota of the member's quota increase under the Sixteenth General Review of Quotas has become available, that year shall not count towards meeting the entry duration threshold, or (ii) for the purposes of paragraph (B)(2),occurred during at least three of the last five years for which qualifying data are available (the "graduation duration threshold"), and has been in a cumulative amount equivalent to at least one hundred percent of the member's quota in the Fund at the time of the assessment (the "graduation scale threshold"), provided that (a) if the member's quota increase under the Fourteenth General Review of Quotas has become effective, the cumulative amount shall be equivalent to at least 50 percent of the member's quota and provided further that if the member's quota under the Sixteenth General Review of quotas has become effective, such cumulative amount shall be equivalent to at least 35 percent of the member's quota and (b) if the amount of issuance or guarantee of external bonds and of disbursements under external commercial loans in a single year for which qualifying data are available totals less than two percent of the member's quota at the time of the assessment, or less than 1.5 percent of quota if the member's quota increase

under the Sixteenth General Review has become effective, that year shall not count towards meeting the graduation duration threshold, or

(2) The existence of convincing evidence that the sovereign could have tapped international markets as specified under (1) above, even though the actual issuance or guarantee by a public debtor of external bonds in international markets, or actual disbursements under external commercial loans contracted or guaranteed by a public debtor in international markets, fell short of the entry and graduation duration thresholds and/or the entry and graduation scale thresholds specified under (1) above. Determinations under this paragraph shall be a case-specific assessment that takes into account relevant factors, including the volume and terms of recent external borrowing or guaranteeing of external borrowing in international markets, and the sovereign credit rating where one exists.

For purposes of this subparagraph (C): (i) a "public debtor" shall include the sovereign (national government) as well as other public borrowers (including political subdivisions, agencies of the national government or of political subdivisions, autonomous public bodies and public corporations) whose ability to borrow in international markets is assessed to be an indicator of the sovereign's creditworthiness, however borrowing by a public corporation will generally not be assessed as an indicator of the sovereign's creditworthiness where such borrowing is based on the public corporation's own balance sheet (including by collateralizing its own assets) and is not guaranteed by the sovereign; (ii) "external bonds" are those issued in international capital markets and "external commercial loans" are commercial loans contracted in international markets by residents of a member with nonresidents, provided that bonds issued and loans contracted in markets that are not integrated with broader international market, including loans or bonds subsidized or guaranteed (partially or fully) by official external entities (including foreign governments and foreign public sector entities as well as international organizations), and loans from foreign state-owned banks, shall not qualify; and (iii) bonds and commercial loans guaranteed by a public debtor shall be obligations of a private debtor whose repayment is guaranteed by a public debtor.

(D) For the purposes of the criteria set forth in this paragraph 1, a member will be considered a "small country" if it has a population below 1.5 million, and a "microstate" if it has a population below 200,000.

(E) For the purposes of the criteria set forth in this paragraph 1, assessments of per capita GNI will normally be based on World Bank data using the ATLAS methodology, but other data sources may be used in exceptional circumstances, including data estimated by Fund staff in the absence of World Bank data. Qualifying data for the purposes of the criteria set forth in this paragraph 1 shall be data in respect of which the most recent observation relates to a calendar year that is not more than 30 months in the past at the time of the assessment.

2. Executive Board decisions to remove a member from the PRGT-eligibility list pursuant to the graduation criteria set forth in paragraph 1 of this decision shall become effective five months after their adoption (the "effectiveness date"), provided that such decisions shall not affect any arrangement under the Poverty Reduction and Growth Trust established pursuant to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended ("PRGT"), or any program subject to assessment and endorsement by the Fund under a policy support instrument ("PSI"),that are in existence as of the effectiveness date. Any such arrangement or PSI may continue until the expiration or other termination of the arrangement or PSI, and the arrangement or PSI may be extended or access under the arrangement may be augmented where appropriate in accordance with the applicable policies on extension or augmentation.

3. Notwithstanding the entry into effect of a decision to remove a member from the PRGT-eligibility list in accordance with this decision, any outstanding PRGT resources disbursed to such member shall remain subject to the terms of the PRGT. In Section II, paragraph 4(c) of the PRGT, the reference to "as such list may be amended from time to time," shall be deleted.

4. The term "eligible recipients" under paragraph 7(a) of Decision No. 12481-(01/45) governing subsidies for post conflict and natural disaster purchases of PRGT-eligible members shall be understood to include members that, at the time of their removal from the PRGT-eligibility list

pursuant to this decision, have outstanding post conflict or natural disaster purchases in respect of which subsidies may be provided under Decision No. 12481-(01/45), for as long as such purchases remain outstanding. In subparagraph 7(d) of Decision No. 12481-(01/45), as amended, the references to "qualifying PRGT-eligible members" shall be replaced with references to "PRGT-eligible members," and the second sentence shall be deleted.

5. It is expected that the criteria for entry and graduation set forth in this decision shall be reviewed every two years. It is also expected that the PRGT-eligibility list shall be reviewed and updated every two years on the basis of the then applicable criteria for entry and graduation, provided however that (i) decisions on entry onto the PRGT-eligibility list of members that meet the entry criteria specified in paragraph 1 above may also be adopted in the interim period between reviews; (ii) notwithstanding paragraph 1 above, decisions may be adopted in the interim period between reviews in respect of the re-entry onto the PRGT-eligibility list of members that had previously been removed from such list as a sanction for overdue obligations, so long as such a member at the time of re-entry does not meet the criteria for graduation specified in subparagraph 1(B) above; and (iii) decisions may be adopted in the interim period between reviews in respect of the graduation from the PRGT--eligibility list of members that meet the criteria for graduation specified in subparagraph 1(B) above, at the request of such a member.