

## FACTSHEET: FUND CONCESSIONAL SUPPORT FOR LOW-INCOME COUNTRIES—RESPONDING TO THE PANDEMIC, JULY 2021

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*The IMF responded to the COVID-19 crisis by providing rapid financial assistance to low-income countries (LICs). Through its concessional window, the Poverty Reduction and Growth Trust (PRGT), the Fund assists LICs in moving toward a stable and sustainable macroeconomic position consistent with durable poverty reduction and strong growth. This factsheet discusses the Fund's actions since the onset of the pandemic and the new concessional financing and reform package aimed at continuing to support LICs as they recover from the crisis.*

### IMF's response so far

#### **The Fund has acted with unprecedented speed and scale to support LICs during the pandemic.**

Since the onset of the pandemic, IMF lending commitments to LICs reached SDR 13.8 billion as of end-June 2021, of which almost SDR 10 billion disbursed as zero-interest loans from the PRGT.<sup>1</sup> On an annual basis, this amounts to almost six times the average of IMF concessional lending over the past decade. The bulk of this support was disbursed during April–July 2020, primarily through the Fund's emergency financing instruments—the [Rapid Credit Facility](#) (RCF) and [Rapid Financing Instrument](#) (RFI)—which provide immediate one-time disbursements to countries facing urgent balance of payments needs. This dramatic increase of financial support to LICs was supported by temporary increases in access limits under the Fund's facilities,<sup>2</sup> and a fast-track PRGT loan resource mobilization campaign (see below). In all, 53 of 69 eligible LICs received financial support in 2020 and the first half of 2021.<sup>3</sup>

#### **In addition to fresh financing, the IMF provided debt service relief through the Catastrophe Containment and Relief Trust (CCRT) to 29 of its poorest and most vulnerable member countries.**

To date, the CCRT delivered grant-based relief totaling SDR 520 million for debt service falling due to the IMF between April 2020 and October 2021. The relief, made possible by generous support from several donors, enabled LICs to reallocate resources for necessary spending on vaccines, health, and medical supplies to contain the outbreak.

#### **The IMF also provided substantial debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative to Somalia and Sudan.**

Both countries cleared their IMF and the World Bank arrears and reached the HIPC Decision Point in March 2020 and June 2021, respectively. The total debt relief for these two countries will amount to SDR 1.2 billion (including interim assistance), financed through a combination of IMF internal resources and generous donor support from IMF members.

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<sup>1</sup> Comparatively better-off LICs typically blend zero-interest PRGT loans with resources from the IMF's General Resources Account (GRA) at a 1:2 proportion.

<sup>2</sup> The Fund quickly responded to a record number of requests for emergency financing for balance of payments support, first through a series of temporary [access limits increases](#) to its emergency financing instruments—the RCF and RFI—and subsequently through temporarily [increasing PRGT overall access limits](#).

<sup>3</sup> See [the IMF's COVID-19 Financial Assistance and Debt Service Relief Tracker](#) for country-by-country details.

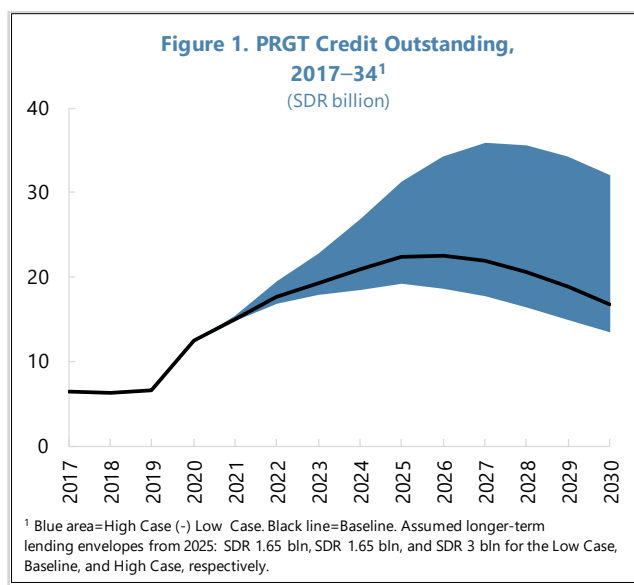
## New tools to address challenges ahead

**Financing needs of LICs are expected to remain high in the coming years.** With still very low vaccination rates, the economic outlook is subject to significant downside risks. Staff projections point to a significant gap in economic performance between LICs and advanced economies. The [IMF's 2021 Report on Macroeconomic Developments and Prospects in LICs](#) noted that the pandemic hit LICs particularly hard, with a large impact on already weak health systems, a lack of room to maneuver, limited access to financing and little room for monetary policy support. These conditions significantly restrict the scope for policy responses and exacerbate the divergence with advanced countries compared to before the crisis. As a result, LICs are projected to fall behind unless there is a broad international effort to support their recovery and development efforts over the next few years.

### **The IMF stands ready to continue supporting LICs in their efforts to recover from the pandemic.**

Following the initial emergency response, IMF support is shifting to multi-year programs with zero-interest financing through the PRGT's [Extended Credit Facility \(ECF\)](#), which supports economic policies that promote sustainable growth based on the country's own development strategy. This would also have catalytic effects to mobilize support from development partners. The IMF's Executive Board approved the following key reforms to ensure the Fund has the capacity to respond flexibly to LICs' exceptional needs:

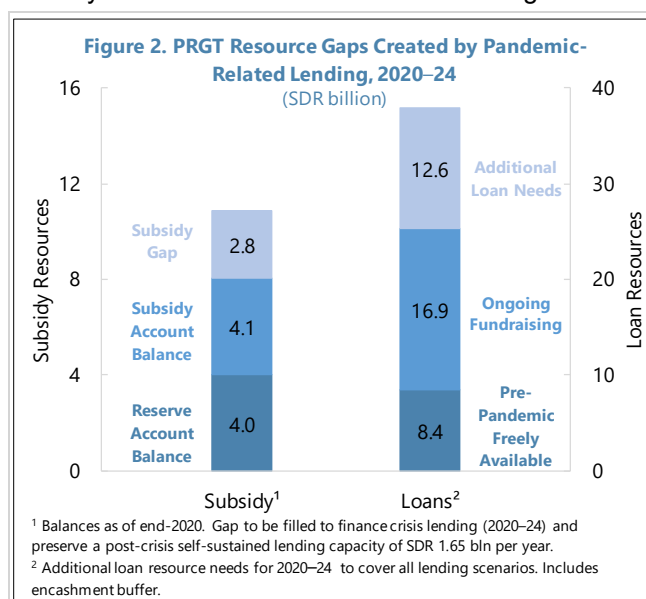
- **Increased access to concessional financing.** Access limits on PRGT resources have been raised by 45 percent, and hard caps eliminated entirely to ensure that the poorest eligible LICs can receive all financing at zero interest rates. The proposed increase in access limits would provide the Fund with additional flexibility to support countries with strong economic programs. PRGT exceptional access criteria have also been amended to broadly align with the requirements of the Policy Safeguards on High Combined Credit.
- **A simpler framework for blending PRGT and GRA resources.** The rules for supporting better-off LICs through blended finance has been made less complex and more robust.
- **Zero interest rates on PRGT loans.** Consistent with the established rules, interest rates on all PRGT facilities will remain at zero, at least through July 2023.
- **Reinforced safeguards on debt sustainability and credit risk.** The Fund relies on a multilayered risk management framework to mitigate and manage financial risks. The policies and tools to ensure debt sustainability of borrowers are being further refined.
- **PRGT lending commitments are projected to reach SDR 21 billion during the pandemic period under a Baseline scenario**, more than four times the historical average on an annualized basis. PRGT credit outstanding would peak at almost four times the pre-pandemic level (Figure 1, black line). These projections are subject to significant uncertainty around economic developments and demand over the coming years.



## New concessional funding strategy

**Contributions from economically stronger members will be critical to fund this strategy.** The exceptional surge in pandemic-related lending is generating a sizeable resource gap in the PRGT. Loan resources are raised periodically—the fast-track loan resource mobilization effort launched in early 2020 has already secured SDR 17 billion from 16 members as of mid-2021. Additional bilateral subsidy contributions are needed to sustain the difference between the rate of remuneration received by lenders and the zero rates paid by PRGT borrowers. The Executive Board has now approved a comprehensive two-stage funding strategy to secure the necessary financial resources for the PRGT:

- **In the first stage**, the Fund is seeking to mobilize: (i) a further SDR 12.6 billion in PRGT loan resources, and (ii) SDR 2.3 billion in new bilateral subsidy resources to allow continued lending at highly concessional interest rates, complemented by IMF internal resources of about SDR 0.5 billion (Figure 2). Voluntary subsidy contributions are being sought in a broad, burden-shared fundraising campaign involving economically stronger member countries based on their respective quota shares. “Channeling” of SDRs by contributors from the proposed general allocation of \$650 billion later in 2021 could facilitate the mobilization of both loan resources and investment resources (which generate earnings for subsidy resources). Annual reviews will monitor the adequacy of concessional resources, with the option to put in place contingency measures.



- **In the second stage**, when the significant uncertainties about the outlook for concessional resources have passed, a decision on the longer-term PRGT envelope would be discussed as part of the next full review of concessional financing and policies in 2024/25. This would allow a thorough post-pandemic assessment and may possibly include the use of internal Fund resources.

**Donors will have flexibility regarding their subsidy contributions, with contributions to be pledged upfront and disbursed over time.** Contributions options include: (i) budgetary grants, possibly in installments over several years (a new Subsidy and Reserve Account can receive grants that help finance the subsidization of PRGT loans while also bolstering reserve coverage of credit); (ii) donation of the interest earned on their SDR holdings; (iii) PRGT loan resources provided at below the SDR rate; and (iv) deposits and investments to generate income for subsidy contributions (a new Deposit and Investment Account will centralize borrowing from members under longer-term agreements that would remunerate contributors while generating additional investment earnings that would be transferred as subsidy resources to the PRGT).

**In parallel, the Fund is seeking bilateral grants to support debt flow relief under the CCRT.** Thanks to recent grants from donors, the Fund has been able to deliver SDR 520 million in debt service relief to 29 countries in the context of the COVID pandemic through October 15, 2021. Additional resources are needed to extend this relief for the maximum two-year period.