INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

October 2022

PROPOSAL FOR A FOOD SHOCK WINDOW UNDER THE RAPID FINANCING INSTRUMENT AND RAPID CREDITFACILITY

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 September 30, 2022 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on September 19, 2022 for the Executive Board's consideration on September 30, 2022.

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IMF Executive Board Approves a new Food Shock Window and an Enhanced Staff-Monitored Program with Board Involvement

FOR IMMEDIATE RELEASE

- The Executive Board of the International Monetary Fund (IMF) approved a new Food Shock Window under its emergency financing instruments.
- This new window will be available for a year to provide additional access to emergency financing for countries facing urgent balance-of-payment need related to the global food crisis.
- The Board also approved a policy change to allow countries to request Program Monitoring with Board involvement in selected Staff Monitored Programs where member countries are seeking to build or rebuild a track record to access an IMF-supported program.

Washington, DC – October 5, 2022: The IMF Executive Board approved on September 30 a new, temporary Food Shock Window (FSW) under its emergency financing instruments (Rapid Credit Facility-RCF/Rapid Financing Instrument-RFI).

A combination of climate shocks and the pandemic has disrupted food production and distribution, driving up the cost of feeding people and families. Russia's invasion of Ukraine has pushed the price of food and fertilizers even higher and exacerbated the shortages in food supplies—hurting food importers and some exporters alike.

The Food Shock Window will provide, for a period of a year, a new channel for emergency Fund financing to member countries that have urgent balance of payment needs due to acute food insecurity, a sharp increase in their food import bill, or a shock to their cereal exports. Access will be consistent with the actual balance of payments needs, and capped at 50 percent of quota, and will be additional to the current annual access limits under the RCF/RFI. The cumulative access limits under the RFI regular window and the RCF exogenous shock window, currently at 150 percent of quota, will be increased to 175 percent of quota for members that will borrow through the FSW. A review is planned by the end of June 2023.

The Executive Board also amended the policy for Staff-Monitored Programs (SMPs), to allow for Program Monitoring with Board involvement (PMB). The Executive Board's role will be limited to assessing the robustness of the member's policies to meet the program's objectives and to monitoring program implementation, including of policies aiming to facilitate the transition to an upper credit tranche (UCT) quality IMF-supported program. Countries considering an SMP would be encouraged to request a PMB if they are the subject of an ongoing concerted international effort by creditors or donors to provide substantial new financing or debt relief, or have significant outstanding Fund credit under emergency financing instruments. The PMB will be reviewed before the end of September 2023.

Executive Board Assessment[1]

Executive Directors welcomed the opportunity to discuss staff's proposals (i) to create a new temporary window under the Fund's emergency financing instruments to address the urgent balance of payments (BOP) needs related to food shock that was exacerbated by Russia's war in Ukraine, and (ii) to amend the policy on Staff Monitored Programs (SMP) to introduce an SMP with Board involvement (PMB) that will allow the Executive Board to opine under narrowly tailored circumstances on a member's program approved by management. They broadly endorsed both proposals.
Directors shared the staff's assessment that the ongoing global food shock has caused hardship and amplified the acute food insecurity in many countries. While noting that the first-best option to address BOP pressures would generally involve an Upper Credit Tranche (UCT) quality program, they agreed that this may not be feasible in some cases or not necessary in others.

Against this background, Directors welcomed the proposal to establish a new temporary food shock window (FSW) under the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF) to provide additional, low access emergency financing to qualifying members experiencing urgent BOP needs related to the global food shock. Access under this window will be consistent with the member's actual BOP need, capped at 50 percent of a member's quota, and available during a 12-month period. This access will be fully additional to the current annual access limits under the RFI and RCF and will increase the cumulative access limit under the regular window of the RFI and the exogenous shocks window of the RCF to 175 percent of quota. Directors also looked forward to strengthening coordination with specialized international organizations to address food insecurity.

Directors broadly supported the proposed qualification criteria that circumscribe access to the FSW to countries experiencing an urgent BOP need associated with acute food insecurity, increased costs of cereal and fertilizer imports, or cereal exports shortfalls. At the same time, a few Directors considered that other spillovers from the war would have warranted extending the qualification criteria for the new window. Directors looked forward to continued staff work to ensure that the Fund's lending toolkit responds to members' needs under current challenging circumstances.

Directors noted that as is the case for all Fund lending, including emergency financing, access under the FSW will be subject to debt sustainability and adequate capacity to repay requirements. Given concern that some countries may not be able to access the FSW, Directors encouraged staff to work with countries in need to help address the challenges they are facing in meeting those requirements. Member countries accessing the FSW would also be expected to commit to measures ensuring transparency and accountability in the spending of emergency resources, tailored to the specific circumstances of each country.

Directors noted that the FSW will raise PRGT lending in the short term—including through additional voluntary SDR channeling—and will also require further subsidy resources. They emphasized the urgent need for timely bilateral pledges of loan and subsidy resources under

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[1] At the conclusion of the discussion, the Managing Director, as Chairman 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 summing ups can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm .

the ongoing first stage of the PRGT fundraising. Directors looked forward to the Annual Review of the Adequacy of PRGT Resources scheduled for Spring 2023 as an opportunity to consider contingency measures as needed, and possible steps to accelerate or expand fundraising, to accommodate the additional lending.

Directors underscored that members would be encouraged to transition to UCT-quality programs as soon as appropriate and feasible to support structural reforms to address underlying vulnerabilities and larger financing needs. In this context, they noted that concurrent use of the FSW with an SMP or, in certain cases, with a PMB, could be considered to build or re-build a track record towards a Fund arrangement that supports a UCT-quality program.

Directors also supported the proposal to amend the SMP policy to allow for limited Executive Board involvement to opine on whether the policies under the PMB are robust to meet the program's objectives and to monitor its implementation. Directors agreed that the use of the PMB would be only available to those members who (1) seek to build or rebuild a track record for a Fund arrangement that supports a UCT-quality program, and (2) would benefit from limited Executive Board involvement because of either (i) an ongoing concerted international effort by creditors or donors to provide substantial new financing or debt relief in support of the member's policy program, or (ii) significant outstanding Fund credit under emergency financing instruments at the time new emergency financing is received. While a PMB would be strongly encouraged for these members, as a form of technical assistance it would maintain a voluntary nature. As with the FSW, Directors underscored that members would be encouraged to transition to UCT-quality programs as soon as appropriate and feasible.

Directors emphasized that clear communication is critical to convey the nature of the PMB and the limited role of the Executive Board's involvement. The PMB is approved by management and monitored by staff. The Board's involvement will be limited to, in a summing up, (1) at the time of management approval, opining on the robustness of the member's policy program to meet the stated objectives of the PMB and achieve the purpose of building or rebuilding a track record toward a UCT-quality program, and (2) in the context of reviews, indicating whether it agrees with staff that the member is on track to achieve these objectives. Directors underscored that this does not amount to Executive Board endorsement of the program, which is done only if the program meets the UCT-quality standard.

Directors welcomed the proposal to review the impact of the FSW by end-June 2023, in parallel with the Board consideration of the exit strategy for temporary modifications to the Fund's access limits in response to the COVID-19 Pandemic. They also agreed with staff on a review of the PMB policy no later than end-September 2023.

The Chair's Summing Up
Proposal for a New Food Shock Window Under the Rapid Financing Instrument and Rapid Credit Facility; Proposal for a Staff Monitored Program with Executive Board Involvement
Executive Board Meeting 22/83
September 30, 2022

Executive Directors welcomed the opportunity to discuss staff's proposals (i) to create a new temporary window under the Fund's emergency financing instruments to address the urgent balance of payments (BOP) needs related to food shock that was exacerbated by Russia's war in Ukraine, and (ii) to amend the policy on Staff Monitored Programs (SMP) to introduce an SMP with Board involvement (PMB) that will allow the Executive Board to opine under narrowly tailored circumstances on a member's program approved by management. They broadly endorsed both proposals.

Directors shared the staff's assessment that the ongoing global food shock has caused hardship and amplified the acute food insecurity in many countries. While noting that the first-best option to address BOP pressures would generally involve an Upper Credit Tranche (UCT) quality program, they agreed that this may not be feasible in some cases or not necessary in others.

Against this background, Directors welcomed the proposal to establish a new temporary food shock window (FSW) under the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF) to provide additional, low access emergency financing to qualifying members experiencing urgent BOP needs related to the global food shock. Access under this window will be consistent with the member's actual BOP need, capped at 50 percent of a member's quota, and available during a 12-month period. This access will be fully additional to the current annual access limits under the RFI and RCF and will increase the cumulative access limit under the regular window of the RFI and the exogenous shocks window of the RCF to 175 percent of quota. Directors also looked forward to strengthening coordination with specialized international organizations to address food insecurity.

Directors broadly supported the proposed qualification criteria that circumscribe access to the FSW to countries experiencing an urgent BOP need associated with acute food insecurity, increased costs of cereal and fertilizer imports, or cereal exports shortfalls. At the same time, a few Directors considered that other spillovers from the war would have warranted extending the qualification criteria for the new window. Directors looked forward to continued staff work to ensure that the Fund's lending toolkit responds to members' needs under current challenging circumstances.

Directors noted that as is the case for all Fund lending, including emergency financing, access under the FSW will be subject to debt sustainability and adequate capacity to repay requirements. Given concern that some countries may not be able to access the FSW, Directors encouraged staff to work with countries in need to help address the challenges they are facing in meeting those requirements. Member countries accessing the FSW would also be expected to commit to measures ensuring transparency and accountability in the spending of emergency resources, tailored to the specific circumstances of each country.

Directors noted that the FSW will raise PRGT lending in the short term—including through additional voluntary SDR channeling—and will also require further subsidy resources. They emphasized the urgent need for timely bilateral pledges of loan and subsidy resources under the ongoing first stage of the PRGT fundraising. Directors looked forward to the Annual Review of the Adequacy of PRGT Resources scheduled for Spring 2023 as an opportunity to consider contingency measures as needed, and possible steps to accelerate or expand fundraising, to accommodate the additional lending.

Directors underscored that members would be encouraged to transition to UCT-quality programs as soon as appropriate and feasible to support structural reforms to address underlying vulnerabilities and larger financing needs. In this context, they noted that concurrent use of the FSW with an SMP or, in certain cases, with a PMB, could be considered to build or re-build a track record towards a Fund arrangement that supports a UCT-quality program.

Directors also supported the proposal to amend the SMP policy to allow for limited Executive Board involvement to opine on whether the policies under the PMB are robust to meet the program's objectives and to monitor its implementation. Directors agreed that the use of the PMB would be only available to those members who (1) seek to build or rebuild a track record for a Fund arrangement that supports a UCT-quality program, and (2) would benefit from limited Executive Board involvement because of either (i) an ongoing concerted international effort by creditors or donors to provide substantial new financing or debt relief in support of the member's policy program, or (ii) significant outstanding Fund credit under emergency financing instruments at the time new emergency financing is received. While a PMB would be strongly encouraged for these members, as a form of technical assistance it would maintain a voluntary nature. As with the FSW, Directors underscored that members would be encouraged to transition to UCT-quality programs as soon as appropriate and feasible.

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INTERNATIONAL MONETARY FUND

September 19, 2022

PROPOSAL FOR A FOOD SHOCK WINDOW UNDER THE RAPID FINANCING INSTRUMENT AND RAPID CREDIT FACILITY

EXECUTIVE SUMMARY

Russia's war in Ukraine has exacerbated global economic pressures, including through a food shock. The war and food-related spillovers—higher import prices for food and fertilizer and disruptions in supply lines for food importers, and a loss of revenue for some food exporters—add to urgent balance-of-payments (BOP) needs of many Fund members. They have also exacerbated acute food insecurity, now affecting 345 million people. While the best response to address BOP pressures would generally involve an Upper Credit Tranche-quality program, such a program may not be feasible in some cases or necessary in others. This paper proposes a time-bound food shock window under the Rapid Financing Instrument (RFI) and the Rapid Credit Facility (RCF) to provide support to members in such situations.

The new window would be temporary and provide low-access emergency financing that increases the amounts currently available under the RFI/RCF. Members would need to demonstrate urgent BOP needs and meet a set of qualification criteria related to the global food shock. The window would be available for 12 months from the date of Board approval of the window. Countries requesting financing under the window would also need to meet the standard qualification criteria under the RFI/RCF.

Total access under the new window would be capped at 50 percent of quota. It would be additional to the current annual access limits under the RFI/RCF. Where a member requests an outright purchase/disbursement under the window, the cumulative limit under the RFI regular window as well as under the RCF exogenous shock window (both currently at 150 percent of quota) would be increased to 175 percent of quota. Similar to the other windows, access would count toward the GRA and PRGT access thresholds and associated safeguards, including those for the high combined GRA and PRGT credit exposure.

Consistent with the Fund's lending framework, including emergency financing, access under the food shock window would be subject to debt sustainability and adequate capacity to repay requirements in line with the adequate safeguards provision under the Articles of Agreement.

For LICs, the new food shock window is expected to involve additional channeling of SDRs. This adds to the urgent need for additional bilateral pledges. The window would raise PRGT lending above the baseline scenario on which the SDR 2.3 billion target for bilateral subsidy resources is based. It would also bring forward the need to meet the SDR 12.6 billion target for loan resources, including through additional SDR channeling to support the most vulnerable (PRGT-eligible) countries. The next annual review of PRGT finances in Spring 2023 will provide the opportunity to consider contingency measures and steps to accelerate or expand fundraising to address gaps in subsidy resources.

Approved By
Ceyla Pazarbasioglu, Bernard Lauwers, Rhoda Weeks-Brown

Prepared by the Finance Department, the Legal Department, and the Strategy, Policy, and Review Department. The team comprised Guillaume Chabert, Björn Rother, Daehaeng Kim, Marialuz Moreno Badia, Jung Yeon Kim, Lukas Kohler, Gaelle Pierre, Toomas Orav, Andreja Lenarčič, Majdi Debbich, Chiara Castrovillari, and Xiaoya Yue (all SPR); Yan Liu, Gabriela Rosenberg, and Gomiluk Otokwala (all LEG); Zuzana Murgasova, Craig Beaumont, Heikki Hatanpaa, Joseph Thornton, Nelson Sobrinho, Karmen Naidoo, and Beata Jajko (all FIN); Alexandra Panagiotakopoulou and Linda Bisman (SPR) provided administrative support.

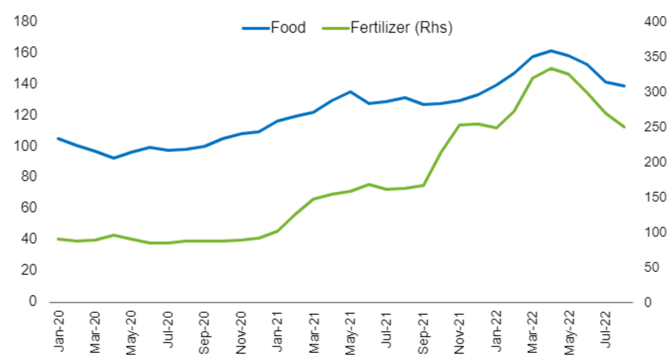
CONTENTS

INTRODUCTION AND MOTIVATION

1. **Record food and fertilizer prices have triggered hardship across the global economy.**[1] Food price pressures had been building for a number of years before the Russia's war in Ukraine, including due to the negative effect of the COVID pandemic and climate shocks. For many member countries, war in Ukraine has made a difficult situation worse through record food price inflation, increasing costs for fertilizers, and shortages in food supplies and particularly cereals. Food insecurity has risen to an unprecedented level, with an estimated 345 million people now being affected.[2] While food and fertilizer prices have recently eased from peak levels, they are still significantly higher than in 2020–21. Moreover, substantial risks weigh on the outlook: there is a high likelihood that food availability and access challenges will continue into 2023 and become more serious as fertilizer shortages and protectionist measures affect future harvests and global trade flows. Moreover, the outlook for international prices for rice, which has thus far been relatively stable, is not favorable. As a result of these dynamics, which add to other pressures—including sharply increased energy costs and rising interest rates as central banks address accelerating inflation—many member countries are now facing serious hardship and urgent balance of payments needs.

Food and Fertilizer Price Indices

2016=100



Source: IMF Primary Commodity Prices

2. **The Fund's existing lending toolkit is not optimally calibrated to respond to BOP pressures related to the currently evolving global food shock.**

- In general, the first option for the Fund to help countries cope with BOP pressures involves UCT-quality programs. However, in some cases UCT-quality programs are not feasible in a timely manner (either due to the urgency of the member's BOP need or its limited policy implementation capacity) or not necessary to address BOP needs (because of the transitory nature of the need).

- Emergency financing under the RFI/RCF offer an alternative in such cases. However, available access under the Fund's current emergency financing toolkit is not optimally calibrated to help members address urgent BOP needs associated with the evolving global food shock, exacerbated by the war in Ukraine. Currently, most member countries could access the existing

[1] See also forthcoming IMF policy paper on *Tackling the Global Food Crisis: Impact, Policy Response, and the Role of the IMF*, IMF, September 2022.

[2] See World Food Programme, A Global Food Crisis, 2022: A year of Unprecedented Hunger.

emergency financing instruments up to 50 percent of quota, which is the annual access limit under the RCF exogenous shock window and RFI regular window. This may not provide sufficient space for both the food shock and other types of shocks, as the BOP pressures associated with the global food shock were not anticipated at the time of the recalibration of RFI/RCF access limits in December 2021. These aimed at ensuring that members can access Fund emergency financing once faced with "typical" country/region- specific shocks rather than a major challenge of global proportions.[3] Moreover, space for some countries that recently accessed emergency financing remains below the 50 percent of quota, and sometimes significantly so.[4]

3. **Staff thus sees a strong case for a new food shock window under the RFI and RCF.**[5] The new window would make the Fund's emergency lending more focused and agile in addressing members' urgent financing needs due to a food shock in cases where UCT-quality programs are not feasible or not necessary. This will enable the Fund to make a timely contribution to help address the global food shock, including to mitigate acute food insecurity that already affects 345 million people today mostly in low-income countries. While a similar objective could in principle be achieved by a general increase in access limits under the existing windows of the RFI and RCF, creating a new, time bound, and food-related window would help better target Fund financing and avoid the risk of incentivizing some countries to request non-food emergency financing to address pressures that should rather be addressed by policy adjustment supported by an UCT-quality program. Total access under the food shock window would be capped at 50 percent of quota. The window would be available for a 12 month-period from the time of the Board approval of the window. In some cases, the new window could act as a bridge for countries that intend to ultimately request a UCT-quality arrangement but cannot do so yet.

KEY FEATURES OF THE PROPOSED NEW FOOD SHOCK WINDOW UNDER RFI/RCF

A. Access and Other Features

[3] The annual and cumulative access limits for emergency financing instruments were increased temporarily to assist members address Covid-19 pandemic. In December 2021, the Board approved to let all access limits return to pre-pandemic levels (or the new PRGT annual access limit) but agreed to extend for another 18 months the temporarily high cumulative access limits for emergency financing instruments. See Review of Temporary Modifications to the Fund's Access Limits in Response to Covid-19 Pandemic (December 2021).

[4] These include seven countries with outstanding exposures of over 100 percent of quota due to earlier RFI/RCF access in the context of natural disasters and the Covid-19 pandemic. Specifically, borrowing space under the RFI/RCF is constrained for the following countries (available space is reported in brackets): Dominica (29 percent of quota), Madagascar (39 percent of quota), Mozambique (13 percent of quota), Nepal (36 percent of quota), St. Vincent and the Grenadines (0 percent of quota), Samoa (46 percent of quota), and under the RFI for Ukraine (no remaining borrowing space under the annual access limits after the RFI in March 2022). Madagascar, Mozambique, and Nepal have on-track UCT-quality programs. For them, urgent balance of payment needs arising from the food and fertilizer shocks could be addressed through an augmentation under their existing program.

[5] All references to financing windows in this paper are not special facilities under the RCF and RFI and are used to refer to the circumstances under which relevant access limit sub-ceilings apply.

4. The food shock window would provide additional, low access to emergency financing. Access under the food shock window during the proposed 12-month period would be consistent with the actual BOP need and would be capped at 50 percent of the member's quota. Repeated use of the food shock window within the proposed access limit over the 12-month period would be possible in case of recurring or ongoing urgent financing needs. Access would be fully additional to the current annual access limits under the RFI and RCF. Where a member requests financing under the food shock window, the cumulative limit under the RFI regular window and the RCF exogenous shock window (both currently at 150 percent of quota) would be increased to 175 percent of quota.[6] This modest 25 percent of quota increase in the cumulative access limit would ensure that countries that accessed the food shock window would still have some borrowing space and capacity to deal with other exogenous events, as intended in the December 2021 decision on emergency financing access limits. Access under the food shock window would count towards the thresholds that trigger exceptional access safeguards for GRA and PRGT, including GRA/PRGT high combined exposure safeguards. The cumulative access limits under the RFI and RCF Large Natural Disaster (LND) windows would remain unchanged (i.e., 183.33 percent of quota). Cumulative access limits under the RCF regular window would also remain unchanged at 100 percent of quota (See Figure 1 and Table 1).

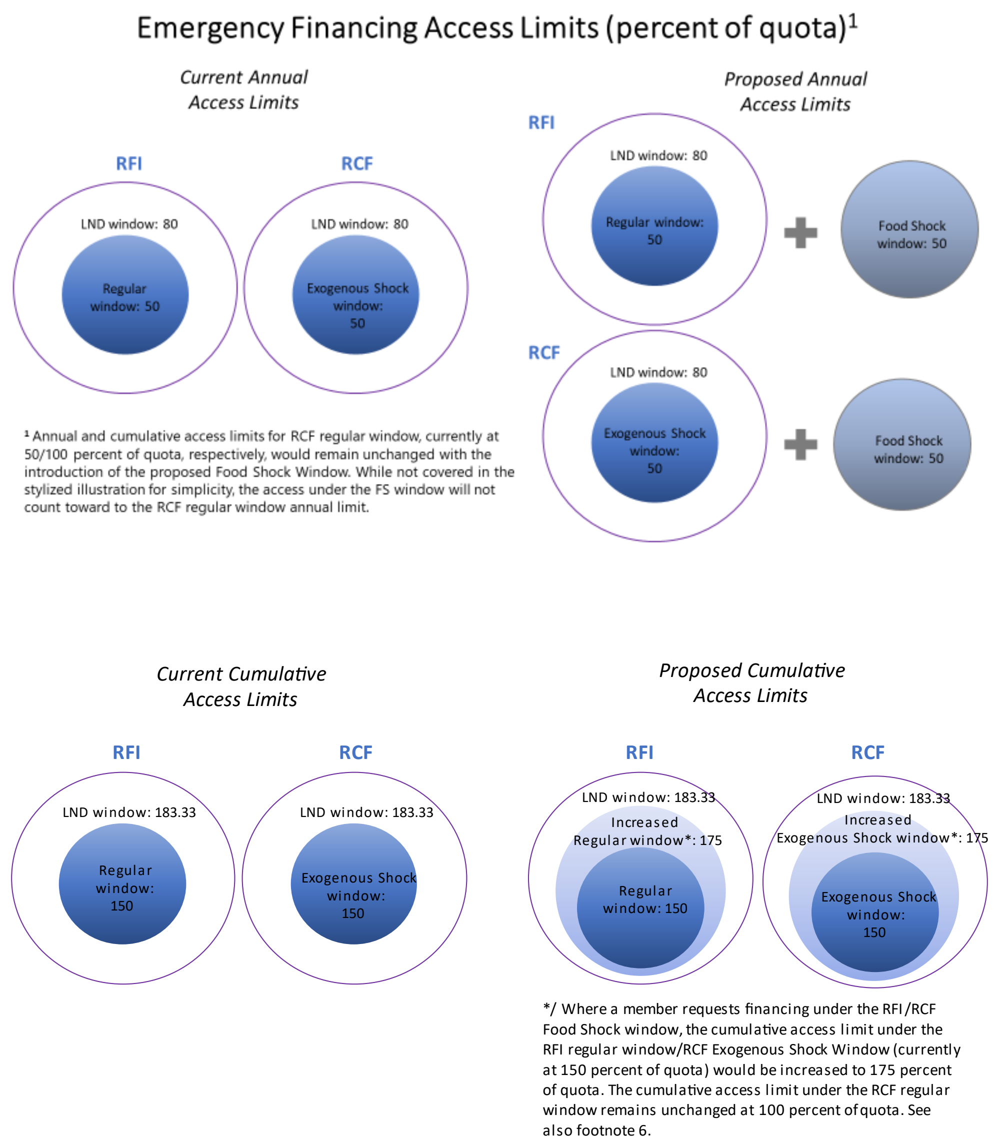
5. Other standard policies for the RFI and RCF access, including standard ex ante policy undertakings, would apply to the new window. This means that a purchase/disbursement under the window would be outright without ex-post conditionality, while prior actions could be specified in case warranted under the Guidelines on Conditionality. As with all Fund lending including emergency financing, access under the new window would be subject to debt sustainability and adequate capacity to repay requirements in line with the adequate safeguards provision under the Articles of Agreement. Also, as has become established practice for emergency financing since the COVID-19 pandemic, members would be expected to commit to measures to ensure transparency and accountability in the spending of emergency resources. As an outright purchase/disbursement under the RFI and RCF does not involve a UCT-quality program, a fully financed program would not be required. Financial assistance through the food shock window under the RFI and RCF should be repaid within 3¼ to 5 years, and 5½ to 10 years, respectively, as is the case for other windows under the RFI and RCF.

6. The food shock window will be subject to the current safeguards assessment requirements for the RFI and RCF. As under the current policy, the timing and modalities of the safeguards assessment for members with financing under the RFI and RCF would be determined on a case-by-case basis. Normally, the safeguards assessment would need to have been completed before Executive Board approval of any subsequent arrangement to which the Fund's safeguards

[6] The RFI component of the RFI/RCF blending counts towards the applicable RCF annual and cumulative sub-ceilings. Outstanding disbursements from all the RFI and RCF windows are included in calculating cumulative access (SM/19/100, footnote 46 and SM/20/100)

policy applies.[7] However, an updated safeguards assessment will not be required if a safeguards assessment has been completed within 18 months prior to the Board approval of the subsequent arrangement; or if the central bank is considered to have a strong track record and an assessment was completed within four years of Board approval of the new arrangement.

Figure 1. Emergency Financing Access Limits Under Current and Proposed Policies



[7] A subsequent repeat use of emergency financing under the RCF or RFI does not in of itself trigger a deadline for the completion of a safeguards assessment. Such deadline is only linked to the timing of Board approval of a subsequent arrangement. Emergency disbursements under the RFI/RCF are not considered arrangements.

Table 1. Overall Access and Sub-Limits Under Emergency Financing Instruments[1/]

(in percent of quota)

	Current access limits until 6/30/2023	Access limits until 6/30/23 with approval of the new food shock window [2/]
Overall Access Limits		
GRA		
Annual Access Limit	145	145
Cumulative Access Limit	435	435
PRGT 3/		
Normal Annual Access Limit	145	145
Normal Cumulative Access Limit	435	435
Emergency Financing Instruments		
RFI		
Regular window		
Annual Access Limit	50	50
Cumulative Access Limit	150	175 if the FS window used, 150 otherwise
Large Natural Disaster (LND) window		
Annual Access Limit	80	80
Cumulative Access Limit	183.33	183.33
Food shock (FS) window		
Access Limit during the 12-month Period	N/A	50
RCF (for PRGT-eligible countries) 4/		
Regular window		
Annual Access Limit	50	50
Cumulative Access Limit	100	100
Exogenous shock (ES) window		
Annual Access Limit	50	50
Cumulative Access Limit	150	175 if the FS window used, 150 otherwise
Large Natural Disaster (LND) window		
Annual Access Limit	80	80
Cumulative Access Limit	183.33	183.33
Food shock (FS) window		
Access Limit during the 12-month period	N/A	50

1/ The AAL and CAL for EF instruments are hard limits on the amounts that countries can borrow under the RFI and RCF—see paragraph 8 in Temporary Extensions And Modifications of Access Limits In the Fund's Lending Facilities, SM/21/33, March 12, 2021. In contrast, the GRA and PRGT AAL and CAL trigger the application of higher scrutiny under the Exceptional Access frameworks, which subjects financing requests to additional substantive and procedural requirements. See paragraph 7 in Temporary Modification to the Fund's Annual Access Limits, SM/20/100, June 30, 2020.
2/ In December 2021, the temporary higher cumulative access limits under the RFI (regular and LND windows) and RCF (exogenous and LND windows) were extended until end-June 2023. Staff will prepare an exit strategy towards a post-pandemic financing access limit policy before end-June 2023. See Review of Temporary Modifications to the Fund's Access Limits in Response to Covid-19 Pandemic (December 2021).
3/ PRGT access limits were increased permanently in July 2021.
4/ Access limits for RCF regular window have not been changed (annual/cumulative access level at 50/100 percent of quota, respectively). A 25 percent of quota per disbursement limit within 12 months applies.

B. Qualification Criteria

7. Standard qualification criteria for the RFI and RCF would apply to the food shock window. To approve emergency financing, the Fund needs to be satisfied that the member has an urgent BOP need and that the member either (i) has a BOP need that is expected to be resolved within one year with no major policy adjustments being necessary, or (ii) is unable to design or implement a UCT-quality program, either given the urgent nature of the BOP need or due to the member's limited implementation capacity. The new window under the RFI would be available to all Fund members that also meet the qualification criteria (see below), and PRGT-eligible members would also have access to a similar window under the RCF.

8. The member's emergency economic situation would have to be related to the global food shock.[8] Qualification for access under this window would be tightly circumscribed to cover emergency situations related to the global food shock. Based on staff analysis, qualification would be limited to members facing an urgent BOP need associated with either (i) a situation of acute food insecurity or an increase in food/fertilizer import costs exceeding a certain threshold; and/or (ii) a cereal export shortfall exceeding a certain threshold. The calibration of the criteria outlined below necessarily involves some judgment. The goal is to include the countries that are severely affected by the food shock while not casting qualification so wide as to disincentivize others from accessing financing instruments that may be more appropriate for their specific situations, and in particular UCT-quality programs that could support the resolution of BOP needs with ex-post conditionality. Specifically, the proposed qualification criteria are:

(i) Acute food insecurity or an increase in food/fertilizer costs exceeding a certain threshold.

- Member countries would qualify for the new window if they have urgent BOP needs associated with 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 limb, 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 Program (WFP) or major food crisis per the United Nations Global Report on Food Crisis (UNGRFC).[9]

- Countries would also qualify for the new window if the adverse impact of price increases changes for five categories of cereals and three types of fertilizers on the external current account amounts to at least 0.3 percent of GDP over a 12-month period (see Box 1 for

[8] In cases of an urgent BOP need arising from shocks that are not related to food, members that satisfy the relevant qualification criteria can access other windows of the RFI/RCF.

[9] The GRFC report considers a country to have a major food crisis if (i) at least 20 percent of the population is in phase 3 or above of the Integrated Food Security Phase Classification/Cadre Harmonisé (IPC/CH); or (ii) at least 1 million people are in IPC/CH phase 3 or above; or (iii) any geographical area is in IPC/CH phase 4 or above. The FAO-WFP Hunger Hotspots report identifies 26 countries where food insecurity is likely to deteriorate.

methodological details).[10] This qualification criterion will leave some additional room, in well-circumscribed cases. Specifically, the cereal basket underlying the qualification test could be modified to better reflect the composition of a country's main food staples imports if the latter deviates significantly from the standard cereal basket.[11]

(ii) Cereal export shortfall exceeding a certain threshold. The war in Ukraine has most immediately affected cereals exports of some food- exporting countries. These staple crops include wheat, maize, barley, sorghum, millet, oats, and rice and are critically important to global food security as they comprise about 50 percent of the calories and proteins that humans consume worldwide.

- For net exporters of cereals suffering from a shock to their export volumes due to impediments to their capacity to produce and/or export, the shock would be assessed based on the projected U.S. dollar value of annual cereal grain exports.

- A member country would qualify for the food shock window if the projected negative shock to cereals exports benchmarked against the previous year exceeds 0.8 percent of projected GDP for the compensable year.[12] This threshold is macroeconomically significant and ensures that only shocks above the 95th percentile of the historical distribution of such negative shocks during 1995-2021 are covered under the window. Since projections for agricultural production are inherently challenging given that yields can be substantially affected by climate, disease, or pests, the analysis should be based on granular data from national authorities, leveraging to the extent possible reputable expert assessments (e.g., United States Department of Agriculture) to fill in missing information.

- A member country would not qualify for the new window if the drop in their export values results from its own bans or restrictions on cereals exports, since these measures tend to harm food security, especially in import-dependent developing countries.

C. Eligible Countries and the Impact of the Food Shock Window on Members' Borrowing Space

[10] This threshold is calibrated to include the top 10 percentile of countries with the highest negative impact of the shock, in percent of GDP. Wheat (HS1001), Barley (HS1003), Maize (HS1005), Rice (HS1006) and Sorghum (HS1007) make up the cereal commodity group; and Diammonium Phosphate (HS310530), Urea (HS310210) and Potassium Chloride (HS310420) will be considered under the fertilizer category. Expanding to a more general food basket would introduce two complications: price increases may result in consumers substituting within the basket, and global price indices need to be calibrated to specific products, not baskets.

[11] A modified basket of the top 5 categories of food staples would be used for testing the 0.3 percent of GDP threshold in certain cases. This would be the case in assessing the magnitude of the food shock if country demonstrates that other food staples outside the five types of cereals, which would need to be affected by sharp price hikes and represent a major share of the country's food imports (at least 2 percent of total unprocessed food import values in 2021), should be included in the calculation due to their significant contribution to the shock.

[12] Even with high cereal prices, a country could be severely affected if declining export volumes offset this value effect due to large loss of cereal production and/or difficulties in transport.

9. Staff has identified about 50 countries that currently experience pressures related to the global food shock. Based on available data, staff's preliminary assessment is that some 50 countries would meet the qualification criterion of either acute food insecurity, a negative import price shock of at least 0.3 percent of GDP, or a qualifying export shock.

10. However, only a subset of these countries would ultimately qualify for the food shock window. A first group of 16 countries would not receive financing under the proposed window at this time because an on-track UCT-quality program is already in place. There could be a number of additional countries that could not access the food shock window because of absence of an "urgent" BOP need[13], government recognition issues/elevated political instability, or unsustainable debt. It is difficult to offer a precise count of qualifying countries at this stage, as the qualification criteria mentioned above would require country-by-country confirmation of all qualification conditions, including infeasibility of a UCT-quality program, debt sustainability and capacity to repay, and adequate macroeconomic policy undertakings.

11. The global food shock may quickly erode existing borrowing space under the RFI/RCF. The December 2021 recalibration of the RCF and RFI limits has provided some temporary borrowing room for many countries, but the global food shock may quickly consume this space. Currently, two out of the potentially eligible countries are constrained by the annual RFI/RCF access limit under the regular RFI or RCF exogenous shock window, which leaves them with no (Ukraine) or very limited borrowing space (Burundi, 15 percent of quota). And even for those countries that have borrowing space of at least 50 percent of quota, borrowing space could fall to zero or significantly less than 50 percent of quota under the current cumulative access limits in case they use their current borrowing space to cope with the urgent BOP needs associated with the global food shock. Specifically, seven countries would have no borrowing space left and five countries would have less than 50 percent of borrowing space available to address further potential shocks (see Figures 2a and 2b).

12. The proposed food shock window would provide some borrowing space under certain conditions. The increased borrowing space would benefit those countries suffering pressures related to the global food shock for which a UCT-quality program is either not feasible or not necessary. Specifically, even after having accessed 50 percent of quota through the food shock window, 26 countries (out of the universe of 34 countries that are (i) suffering pressures related to the global food shock but (ii) do not already have a UCT program in place) would have cumulative borrowing space of at least 50 percent of quota of emergency financing to tackle other shocks (see Figure 2c).

[13] An urgent BOP need is characterized by a financing gap that, if not addressed, would result in immediate and severe economic disruption.

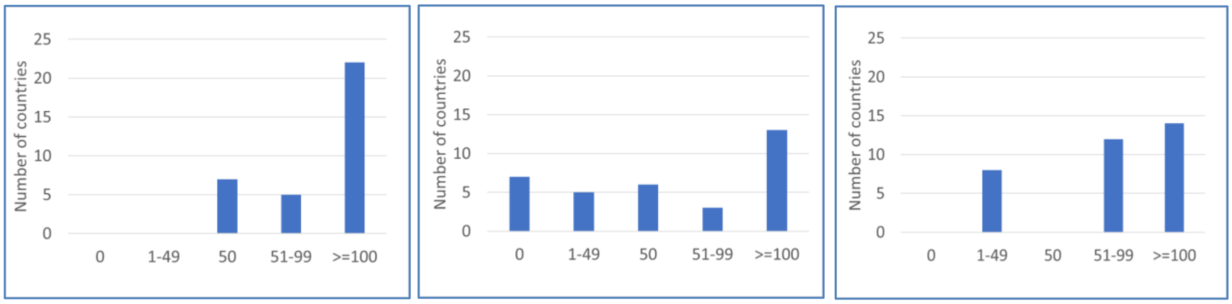
Figure 2. Emergency Financing Cumulative Borrowing Spaces

(end-June, 2023)

Figure 2a. EF cumulative borrowing space under current limits (CAL=150 percent)

Figure 2b. EF cumulative borrowing space under current limits if 50 percent of quota is used to address food shock (CAL=150 percent)

Figure 2c. EF cumulative borrowing space with new Food Shock window if 50 percent of quota is used to address food shock



(CAL=175 percent)

Notes: The chart includes 34 countries that have been severely affected by the food shock and are currently not in an UCT arrangement.

D. Other Considerations

13. Concurrent use with a Staff Monitored Program (SMP)/ Program Monitoring with Board Involvement (PMB). When a country faces urgent BOP needs related to the global food shock and a UCT-quality program is not feasible, a concurrent use of the food shock window with an SMP can be considered to build a track record towards a UCT-quality program. For countries seeking to build or rebuild such track record and where (i) there is an ongoing concerted international effort by creditors or donors to provide substantial new financing or debt relief or (ii) the member receives new emergency financing resulting in significant outstanding Fund credit under emergency financing instruments, the member would be strongly encouraged to request the newly proposed SMPs with targeted Board involvement (PMB) (see Proposals for a Staff-Monitored program with Board Involvement, paragraph 10).

14. Staff proposes to review the impact of the new food shock window by end-June 2023. This review could occur in parallel with Board consideration of the exit strategy for temporary modifications to the Fund's access limits in response to the COVID-19 Pandemic. This would provide time for staff to review the economic impact of the food shock together with that of the still-evolving COVID-19 pandemic. It would also provide an opportunity to reassess the role of the Fund's emergency financing for members going forward.

IMPLICATIONS FOR GRA AND PRGT FINANCING

15. The impact of the new window on GRA resources is expected to be relatively limited. For illustrative purposes, if eligible countries (excluding those PRGT-eligible which are not required to blend) were to request emergency financing under the new window up to the maximum available amount of 50 percent of quota, the impact on GRA resources would likely be limited to under SDR 10 billion. This impact would be less excluding potential requests from members that currently (i) have an on-track UCT arrangement, (ii) are close to the overall GRA access limits (i.e., that would need to request exceptional access), and/or (iii) would lack adequate capacity to repay.

16. For LICs, the food shock window is expected to involve additional channeling of SDRs. To support the higher access limits adopted in July 2021 in the context of the pandemic, the Board agreed the Fund would seek bilateral contributions of SDR 2.3 billion in subsidy resources (in addition to the SDR 0.5 billion the Fund is generating in internal resources) and SDR 12.6 billion in loan resources.[14] While about two-thirds of the loan resources have been pledged, only about 40 percent of the required subsidies have been pledged. Renewed commitments by bilateral creditors and donors to complete this fundraising are key to enable the PRGT to support sustained recovery of LICs from multiple shocks. Moreover, the reserve coverage ratio, has recently fallen to 26 percent—well below its 40 percent average historically—and with the significant lending envisaged over the medium term this ratio could approach the 20 percent threshold that may complicate mobilizing loan resources for the PRGT.

17. The implications for the Fund's concessional financing will be considered in the context of the Spring 2023 review. The food shock window will result in increased needs for subsidy resources as the proposed new window would take PRGT lending above the baseline scenario on which the SDR 2.3 billion target for bilateral subsidy resources is based. Preliminary estimates based on the proposed eligibility criteria suggest that demand under the new window could reach up to SDR 1.3 billion. Supporting this level of lending would require up to SDR 200 million in additional PRGT subsidy resources, adding to the urgent need for additional bilateral pledges. Channeling these additional resources to the new Subsidy Reserve Account would also largely offset the impact of the higher lending on the reserve coverage ratio. As fundraising for the Loan Account was based on a High Case demand scenario which would be unlikely to be exceeded even with the proposed new window, the SDR 12.6 billion loan target could remain unchanged, though it would bring forward the need to meet this target, including through additional SDR channeling to low-income countries. The Annual Review of the Adequacy of PRGT Resources scheduled for Spring 2023 will provide the opportunity to consider contingency measures, as well as possible steps to accelerate or expand fundraising, to accommodate the additional lending.

ISSUES FOR DISCUSSION

- Do Directors agree with the proposed food shock window, including the proposed qualification criteria and access limits?

- Do Directors agree that the resource implications of the food shock window for the Fund's concessional financing should be considered in the context of the next review of PRGT adequacy in Spring 2023? Do Directors also agree that contingency measures, as well as possible steps to

[14] The overall target for subsidy resources is SDR 2.8 billion, with SDR 0.5 billion coming from suspension of PRGT reimbursement to the GRA for administrative expenses through FY2026.

accelerate or expand fundraising, to accommodate the additional lending could be considered at that time?

Box 1. Estimating the Balance-of-Payments Impact of the Food Terms of Trade Shock of War in Ukraine

The impact of the food Terms of Trade (ToT) shock is estimated for 2022 and 2023 by comparing net import values using the latest price projections (shock scenario) to net import values using pre-war projected prices (baseline scenario). The analysis covers seven commodities (three types of fertilizers and five types of cereals), which have exhibited sizeable price increases (except rice, which is included because it represents a significant share of food imports in several countries) since 2021.[1]

Net import volumes for 2022 and 2023 are projected using UN Comtrade data for 2021, and assuming net import volumes grow proportionately with real GDP. The IMF October 2021 WEO projections are used for real GDP for both the baseline and the shock scenario to keep constant volumes across scenarios.

The value of net imports is calculated for each commodity and country separately using IMF Global Assumptions (GAS) price levels and indices. For the baseline scenario, we take the actual 2021 commodity prices and the projected 2022 and 2023 price levels using the October 2021 GAS vintage. In the shock scenario, we use the updated (as of Sept. 1, 2022) GAS LIVE forecasted price indices. In most cases, the GAS prices for our chosen commodities are not reported per kilogram; therefore, we first convert the prices from their respective units to kilograms.

Data availability and gap filling. There are several data gaps in the UN Comtrade data. First, some country commodity-year pairs only have reported trade values, rather than volumes. In these cases, we impute the volume using GAS commodity price levels. Second, some countries do not report data for all commodities. For these, we use trade data reported by other countries, listing these countries as trade partners. Where data for 2021 is not available, we use the latest available year since 2015, and project volumes forward assuming proportional growth with real GDP. For countries that have no data for cereal commodities since 2015, we supplement remaining gaps with trade data from United States Department of Agriculture (USDA).

1/ Diammonium Phosphate (HS310530), Urea (HS310210) and Potassium Chloride (HS310420) make up the fertilizer commodity group. Wheat (HS1001), Barley (HS1003), Maize (HS1005), Rice (HS1006) and Sorghum (HS1007) make up the cereal commodity group.