INTERNATIONAL MONETARY FUND

February 2015

2014 HANDBOOK OF IMF FACILITIES FOR LOW-INCOME COUNTRIES

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- The **Policy Paper** on *2014 Handbook of IMF Facilities for Low-Income Countries*, prepared by IMF staff and completed in July 2014 and sent to the Executive Board for information on August 28, 2014.

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International Monetary Fund
Washington, D.C.

INTERNATIONAL MONETARY FUND

August 27, 2014

2014 HANDBOOK OF IMF FACILITIES FOR LOW-INCOME COUNTRIES

This Handbook, an updated version of a similarly titled document issued in May 2012 (IMF, 2012c), provides guidance to staff on the financial facilities for low-income countries (LICs) that became effective in January 2010 (ECF, SCF, and RCF), and the PSI, including modifications to the guidance resulting from the Review of Facilities for Low-Income Countries (IMF, 2012e and 2013d) and the Review of Eligibility to Use the Fund's Facilities for Concessional Financing (IMF, 2013c). Designed as a comprehensive reference tool for program work on low-income countries, the Handbook also refers, in summary form, to a range of relevant policies that apply more generally to IMF members. As with all guidance notes, the relevant IMF Executive Board decisions, including the terms of the various LIC Trust Instruments that have been adopted by the Board, remain the sole legal authority on the matters covered in the Handbook.[1]

This update of the Handbook was prepared by a team led by Chris Lane (SPR) that included Bhaswar Mukhopadhyay, Calixte Ahokpossi, Julia Bersch, Giuseppe Cipollone, Svitlana Maslova (all SPR), Gabriela Rosenberg, Katharine Christopherson, Julianne Ams, Amanda Kosonen, Kyung Kwak, and Natalia Stetsenko (all LEG) and Chris Geiregat (FIN) under the guidance of Sean Nolan (SPR), David Andrews (FIN), and Ceda Ogada (LEG).

[1] When the general effectiveness conditions set out in the Board of Governors Resolution No. 66-2 for any quota increases under the Fourteenth General Review of Quotas are met, the Handbook will be updated to reflect the halving of the access norms and limits as percentage of quota, including as they pertain to the application of the procedural safeguards (IMF, 2013d).

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ACRONYMS AND ABBREVIATIONS

ACs	Assessment Criteria
APR	Annual Progress Report
AFP	Annual Feedback Process
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
ECF	Extended Credit Facility
EFF	Extended Fund Facility
ENDA	Emergency Natural Disaster Assistance
EPA	Ex Post Assessment
EPCA	Emergency Post-Conflict Assistance
ESF	Exogenous Shocks Facility
ESF-RAC	Rapid Access Component of the Exogenous Shocks Facility
GRA	General Resource Account
HIPC	Heavily Indebted Poor Country
I-PRSP	Interim-Poverty Reduction Strategy Paper
JMAP	Joint Management Action Plan
JSAN	Joint Staff Advisory Note
LIA	Lending Into Arrears
LIC	Low-Income Country
LOI	Letter of Intent
LTPE	Longer-Term Program Engagement
MDBs	Multilateral Development Banks
MDRI	Multilateral Debt Relief Initiative
MEFP	Memorandum of Economic and Financial Policies
PCs	Performance Criteria
PPM	Post-Program Monitoring
PRGF	Poverty Reduction and Growth Facility
PRGT	Poverty Reduction and Growth Trust
PRS	Poverty Reduction Strategy
PRSP	Poverty Reduction Strategy Paper
PSI	Policy Support Instrument
RAC	Rapid Access Component
RCF	Rapid Credit Facility
SBA	Stand-By Arrangement
SCF	Standby-Credit Facility
SMPs	Staff-Monitored Programs
UCT	Upper Credit Tranche
UFR	Use of Fund Resources

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INTRODUCTION—FACILITIES ARCHITECTURE OVERVIEW

The Fund's concessional facilities are aimed at providing flexible and tailored support to low-income countries (LICs) in their efforts to achieve, maintain, or restore a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

A. Background

1. In July 2009, the Fund's Executive Board adopted a comprehensive overhaul of the Fund's concessional facilities.[2] The objective was to make the Fund's support to LICs more flexible and tailored to their increasingly diverse needs, in particular in light of their heightened exposure to global volatility. As a result of the comprehensive overhaul, the new Poverty Reduction and Growth Trust (PRGT) became effective on January 7, 2010 to finance concessional loans. On April 8, 2013 the Fund's Executive Board concluded the Review of Facilities for Low-Income Countries and approved staff's proposals to improve the tailoring and flexibility of the Fund's facilities for LICs.[3] At the same time, the review of members' eligibility for PRGT support was also concluded (previous reviews took place on January 11, 2010 and February 17, 2012).[4] On September 28, 2012 the Fund's Executive Board adopted a three-pillar strategy to make the PRGT sustainable, consisting of (i) a base envelope of about SDR 1¼ billion in annual lending capacity; (ii) contingent measures that can be put in place if average financing needs substantially exceed the base envelope by a substantial margin for an extended period;[5] and (iii) a principle of self-sustainability to ensure that demand can be met with the available resources under a plausible range of scenarios.[6]

[2] See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e and 2009f). The analytical basis for the new facilities is discussed in *The Fund's Facilities and Financing Framework for Low-Income Countries* (IMF, 2009b).

[3] See *Review of Facilities for Low-Income Countries* (IMF, 2012e) and *Review of Facilities for Low-Income Countries—Proposals for Implementation* (IMF, 2013d).

[4] Based on this review, 73 IMF member countries are currently PRGT-eligible. See Appendix VI and *Eligibility to Use the Fund's Facilities for Concessional Financing* (IMF, 2013c).

[5] If the Board considers that the self-sustaining capacity would decline substantially below SDR 1¼ billion, it could decide to activate a range of contingent measures including (i) reaching additional understandings on bilateral fundraising efforts to be supported by a broad range of the membership, with contributions from traditional and non-traditional donors to the PRGT; (ii) the suspension for a limited period of time of the reimbursement of the GRA for PRGT administrative expenses; and (iii) modifications of access, blending, and interest rate and eligibility policies to reduce the need for subsidy resources.

[6] See *Proposal to Distribute Remaining Windfall Gold Sales Profits and Strategy to Make the Poverty Reduction and Growth Trust Sustainable* (IMF, 2012g).

2. The architecture of facilities for LICs includes three concessional facilities and one nonfinancial instrument:[7]

- The ***Extended Credit Facility (ECF)*** succeeds the Poverty Reduction and Growth Facility (PRGF) as the Fund's main tool for providing medium-term support to LICs with protracted balance of payments problems.

- The ***Standby Credit Facility (SCF)*** provides financing to LICs with short-term balance of payments needs, similar to the Stand-By Arrangement (SBA).

- The ***Rapid Credit Facility (RCF)*** provides rapid low-access financing with limited conditionality to meet urgent balance of payments needs.

- The ***Policy Support Instrument (PSI)*** is the Fund's nonfinancial policy support tool for LICs, and can facilitate access under the SCF and RCF, if needed.

3. All instruments aim to assist LICs in achieving, maintaining, restoring, or making progress toward a ***stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth***. Such a position would be characterized by the absence of a present or prospective balance of payments need and by the domestic and external stability that is necessary to support strong and durable poverty reduction and growth. It would typically be associated with sustainable fiscal and current account balances, limited debt vulnerabilities, adequate international reserves, and sufficient policy and institutional capacity to implement appropriate macroeconomic policies. This position might still involve significant levels of donor assistance, though aid dependence would be expected to decline over time.[8]

B. Choosing the Appropriate Facility

4. The choice of the appropriate instrument depends in general on three main factors: (i) the expected time needed to establish a stable and sustainable macroeconomic position as defined above; i.e., the duration of adjustment and balance of payments needs, (ii) the conditionality standard of Fund support, and (iii) the nature of the balance of payments need.

- **Duration of adjustment and balance of payments needs:** The time needed to achieve, through a combination of economic adjustment and external financing, a stable and sustainable macroeconomic position as defined above varies across LICs. A country that has already achieved a stable and sustainable macroeconomic position would, by definition, not need to adjust its macroeconomic policy mix or seek additional external financing. At the other end of the spectrum, in a country with a so-called ***protracted balance of payments problem***, the

[7] In addition to these LIC-specific instruments, in some cases it may be appropriate to use Staff-Monitored Programs (SMPs) or blend financial assistance under the PRGT with facilities under the GRA.

[8] See IMF (2009e), paragraph 7.

resolution of underlying macroeconomic imbalances needed to establish a stable and sustainable macroeconomic position would be expected to extend over normally three years or more, and in any case more than two years.[9] In a country with a so-called ***short-term balance of payments need***[10] the resolution of macroeconomic imbalances needed to establish a stable and sustainable macroeconomic position would be expected to extend over normally two years or less, and in any case less than three years.[11]

- **Conditionality standard:** The conditionality standard of Fund support is distinguished by whether or not it meets the ***upper credit tranche (UCT)*** quality; i.e., whether authorities have the commitment and capacity to implement a set of policies that is adequate to correct external imbalances and enable repayment to the Fund within the specified maturity period.

- **Nature of the balance of payments need:** A balance of payments need can arise because of a member's balance of payments deficit, reserve position, and developments in reserves.[12] The need can be ***present*** (i.e., a need that exists in the current period), ***prospective*** (i.e., a need that is expected/projected to arise in the future, including during the implementation of a Fund-supported program), or ***potential*** (i.e., a need that may arise under an alternative, typically downside, macroeconomic scenario, but is not expected to arise based on baseline/program projections). A present need may also be ***urgent****,* specifically when not addressing the external financing gap would result in an immediate and severe economic disruption. Distinct from the concept of balance of payments need, a *protracted balance of payments problem*, discussed above, is a related but broader concept that examines the components of the balance of payments need (rather than focusing on the overall balance of payments position), as well as a variety of other indicators. Countries with a protracted balance of payments problem may experience a combination of present, prospective, and potential balance of payments needs.

[9] See also IMF (2009e), paragraph 8.

[10] See IMF (2009e), footnote 8.

[11] In borderline cases, where establishing a stable and sustainable macroeconomic position is expected to require more than two but less than three years, judgment is required on the nature of the balance of payments need, and consequently on the choice of the appropriate facility. In this respect, substantial structural reform or capacity building needs, or frequently recurring financing needs would indicate the presence of a protracted balance of payment problem and thus argue for support under an ECF arrangement, whereas needs for a relatively front-loaded adjustment aimed at a speedy restoration of macroeconomic stability would argue for an SCF arrangement. See IMF (2009e), footnotes 20 and 21.

[12] For elaboration on these three indicators, see for example paragraph 5 of the *Staff Guidance Note on the Use of Fund Resources for Budget Support* (IMF, 2010f). As discussed in the guidance note, these criteria for identifying a balance of payments need are relevant for financing under the SCF and RCF. For financing under the ECF, Fund support is intended to address a "protracted balance of payments problem."

5. To determine the appropriate facility for a particular country case, the following rules of thumb can be a useful guide:[13]

- *If a country faces a protracted balance of payments problem*, it could be supported under the ECF, but not under the SCF or PSI. In these cases, the ECF would be the appropriate instrument for supporting a UCT-quality economic program. If the country is however not in a position to implement such a program (i.e., when institutional and policy capacity is constrained or more time is needed to design a Fund-supported program) it can build a track record through an Staff-Monitored Program (SMP) or, in case it also has urgent financing needs, it can have access to the RCF.

- *If a country does not have a protracted balance of payments problem but faces short-term (present) balance of payments needs*, it could be supported under the SCF, but not under the ECF. In such cases, the SCF would generally be appropriate if a UCT-quality economic program can be implemented. An RCF could be used as an alternative if such a program is not deemed necessary and the need is urgent. This may be the case when the balance of payments need is considered transitory (e.g., due to a temporary shock), in particular when the balance of payments need is expected to be resolved within one year and no major policy adjustments are necessary to address the underlying balance of payments difficulties. If the country is not in a position to implement a UCT-quality program (i.e., when institutional and policy capacity is constrained or more time is needed to design a Fund-supported program), it can build a track record through an SMP or, in case it also has urgent balance of payments needs, it can have access to the RCF.

- *Countries that have neither a protracted balance of payments problem nor a present balance of payments need* may still face short-term prospective or potential balance of payments needs. In such cases, the SCF could be used on a precautionary basis, with actual disbursements possible if and when a present balance of payments need arises.

- *If a country is already in a broadly stable and sustainable macroeconomic position*, it could be supported under the PSI. In the event that short-term balance of payments needs arise over the course of the PSI, the country can request SCF financing or, if the balance of payments need is urgent, RCF financing. In case of potential balance of payments needs, precautionary support under the SCF is possible in conjunction with the PSI, which may be useful in periods of increased uncertainty or risk.

[13] These rules of thumb should be used for the purposes of assessing qualification for new financing arrangements or a new PSI, and do not necessarily imply the need to cancel an existing program instrument. More detailed qualification requirements are described in Chapters I–IV of the *Handbook*.

Table 1. Choice of Low-Income Country—Key Factors

Facility 1/	Duration of adjustment and BoP needs 2/	UCT conditionality standard 3/	Size and nature of balance of payments need 4/	Access 5/	Other aspects
Extended Credit Facility (ECF)	Protracted BoP problem. Time needed to achieve stable and sustainable macro position ≧ 3 years (in any case > 2 years).	Required.	Present or prospective BoP needs exist (even if minimal) over course of 3-year arrangement, but a present need is not necessary for each disbursement.	Norm is 120% of quota (or 75% if outstanding PRGT credit > =100% of quota). Annual/cumulative limit: 100/300% of quota.	3 to 4-year duration, extendable to 5 years. PRS document required by 2nd review.
Standby Credit Facility (SCF)	Time needed to achieve stable and sustainable macro position ≦ 2 years (in any case< 3 years).	Required.	SCF can be approved based on present, prospective, or potential short-term BoP needs. Precautionary use possible. Disbursements require a present need.	Norm is 120% of quota (or 75% if outstanding PRGT credit > = 100% of quota) for 18-month arrangement. Annual/cumulative limit: 100/300% of quota. Precautionary use: annual limit 75% of quota, and average annual limit (over arrangement) 50% of quota.	1-2-year duration. Episodic use the norm; i.e., no more than 2.5 out of every 5 years (excl. precautionary use).
Rapid Credit Facility (RCF)	Could be short term or protracted.	UCT conditionality not needed or not feasible. No ex-post conditionality or reviews. Can help build track record.	Urgent (present) BoP need must exist. Prospective or potential needs may also exist.	No norm. Annual/cumulative limit: 25/100% of quota, or 50/125% in case of sudden exogenous shocks. 6/	One-off disbursements. Repeated use possible based on sudden exogenous shocks or 6-monthly track records.
Policy Support Instrument (PSI)	Broadly stable and sustainable macroeconomic position.	Required.	At the time of approval, BoP needs may exist, but would be expected to be met through financing from non-Fund sources.	No access. On-track PSI facilitates rapid approval of SCF or RCF, without need to cancel PSI.	1-4 year duration, extendable to 5 years. PRS document required by 2nd review.
Staff-Monitored Program (SMP)	Could be short term or protracted.	Not required. SMP's purpose is to build a track record toward a UCT-quality program.	Any type or size of BoP need may exist.	No access.	Duration normally 6-18 months. No Board endorsement.

1/ For PRGT-eligible countries meeting the blending criteria, any concessional financial support should be blended with GRA financing, normally resulting in ECF-EFF, SCF-SBA, and RCF-RFI blends.

2/ Time needed to establish a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

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

4/ Balance of payments (financing) needs can be present, prospective (i.e., a need that is expected/projected to arise in the future, including during the implementation of Fund program), or potential (i.e., a need that may arise under an alternative, typically downside, macroeconomic scenario, but is not expected to arise based on baseline/program projections).

5/ Norms and limits do not apply if outstanding concessional credit is above 200 percent of quota. In such cases, access is guided by consideration of the cumulative access limit of 300 percent of quota (450 percent of quota in exceptional cases), the expectation of future need for Fund support, and the repayment schedule.

6/ An exogenous shock is defined as an event beyond the control of the authorities of the member, with a significant negative impact on the economy. In view of these considerations, qualifying exogenous events could include inter alia terms-of-trade shocks, natural disasters, shocks to demand for exports, or conflict or crisis in neighboring countries that has adverse balance of payments effects.

C. Blending

6. There is a presumption that some PRGT-eligible countries are expected to receive financial assistance through blended PRGT and GRA resources, rather than relying on fully concessional Fund financing.[14] When financing is blended under a PRGT arrangement and an arrangement under the GRA, total access is determined based on the standard criteria, implying that total access should be comparable across country cases with similar balance of payments needs, program strengths, and outstanding Fund credit, irrespective of whether the Fund's financial assistance comes in the form of blended or PRGT-only resources.[15] Blending can provide a signal that the borrower is moving toward middle-income or emerging market status. PRGT-eligible countries are expected to use either fully concessional or blended resources, rather than GRA-only financing, although they are always eligible for access to the Fund's general resources.

7. Blending of PRGT and GRA resources is subject to the following presumptions and limitations:

- Blending is *presumed* for PRGT-eligible countries with either (i) per capita income above 100 percent of the prevailing operational cutoff used by IDA[16] or (ii) sustained past and prospective market access and a per capita income that exceeds 80 percent of the IDA operational cutoff.[17] Other PRGT-eligible countries are expected to use concessional financing only.

- Blending should normally not be used for countries at a *high risk of debt distress* or in debt distress (as assessed by the most recent joint Bank-Fund LIC Debt Sustainability Analysis (DSA)), even if per capita income or market access creates a presumption for blending.

- In *exceptional circumstances*, when financing needs exceed the applicable access limits, blending can be used irrespective of the per capita income, market access, and debt sustainability criteria.

[14] See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e; paragraph 91–92) and *Review of Facilities for Low-Income Countries—Proposals for Implementation* (IMF, 2013d).

[15] The standard access criteria are: (i) the member's balance of payments need; (ii) the strength of its program and capacity to repay the Fund; and (iii) the amount of outstanding Fund credit and the member's record of past use (see for instance IMF (2009e)).

[16] As of July 2014, this cut-off was US$1,215. It is revised each year, typically in July.

[17] A member is presumed to have had past market access if it tapped international financial markets during at least two of the last five years, and with the total access over the five years amounting to a minimum of 50 percent of quota. Accessing international financial markets refers to 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 such markets. The above criterion is closely aligned with the market access criterion for entry into PRGT eligibility, see *Eligibility to Use the Fund's Facilities for Concessional Financing* (IMF, 2013c; paragraph 18). Prospective market access could be assessed on the basis of the member's debt service capacity or other announced plans for borrowing (see *The Fund's Support of Low-Income Member Countries—Considerations on Instruments and Financing* (IMF, 2004a)).

8. The blending rules stipulate a 50:50 mix of PRGT and GRA resources, with access to concessional resources capped at the norm (or equivalent) applicable to unblended arrangements. All access above the norm needs to be met from the GRA.[18] For RCFs, which have no norm, the cap on access to concessional resources is the annual limit, while for SCF arrangements treated as precautionary, this cap is the average annual access limit. Operationally, the mix of PRGT and GRA resources hence depends on the type and length of the arrangement and outstanding PRGT access. These determine the access norms and applicable sub-ceilings (see Table 2).

[18] Norms and limits do not apply if outstanding concessional credit is above 200 percent of quota. In such cases, access is guided by consideration of the cumulative access limit of 300 percent of quota (450 percent of quota in exceptional cases), the expectation of future need for Fund support, and the repayment schedule.

Table 2. Rules for Blending of PRGT and GRA Resources

Access 1/ (In percent of quota)	Blending rules
	ECF Arrangements 2/
	Outstanding PRGT access below 100 percent of quota
0 < Access ≤ 240	50: 50 split between PRGT and GRA
240 < Access	120 percent of quota from the PRGT, and the rest from the GRA
	Outstanding PRGT access above 100 percent of quota
0 < Access ≤ 150	50: 50 split between PRGT and GRA
150 < Access	75 percent of quota from the PRGT, and the rest from the GRA
	SCF Arrangements 3/
	Outstanding PRGT access below 100 percent of quota
0 < Access ≤ 240	50: 50 split between PRGT and GRA
240 < Access	120 percent of quota from the PRGT, and the rest from the GRA
	Outstanding PRGT access above 100 percent of quota
0 < Access ≤ 150	50: 50 split between PRGT and GRA
150 < Access	75 percent of quota from the PRGT, and the rest from the GRA
	SCF Arrangements treated as precautionary 4/
0 < Access ≤ 100	50: 50 split between PRGT and GRA
100 < Access	50 percent of quota from the PRGT, and the rest from the GRA
	RCF Disbursements 5/
0 < Access ≤ 50	50: 50 split between PRGT and GRA
Access > 50	25 percent of quota from the PRGT, and the rest from the GRA 6/
	RCF Disbursements under the shock-window 5/
0 < Access ≤100	50: 50 split between PRGT and GRA

1/ Refers to total access provided under the blended financing package.

2/ Refers to access under a three-year ECF arrangement, for which the access norm is 120 percent of quota if outstanding PRGT access is below 100 percent of quota and the access norm is 75 percent of quota with outstanding PRGT access between 100 percent of quota and 200 percent of quota. For four-year ECF arrangements, access for the fourth year is expected to be set in line with the average annual access corresponding to the norm that would otherwise have applied to a successor three-year ECF arrangement. For countries whose outstanding PRGT access is above 200 percent of quota, the norms do not apply.

3/ Refers to access under an18-month SCF arrangement, for which the access norm is 120 percent of quota if outstanding PRGT access is below 100 percent of quota and the access norm is 75 percent of quota with outstanding PRGT access between 100 percent of quota and 200 percent of quota. For SCF arrangements with a duration of more than 18 months, the norm is increased proportionally, and for arrangements with a duration of less than 18 months, the norm is decreased proportionally. For countries whose outstanding PRGT access is above 200 percent of quota, the norms do not apply.

4/ Refers to average annual access under an SCF arrangement, for which, at the time of approval, there is a potential but no present or prospective balance of payments need.

5/ Refers to annual access.

6/Rapid Financing instrument (GRA counterpart of RCF) has an annual access limit of 50 percent of quota and a cumulative access cap of 100 percent of quota.

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CHAPTER I—EXTENDED CREDIT FACILITY

The Extended Credit Facility (ECF) succeeds the PRGF as the Fund's main tool for providing medium-term support to LICs with protracted balance of payments problems.[19]

A. Objectives and Qualification

Purpose and objective

9. The ECF provides medium- and longer-term concessional financing to LICs with protracted balance of payments problems. The purpose of an ECF arrangement is to assist PRGT-eligible member countries with a protracted balance of payments problem in implementing economic programs aimed at making significant progress toward a ***stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth***. Such a position would be characterized by the absence of a present or prospective balance of payments need and by the domestic and external stability that is necessary to support strong and durable poverty reduction and growth. It would typically be associated with sustainable fiscal and current account balances, limited debt vulnerabilities, adequate international reserves, and sufficient policy and institutional capacity to implement appropriate macroeconomic policies. This position might still involve significant levels of donor assistance, though aid dependence would be expected to decline over time. Use of the ECF is appropriate in cases where the resolution of the entrenched macroeconomic imbalances that underlie the balance of payments problem is expected to extend over the medium or longer term, and repeated use (of the ECF and its predecessors) has been common.

10. Similar to other Fund instruments, ECF arrangements assist countries in addressing their balance of payments difficulties by providing temporary financial support (in this case, on a concessional basis) to smooth economic adjustment and avoid excess volatility. ECF resources can be used to strengthen the country's international reserve position and loosen financing constraints for both the public and private sectors in the context of a policy framework aimed at moving toward a stable and sustainable macroeconomic position. The ECF is also expected to catalyze additional financing from donors.

Eligibility and qualification

11. Assistance under the ECF is available to all PRGT-eligible member countries[20] that face a ***protracted balance of payments problem***. In this context, a protracted balance of payments

[19] The ECF became effective on January 7, 2010, as part of a comprehensive reform of the IMF's facilities for LICs. See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e and 2009f) and Executive Board Decision No. 14354-(09/79).

[20] The PRGT eligibility framework is discussed in *Eligibility to Use the Fund's Facilities for Concessional Financing* (IMF (2009k, 2012b, and 2013c)). See Appendix VI for a list of PRGT-eligible countries as of July 2013.

problem exists when the resolution of macroeconomic imbalances needed to establish a stable and sustainable macroeconomic position (as defined above) is expected to extend over normally three years or more. If, by contrast, a stable and sustainable macroeconomic position is expected to be established within two years or less and the member has a short-term balance of payments need, the SCF would be the appropriate instrument to support UCT-quality programs. In cases where a stable and sustainable macroeconomic position is expected to be established in more than two but less than three years, the choice between the two facilities should be determined on a case-by-case basis, keeping in mind that the minimum length for an ECF arrangement is three years and use of the SCF is normally limited to two and a half years out of any five-year period assessed on a rolling basis (except for precautionary SCF). For this assessment, substantial structural reform or capacity building needs, or frequently recurring financing needs would indicate the presence of a protracted balance of payments problem and thus argue for support under an ECF arrangement, whereas needs for a relatively front-loaded adjustment process aimed at a speedy restoration of macroeconomic stability would argue for an SCF arrangement.

12. The existence of a protracted balance of payments problem implies that ***balance of payments needs***[21] are expected to arise over the course of the arrangement, but may not be present at the time of approval or when individual disbursements are made. Although approval of an ECF arrangement is possible in the absence of present balance of payments needs, the precautionary use of the ECF is not envisaged, in contrast to the SCF. While a member is not legally *required* to make drawings under an ECF arrangement, the ECF is not intended to provide contingent financial support, and members have routinely drawn available amounts irrespective of present balance of payments needs. For countries that have minimal (present and/or prospective) balance of payments needs at the beginning of their program but have nonetheless medium- or longer-term adjustment needs to address a protracted balance of payments problem (e.g., due to a high debt burden or a current account deficit that is not sustainable over the longer run), a low-access ECF arrangement would be an appropriate instrument. For countries with immediate balance of payments needs (e.g., resulting from a shock) that have also medium- or longer-term adjustment needs to address a protracted balance of payments problem, an ECF (rather than SCF) arrangement should be used.

13. Qualification also requires a finding by the Board that the member is making an effort to strengthen substantially and in a sustainable manner the country's balance of payments position, in the context of a policy program that meets ***UCT conditionality*** standards and supports significant

[21] A balance of payments need can arise because of a member's balance of payments deficit, reserve position, and developments in reserves. The need can be *present* (a need that exists in the current period), *prospective* (i.e., a need that is expected/projected to arise in the future, including during the implementation of a Fund-supported program), or *potential* (i.e., a need that may arise under an alternative, typically downside, macroeconomic scenario, but is not expected to arise based on baseline/program projections). Distinct from the concept of balance of payments need, a *protracted balance of payments problem*, as defined above, is a related but broader concept that examines the components of the balance of payments need (rather than focusing on the overall balance of payments position), as well as a variety of other indicators. Countries with a protracted balance of payments problem may experience a combination of present, prospective, and potential needs.

progress toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. This requires the commitment and capacity by the authorities to implement a set of policies that is adequate to correct external imbalances and enable repayment to the Fund within the specified maturity period. Apart from the elaboration of a UCT-quality program in the Letter of Intent (LOI), Memorandum of Economic and Financial Policies (MEFP), and Technical Memorandum of Understanding (TMU), qualification requires assurances that the authorities have the capacity and commitment to implement their program, as evidenced by recent policy performance (including under a recent Fund-supported program), institutional capacity, and any other circumstances that may affect macroeconomic performance. Other requirements for the approval, extension, and implementation of an ECF arrangement are discussed further below.

14. Countries that experience a protracted balance of payments problem but are not currently in a position to meet the ECF qualification requirements, in particular the capacity to implement a three-year UCT-quality program, can build a track record for moving to an ECF arrangement through an SMP or, in case of urgent financing needs, the RCF (assuming the applicable policy commitments are in place).

B. Duration, Extensions, Cancellations, and Repeated Use

15. Assistance under an ECF arrangement is available for an initial term of three to four years, from the date of the Board decision approving the arrangement. Normally, ECF arrangements would be expected to be approved for an initial three-year term. However, an initial duration of up to four years could be considered on occasion when needed to align more closely with the members' PRSP cycle, or when blending with EFF arrangements (see below). An ECF arrangement may be extended (including multiple times), subject to an overall five-year limit on the total duration of any ECF arrangement. After the expiration or cancellation of an ECF arrangement, additional ECF arrangements may be approved if the relevant qualification criteria are met. There is no limit on the number of successor ECF arrangements that can be approved.

16. ECF arrangements can be extended at the request of the member to allow for the disbursement of rephased amounts[22] or to provide additional resources (i.e., augmentation) in light of projected developments in the member's balance of payments position, subject to appropriate conditions consistent with the terms of assistance under the ECF. Such extensions involving rephasing of access may be appropriate in a variety of circumstances, including when (i) more time is needed to implement envisaged policies or reforms warranting a rephasing of access, (ii) to provide an augmentation such as when a shock has led to additional financing and adjustment needs, (iii) more time is needed to design a successor ECF-supported program, or (iv) the protracted balance of payments problem is expected to be resolved within the remaining maximum period of

[22] Throughout the *Handbook*, "rephasing" refers to changes in the timing and/or level of programmed disbursements.

the ECF arrangement. Extensions may involve the establishment of additional reviews and can be combined with augmentations of access if warranted based on the criteria for augmentations discussed in Section D.

17. Extensions must be requested by the member and approved by the Board before the expiration of the arrangement period. Extensions are only possible if they are needed to allow for the disbursement of amounts under the arrangement. It is thus not possible to extend arrangements when all scheduled amounts have already been disbursed.[23] Extensions are not automatic and are subject to appropriate conditions consistent with the terms of assistance under the ECF.

18. Extensions that involve rephasing and/or augmentations of access would normally be approved by the Board on the basis of a request in an LOI and in the context of a program review (where the completion of the review demonstrates that the program is on track). In exceptional circumstances (e.g., when a severe natural disaster prevents conducting the final review in a timely manner), extensions that involve rephasing may be approved by the Board outside the context of a scheduled program review, provided the authorities and staff have understandings on appropriate policies to be implemented through the next review, as documented by a letter from the authorities. Board approval would require a staff report that discusses the reasons for the extension, including why it is proposed outside the review context, the status of the program, and relevant policy understandings.

19. In cases that do not involve rephasing (or changes in access or establishment of additional reviews) and where some additional time is needed to complete the final review(s) and make the final disbursement available before the expiration of the arrangement, ECF arrangements can also be extended for a short period (a few weeks or months). Such short-term extensions (sometimes referred to as "technical") can be granted outside the context of a review, provided that the authorities and staff have reached (or are expected to reach in the very near term) understandings on appropriate policies to complete the review. Board approval of these short-term extensions generally takes place in the context of a very short staff paper with a decision proposed for lapse-of-time Board approval. The staff paper is subject to the regular departmental review process and should explain the status of the discussions and document preparation and any relevant policy understandings.

20. ECF arrangements may also be cancelled by the authorities at any time, which may be appropriate for instance when the underlying macroeconomic imbalances have been resolved, when the authorities no longer have the capacity or commitment to implement the program, or when the objectives or modalities of the authorities' economic policies have changed substantially.

21. ECF arrangements approved after November 11, 2013 will automatically terminate before their terms at approval if no program review has been completed over an 18-month period. The Board may, at the authorities' request, delay the termination for up to three additional months—

[23] Arrangements automatically expire once all available amounts have been disbursed.

provided that this extension does not fall outside the existing period of the arrangement—if an understanding between the authorities and staff on targets and measures to put the ECF-supported program back on track appears imminent. The arrangement automatically expires at the end of that extended period unless a program review is completed within this period.

C. Concurrent Use and Blending

Concurrent use

22. The ECF cannot be used concurrently with the SCF or PSI. Hence, any pre-existing SCF arrangement or PSI would need to be cancelled before an ECF arrangement can be approved, and vice versa. Moreover, a member cannot obtain RCF financing (or start an SMP) if an ECF arrangement is in place and on track. Should additional balance of payments needs arise during an ECF arrangement, an augmentation of access under this arrangement would typically be the appropriate response. RCF financing during an ECF arrangement can only be provided when (i) ECF disbursements are not possible, for instance due to policy slippages or delays in program discussions, (ii) qualification requirements for the RCF are met, including the existence of an urgent balance of payments need and relevant policy commitments, and (iii) the balance of payments need is primarily caused by a sudden exogenous shock.[24] When access under the RCF exceeds 25 percent of quota in these circumstances, policies should be appropriate to address the shock. In addition, RCF-supported polices could serve as a track record to bring the ECF-supported program back on track. Similarly, in the absence of an urgent financing need, a track record could be built through an SMP. The ECF can be used concurrently with GRA financing under certain circumstances (see below).

Blending

23. Certain PRGT-eligible countries are expected to receive financial assistance through blended PRGT and GRA resources, rather than relying on fully concessional Fund financing.[25] When financing is blended under a PRGT arrangement and an arrangement under the GRA, total access is determined based on the standard criteria, implying that total access should be comparable across country cases with similar balance of payments needs, program strengths, and outstanding Fund credit, irrespective of whether the Fund's financial assistance comes in the form of blended or PRGT-only resources.[26] Blending can provide a signal that the borrower is moving toward middle-income or emerging market status. PRGT-eligible countries, including members qualifying for an ECF arrangement, would be expected to use either fully concessional or blended resources, rather than GRA-only financing, although they are always eligible for access to the Fund's general resources.

[24] PRGT Instrument (Decision No. 8759-(87/176), Section II, paragraph 1 (e).

[25] See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e; paragraph 91–92) and *Review of Facilities for Low-Income Countries—Proposals for Implementation* (IMF, 2013d).

[26] The standard access criteria are: (i) the member's balance of payments need; (ii) the strength of its program and capacity to repay the Fund; and (iii) the amount of outstanding Fund credit and the member's record of past use (see for instance IMF (2009e)).

24. Blending of ECF and GRA resources is subject to the following presumptions and limitations:

- Blending is *presumed* for PRGT-eligible countries with either (i) per capita income above the prevailing operational cutoff used by IDA[27] or (ii) sustained past and prospective market access and a per capita income that exceeds 80 percent of the IDA operational cutoff.[28] Other PRGT-eligible countries are expected to use concessional financing only.

- Blending should normally not be used for countries at a *high risk of debt distress* or in debt distress (as assessed by the most recent joint Bank-Fund LIC Debt Sustainability Analysis (DSA)), even if per capita income or market access creates a presumption for blending.

- In *exceptional circumstances*, when financing needs exceed the applicable access limits, blending can be used irrespective of the per capita income, market access, and debt sustainability criteria (see Section D on access under blended financial assistance).

25. When providing financial assistance with blended resources, ECF resources will normally be provided together with GRA resources under the Extended Fund Facility (EFF). Concurrent financial assistance under an ECF arrangement and an SBA would only be expected in cases where pre-existing ECF support is supplemented by SBA financing at a later stage. This may include cases where an ECF arrangement that was initially blended with EFF financing is extended beyond four years, as arrangements under the EFF are limited to a four-year period. Financing through the RFI under the GRA during an ECF arrangement would be expected only if the ECF-supported program is off track, in which case RFI purchases would typically be combined with RCF disbursements.

26. The modalities of blended financial assistance under ECF and EFF arrangements would be broadly the same as under a stand-alone ECF arrangement. In particular, it would support a three- to four-year economic program for countries with protracted balance of payments problems, based on a single set of program conditions, schedule of disbursements and reviews, and other requirements that largely mirror stand-alone ECF arrangements described in this Chapter. However, there are a number of differences, including that in cases involving blended financial assistance:

- As a practical matter, disbursements would involve both ECF and EFF resources (see Section D on access under blended financial assistance), implying lower average concessionality of the Fund's financial support than under a stand-alone ECF arrangement;

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[27] As of July 2014, this cut-off was US$1,215. It is revised each year, typically in July.

[28] A member is presumed to have had past market access if it tapped international financial markets during at least two of the last five years, and with the total access over the five years amounting to a minimum of 50 percent of quota. Accessing international financial markets refers to 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 such markets. The above criterion is closely aligned with the market access criterion for entry into PRGT eligibility, see *Eligibility to Use the Fund's Facilities for Concessional Financing* (IMF, 2013c; paragraph 18). Prospective market access could be assessed on the basis of the member's debt service capacity or other announced plans for borrowing (see *The Fund's Support of Low-Income Member Countries—Considerations on Instruments and Financing* (IMF, 2004a)).

- EFF qualification requirements must be met—for instance, the EFF requires a clearly articulated structural reform agenda (although this would also be *expected* in virtually all ECF cases), and to the extent that the blend pushes (annual or cumulative) access above GRA normal limits, the member would also need to meet the Exceptional Access criteria;[29]

- In contrast to the practice under ECF arrangements, reviews under the EFF arrangement of the blended financial assistance may require waivers of applicability under certain circumstances (see Section H); and

- Each disbursement under an ECF arrangement is linked to a specific test date, whereas for extended arrangements purchases are conditioned upon observance of the Performance Criteria (PCs) related to the most recent test date. There could thus be situations where resources relating to the ECF component of the blend can be disbursed (specifically, if PCs relating to an earlier test date have been met), while resources relating to the EFF component cannot (specifically, if PCs relating to the most recent test date (controlling PCs) have not been observed) unless waivers for the non-observance are granted.

D. Access

27. When considering access for a new arrangement, or possible augmentation under an existing arrangement, area departments may wish to consult with SPR and FIN at an early stage; i.e., before a policy note is circulated for formal review. Furthermore, staff reports for a new arrangement (or subsequent reports requesting a change in access) should explicitly discuss the basis on which access was determined (or explain the reasons for requesting a change in access), with reference to the main criteria below, as well as to access norms and limits as applicable (see below).

Determination of access—main criteria

28. Access is determined on a case-by-case basis based on the following standard criteria: (i) the member's (present and prospective) balance of payments need (taking into account all projected balance of payments flows, including reserve accumulation and financing from other sources);[30] (ii) the strength of its program and capacity to repay the Fund (taking into account the member's policy plans, adjustment effort, commitment to implement the program, institutional capacity, track record of policy implementation, and country circumstances such as vulnerabilities, imbalances, and debt sustainability);[31] and (iii) the amount of outstanding Fund credit and the member's record of past use.

[29] See Decision No. 4377-(74/114), as amended; *Summing Up by the Acting Chair—Access Policy in Capital Account Crises* (IMF, 2002c); and Decision No. 14064-(08/18), as amended.

[30] See Section A for definitions of balance of payments needs.

[31] Sufficient recovery in the balance of payments must be in prospect to provide appropriate assurance that loans can be repaid on schedule without strain.

29. Access may generally not exceed the member's present and prospective balance of payments needs during the program period, and would typically be less than total financing needs, keeping in mind that ECF-supported programs are expected to catalyze financing from donors. However, in contrast to GRA financing (and the SCF and RCF), an ECF arrangement can be approved and individual disbursements can be made even in the absence of a present balance of payment need, provided that the IMF's Executive Board has made a finding that the member is experiencing a protracted balance of payment problem at the time of approval of the ECF arrangement. Accordingly, members do not need to make a representation that they are experiencing a balance of payments need at the time they request individual disbursements.

Access norms

30. Access norms apply to access to financing under ECF arrangements (though not in cases of blended financial assistance, see Section D). The access norm is 120 percent of quota per three-year ECF arrangement for countries with total outstanding concessional IMF credit under all facilities of less than 100 percent of quota, and the norm is 75 percent of quota per three-year arrangement for countries with outstanding concessional credit of between 100 percent of quota and 200 percent of quota. For four-year ECF arrangements, access for the fourth year is expected to be set in line with the average annual access corresponding to the norm that would otherwise have applied to a successor three-year ECF arrangement. For countries whose outstanding concessional credit is above 200 percent of quota, the norms do not apply, and access is guided by consideration of the cumulative access limit of 300 percent of quota (450 percent of quota in exceptional cases), the expectation of future need for Fund support, and the repayment schedule.

31. Access norms provide general guidance and represent neither ceilings nor floors (nor entitlements). Access can deviate from the norms if warranted by standard criteria for determining access (see above). For instance, access may be above the norm in cases where balance of payments needs are noticeably larger than in most other cases of ECF use; e.g., due to a large shock. Access can also be below the norm, for example when the balance of payments need is limited, policy capacity is constrained, or debt vulnerabilities are high.

32. A special case of access below the norm concerns members with a protracted balance of payments problem but minimal present or prospective balance of payments needs over the course of the ECF arrangement. This may be the case for countries where baseline balance of payments projections do not indicate substantial financing gaps, but where external conditions are subject to significant downside risks and current trends are not considered sustainable over the longer run (e.g., unusually favorable terms of trade or aid inflows). In these cases, the practice has been to set access at standardized level of 10 percent of quota per arrangement.[32] This low level of access would be appropriate even when *potential* balance of payments needs are considered substantial (e.g., due to a risk of large adverse shocks), as the ECF arrangement can be quickly augmented once such

[32] See *The Fund's Support of Low-Income Members Countries–Consideration on Instruments and Financing* (IMF, 2004a; paragraph 33).

potential needs materialize. In contrast to the SCF, the precautionary use of the ECF is not envisaged, and members have routinely drawn amounts as they become available under the ECF arrangement irrespective of present balance of payments needs.

Access limits

33. A member's total access under all concessional facilities is subject to "global" annual and cumulative limits. This includes credit outstanding and disbursements under the ECF, SCF, RCF, and Exogenous Shocks Facility (ESF). Specifically, total access to financing under the PRGT should normally not exceed 100 percent of quota per year across all concessional facilities. This annual access limit refers to past and future scheduled disbursements in any 12-month period, specifically (i) any actual disbursements under the RCF and past ECF and SCF arrangements at the time they became available (i.e., the date of the Board decision that makes the disbursement available), (ii) any disbursements to date that became available under the current ECF arrangement, irrespective of whether they have been drawn or not, and (iii) any future disbursements under the ECF at the scheduled availability dates. Furthermore, total access to financing under the PRGT should normally not exceed 300 percent of quota cumulatively, net of scheduled repayments. Specifically, this cumulative access limit requires that total outstanding Fund concessional credit (including disbursements that were made available but not drawn in the context of the current arrangement) cannot normally exceed 300 percent of quota at any point in time based on projected disbursements and repayments.

34. In exceptional circumstances, access above the normal limits can be made available to countries that: (i) experience an exceptionally large balance of payments need that cannot be met within the normal limits (e.g., very large external shocks, very low levels of reserves); (ii) have a comparatively strong adjustment program and ability to repay the Fund—this criterion would generally not be met for countries with a high risk of debt distress or those that are in debt distress as defined under the joint Bank-Fund DSA, unless expected debt relief or restructuring is projected to reduce the risk of debt distress to a moderate level or low level; and (iii) do not meet the income or market access criteria for blending (see above). Exceptional access is subject to hard caps of 150 percent of quota annually and 450 percent of quota on a cumulative basis, net of scheduled repayments (as defined above), across all concessional facilities.

The phasing of access

35. The phasing of ECF access, determined at the time of approval of the arrangement, must take into account the applicable annual access limits, but does not have to mirror the projected evolution of balance of payments needs over the course of the arrangement. Access should normally be phased smoothly over the three to four-year period, but could be front-loaded (or back-loaded) if warranted based on the strength of the program and/or the time profile of balance of payments needs. A significant degree of front-loading has been applied in exceptional cases involving the repayment of emergency assistance to the Fund or arrangements approved following the clearance of overdue obligations to the Fund as part of a broader arrears clearance strategy.

36. It is standard practice for staff reports to present the balance of payments in a way that, in any given period, scheduled IMF disbursements, together with other exceptional financing items, do not exceed the overall balance of payments deficit (resulting from "autonomous transactions") and the programmed level of reserve accumulation. In this presentation, the balance of payments would be fully financed, at least in the near term, at the time of ECF approval and completion of each review, while residual financing gaps may show in the outer years (see also Section F on financing assurances).

Access under blended financial assistance

37. When financing is blended under an ECF arrangement and an arrangement under the GRA (see Section C on the criteria that create a presumption for blending), the standard PRGT access norms do not apply, and access under blended financial assistance is subject to specific rules discussed below.[33] However, total access is determined based on the standard criteria (see above), implying that total access should be comparable across country cases with similar balance of payments needs, program strengths, and outstanding Fund credit, irrespective of whether the Fund's financial assistance comes in the form of blended or PRGT-only resources.

- Access to the concessional (ECF) component of blended financial assistance is normally half of total access, with access to concessional resources capped at the norm applicable to unblended arrangements (see above). All access above the norm would be met by GRA financing.
- At the time of approval of a new ECF arrangement that involves blended financial assistance from a GRA arrangement, each scheduled disbursement should generally involve both ECF and GRA resources. For GRA resources phasing and PCs would only apply to purchases above the first credit tranche. However, the shares of ECF and GRA financing at each disbursement can be determined individually and do not have to remain constant across disbursements.
- In exceptional circumstances when the balance of payments needs are very large (for instance in case of very large shocks, large needs related to arrangements immediately following arrears clearance, repurchases of GRA emergency assistance), access to the concessional resources under blended financial assistance could reach the annual access limit of 100 percent of quota or possibly the exceptional annual access limit of 150 percent of quota if the criteria for exceptional concessional access are met (including that the country does not meet the income or market access criteria for blending, see above).

Augmentations and reductions of access

38. Access under an ECF arrangement can be augmented to help meet a larger balance of payments need or to support a strengthening of the program. In particular, augmentation of access

[33] These rules apply "ex ante." In cases where GRA financing is added to support under a pre-existing ECF arrangement, the same presumptions apply as for augmentations of ECF/EFF blends, see below.

would often be an appropriate response to increased balance of payments needs in the context of shocks, unless the ECF-supported program is off track, in which case RCF financing may be appropriate (see Section C on concurrent use). Also, when an ECF arrangement period is extended, it would often be the case that the extension period involves balance of payments needs that were not originally included in the determination of access for the arrangement, which can provide a justification for augmentation of access. Augmentations based on the strengthening of the program could occur, for example, if access was initially constrained by a high risk of debt distress, which has later subsided. Under the Trade Integration Mechanism (TIM), augmented access not exceeding 10 percent of quota will be available to a country to compensate balance of payments shortfalls arising from trade liberalization measures implemented by other countries.[34]

39. Determination of access for an augmentation is based on the standard access criteria, including balance of payments need and strength of the program (see above). There are no norms applicable to the size of an augmentation, although many augmentations have been in the range of 15–45 percent of quota, with a few cases well above this range. Staff reports supporting requests for augmentations should explicitly discuss the basis for the augmentation and its size, with reference to the main criteria for determining access above, as well as to access norms and limits as applicable. Augmentations would normally be approved at the time of a scheduled review under the arrangement.

40. However, when the increase in the underlying balance of payments problems is so acute that the augmentation cannot await the next scheduled review, an augmentation can be requested between scheduled reviews. Approval of such augmentations at an ad-hoc review between scheduled reviews require an assessment by the Board that the program is on track to achieve its objectives at the time of the augmentation (otherwise access under the RCF can be requested). In making this finding the Fund as Trustee will consider the member's observance of the continuous performance criteria or whether a waiver of nonobservance is justified, that prior actions (if applicable to the augmentation request) have been met, and that the member's policies are suitable to address its balance of payments problems and, more generally, are consistent with program objectives. The Board also takes into account any other relevant considerations, including exogenous developments and data on periodic PCs linked to future disbursements. The following modalities apply to augmentations at ad hoc reviews:

- Requests are expected to be supported by a short staff report and an LOI from the member that describes the nature and size of the problem, the policies being undertaken by the authorities to address its balance of payments difficulties and any information relevant to program implementation, including exogenous developments.[35] As such requests are expected to typically follow soon after a completed review, updating developments and policies along the

[34] See Decision No. 13229-(04/33) and Factsheet: The IMF's Trade Integration Mechanism (TIM).

[35] The staff paper is subject to the regular review process.

lines described above could suffice, with a more comprehensive assessment of policies undertaken at the time of the following scheduled review.

- Augmentations of access approved in ad hoc reviews are only available to the member in a single disbursement following approval by the Board. There is no limit on the amount of such a disbursement subject to the overall access limits and norms (see above). Moreover, the augmentation is subject to the rules on blending and may be supplemented by a corresponding augmentation of the arrangement under the GRA. In any event, the amount of the disbursement is limited to what is immediately needed by the member in light of its balance of payments difficulties; to the extent that additional amounts may be necessary at later stages of the member's program, requests for such amounts can be considered in the context of a regularly scheduled program review.

- The new disbursement approved at the ad hoc review is subject to observance of the continuous PCs under the arrangement, including the accuracy of information on the implementation of such PCs and of any prior actions established for that disbursement, as well as any other conditions as determined by the Board. It is not subject to periodic PCs and other conditions linked to the remaining disbursements under the arrangement. If the scheduled review associated with the most recent availability date preceding the augmentation request has not been completed, an augmentation request cannot be approved at an ad hoc review.

- A member may request an undrawn disbursement made available upon the Executive Board's approval of the requested augmentation at an ad hoc review until the availability date of the next scheduled disbursement under the arrangement.

- Augmentation requests at ad hoc reviews that do not exceed 25 percent of quota are eligible for approval on a lapse-of-time (LOT) basis. A scheduled review following an ad hoc review to consider an augmentation request is expected to undertake a comprehensive review of policies under the program. In order to allow the Board to undertake such a comprehensive assessment of the member's policies, this review cannot be completed on a LOT basis.

41. For augmentations of arrangements that are presumed to involve blended PRGT and GRA resources, access should be set such that the total financing mix over the full course of the respective arrangement is guided by the specific rules on access under blended arrangements (see above), including that total access (post augmentation) to concessional financing would normally be half of total overall access to Fund resources, subject to a cap on the concessional component at the norm applicable to unblended arrangements.

42. Access under an ECF arrangement could in principle also be reduced rather than augmented. The Fund will not unilaterally reduce access because of developments in the member's balance of payments, unless such developments are substantially more favorable than envisaged at the time of approval of the arrangement and the improvement for the member derives in particular from improvements in the external environment.[36]

Procedural safeguards on high access requests—DSAs and informal Board meetings

43. Financing requests are subject to procedural safeguards that apply uniformly across all concessional facilities. These safeguards are aimed at protecting PRGT-eligible members' debt sustainability and the Fund's concessional resources.[37] Specifically, the staff report for any arrangement request or augmentation should provide an up-to-date assessment of the debt vulnerabilities, with an explicit reference to the impact of new borrowing from all sources, including prospective IMF disbursements. In addition:

- A DSA or DSA update is required for any financing request under the PRGT (augmentation or new arrangement) if it (i) involves exceptional access to concessional resources; or (ii) brings total access, i.e. cumulative disbursements, under all concessional facilities to more than 80 percent of quota, based on cumulative past and future scheduled disbursements in any 24-month period, specifically (a) any actual disbursements under the RCF, SCF, ESF, and past ECF arrangements at the time they became available (i.e., the date of the Board decision), (b) any disbursements to date that became available under the current ECF arrangement, irrespective of whether they have been drawn or not, and (c) any future scheduled disbursements under the ECF; or (iii) involves a member country with a high risk of debt distress or in debt distress. A DSA update can be prepared unilaterally by Fund staff drawing on a prior full joint Fund-Bank DSA as long as a joint DSA was prepared recently and the analysis would not result in a change of the risk of debt distress rating.

- An early informal Board meeting is required if a financing request (augmentation or a new arrangement) would (i) involve exceptional access to concessional financing or (ii) bring total access under all concessional facilities to more than 180 percent of quota, based on cumulative past and future scheduled disbursements in any 36-month period, specifically (a) any actual disbursements under the RCF, SCF, ESF, and past ECF arrangements at the time they became available (i.e., the date of the Board decision), (b) any disbursements to date that became available under the current ECF arrangement, irrespective of whether they have been drawn or not, and (c) any future scheduled disbursements under the ECF. Information to the Board would typically be in a 2–3 page note that would include (i) the factors underlying the large balance of payments need, taking into account financing from donors, (ii) a brief summary of the main policy measures and macroeconomic framework, (iii) the expected strength of the program and

[36] In addition, as set forth in the PRGT Instrument, commitments of PRGT resources and any disbursement of such resources are subject to the availability of resources in the PRG Trust, and hence, could result in access reductions in those very specific circumstances (PRGT Instrument, Section II, paragraph 2(g) and paragraph (3)(a)).

[37] Endorsing the procedural safeguards for high-access financing set forth in paragraph 87 of IMF (2009e). This paragraph updates the procedural safeguards that apply to all concessional financing instruments, elaborated in IMF (2009d).

capacity to repay the Fund, (iv) an analysis of debt vulnerabilities, reflecting all projected debt financing, including from the Fund, (v) a reference to the impact on the Fund's concessional resources (drawing on the latest available paper on concessional resources), (vi) the likely time table for discussion with the authorities, (vii) a selected indicators table and, if possible, the standard DSA charts. The meeting should take place before staff reaches understandings, ad *referendum*, with the authorities.

- In addition, staff would provide early notice to the Board, for instance in an informal country matters session, of upcoming arrangement requests or augmentations where the envisaged financing commitment, in absolute terms, would have a large impact on the Fund's overall concessional resources.

- As an exception to these procedures, new financing requests of 10 percent or less of quota do not trigger either the need for a DSA update or a Board briefing.

E. Financing Terms

44. ***Repayments*** of ECF credit are made in 10 equal semi-annual installments, subject to a 5.5-year grace period from the date of the first disbursement and 10-year final maturity. The authorities may decide to make early repayments at any time, but would not be expected to do so.

45. ***Interest*** is paid semi-annually. The interest rate on ECF credit is currently set at zero percent,[38] but subject to biennial Board reviews that take account of developments in world interest rates.[39] At each review, interest rates would normally be adjusted if warranted by the prevailing SDR rate, within a 0.0–0.5 percent range for the ECF. The new interest rate would apply to all outstanding ECF credit. The next such review is scheduled for December 2014.

F. Financing Assurances, Arrears, and Safeguards

Financing assurances

46. As with any other Fund arrangement, the Fund's policy on financing assurances requires that ECF arrangements can only be approved (and reviews can only be completed) when the program is fully financed. This means that donors and creditors (both official and private) have furnished assurances that they will provide the necessary support (through new loans and/or refinancing) to meet the program financing requirements on terms consistent with the member's return to external viability. Specifically, staff should confirm that there are no unfilled financing gaps over the 12 months immediately following the approval of the arrangement (and the completion of each

[38] See *Poverty Reduction and Growth Trust Interest Rate Mechanism—Extension of Temporary Interest Rate Waiver* (IMF, 2012i). This does not apply to interest on any overdue interest or overdue repayments of PRGT loans, which is charged at a rate equal to the SDR interest rate.

[39] See IMF (2009f) for details.

review), and that there is a clear expectation that the program will be fully financed through the remainder of the arrangement period. Assurances should also be given that the member country has the capacity to repay the Fund based on medium-term projections of the balance of payments and, in the case of new arrangements or augmentations, the standardized table on indicators of the capacity to repay the Fund.

Arrears

47. Under the Fund's policy of non-toleration of sovereign arrears to official (multilateral and bilateral) creditors, the Fund generally calls for the resolution of existing arrears to official creditors and non-accumulation of new arrears during the period of the program. Existing arrears need not necessarily be settled immediately—they can be addressed in a number of ways, depending on the type of creditor.[40] Country teams should seek guidance from LEG and SPR on the application of the policy to specific creditors. The macroeconomic program assumptions under the ECF arrangement should be consistent with the expected resolution of existing arrears to official creditors, which implies that the authorities and the staff have common understandings on the timing and modalities of arrears clearance. The assumptions on arrears clearance do not prejudge eventual agreements between the member and official creditors. Staff should have reasonable assurances that arrears clearance understandings are realistic.

48. Arrears to private external creditors are covered by the Fund's Lending into Arrears (LIA) policy.[41] The LIA policy applies to both sovereign arrears to external private creditors and non-sovereign arrears that arise by virtue of the imposition of exchange controls. The Fund can lend, on a case-by-case basis, in a situation of sovereign arrears to private external creditors and only where: (i) prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and (ii) the member is pursuing appropriate policies and is making a good faith effort to reach a collaborative agreement with its private creditors (or to facilitate a

[40] The Fund has developed a number of conventions how this policy of non-toleration is applied in practice. First, arrears to multilateral creditors are considered resolved if the program provides for their clearance. The debtor authorities must have a credible plan and projected financing to eliminate arrears, but concurrence of the creditor on this plan is not required. With respect to arrears to the World Bank, upfront clearance of the arrears at the beginning of the Fund-supported program or an agreed plan between the member and the World Bank on terms of clearance over a defined period has generally been required in line with the terms of the 1989 WB-IMF Concordat. Second, arrears to Paris Club official bilateral creditors covered by the anticipated terms of the Club's "Agreed Minute" are deemed resolved for Fund program purposes when financing assurances are received from the Paris Club prior to the approval of a request for use of Fund resources or completion of a review. To the extent that arrears are not rescheduled by the deadline set forth in the Agreed Minute, the arrears are considered to arise anew for Fund program purposes, unless the Fund considers that the member has exercised its best efforts to conclude the rescheduling agreement. Finally, relying on the Paris Club's comparability of treatment principle, the Fund deems that non-Paris Club official bilateral creditors will restructure the member's debt on similar terms as the Paris Club creditors. In cases where there is no formal Paris Club Agreed Minute, tacit approval of an official bilateral creditor has been deemed sufficient to satisfy the Fund's arrears policy. See *Sovereign Debt Restructuring—Recent Developments and Implications for the Fund's Legal and Policy Framework* (IMF, 2013e).

[41] See *Summing Up by the Acting Chairman: Fund Policy on Arrears to Private Creditors—Further Considerations* (IMF, 1999a).

collaborative agreement between private debtors and their creditors and good prospects exist for the removal of exchange controls). Whenever the LIA policy applies, each Fund disbursement under an arrangement is subject to a financing assurances review in which the Board considers, inter alia, whether adequate safeguards remain in place for further use of the Fund's resources and whether the member's adjustment efforts are undermined by developments in creditor-debtor relations.[42]

49. ECF-supported programs should also address domestic arrears as part of the overall program design. The specification of policies related to domestic arrears will depend on the country context, in particular, the fiscal framework (see Appendix II).

Overdue obligations to the Fund

50. Where a member is in arrears to the Fund in the GRA, the Special Disbursement Account, or the SDR Department, or to the Fund as Trustee (including the PRGT), a request for IMF financing, including under the ECF, will not be approved and disbursements under an existing arrangement will be suspended (PRGT Instrument, Section II, paragraph 1(e)(3) and 3(g)) until the arrears are cleared.[43] After one month the Managing Director will notify the Executive Board that an obligation is overdue, and in the case of protracted arrears to the Fund (i.e., arrears of more than six months' duration), semi-annual reports are to be issued to the Executive Board. The Managing Director may also recommend postponing for up to one-year periods the Executive Board's consideration of a report regarding a member's overdue obligations in exceptional circumstances where the Managing Director judges that there is no basis for an earlier evaluation of the member's cooperation with the Fund. While a member is in arrears to the Fund, policy support can only be provided through surveillance, technical assistance, and, under certain circumstances, SMPs.[44] Remedial measures for dealing with PRGT arrears include removal from the list of PRGT-eligible countries, declaration of noncooperation, and suspension of technical assistance.

Safeguards assessments policy

51. As a general principle staff should aim to complete a safeguards assessment prior to Executive Board approval of a new ECF arrangement. In any case, a safeguards assessment report should be completed for each new arrangement no later than the first review under the arrangement and for all augmentations for existing arrangements.[45] Once the first review under the program has passed, subsequent staff reports should highlight the status of assessment and, if not

[42] Application of the LIA policy has been attenuated in Fund arrangements constituting the track record toward the HIPC Completion Point, and the requirements of good faith efforts has been satisfied by the member communicating with, and ultimately offering, HIPC terms to creditors. For a discussion of the LIA policy, see *Sovereign Debt Restructuring—Recent Developments and Implications for the Fund's Legal and Policy Framework* (IMF, 2013e).

[43] See also Appendix II of the PRGT Instrument on the Procedures for Addressing Overdue Financial Obligations to the PRGT.

[44] See *Review of the Fund's Strategy on Overdue Financial Obligations*, Annexes I and II (IMF, 2012f).

[45] See *The Acting Chair's Summing Up on Safeguards Assessments—Review of Experience* (IMF, 2010h).

completed, reasons for its delay. The safeguards process involves a continuous analysis of information obtained primarily through the collection of documents, and discussions with the authorities and the central bank's external auditors. It entails an evaluation of the central bank's safeguards framework covering governance, auditing, financial reporting, control systems, and its legal autonomy over the life of an arrangement and for as long as Fund credit remains outstanding. Safeguards assessments recommendations may be incorporated into conditionality or structural measures under the member's program. Close cooperation and coordination between FIN, other functional departments, and area departments is essential for the effective conduct of the safeguards process. It is important for FIN to be kept informed by area departments of safeguards issues, including logistical issues such as the timing of new arrangements and reviews.

G. Program Objectives and Design

Program objectives

52. All ECF-supported programs are aimed at making significant progress toward a *stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth* (see definition in Section A). This would involve addressing, though not necessarily resolving, the country's entrenched macroeconomic imbalances over the course of the arrangement. Specifically, ECF-supported programs should aim to maintain or move toward (i) strong and durable poverty reduction and growth, (ii) low or moderate inflation, (iii) sustainable fiscal and current account balances, (iv) limited debt vulnerabilities, (v) adequate international reserves, and (vi) sufficient policy and institutional capacity to implement appropriate macroeconomic policies.

53. The design of an ECF-supported program should be aligned with the country's own poverty reduction and growth objectives (see further below). Specific policy objectives should be clearly articulated in the LOI/MEFP and associated staff report for a new ECF arrangement and would typically include:[46]

- ***Fiscal policies*,** where (i) the fiscal stance is well anchored to help ensure macroeconomic stability and fiscal/debt sustainability, (ii) revenue and spending policies take due account of the country's growth and social objectives, and (iii) budgets are guided by medium-term fiscal frameworks to the extent possible.

- ***Monetary policies*** that are consistent with inflation, exchange rate, and reserve objectives, while taking due account of cyclical considerations.

- ***Exchange rate policies*** that ensure a unified exchange rate and a real exchange rate level that is broadly in line with fundamentals, ensuring a stable and sustainable external position consistent with adequate growth.

[46] For further discussion of Fund program design in LICs, see *The Role of the Fund in Low-Income Countries*, (IMF, 2008b) and *Aid Inflows—The Role of the Fund and Operational Issues in Program Design* (IMF, 2007a).

- ***Financial sector policies*** geared toward financial stability and deepening with a view to fostering investment and forestalling financial crises.

- ***Public financial management*** reforms aimed at ensuring that resources are tracked, reported, and targeted appropriately (including by providing adequate resources for social and other priority spending), public debt management aimed at supporting debt sustainability, and revenue reforms aimed at broadening the revenue base, and enhancing tax efficiencies.

- ***Other structural reforms*** that are critical for achieving the program's macroeconomic objectives.

Role of ECF financial support

54. The ***balance of payments support*** under ECF arrangements can assist countries in smoothing the adjustment process toward a more stable and sustainable macroeconomic position.[47] The Fund's financial support can be used both to strengthen the international reserve position of the member country and to provide liquidity for making external payments. By relaxing external financing constraints, the Fund's balance of payments support in effect also loosens domestic liquidity constraints of both the public and private sector. Specifically, Fund financing reduces the need for retrenchment in the public and private savings-investment balances, thus enhancing policy options (allowing less contractionary fiscal, monetary, and exchange rate policies) and cushioning private sector adjustment (e.g., investment and import declines). The appropriate mix of financing and public/private adjustment is determined on a case-by-case basis.

55. A member may use the domestic counterpart of resources received under an ECF arrangement to finance, directly or indirectly, the budget deficit of the government. Such budget financing is consistent with the Fund's legal framework to the extent that the member has balance of payments problems and is implementing a program that will assist it in resolving such problems. *Direct* budget support[48] may be appropriate when (i) the program is designed in manner that envisages that the entire amount of the Fund's financial support is used to meet a present or

[47] Consistent with the Fund's unique role in LICs, it can provide moderate levels of liquidity support to help address macroeconomic imbalances, while the bulk of financial assistance is normally expected to come from donors. Fund financial support, while concessional and aimed at similar long-term goals, is distinct from development assistance provided by others (often on more concessional terms) as it provides inter-temporal smoothing of adjustment rather than a permanent resource transfer. Fund lending to LICs is generally expected to catalyze such donor support, leveraging the Fund's scarce subsidy resources. See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e) and *The Fund's Facilities and Financing Framework for Low-Income Countries* (IMF, 2009b).

[48] Direct budget support refers to cases where disbursements of Fund resources are channeled to the member through the country's treasury at the request of the member. By contrast, indirect budget support can be (and is very often) provided when the Fund makes disbursements available to the member but channeled through the central bank and these help relax domestic financing constraints for the public sector as part of the broader macroeconomic program. A special case of budget financing is Fund financial support to members of a monetary union. For example, in the CFA franc zone, the regional central bank unconditionally provides credit in the (domestic currency equivalent) amount of Fund support to the relevant government. See *Staff Guidance Note on the Use of Fund Resources for Budget Support* (IMF, 2010f).

prospective balance of payments need, (ii) loosening fiscal financing constraints is an important macroeconomic objective under the program, and (iii) the central bank cannot or should not (for legal or institutional reasons) lend to the government while the domestic financial sector is too shallow (or not stable enough) to provide the necessary budget financing (or the central bank plays a largely passive domestic policy role, for instance under a currency board or in a fully dollarized economy). In these cases, staff reports should justify the use of the domestic counterpart of resources obtained from an ECF arrangement for budget financing where relevant and discuss safeguards implications.[49]

Links to poverty reduction strategies and social spending

56. ECF-supported programs should be aligned with the country's own poverty reduction and growth objectives. The following specific guidance applies to PRS linkages:[50]

- Any financing request or program review under the ECF must be accompanied by a statement, normally in the LOI or MEFP, of how the program advances the country's poverty reduction and growth objectives. It is expected that the description would be more detailed at the time of the initial program request or when a new PRSP (or I-PRSP) is produced.[51] In cases where a relevant PRS document exists, this description in the LOI/MEFP could cross-reference the PRS document.

- If a PRS document exists, the ECF-supported program should be consistent with the objectives of the PRS in the context of making significant progress toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

- In cases where a relevant PRS document does not yet exist, the program documentation (e.g., in an attachment to the LOI or MEFP) should outline the country's medium-term poverty reduction and growth objectives and policies. Subsequent program documents should refer to this documentation and update it as necessary.

- While a PRS document[52] is not required at the time of initial Board consideration of the ECF arrangement, the second (and every subsequent) review can only be completed if a PRS document has been issued to the Board, normally within the previous 18 months and has been the subject of staff analysis, including in the staff report on a new ECF arrangement or on a review.

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[49] See *The Acting Chair's Summing Up on Safeguards Assessments—Review of Experience and Next Steps* (IMF, 2002a) and *Safeguards Assessments—Review of Experience* (IMF, 2010g).

[50] See Appendix V for detailed guidance on poverty reduction objectives and related documents.

[51] See Appendix V for a definition of an I-PRSP.

[52] A PRS document refers to a PRSP, PRSP Preparation Status Report, I-PRSP, and APR as defined in the PRGT-HIPC Trust Instrument (Decision No. 11436-(97/10)). See Appendix Box 1 of Appendix V for a description of various PRS documents.

- It is also permissible to meet the PRS documentation requirements for the second or any subsequent review under an ECF arrangement by describing in the LOI/MEFP how the current budget, the upcoming fiscal budget (if available), and planned structural reforms advance the implementation of the PRS.[53] This flexibility is only available to members that, at the time of the Board meeting considering the review, have in place a PRS which has been issued to the Board and which covers at least 12 months from the date of the completion of the review. This extends the existing requirement that at the time of each review the LOI/MEFP describes in concrete terms how the program advances the goals of the PRSP. The accompanying staff report has to provide staff's views on how the fiscal budgets and planned structural reforms help advance PRS implementation.

- Whenever an ECF-supported program is under consideration (including cases where support is currently provided under an SMP or RCF), staff should inform the authorities at an early stage about the relevant Definitions and Timelines for PRS Documentation requirements (Appendix V) to ensure adequate time for the PRS process.

- While not required for ECF support, staff are required to prepare a Joint Staff Advisory Note (JSANs) for PRSPs and Interim Poverty Reduction Strategy Papers (I-PRSPs) and circulate it to the Executive Board for discussion or information, generally within four months of the transmission of a PRSP or an I-PRSP (outside the Heavily Indebted Poor Country (HIPC) context).[54] For APRs, it is good practice to provide feedback in the context of an Annual Feedback Process (AFP).[55] In cases where a JSAN has not yet been prepared, the Executive Board is not prevented from making decisions governing a member's ECF arrangement, including the completion of reviews if the relevant preliminary staff analysis has been included in the relevant staff report for the ECF arrangement or a supplement (and the JSAN, together with the PRSP, would either be discussed at the next Board meeting or separately provided to the Board for information).[56]

- More generally, and irrespective of requirements for issuance of PRS documents to the Board and related staff analysis in the context of the ECF, PRS documents should normally be produced by the country authorities on a 12-month cycle and aligned with other domestic policy cycles. In case of significant weaknesses in the PRS, including those identified in the JSAN or through the AFP, program staff reports should report how these weaknesses are being addressed. While it would be expected that any identified weaknesses in the member's PRS would be addressed, this is not a requirement for support under the ECF.

[53] See IMF (2013d), paragraph 32.

[54] This requirement is established in paragraph 3 of Decision No. 14253-(09/8).

[55] See IMF (2009a), paragraph 8.

[56] See IMF (2013d), paragraph 32.

57. Social and other priority spending should be safeguarded and, whenever appropriate, increased under ECF-supported programs. This should be monitored through explicit program targets, typically an indicative floor on social and other priority spending, whenever possible. The definition of what constitutes social or other priority spending should be established by the member, in accordance with the authorities' poverty reduction and growth strategy. In cases where tracking of such expenditures is not feasible, the program documentation should report on which measures are envisaged to develop an adequate tracking system. Staff should monitor progress in establishing these tracking systems, and the program may include relevant structural benchmarks if appropriate.

Debt sustainability analysis (DSA)

58. ECF-supported programs should be underpinned by a thorough DSA to inform the elaboration of medium-term debt strategies and fiscal frameworks. Country teams should engage with the authorities in the preparation of DSAs, discuss the results, and share the final files with the relevant officials. DSAs for most LICs are usually prepared jointly with the World Bank, and country teams should also involve other relevant Multilateral Development Banks (MDBs). Joint DSAs are required for all PRGT-eligible countries that also have access to IDA resources; in those cases where PRGT-eligible countries have durable and substantial access to market financing, Fund staff may deem it more appropriate to instead produce a DSA using the template for market access countries, in such cases, close consultation with the Bank is recommended.

59. A fully elaborated DSA is required at least once every three years, with shorter annual updates in the interim years possible in the absence of significant changes in the macroeconomic and financial environment. Full DSAs should be prepared in periods of heightened domestic, external, or global risk. The precise timing of a DSA may be driven by program requirements. In particular, the design of debt limits under an ECF arrangement is systematically related to the assessment of countries' debt vulnerabilities (see Appendix II). Also, as discussed above, the determination of access to the Fund's concessional resources needs to take account of the country's debt vulnerabilities based on the most recent DSA, and a DSA (or DSA update) may need to be prepared for higher access financing requests (augmentation or new arrangement). In cases where a DSA is required outside the regular joint Bank-Fund DSA cycle, a DSA update may be prepared unilaterally by Fund staff drawing on a prior full joint Fund-Bank DSA as long as a joint DSA was prepared recently and the analysis would not result in a change of the risk of debt distress rating.

60. DSAs for LICs should be presented as self-contained documents (see Appendix I). They should normally be prepared using the LIC Debt Sustainability Framework (DSF), although for countries with durable and substantial access to market financing, the template designed for middle-income countries can be used instead. The analysis includes three components:[57]

[57] For details on the use of the DSF, see the *Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries* (IMF, 2013g).

- A forward-looking analysis (20-year projection) of debt and debt-service dynamics under a baseline scenario, alternative scenarios, and standardized stress tests;
- An explicit assessment of the risk of external debt distress (low, moderate, high, or in debt distress) based on indicative country-specific debt-burden thresholds that depend on the quality of policies and institutions in the country; and
- Recommendations on a borrowing (and lending) strategy to limit the risk of debt distress, while maximizing the resource envelope to achieve the country's development objectives.

Collaboration with the World Bank and other development partners

61. Fund staff should consult closely with all major development partners active in the country when designing and monitoring an ECF-supported program. In addition to this routine collaboration, the Joint Management Action Plan (JMAP)[58] approved by the Boards of the World Bank and IMF calls on Bank and Fund country teams to consult with each other at least once a year in order to identify the country's key macroeconomic and structural reform challenges and coordinate work plans in support of addressing these challenges (see Appendix I).

H. Conditionality

Conditionality principles

62. Conditionality, i.e., the set of program-related conditions, under an ECF arrangement is intended to ensure that Fund resources are provided to assist members in resolving their balance of payments problems in a manner that is consistent with the Fund's Articles and that establishes adequate safeguards to the Fund's resources. Consistent with the Fund's *Guidelines on Conditionality*,[59] conditions will normally consist of macroeconomic variables and structural measures that are reasonably within the member's direct or indirect control and that are, generally, either (i) of critical importance for achieving the goals of the program (or for monitoring program implementation); or (ii) necessary for the implementation of specific provisions of the IMF Articles of Agreement or policies adopted under them. In some cases, conditions may be outside the Fund's core areas of expertise, in which case a more detailed explanation of their critical importance is required.

63. ECF-supported programs must meet the UCT conditionality standard, which requires the commitment and capacity by the authorities to implement a set of policies that is adequate to correct external imbalances and enable repayment to the Fund. The appropriate adjustment path

[58] See *Enhancing Collaboration—Joint Management Action Plan* (IMF, 2007c) and *Implementation of the Joint Management Action Plan on Fund-Bank Collaboration* (IMF, 2010d).

[59] See *Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines, Revised January 25, 2010* (IMF, 2010b) and *Revised Staff Statement on Principles Underlying the Guidelines on Conditionality, and Operational Guidance Note on the 2002 Conditionality Guidelines* (IMF, 2006a).

would be determined on the basis of the country's economic circumstances and objectives, policy constraints, and the severity of the balance of payments needs. The adjustment effort required to attain full sustainability would often extend beyond the duration of the ECF arrangement. In such circumstances, conditionality would be limited to those policies that are critical to achieving the part of the overall adjustment process that is covered by the arrangement. Given its medium- to longer-term focus, the ECF will generally permit more flexibility than the SCF in the timing of these measures. For instance, if a far-reaching structural reform in a specific area is deemed critical for achieving a stable and sustainable macroeconomic position, but considered too ambitious to complete in the near term, an ECF-supported program may include certain steps that mark progress on this reform effort, without necessarily completing the entire reform.

Specification of program conditions

64. Program conditionality will include quantitative periodic and continuous PCs, and typically also quantitative and structural benchmarks, as well as prior actions if necessary (see Appendix II) for detailed guidance on quantitative conditions). Conditionality is set at the time of approval of the arrangement and updated at the time of program reviews. Conditionality should normally be set (or modified) by the Board before the test date. For the establishment (or modification) of post-dated PCs, the program documents would have to be signed and circulated to the Board along with the staff report before the test date, and no information on implementation of the so established conditionality would be available at the time of the Board meeting.

65. Prior actions are measures that a member is expected to adopt prior to the Fund's approval of an ECF arrangement, completion of a review, or the granting of a waiver with respect to a PC, when it is critical for the successful implementation of the program that such actions be taken to underpin the upfront implementation of important measures. Prior actions are to be applied parsimoniously, must be justified in terms of their criticality to program objectives, and specified in clear, objective, and unambiguous terms. Prior actions should in principle be implemented at least five working days before the Board discussion. They should be defined in the LOI/MEFP and cross-referenced in the relevant Board Decision.

66. Quantitative PCs would normally be set on a semi-annual basis and tied to semi-annual program reviews, while quantitative benchmarks (also referred to as indicative targets) would normally be specified on a quarterly basis. Where closer monitoring or more flexibility in tailoring of reviews to country circumstances is needed, quantitative PCs and reviews could be set flexibly with the conditions that they be scheduled no more than six months apart and that each scheduled review be associated with a set of performance criteria and a disbursement.[60] This flexibility in setting the specific test dates relative to the six-monthly cycle could, for example, be used to align monitoring with national budget/reporting cycles. Conditionality should cover the 12 months

[60] When designing a program with more frequent reviews than six-monthly, it is important to confirm the member's capacity to provide accurate data at the frequency needed to monitor program implementation, also due to concerns regarding possible misreporting.

following the Board meeting (initial approval or review). Under semi-annual monitoring, PCs would therefore normally be established for two future test dates at the time of approval of the arrangement and at each review (except for the penultimate and final reviews).

67. Quantitative periodic PCs typically include measures of net international reserves, central bank domestic assets, domestic and fiscal balances or financing, and any other macro-critical indicators. In most cases, there is also a limit on nonconcessional external debt, which could be set as a periodic or continuous PC.[61] PCs are usually subject to program adjustors that reflect deviations from projected external flows. Indicative targets should include a floor on social and other priority spending where possible and may include other indicators such as reserve money.

68. Continuous PCs always include, *inter alia*, commitments related to non-introduction or intensification of exchange restrictions and on non-introduction or modification of multiple currency practices. Other continuous PCs typically include the non-accumulation of external payments arrears and may include the non-contracting of nonconcessional external debt. See Appendix II, Section G, for details.

69. ECF arrangements should include an agenda for macro-critical structural reforms, with appropriate flexibility on the timing of the measures. Structural benchmarks are critical measures that are intended to serve as clear markers in the assessment of progress in the implementation of critical structural reforms in the context of a program review. Structural benchmarks should be used as parsimoniously as possible, and their macro-criticality explicitly justified in program documents, ideally in the structural benchmark table. Reviews are the primary tool for monitoring performance on the structural elements of the program, by judging progress relative to the relevant objectives.[62] Specific objectives should be defined for periods covered by individual reviews, with related structural benchmarks that are critical for achieving the program's objectives. The appropriate number of structural benchmarks depends on a variety of country-specific factors, including the centrality of structural reforms for achieving the program's objectives and country capacity. The use of structural PCs was discontinued in 2009.[63] Under the ECF, structural benchmarks may be targeted for implementation either by a specific test date or by the time of a specific program review.

70. Any structural benchmark that is significantly delayed can be re-dated and re-linked to the next program review, if the benchmark remains macro-critical to the program. If it seems that implementing a structural benchmark is no longer possible as defined under the program (say, due to a change in the authorities' reform plans or other changes in circumstances), a new benchmark or a modified version of the original one may be appropriate as long as it is critical to achieve program goals.

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[61] See Appendix II, Section E. The debt limits policy was reformed in 2009 to allow more flexibility and tailor it better to country circumstances. See *Debt Limits in Fund Supported Programs—Proposed New Guidelines* (IMF, 2009g) and *Staff Guidance Note on Debt Limits in Fund Supported Programs* (IMF, 2009l).

[62] See *GRA Lending Toolkit and Conditionality–Reform Proposals* (IMF, 2009c).

[63] See Decision No. 14280-(09/29).

Waivers and modifications

71. ***A waiver for non-observance*** of a PC may be granted if the Fund is satisfied that the program will nevertheless be successfully implemented—i.e., that it will achieve its goals—either because of the minor or temporary nature of the nonobservance or because of remedial actions taken by the authorities to preserve program objectives. Upon verification that a PC was not met, a request for a waiver of its nonobservance can be made by the member in the LOI. If staff supports the granting of the waiver, relevant justification would be provided in the staff report, which will also include a proposed decision on the waiver. Waivers for nonobservance are only required for quantitative PCs that are tied to the specific disbursement and to the review that is being completed (and for any standard continuous PC that has been missed). Waivers for PCs that are tied to subsequent disbursements and reviews are not required even if information on nonobservance already exists. In these cases, however, the staff report and LOI/MEFP would need to provide assurances that understandings on appropriate policies have been reached to complete the subsequent review, even though relevant PCs will need to be waived when that review is concluded.

72. ***Waivers of applicability*** could in principle be granted if the Fund is satisfied that, notwithstanding the unavailability of the information necessary to assess observance of a PC, the program will be successfully implemented and there is no clear evidence that the PC has not been met. However, in the case of the ECF, waivers of applicability would be highly unusual. Unlike purchases under the SBA and EFF, each ECF disbursement is linked to specific PC test dates and to a specific review, and thus the disbursement is not blocked—and there is consequently no need for a waiver of applicability—when a new test date passes and information on performance under it is unavailable, because such test date is linked to a future disbursement and review. While in theory a waiver of applicability could be granted for a PC at a test date linked to the current review, this would raise serious questions about the country's capacity to provide timely data, as reviews under the ECF should generally be scheduled with sufficient time to monitor the data relevant for the applicable test dates. In arrangements with blended financing, waivers of applicability would be required for the GRA-financed arrangement if the review is being conducted after the most recent test date has passed and data are not yet available. Additionally, with respect to the GRA financial arrangement, the member may purchase any amount available based on earlier completed reviews if the purchase is requested within 45 days of the most recent test date and all the conditions specified in paragraph 2 of the Reduction of Blackout Periods in GRA arrangements decision (Decision No. 14407-(09/105).

73. ***Modifications*** to program conditionality that has already been set by the Board may be appropriate when departures from PCs are expected to occur, for instance when basic program assumptions have not been realized or significant developments have occurred that had not been anticipated when the PCs were set, provided that the targets remain macro-critical. Requests for such modifications must be submitted to the Board before the relevant test date has been passed, and must be approved by the Board before information on the observance of the PC is available, normally in the context of a program review. In exceptional cases, modifications of conditionality can be approved by the Board outside the context of a program review, provided the authorities and staff have common understandings on appropriate policies through the next review, as documented in a revised or new LOI with an updated PC table and, where relevant, an updated TMU. This could be appropriate if the original targets are no longer appropriate due to developments beyond the authorities' control (including staff errors). Board approval would require a staff report that discusses the reasons for the modification, including why it is proposed outside the review context, the status of the program, and relevant policy understandings.

Misreporting[64]

74. Misreporting occurs when members with a Fund-supported program obtain resources on the basis of inaccurate information regarding observance of quantitative or continuous PCs or prior actions (a "noncomplying disbursement"). Under the ECF arrangement, a noncomplying disbursement occurs when (i) the Fund makes a disbursement on the basis of a finding that applicable conditions established for that disbursement (which include the accuracy of the information on PCs for which waivers have been requested) have been observed and (ii) that finding later proves to be incorrect. Upon evidence that a member may have received a noncomplying disbursement, the Managing Director shall inform the member promptly. After consultation with the member, if the Managing Director determines that the member did receive a noncomplying disbursement, the Managing Director shall promptly notify the member and submit a report to the Executive Board with recommendations. The Board may decide either (a) that the member shall be expected to repay the disbursed amount, or (b) that the nonobservance will be waived. Waivers will normally be granted only when the deviation from the relevant PC or other condition was minor or temporary, or if the member had adopted additional measures appropriate to achieve the objectives supported by the relevant decision on the disbursement.

75. Whenever the Executive Board finds that the noncomplying disbursement has been made but that the nonobservance of the relevant PC or other specified condition was also *de minimis*; i.e., when a deviation from a PC would be so small as to be trivial with no impact on the assessment of performance under the relevant member's program, a waiver for nonobservance shall be granted by the Executive Board.[65] *De minimis* misreporting will not be published in a staff report.

I. Reviews and Disbursements

Purpose of program reviews

76. Program reviews evaluate whether the program is on track to achieve its objectives. This evaluation is based on a backward-looking assessment—taking into account performance against quantitative PCs, structural and quantitative benchmarks, and prior actions— and a forward-looking

[64] Misreporting in the context of financial assistance under the PRGT does not trigger the application of Article VIII, Section 5 regarding members' obligations on data provision for Fund's activities.

[65] For more details on misreporting, see Appendix I of the PRGT Instrument and (Decision No. 14354-(09/79)). Also, see *Making the Misreporting Policies Less Onerous in De Minimis Case* (IMF, 2006e).

assessment of the prospects for successful program implementation, in particular whether policy capacity and commitments are adequate to achieve the program's objectives. The second (and every subsequent) review can only be completed if a PRS document has been issued to the Board, normally within the previous 18 months, with the following exception: if a PRS has been issued to the Board and covers at least 12 months from the date of the completion of the review, this requirement can be met by describing in the LOI/MEFP how the current budget, the upcoming fiscal budget (if available), and planned structural reforms advance the implementation of the PRS. At the time of the consideration of the final review under an ECF arrangement, and assuming that the protracted balance of payments problem has been resolved and no further program support from the Fund is expected, the scope of the forward-looking assessment could be more limited than for previous reviews.

77. Reviews also update the program design, in particular by specifying forward-looking policies and conditionality, and are the main vehicle for any potential modifications to program design—such as changes in access, phasing, and conditionality—as may be necessary to achieve the program's objectives in changing circumstances. At the time of approval and for each review, the authorities' LOI presents or updates their policy program, and a staff report provides an overall assessment of performance and policy commitments.

Timing of reviews, test dates, and disbursements

78. The timing of all reviews, test dates, and disbursements is summarized in a staff report table at the time of approval of an ECF arrangement and updated as needed at the time of reviews. Moreover, the Arrangement text attached to the staff report for the initial ECF request specifies the test dates, reviews, availability dates, and disbursements for the first year of the arrangement. The quantitative indicator table ("PC table") attached to the LOI/MEFP should clearly identify PCs, indicative targets, and adjustors for at least a 12-month period from the Board date of the program approval or review as indicated above. Similarly, the structural benchmark table should cover measures over at least a 12-month period, clearly indicating the reviews that individual benchmarks are linked to and/or the dates for their implementation. The Decision attached to the staff report should specify all PCs and review/availability dates, normally over the next 12 months from the Board date of the program approval/review. The first disbursement is made available upon approval of the arrangement, and subsequent disbursements will be conditional on observance of the PC and a program review that confirms satisfactory progress in implementing the economic program.

79. Disbursements and reviews under a standard three-year ECF arrangement are normally both semi-annual, implying typically seven scheduled disbursements and six reviews (and thus six test dates with PCs). When designing the schedule of test dates, careful consideration should be given to alignment with the country's budget cycle and the requirement that reviews be scheduled no more than six months apart. Beyond this requirement, there is flexibility in setting the specific review dates and test dates if warranted by country specific circumstances. Deviations from the six-monthly schedule (i.e., more frequent reviews) can be considered, for example, to align monitoring with national budget/reporting cycles. In cases where the arrangement is approved well before the first test date, e.g., four months or earlier, there may be only six disbursements and five reviews, given the time lag involved in monitoring performance criteria and preparing documentation for reviews. In principle, reviews and disbursements could be both more frequent, for instance in the context of significant short-term volatility and/or uncertainty. It is also possible to shift between semi-annual and higher frequencies of phasing during the course of an arrangement, for example, following changes in volatility and/or uncertainty. Such shifts could also be scheduled at the time of approval of a new ECF arrangement if warranted based on the projected risk profile over time or other country circumstances.

80. The test dates for PCs must be set such that all scheduled disbursements can take place before the end of the arrangement, taking into account reporting lags and preparation and circulation periods for staff reports. Similarly, the availability dates for disbursements should be set such that all data needed to confirm observance of PCs at the related test dates would have become available. Availability dates are specified in the Arrangement text and subsequent Decisions, and are summarized in the staff report table on the schedule of disbursements. Reviews cannot be completed prior to the applicable availability date.[66]

81. The program period supported by an ECF arrangement would typically start somewhat before the Board approves the ECF arrangement,[67] and three to six months before the first test date under semiannual monitoring. The program period should normally not start more than three months prior to the Board meeting, and in any case not before the authorities and staff have discussed the parameters of the program.

82. In contrast to SBAs or EFF Arrangements, the design of an ECF arrangement avoids "blackout periods" because each disbursement is linked to the completion of a specific review and to the observance of specific periodic performance criteria, and thus a disbursement is not blocked—and there is consequently no need for a waiver of applicability upon data unavailability—when a new test date passes, because such new test date applies to a future disbursement subject to completion of a future scheduled review.[68]

Addressing interruptions in program implementation: track records, combined reviews, and rephasing

83. ECF-supported programs may encounter interruptions and delays. If these are caused by substantial policy slippages, it is often appropriate to establish a ***track record*** before completing the next review. As discussed in more detail in Appendix III, a track record could be informal (based on

[66] As provided in the PRGT Instrument, reviews under an arrangement shall not be completed unless and until all other conditions for the disbursement of the loan have been met or waived. This applies, inter alia, with regard to the condition on the availability of the disbursement. (See PRGT Instrument, Section II, paragraph 1(e)(4)).

[67] See *Relationship Between Performance Criteria and Phasing of Purchases Under Fund Arrangements—Operational Guidelines* (Decision No. 7925-(85/38), as amended).

[68] The broader policy is described in *Reduction of Blackout Periods in GRA Arrangements* (IMF, 2009h) and *Blackout Periods in GRA Arrangements and the Extended Rights to Purchase Policy—A Review* (IMF, 2013a). It applies to all SBAs and EFF arrangements, including those that involve blending with ECF financing.

informally agreed time-bound policy actions and targets) or monitored more formally under an SMP, or, in case of urgent financing needs caused by an exogenous shock, the RCF (assuming the applicable policy commitments are in place). In some cases, bringing the program back on track may also require modification to the planned timing of disbursements and reviews. Such delays and interruptions can sometimes be addressed through extensions of the arrangement (see above), combining reviews, rephasing of access, or some combination of the three.

84. Under certain circumstances, two **reviews can be combined** when delays in program implementation have occurred and performance can be assessed against two test dates that were linked to successive reviews. Combining three or more reviews, while theoretically possible, would be very unusual as PCs are typically not defined for more than two future test dates under semiannual monitoring, because long-lasting deviations from program objectives would often justify cancellation of the arrangement, and the ECF arrangement is automatically terminated if no review is completed over an 18-month period. Combining reviews is only possible if: (i) the conditionality has been fully defined, including through applicable PCs, for these reviews and approved by the Board; (ii) data are available for measuring observance of conditionality for the reviews; and (iii) the dates specified as the earliest dates for conclusion of the reviews in the text of the arrangement have all passed. Typically, reviews are combined when the program is on track with respect to the most recent review and sufficient corrective action had been taken to offset any problems with observance of the conditions for earlier reviews. By contrast, where slippages relative to the objectives and conditionality for the most recent review are significant, it would not be appropriate to combine reviews. In such circumstances, the authorities could request cancellation of the arrangement and discussion of a support under a new instrument once conditions for such support are appropriate. Alternatively, in cases where performance relative to the objectives and conditionality for the earlier review was broadly satisfactory (or slippage has been addressed through sufficient corrective action) and program objectives can still be obtained through modifications of the program, this past review could be completed, while a new, future test date and conditionality should be established for the next review, typically combined with rephasing of access over the remainder of the arrangement.

85. Disbursements under an ECF arrangement may be **rephased** to change the amounts of financing provided under individual disbursements associated with specified reviews and/or change the number or timing of disbursements and reviews. If delays in program implementation cannot be accommodated by extensions or combining reviews alone, the total amount of access under the arrangement can be rephased into a new pattern of test dates and reviews, generally only after making full use of the maximum possible extension. Access should never be rephased in a manner that would make it impossible for the member to get the full, undisbursed amount under the arrangement. If delays in program implementation have been substantial and rephasing would involve compressing a very large amount of access into a short period of time (even with a potential extension of the arrangement period), it would normally be appropriate to let the current arrangement expire, or for the member to cancel it, and to proceed to a new ECF arrangement with more attainable goals, unless there has been a very sharp turnaround in performance.

J. Other Relevant Policies

86. A number of additional modalities and policy requirements apply to the ECF, including the following:

- ***Ex Post Assessments (EPAs).*** Access to resources under ECF arrangements counts toward the policy on longer-term program engagement (LTPE).[69] Members that have had a UCT arrangement in place for at least seven out of the past ten years, and for whom an EPA has not been prepared in the past five years, an EPA should be prepared in time to be considered by the Board *prior* to a request for a new arrangement.[70]

- ***Post-Program Monitoring (PPM).*** Outstanding ECF credit will be subject to PPM.[71] Normally, members with outstanding credit from the Fund in the GRA and/or PRGT exceeding 200 percent of quota after the expiry of their arrangements are expected upon the recommendation of the Managing Director to engage with the Fund in PPM of their economic developments and policies (unless the member is implementing a Fund-supported program or SMP).

- ***Article IV cycle.*** The 24-month cycle for Article IV consultations applies to members with an ECF arrangement.[72] Specifically, Article IV consultations with members that have an on-track ECF arrangement in place would be expected to be completed within 24 months after the completion of the previous Article IV consultation. In cases where a program review is not completed by the date for completion specified in the arrangement, the next Article IV consultation would be expected to be completed by the later of (i) six months after the scheduled review date and (ii) 12 months, plus a grace period of three months after the previous Article IV consultation, *unless* the program review has been completed prior to the later of these two dates, in which case the 24-month cycle continues to apply. A member that has completed an ECF arrangement by drawing all amounts may remain on the 24-month cycle, if it does not meet any of the criteria specified in paragraph 2 of Decision No. 14747-(10/96) (i) the member is of systemic or regional importance; (ii) the member is perceived to be at risk, or is facing pressing policy issues of broad interest to the Fund membership; or (iii) the member has

[69] Fund financial arrangements that qualify for the definition of LTPE are those drawing on upper credit tranche GRA or PRGT resources, or any blend of the two. For a complete discussion of LTPE, see *The Acting Chair's Summing Up Review of Ex Post Assessments and Issues Related to the Policy on Longer-Term Program Engagement* (IMF, 2006c); *Review of Ex Post Assessments and Issues Relating to the Policy on Longer-Term Program Engagement* (IMF, 2006b); and *Ex Post Assessments of Members with a Longer-Term Program Engagement—Revised Guidance Note* (IMF, 2010c).

[70] See Appendix I for more details on documentation and review of EPAs.

[71] See *Extension of Post-Program Monitoring to Cover the Use of PRGF Resources* (IMF, 2005), *Guidance Note on the Implementation of Post-Program Monitoring* (IMF, 2010e), and Decision No. 13454-(05/26), as amended. The latter also discusses circumstances where the MD may propose PPM even where outstanding credit falls below the 200 percent of quota threshold, as well as circumstances where the PPM criteria are met but where the MD may consider it not warranted (e.g., given strength of policies or successor arrangement or SMP expected within six months).

[72] See Decision No. 14747-(10/96).

outstanding Fund credit exceeding 200 percent of quota. At the time of the final review under the arrangement, staff should assess whether the consultation cycle should be shortened back to 12 months, based on the criteria mentioned above. When this is the case, the staff report for the final review should seek the Board's approval of such shortening of the cycle.[73] Where the arrangement is cancelled by the member or expires with undrawn amounts, the member will remain on the existing cycle, unless the Executive Board determines, based on the above criteria, that a different cycle will apply.

- ***Exchange System obligations under Articles VIII and XIV and Data Provision under Article VIII, Section 5.*** Requirements under Article VIII Sections 2, 3, and 4, and Article XIV are discussed in *Article VIII Acceptance by IMF Members—Recent Trends and Implications for the Fund* (IMF, 2006d). A standard continuous PC applies, inter alia, to the non-introduction or intensification of exchange restrictions and on the non-introduction or modification of multiple currency practices (see Appendix II, Section G). Article VIII, Section 5 of the Fund's Articles of Agreement does not apply to the provision of information that is required for the purposes of Fund financial assistance under the ECF.[74]

- ***Heavily Indebted Poor Country (HIPC) and Multilateral Debt Relief Initiative (MDRI).*** Performance under an ECF arrangement can count toward a track record of strong policy performance under Fund-supported programs required for the HIPC decision point and completion point. The minimum required track record for the decision point is six months and one year for the completion point.[75]

- ***Side letters.*** The use of side letters in LIC programs has been extremely rare. Side letters may be used when release of information on policy understandings at the time of a program request or review would cause adverse market reaction or undermine the authorities' efforts to prepare the domestic groundwork for a measure.[76]

[73] See IMF (2009j).

[74] PRGT resources are held in an administered account and the obligations of a member using such resources are not governed by the Fund's Articles (Article V, Section 2(b)). The obligations of a member using PRGT resources are governed exclusively by the terms of the PRG Trust Instrument, which are incorporated by an explicit reference into the terms of each ECF arrangement. Accordingly, for the purposes of an ECF arrangement, the Fund cannot require a member to provide the Fund with information for the purposes of Article VIII, Section 5, and the failure of a member to provide information for the purposes of an ECF arrangement cannot give rise to the application of sanctions under Article XXVI, Section 2, as it is not a breach of obligation under the Articles of Agreement."

[75] See Appendix IV for details on the HIPC Initiative and MDRI.

[76] For the Fund's policy on side letters, see Decision No. 12067-(99/108).

CONTENTS

CHAPTER II—STANDBY CREDIT FACILITY

The SCF provides financing to LICs with short-term balance of payments needs, similar to the SBA, however on concessional terms.[77]

A. Objectives and Qualification

Purpose and objective

87. The SCF provides concessional financing to LICs with actual or potential short-term balance of payments needs. 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***. Such a position would be characterized by the absence of a present or prospective balance of payments need and by the domestic and external stability that is necessary to support strong and durable poverty reduction and growth. It would typically be associated with sustainable fiscal and current account balances, limited debt vulnerabilities, adequate international reserves, and sufficient policy and institutional capacity to implement appropriate macroeconomic policies. This position might still involve significant levels of donor assistance, though aid dependence would be expected to decline over time. Use of the SCF is appropriate in cases where a country may experience episodic, short-term financing and adjustment needs, but these needs are not expected to persist over the medium or longer term. Member countries facing potential balance of payments needs, but not presently facing a need, may request an SCF arrangement on a precautionary basis.

88. Similar to other Fund instruments, SCF arrangements assist countries in addressing their balance of payments difficulties by providing temporary financial support (in this case, on a concessional basis) to smooth economic adjustment and avoid excess volatility. SCF resources can be used to strengthen the country's international reserve position and loosen financing constraints for both the public and private sectors in the context of a policy framework aimed at achieving a stable and sustainable macroeconomic position. Assistance under the SCF can also catalyze additional financing from donors.

Eligibility and qualification

89. Assistance under the SCF is available to all PRGT-eligible member countries[78] that experience short-term balance of payments needs, *unless* (i) the predominant cause of the balance of payments

[77] The SCF became effective on January 7, 2010, as part of a comprehensive reform of the IMF's facilities for LICs and was updated on April 8, 2013 in the context of the review of these facilities. See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e and 2009f), Decision No. 14354-(09/79), and *Review of Facilities for Low-Income Countries—Proposals for Implementation* (IMF, 2013d).

[78] The PRGT eligibility framework is discussed in *Eligibility to Use the Fund's Facilities for Concessional Financing* (IMF (2009k, 2012b, and 2013c)), and Decision No. 14521-(10/3). See Appendix VI for a list of PRGT-eligible countries as of July 2013.

difficulties that underlie the financing need is a withdrawal in financial support by donors or (ii) the country faces a protracted balance of payments problem; specifically, to qualify for the SCF, there should be an expectation that the member ***will achieve a stable and sustainable macroeconomic position (as defined above) in normally two years or less***. If, by contrast, a country has a protracted balance of payments problem where the resolution of macroeconomic imbalances needed to establish a stable and sustainable macroeconomic position is expected to persist for three years or more, an ECF arrangement would then be the appropriate instrument to support UCT-quality programs. In cases where a stable and sustainable macroeconomic position is expected to be established in more than two but less than three years, the choice between the two facilities should be determined on a case-by-case basis, keeping in mind that the minimum length for an ECF arrangement is three years and use of the SCF is normally limited to two and a half out of any five-year period assessed on a rolling basis.[79] For this assessment, substantial structural reform or capacity building needs, or frequently recurring financing needs would indicate the presence of a protracted balance of payments problem and thus argue for support under an ECF arrangement, whereas needs for a relatively front-loaded adjustment process aimed at a speedy restoration of macroeconomic stability would argue for an SCF arrangement.

90. SCF arrangements can provide support to members experiencing actual (i.e., ***present*** or ***prospective***) or ***potential balance of payments needs,***[80] as long as the balance of payments need is short term rather than protracted. If at the time of approval of the SCF arrangement, a member does not presently face balance of payments needs, but such needs are expected to arise in the future (or there is a significant risk that such needs could arise in the future), the country authorities would treat the arrangement, at least initially, as precautionary. If balance of payments needs are purely potential (i.e., not present or prospective) and risks to the outlook are moderate or low, a PSI could be more appropriate. In these cases, by foregoing the Fund financing extended under a precautionary SCF arrangement and focusing on medium-term policy support and endorsement, the PSI would tend to send a stronger signal about the quality of the member's policies and the soundness of its macroeconomic position. Individual disbursements can only be made based on the representation by the member of the existence of an actual (in this case, present) balance of payments need.

91. Qualification also requires a finding by the Board that the member is implementing, or is committed to implement, policies aimed at resolving the balance of payments difficulties it is

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[79] See Section B for exceptions to the two and a half year rule.

[80] A balance of payments need can arise because of a member's balance of payments deficit, reserve position, and developments in reserves. The need can be *present* (a need that exists in the current period), *prospective* (i.e., a need that is expected/projected to arise in the future, including during the implementation of a Fund-supported program), or *potential* (i.e., a need that may arise under an alternative, typically downside, macroeconomic scenario, but is not expected to arise based on baseline/program projections). Distinct from the concept of balance of payments need, a *protracted balance of payments problem*, as defined above, is a related but broader concept that examines the components of the balance of payments need (rather than focusing on the overall balance of payments position), as well as a variety of other indicators. Countries with a protracted balance of payments problem may experience a combination of present, prospective, and potential needs.

encountering or could encounter, in the context of a policy program that meets ***UCT conditionality*** standards and aims to achieve, maintain, or restore a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction. This requires the commitment and capacity by the authorities to implement a set of policies that is adequate to correct external imbalances and enable repayment to the Fund within the specified maturity period. Apart from the elaboration of such a program in the LOI and MEFP, qualification would thus require assurances that the authorities have the capacity and commitment to implement their program, as evidenced by recent policy performance (including under a recent Fund-supported program), institutional capacity, and any other circumstances that may affect macroeconomic performance. In this context, qualification is presumed (but still would have to be established) for countries with an on-track PSI that experience or may experience a balance of payments need. Other requirements for the approval, extension, or implementation of an SCF arrangement are discussed further below.

92. Countries that are not currently in a position to meet the SCF qualification requirements, in particular the capacity to implement a UCT-quality program, can build a track record for moving to an SCF arrangement through an SMP or, in case of urgent financing needs, the RCF (assuming the applicable policy commitments are in place). Countries that have the *capacity* to implement a UCT-quality program, but such a program is *not needed* because the balance of payments need is expected to be resolved within one year and no major policy adjustments are necessary to address underlying balance of payments difficulties, have the option to request RCF financing to meet an urgent balance of payments need.

B. Duration, Extensions, Cancellations, and Repeated Use

93. Assistance under an SCF arrangement is available for a minimum of 12 months and a maximum of 24 months from the date of the Board decision approving the arrangement. As the SCF is intended to address episodic short-term needs, its use is normally limited to two and a half years out of any five-year period, assessed on a rolling basis. In rare cases, it may be appropriate to allow for minor deviations from the two and a half year limit, for instance if a member experienced three distinct large exogenous shocks in a five-year period. Past SCF arrangements that were treated in their entirety as precautionary (i.e., not one disbursement was made) and prospective SCF arrangements for which the Fund assesses that the member does not have an actual balance of payments need at the time of approval are not counted towards the limit of two and a half years out of any five-year period.[81] SCF arrangements may be extended (including multiple times) subject to a 24-month maximum total duration. After the expiration or cancellation of an SCF arrangement, additional SCF arrangements may be approved if the relevant qualification criteria are met, including the overall time limit on use of the SCF specified above.

[81] In any case, if present or prospective balance of payments needs persist beyond the short term, continued support would normally be provided under an ECF arrangement. In case of repeated use of the SCF (exceeding two and a half years out of any five-year period), staff reports and LOIs are required to make an explicit case that the member country does not have a protracted balance of payments problem. See PRGT Instrument, Section II, paragraph 1(c)(1).

94. SCF arrangements can be extended at the request of the member to allow for the disbursement of rephased amounts[82] or to provide additional resources (i.e., augmentation) in light of projected developments in the member's balance of payments position, subject to appropriate conditions consistent with the terms of assistance under the SCF. Such extensions involving rephasing of access may be appropriate in a variety of circumstances, including when more time is needed to implement envisaged policies or reforms warranting a rephasing of access, or when the duration of balance of payments needs is longer than originally envisaged, for instance due to a shock that has led to additional financing and adjustment needs, or due to heightened risks that warranted further precautionary support. Extensions may involve the establishment of additional reviews and can be combined with augmentations of access if warranted based on the criteria for augmentations discussed in Section D.

95. Extensions must be requested by the member and approved by the Board before the expiration of the arrangement period. Extensions are only possible if they are needed to allow for the disbursement of amounts under the arrangement. It is thus not possible to extend arrangements when all scheduled amounts have been already disbursed.[83] Extensions are not automatic and are subject to appropriate conditions consistent with the terms of assistance under the SCF.

96. Extensions that involve rephasing and/or augmentations of access would normally be approved by the Board on the basis of an LOI and in the context of a program review (where the conclusion of the review demonstrates that the program is on track). In exceptional circumstances (e.g., when a severe natural disaster prevents conducting the final review in a timely manner), extensions that involve rephasing may be approved by the Board outside the context of a scheduled program review, provided the authorities and staff have understandings on appropriate policies to be implemented through the next review, as documented by a letter from the authorities. Board approval would require a staff report that discusses the reasons for the extension, including why it is proposed outside the review context, the status of the program, and relevant policy understandings.

97. In cases that do not involve rephasing (or changes in access or establishment of additional reviews) and where some additional time is needed to complete the final review(s) and make the final disbursement available before the expiration of the arrangement, SCF arrangements can also be extended for a short period (a few weeks or months). Such short-term extensions (sometimes referred to as "technical") can be granted outside the context of a review when some additional time is needed to complete a final review in order to make a disbursement available, provided that the authorities and staff have reached (or are expected to reach in the very near term) understandings on appropriate policies to complete the review. Board approval of these short-term extensions generally takes place in the context of a very short staff paper with a decision proposed for lapse-of-time Board approval. The staff paper is subject to the regular review process and should explain the status of the discussions and document preparation and any relevant policy understandings.

[82] Throughout the *Handbook*, "rephasing" refers to changes in the timing and level of programmed disbursements.

[83] Arrangements automatically expire once all available amounts have been disbursed.

98. SCF arrangements may also be cancelled by the authorities at any time, which may be appropriate for instance when the underlying macroeconomic imbalances have been resolved, when the authorities no longer have the capacity or commitment to implement the program, or when the objectives or modalities of the authorities' economic policies have changed substantially.

C. Concurrent Use and Blending

Concurrent use

99. The SCF cannot be used concurrently with the ECF. Hence, any pre-existing ECF arrangement would need to be cancelled before an SCF arrangement can be approved and vice versa. Moreover, a member cannot obtain RCF financing (or start an SMP) if an SCF arrangement is in place and on track. Should additional balance of payments needs arise during an SCF arrangement, an augmentation of access would typically be the appropriate response. RCF financing during an SCF arrangement can only be provided when (i) SCF disbursements are not possible, for instance due to policy slippages or delays in program discussions, (ii) qualification requirements for the RCF are met, including the existence of an urgent balance of payments need and relevant policy commitments, and (iii) the balance of payments need is primarily caused by a sudden exogenous shock. When access under the RCF exceeds 25 percent of quota in these circumstances, policies should be appropriate to address the shock. In addition, RCF-supported polices could serve as a track record to bring the SCF-supported program back on track. Similarly, in the absence of an urgent financing need, a track record could be built through an SMP. The SCF can be used concurrently with GRA financing under certain circumstances (see below).

100. The SCF can be used flexibly in conjunction with a PSI. While a PSI does not provide automatic access to SCF financing, qualification for the SCF would be presumed for countries with an on-track PSI that experience or may experience a balance of payments need (which could be present, prospective, or potential), provided that the relevant qualification requirements are met. An on-track PSI, with the associated UCT-conditionality standard, would also reduce the time normally required to design an SCF-supported program. There would be no need to cancel the PSI, and an SCF could run concurrently with a PSI. PSI users can also request concurrent precautionary support under the SCF, which may be useful in periods of increased uncertainty or risk. Modification of the PSI-supported program may be warranted in some cases, in particular when the changed circumstances are likely to affect a country's ability to meet the program objectives. In case the PSI is off track, SCF approval would typically only occur when appropriate corrective actions have been taken.

101. Concurrent support under a PSI and SCF arrangement would have modalities akin to those applicable under a PSI or SCF arrangement individually with regard to program documentation and program targets. In particular, the two instruments would support an economic program based on a single set of program conditions, schedule of reviews, and other requirements that largely mirror those applicable to stand-alone SCF arrangements or PSIs. Key differences, however, include:

- The choice of duration of the SCF arrangement (between 12 and 24 months) would depend on the length of financing and adjustment needs, and would not necessarily be tied to the PSI period.

- If the expiration date of the SCF arrangement comes after that of the PSI, approval of a new PSI would normally take place only after the expiration or cancellation of the SCF arrangement, as qualification for the PSI requires a broadly stable and sustainable macroeconomic position, which would imply that no IMF financing is needed. However, a new PSI could be approved when the authorities intend to treat the SCF as precautionary. It may also be possible to extend the existing PSI for a short period to complete the final review (see Section B).

- While an SCF arrangement does not require the issuance of a PRS-related document, such a document must exist by the time of the completion of the second and subsequent reviews of a PSI.

- The review schedule for the PSI could remain on the "fixed review cycle" (see Chapter IV of this *Handbook*) or be aligned to the more flexible review cycle of the SCF. With a PSI remaining on the fixed cycle, the documentation for a PSI review would have to be issued to the Executive Board before the next relevant test date, irrespective of program performance and whether the review will be completed,, except for the staff report which could be issued up to one month after the test date of the periodic assessment criteria linked to the next scheduled review.[84] Shifting a PSI to the SCF review schedule would require adjusting the standard PSI decision language such that a PSI review can be completed at a later stage.

Blending

102. Certain PRGT-eligible countries are expected to receive financial assistance through blended PRGT and GRA resources, rather than relying on fully concessional Fund financing.[85] When financing is blended under a PRGT arrangement and an arrangement under the GRA, total access is determined based on the standard criteria, implying that total access should be comparable across country cases with similar balance of payments needs, program strength, and outstanding Fund credit, irrespective of whether the Fund's financial assistance comes in the form of blended or PRGT-only resources.[86] Blending can provide a signal that the borrower is moving toward middle-income or emerging market status. PRGT-eligible countries, including members qualifying for an SCF arrangement, would be expected to use either fully concessional or blended resources, rather than GRA-only financing, although they are always eligible for access to the Fund's general resources.

[84]See Chapter IV, Section G of this *Handbook*.

[85] See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e) paragraph 91–92); and *Chairman's Summing Up of the Discussion on the Enhanced Structural Adjustment Facility-Operational Arrangements* (IMF, 1987).

[86] The standard access criteria are: (i) the member's balance of payments need; (ii) the strength of its program and capacity to repay the Fund; and (iii) the amount of outstanding Fund credit and the member's record of past use (see for instance IMF (2009e)).

103. Blending of SCF and GRA resources is subject to the following presumptions and limitations:

- Blending is presumed, including for precautionary SCF arrangements, for PRGT-eligible countries with either (i) per capita income above the prevailing operational cutoff used by IDA[87] or (ii) sustained past and prospective market access and a per capita income that exceeds 80 percent of the IDA operational cutoff.[88] Other PRGT-eligible countries are expected to use concessional financing only.

- Blending should normally not be used for countries at a high risk of debt distress or in debt distress as assessed by the most recent joint Bank-Fund LIC DSA, even if per capita income or market access creates a presumption for blending.

- In exceptional circumstances, when financing needs exceed the applicable access limits, blending can be used irrespective of the per capita income, market access, and debt sustainability criteria (see Section D).

104. When providing financial assistance with blended resources, SCF resources will normally be provided together with GRA resources under the SBA. Financing through the RFI under the GRA during an SCF arrangement would be expected only if the SCF-supported program is off track, in which case RFI purchases would typically be combined with disbursements under the RCF.

105. The modalities of blended financial assistance under SCF and SBA arrangements would be broadly the same as those applicable under a stand-alone SCF arrangement. In particular, it would support a one- to two-year economic program for countries with short-term balance of payments needs, based on a single set of program conditions, schedule of disbursements and reviews, and other requirements that largely mirror stand-alone SCF arrangements described in this Chapter. However, there are a number of differences, including that in cases involving blended financial assistance:

- As a practical matter, disbursements would involve both SCF and SBA resources (see Section D on access under blended financial assistance), implying lower average concessionality of the Fund's financial support than under a stand-alone SCF arrangement;

[87] As of July 2014, this cut-off was US$1,215. It is revised each year, typically in July.

[88] A member is presumed to have had past market access if it tapped international financial markets during at least two of the last five years, and with the total access over the five years amounting to a minimum of 50 percent of quota. Accessing international financial markets refers to 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 such markets. The above criterion is closely aligned with the market access criterion for entry into PRGT eligibility, see *Eligibility to Use the Fund's Facilities for Concessional Financing* (IMF, 2013c; paragraph 18). Prospective market access could be assessed on the basis of the member's debt service capacity or other announced plans for borrowing (see *The Fund's Support of Low-Income Member Countries—Considerations on Instruments and Financing* (IMF, 2004a)).

- SBA qualification requirements must be met—for instance, to the extent that the blend pushes (annual or cumulative) access above GRA normal limits, the member would also need to meet the Exceptional Access criteria;[89]

- While the respective effectiveness and expiration dates of the SCF and SBA arrangements would be normally identical, there could be situations where it would be possible to blend resources under an SBA with a duration of more than 24 months with resources under a 2-year SCF (maximum length), if the SCF qualification requirements are met, including the absence of a protracted balance of payments need (implying that the duration of the SBA would rarely be more than a few months over the 24 months, unless the arrangement is treated as precautionary);[90]

- In contrast to the practice under SCF arrangements, reviews under the SBA component of the blended financial assistance may require waivers of applicability under certain circumstances (see Section H); and

- Each disbursement under an SCF arrangement is linked to a specific test date, whereas for GRA arrangements purchases are conditioned upon observance of the PCs relating to the most recent test date. There could thus be situations where resources relating to the SCF component of the blend can be disbursed (specifically, if PCs relating to an earlier test date have been met), while resources relating to the SBA component cannot (specifically, if PCs relating to the most recent test date (controlling PCs) have not been observed) unless waivers for the nonobservance are granted.

D. Access

106. When considering access for a new arrangement, or possible augmentation under an existing arrangement, area departments may wish to consult with SPR and FIN at an early stage, i.e., before a policy note is circulated for formal review. Furthermore, staff reports for a new arrangement (or subsequent reports requesting a change in access) should explicitly discuss the basis on which access was determined (or explain the reasons for requesting a change in access), with reference to the main criteria below, as well as to access norms and limits as applicable (see below).

Determination of access—main criteria

107. Access is determined on a case-by-case basis based on the following standard criteria: (i) the member's (present, prospective, and potential) balance of payments needs (taking into account all projected balance of payments flows, including reserve accumulation and financing from other

[89] See Decision No. 12865-(02/102), as amended; Decision No. 14064, as amended by Decisions No. 14184, 14284 and 14716, and *Summing Up by the Acting Chair—Access Policy in Capital Account Crises* (IMF, 2002c).

[90] For example, if SBA disbursements are needed for a full three years, it could be an indication of the existence of a protracted balance of payments problem, which would make use of the SCF inappropriate.

sources);[91] (ii) the strength of its program and capacity to repay the Fund (taking into account the member's policy plans, adjustment effort, commitment to implement the program, institutional capacity, track record of policy implementation, and country circumstances such as vulnerabilities, imbalances, and debt sustainability);[92] and (iii) the amount of outstanding Fund credit and the member's record of past use. In the case of precautionary arrangements, the baseline scenario should be presented showing no Fund financing. The potential need that might emerge could be highlighted, for example, by discussing how the most volatile external flows may be affected by exogenous shocks, and/or by presenting alternative scenarios showing the possible sources of need.

108. Access may not exceed the member's present, prospective, and potential balance of payments needs during the program period, and would typically be less than total financing needs, keeping in mind that SCF-supported programs can catalyze financing from donors and creditors. Analogous to an SBA, while an SCF arrangement may be approved on the basis of present, prospective, or potential balance of payments needs (and members may choose to treat the SCF arrangement as precautionary at the time of approval), each individual disbursement requires a representation by the member of the existence of a present balance of payments need, and members will need to make a representation, normally in an LOI, that they are experiencing an actual balance of payments need at the time they request a disbursement under an SCF arrangement. As in the GRA, the Fund will not challenge this representation prior to the disbursement, but will be able to impose a prepayment expectation and take other remedial measures after the disbursement if it were to determine that the disbursement took place in the absence of a present need.[93]

109. When an SCF arrangement is treated as precautionary, members retain and accumulate the rights to request disbursements during the period of the arrangement, provided that the most recent scheduled review (associated with the corresponding availability date) was completed. In contrast to SBA-supported arrangements, the design of an SCF arrangement avoids "blackout periods" by allowing disbursements based on completed reviews, without the need to verify observance of performance criteria whose test dates have passed while the date for the related scheduled review has not yet passed.[94] However, if a review is delayed beyond its scheduled date (or a continuous PC is missed), access rights to the previously accumulated balances are interrupted.

[91] See the Section A for definitions of balance of payments needs.

[92] Sufficient recovery in the balance of payments must be in prospect to provide appropriate assurance that loans can be repaid on schedule without strain.

[93] See Appendix I, Section M for the procedural steps to follow in case a disbursement is requested between reviews.

[94] The broader policy is described in *Reduction of Blackout Periods in GRA Arrangements* (IMF, 2009h), Decision No. 14407-(09/105), as amended, and *Blackout Periods in GRA Arrangements and the Extended Rights to Purchase Policy—A Review* (IMF, 2013a). It applies to all SBA arrangements, including those that are part of a blended SCF-SBA arrangement.

Access norms

110. Access norms apply to access to financing under SCF arrangements (though not in cases of blended financial assistance, see Section D). The access norm is 120 percent of quota per 18-month arrangement for countries with total outstanding IMF credit under all concessional facilities of less than 100 percent of quota, and the norm is 75 percent of quota per arrangement for countries with outstanding concessional credit of between 100 percent of quota and 200 percent of quota. For arrangements with a duration of more than 18 months, the norm is increased proportionally, and for arrangements with a duration of less than 18 months, the norm is decreased proportionally. For countries whose outstanding concessional credit is above 200 percent of quota, the norms do not apply, and access is guided by consideration of the cumulative access limit of 300 percent of quota (450 percent of quota in exceptional cases), the expectation of future need for Fund support, and the repayment schedule.

111. Access norms provide general guidance and represent neither ceilings nor floors (nor entitlements). Access can deviate from the norms if warranted under the standard criteria for determining access (see above). For instance, access may be above the norm in cases where balance of payments needs are noticeably larger than in most other cases of SCF use, e.g., due to a large shock. Access can also be below the norm, for example when the balance of payments need is limited, policy capacity is constrained, or when debt vulnerabilities are high.

Access limits

112. A member's total access under all concessional facilities is subject to "global" annual and cumulative limits. This includes credit outstanding and disbursements under the ECF, SCF, RCF, and ESF. Specifically, total access to financing under the PRGT should normally not exceed 100 percent of quota per year across all concessional facilities. This annual access limit refers to past and future scheduled disbursements in any 12-month period, specifically (i) any actual disbursements under the RCF and past ECF and SCF arrangements at the time they became available (i.e., the date of the Board decision that makes the disbursement available), (ii) any disbursements to date that became available under the current SCF arrangement, irrespective of whether they have been drawn or not, and (iii) any future disbursements under the SCF at the scheduled availability dates. Furthermore, total access to financing under the PRGT should normally not exceed 300 percent of quota cumulatively, net of scheduled repayments. Specifically, this cumulative access limit requires that total outstanding Fund concessional credit (including disbursements that were made available but not drawn in the context of the current arrangement) cannot normally exceed 300 percent of quota at any point in time, based on projected disbursements and repayments.

113. In exceptional circumstances, access above the normal limits can be made available to countries that: (i) experience an exceptionally large balance of payments need that cannot be met within the normal limits (e.g., very large external shocks, very low levels of reserves), (ii) have a comparatively strong adjustment program and ability to repay the Fund—this criterion would generally not be met for countries with a high risk of debt distress or those that are in debt distress as defined under the joint Bank-Fund DSA, unless expected debt relief or restructuring is projected to reduce the risk of debt distress to a moderate level or low level; and (iii) do not meet the income or market access criteria for blending (see above). Exceptional access is subject to hard caps of 150 percent of quota annually and 450 percent of quota on a cumulative basis, net of scheduled repayments (as defined above), across all concessional facilities.

114. In addition to these global limits on access under all facilities under the PRGT, a sub-ceiling on access applies to SCF arrangements that are treated as precautionary. Specifically, if, at the time of approval of an SCF arrangement, there is a potential but no actual balance of payments need, annual access is limited to 75 percent of quota while average annual access (total access divided by the length of the arrangement in years) cannot exceed 50 percent of quota, with the possibility to augment access at a later stage should a larger actual balance of payments need arise.

The phasing of access

115. The phasing of SCF access, determined at the time of approval of the arrangement, should mirror the projected evolution of balance of payments needs over the course of the arrangement and must take into account the applicable annual access limits. Access could be front-loaded (or back-loaded) if warranted based on the strength of the program and/or the time profile of the balance of payments needs. A significant degree of frontloading could be appropriate in exceptional cases involving the repayment of emergency assistance to the Fund or arrangements approved following clearance of overdue obligations to the Fund as part of a broader arrears clearance strategy. Some degree of frontloading could also be appropriate for SCF arrangements that are treated as precautionary.[95]

116. It is standard practice for staff reports to present the balance of payments in a way that, in any given period, scheduled IMF disbursements, together with other exceptional financing items, do not exceed the overall balance of payments deficit (resulting from "autonomous transactions") and the programmed level of reserve accumulation. In this presentation, the balance of payments would be fully financed, at least in the near term, at the time of SCF approval and completion of each review, while residual financing gaps may show in the outer years (see also Section F on financing assurances).

Access under blended financial assistance

117. When financing is blended under an SCF arrangement and an arrangement under the GRA (see Section C on the criteria that create a presumption for blending), total access is determined based on the standard criteria (see above), implying that total access should be comparable across country cases with similar balance of payments needs, program strengths, and outstanding Fund credit, irrespective of whether the Fund's financial assistance comes in the form of blended or PRGT-

[95] For example, access under a two-year SCF arrangement approved in the absence of an actual balance of payments need could provide access of 75 percent of quota during the first year and 25 percent of quota in the second year.

only resources. The above access norms do not apply, and access under blended financial assistance is subject to specific rules:[96]

- Access to the concessional (SCF) component of blended financial assistance is normally half of total access, with access to concessional resources capped at the norm applicable to unblended arrangements (see above).[97] All access above the norm would be met by GRA financing.

- At the time of approval of a new SCF arrangement that involves blended financial assistance from a GRA arrangement, each scheduled disbursement should generally involve both SCF and GRA resources. For GRA resources phasing and performance criteria would only apply to purchases above the first credit tranche. However, the shares of SCF and GRA financing at each disbursement can be determined individually and do not have to remain constant across disbursements.

- In exceptional circumstances when the balance of payments needs are very large (for instance in case of very large shocks or repurchases of GRA emergency assistance), access to the concessional resources under blended financial assistance could reach the annual access limit of 100 percent of quota or possibly the exceptional annual access limit of 150 percent of quota if the criteria for exceptional concessional access are met (including that the country does not meet the income or market access criteria for blending, see above).

Augmentations and reductions of access

118. Access under an SCF arrangement can be augmented to help meet a larger balance of payments need or to support a strengthening of the program. In particular, augmentation of access would often be an appropriate response to increased balance of payments needs in the context of shocks, unless the SCF-supported program is off track, in which case RCF financing could be appropriate (see Section C on concurrent use). Augmentations based on the strengthening of the program could occur, for example, if access was initially constrained by a high risk of debt distress, which has later subsided. Also, when an SCF arrangement period is extended, it could be the case that the extension period involves balance of payments needs that were not originally included in the determination of access for the arrangement, which may provide a justification for augmentation of access. Under the Trade Integration Mechanism (TIM), augmented access not exceeding 10 percent of quota will be available to a member country to compensate for balance of payments shortfalls arising from trade liberalization measures implemented by other countries.[98]

[96] These rules apply "ex ante." In cases where GRA financing is added to support under a pre-existing SCF arrangement, the same presumptions apply as for augmentations of SCF/SBA blends, see below.

[97] For blended SCF arrangements treated as precautionary access to the concessional (SCF) component is capped at the average annual access limit of 50 percent of quota.

[98] See Decision No. 13229-(04/33) and Factsheet: The IMF's Trade Integration Mechanism (TIM).

119. Determination of access for an augmentation is based on the standard access criteria, including balance of payments need and strength of the program (see above). There are no norms applicable to the size of an augmentation, although many augmentations have been in the range of 15–45 percent of quota, with a few cases well above this range. Staff reports supporting requests for augmentations should explicitly discuss the basis for the augmentation and its size, with reference to the main criteria for determining access above, as well as to access norms and limits as applicable.

120. For augmentations of arrangements that are presumed to involve blended PRGT and GRA resources, access should be set such that the total financing mix over the full course of the respective arrangement is guided by the specific rules on access under blended arrangements (see above), including that total access (post augmentation) to concessional financing would normally be half of total overall access to Fund resources with a cap at the norm applicable to unblended arrangements (see above). Augmentations would normally be approved at the time of a scheduled review under the arrangement.

121. However, when the increase in the underlying balance of payments problems is so acute that the augmentation cannot await the next scheduled review, an augmentation can be requested between scheduled reviews. Approval of such augmentations at ad-hoc reviews between scheduled reviews require an assessment by the Fund as Trustee that the program is on track to achieve its objectives at the time of the augmentation (otherwise access under the RCF can be requested). In making this finding the Board assesses the member's observance of the continuous performance criteria or whether a waiver of nonobservance is justified, that prior actions (if applicable to the augmentation request) have been met, and that the member's policies are suitable to address its balance of payments problems and, more generally, are consistent with program objectives. The Board also takes into account any other relevant considerations, including exogenous developments and data on periodic performance criteria linked to future disbursements. The following modalities apply to augmentations at ad hoc reviews:

- Requests are expected to be supported by a short staff report and an LOI from the member that describes the nature and size of the problem, the policies being undertaken by the authorities to address its balance of payments difficulties and any information relevant to program implementation, including exogenous developments.[99] As such requests are expected to typically follow soon after a completed review, updating developments and policies along the lines described above could suffice, with a more comprehensive assessment of policies undertaken at the time of the following scheduled review.

- Augmentations of access are only available to the member in a single disbursement following approval by the Board. There is no limit on the amount of such a disbursement subject to the overall access limits and norms (see above). Moreover, the augmentation is subject to the rules

[99] The staff paper is subject to the regular review process.

on blending and may be supplemented by a corresponding augmentation of the arrangement under the GRA. In any event, the amount of the disbursement is limited to what is immediately needed by the member in light of its balance of payments difficulties; to the extent that additional amounts may be necessary at later stages of the member's program, requests for such amounts can be considered in the context of a regular program review.

- The new disbursement approved at the ad hoc review is subject to observance of the continuous PCs under the arrangement, including the accuracy of information on the implementation of such PCs and of any prior actions established for that disbursement, as well as any other conditions as determined by the Executive Board. It is not subject to periodic performance criteria and other conditions linked to the remaining disbursements under the arrangement. If the scheduled review associated with the most recent availability date preceding the augmentation request has not been completed, an augmentation request cannot be approved at an ad hoc review.

- A member may request an undrawn disbursement made available upon the Board's approval of the requested augmentation until the availability date of the next scheduled disbursement under the arrangement.

- Augmentation requests at ad hoc reviews that do not exceed 25 percent of quota are eligible for approval on a LOT basis. A scheduled review following an ad hoc review to consider an augmentation request is expected to undertake a comprehensive review of policies under the program. In order to allow the Board to undertake such a comprehensive assessment of the member's policies, this review cannot be completed on a LOT basis.

122. The Fund cannot unilaterally reduce access under the SCF. However, although not envisaged, the authorities could request it, for instance, in case of a marked and unexpected improvement in the balance of payments resulting from changes in the external environment.[100]

Procedural safeguards on high access requests—DSAs and informal Board meetings

123. Financing requests are subject to procedural safeguards that apply uniformly across all concessional facilities. These safeguards are aimed at protecting PRGT-eligible members' debt sustainability and the Fund's concessional resources.[101] Specifically, the staff report for any arrangement request or augmentation should provide an up-to-date assessment of the debt vulnerabilities, with an explicit reference to the impact of new borrowing from all sources, including prospective IMF disbursements. In addition:

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[100] In addition, as set forth in the PRGT Instrument, commitments of PRGT resources and any disbursement of such resources are subject to the availability of resources in the PRG Trust, and hence, could result in access reductions in those very specific circumstances (PRGT Instrument, Section II, paragraph 2(g) and paragraph (3)(a)).

[101] See paragraph 87 of IMF (2009e) that updates the procedural safeguards that apply to all concessional financing instruments, elaborated in IMF (2009d).

- A DSA or DSA update is required for any financing request under the PRGT (augmentation or new arrangement) if it (i) involves exceptional access to concessional resources; or (ii) brings total access, i.e. cumulative disbursements, under all concessional facilities to more than 80 percent of quota, based on cumulative past and future scheduled disbursements in any 24-month period, specifically (a) any actual disbursements under the RCF, ECF, ESF, and past SCF arrangements at the time they became available (i.e., the date of the Board decision), (b) any disbursements to date that became available under the current SCF arrangement, irrespective of whether they have been drawn or not, and (c) any future scheduled disbursements under the SCF; or (iii) involves a member country with a high risk of debt distress or in debt distress. A DSA update can be prepared unilaterally by Fund staff drawing on a prior full joint Fund-Bank DSA as long as a joint DSA was prepared recently and the analysis would not result in a change of the risk of debt distress rating.

- An early informal Board meeting is required if a financing request under the PRGT (augmentation or a new arrangement) would (i) involve exceptional access to concessional financing or (ii) bring total access, i.e. cumulative disbursements, under all concessional facilities to more than 180 percent of quota, based on cumulative past and future scheduled disbursements in any 36-month period, specifically (a) any actual disbursements under the RCF, ECF, ESF, and past SCF arrangements at the time they became available (i.e., the date of the Board decision), (b) any disbursements to date that became available under the current SCF arrangement, irrespective of whether they have been drawn or not, and (c) any future scheduled disbursements under the SCF. Information to the Board would typically be in a two to three page note that would include (i) the factors underlying the large balance of payments need, taking into account financing from donors, (ii) a brief summary of the main policy measures and macroeconomic framework, (iii) the expected strength of the program and capacity to repay the Fund, (iv) an analysis of debt vulnerabilities, reflecting all projected debt financing, including from the Fund, (v) a reference to the impact on the Fund's concessional resources (drawing on the latest available paper on concessional resources), (vi) the likely timetable for discussion with the authorities, and (vii) a selected indicators table and, if possible, the standard DSA charts. The meeting should take place before staff reaches understandings, *ad referendum*, with the authorities.

- In addition, staff would provide early notice to the Board, for instance in an informal country matters session, of upcoming arrangement requests or augmentations where the envisaged financing commitment, in absolute terms, would have a large impact on the Fund's overall concessional resources.

- As an exception to these procedures, new financing requests of 10 percent or less of quota do not trigger either the need for a DSA update or a Board briefing.

E. Financing Terms

124. ***Repayments*** of SCF credit are made in nine equal semiannual installments, subject to a four-year grace period from the date of the first disbursement and eight-year final maturity. The authorities may decide to make early reimbursements at any time, but would not be expected to do so.

125. ***Interest*** is paid semiannually. The interest rate on SCF credit is currently set at 0.25 percent,[102] although for the period from January 7, 2010 through December 31, 2014, no interest shall be charged on outstanding balances of SCF credit.[103] Interest rates are subject to biennial Board reviews that take account of developments in world interest rates.[104] At each review, interest rates would normally be adjusted if warranted by the prevailing SDR rate, within a 0.25–0.75 percent range for the SCF. The new interest rate would apply to all outstanding SCF credit. The next such review is scheduled for December 2014.

126. A small ***availability fee*** applies to the precautionary use of SCF financial resources. Specifically, a fee at 0.15 percent per annum is levied on the undrawn portion of the amount available for drawing each six-month period under an SCF arrangement.

F. Financing Assurances, Arrears, and Safeguards

Financing assurances

127. As with any other Fund arrangement, the Fund's policy on financing assurances[105] requires that SCF arrangements can only be approved (and reviews can only be completed) when the program is fully financed. This means that donors and creditors (both official and private) have furnished assurances that they will provide the necessary support (through new loans and/or refinancing) to meet the program financing requirements on terms consistent with the member's return to external viability. Specifically, staff should confirm that there are no unfilled financing gaps over the 12 months immediately following the approval of the arrangement (and completion of each review), and that there is a clear expectation that the program will be fully financed through the remainder of the arrangement period. Assurances should also be given that the member country has the capacity to repay the Fund based on medium-term projections of the balance of payments and, in the case of new arrangements and augmentations, the standardized table on indicators of the capacity to repay the Fund.

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[102] This does not apply to interest on any overdue interest or overdue repayments of PRGT loans, which is charged at a rate equal to the SDR interest rate.

[103] See *Poverty Reduction and Growth Trust Interest Rate Mechanism—Extension of Temporary Interest Rate Waiver* (IMF, 2012i).

[104] See IMF (2009f) for details.

[105] Article V, Section 3(a) of the Fund's *Articles of Agreement*.

Arrears

128. Under the Fund's policy of non-toleration of sovereign arrears to official (multilateral and bilateral) creditors, the Fund generally calls for the resolution of existing arrears to official creditors and non-accumulation of new arrears during the period of the program. Existing arrears need not necessarily be settled immediately—they can be addressed in a number of ways, depending on the type of creditor.[106] Country teams should seek guidance from LEG and SPR on the application of the policy to specific creditors. The macroeconomic program assumptions under the ECF arrangement should be consistent with the expected resolution of existing arrears to official creditors, which implies that the authorities and the staff have common understandings on the timing and modalities of arrears clearance. The assumptions on arrears clearance do not prejudge eventual agreements between the member and official creditors. Staff should have reasonable assurances that arrears clearance understandings are realistic.

129. Arrears to private external creditors are covered by the Fund's Lending into Arrears (LIA) policy.[107] The LIA policy applies to both sovereign arrears to external private creditors and non-sovereign arrears that arise by virtue of the imposition of exchange controls. The Fund can lend, on a case-by-case basis, in a situation of sovereign arrears to private external creditors and only where: (i) prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and (ii) the member is pursuing appropriate policies and is making a good faith effort to reach a collaborative agreement with its private creditors (or to facilitate a collaborative agreement between private debtors and their creditors and good prospects exist for the removal of exchange controls). Whenever the LIA policy applies, each Fund disbursement under an arrangement is subject to a financing assurances review in which the Board considers, inter alia,

[106] The Fund has developed a number of conventions how this policy of non-toleration is applied in practice. First, arrears to multilateral creditors are considered resolved if the program provides for their clearance. The debtor authorities must have a credible plan and projected financing to eliminate arrears, but concurrence of the creditor on this plan is not required. With respect to arrears to the World Bank, upfront clearance of the arrears at the beginning of the Fund-supported program or an agreed plan between the member and the World Bank on terms of clearance over a defined period has generally been required in line with the terms of the 1989 WB-IMF Concordat. Second, arrears to Paris Club official bilateral creditors covered by the anticipated terms of the Club's "Agreed Minute" are deemed resolved for Fund program purposes when financing assurances are received from the Paris Club prior to the approval of a request for use of Fund resources or completion of a review. To the extent that arrears are not rescheduled by the deadline set forth in the Agreed Minute, the arrears are considered to arise anew for Fund program purposes, unless the Fund considers that the member has exercised its best efforts to conclude the rescheduling agreement. Finally, relying on the Paris Club's comparability of treatment principle, the Fund deems that non-Paris Club official bilateral creditors will restructure the member's debt on similar terms as the Paris Club creditors. In cases where there is no formal Paris Club Agreed Minute, tacit approval of an official bilateral creditor has been deemed sufficient to satisfy the Fund's arrears policy. See *Sovereign Debt Restructuring—Recent Developments and Implications for the Fund's Legal and Policy Framework* (IMF, 2013e).

[107] See *Summing Up by the Acting Chairman: Fund Policy on Arrears to Private Creditors—Further Considerations* (IMF, 1999a).

whether adequate safeguards remain in place for further use of Fund resources and whether the member's adjustment efforts are undermined by developments in creditor-debtor relations.[108]

130. SCF-supported programs should also address domestic arrears as part of the overall program design. The specification of policies related to domestic arrears will depend on the country context, in particular, the fiscal framework (see Appendix II).

Overdue obligations to the Fund

131. Where a member is in arrears to the Fund in the GRA, the Special Disbursement Account, or the SDR Department, or to the Fund as Trustee (including the PRGT), a request for IMF financing, including under the SCF, will not be approved and disbursements under an existing arrangement will be suspended (PRGT Instrument, Section II, paragraph 1(e)(3) and 3(g)) until the arrears are cleared.[109] After one month the Managing Director will notify the Executive Board that an obligation is overdue, and in the case of protracted arrears to the Fund (i.e., arrears of more than six months' duration), semiannual reports are to be issued to the Executive Board. The Managing Director may also recommend postponing for up to one-year periods the Executive Board's consideration of a report regarding a member's overdue obligations in exceptional circumstances where the Managing Director judges that there is no basis for an earlier evaluation of the member's cooperation with the Fund. While a member is in arrears to the Fund, policy support can only be provided through surveillance, technical assistance and, under certain circumstances, SMPs.[110] Remedial measures for dealing with PRGT arrears include removal from the list of PRGT-eligible countries, declaration of noncooperation and suspension of technical assistance.

Safeguards assessments policy

132. As a general principle staff should aim to complete a safeguards assessment prior to Executive Board approval of a new SCF arrangement. In any case, a safeguards assessment report should be completed for each new arrangement no later than the first review under the arrangement and for all augmentations for existing arrangements.[111] Once the first review under the program has passed, subsequent staff reports should highlight the status of assessment and, if not completed, reasons for its delay. The safeguards process involves a continuous analysis of information obtained primarily through the collection of documents, and discussions with the authorities and the central bank's external auditors. It entails an evaluation of the central bank's

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[108] Application of the LIA policy has been attenuated in Fund arrangements constituting the track record toward the HIPC Completion Point, and the requirements of good faith efforts has been satisfied by the member communicating with, and ultimately offering, HIPC terms to creditors. For a discussion of the LIA policy see *Sovereign Debt Restructuring—Recent Developments and Implications for the Fund's Legal and Policy Framework* (IMF, 2013e).

[109] See also Appendix II of the PRGT Instrument on the Procedures for Addressing Overdue Financial obligations to the PRGT.

[110] See the *Review of the Fund's Strategy on Overdue Financial Obligations*, Annexes I and II (IMF, 2012f).

[111] See *The Acting Chair's Summing Up on Safeguards Assessments—Review of Experience; The Safeguards Policy—Independent Panel's Advisory Report* (IMF, 2010h).

safeguards framework covering governance, auditing, financial reporting, control systems, and its legal autonomy over the life of an arrangement and for as long as Fund credit remains outstanding. Safeguards assessments recommendations may be incorporated into conditionality or structural measures under the member's program. Close cooperation and coordination between FIN, other functional departments, and area departments is essential for the effective conduct of the safeguards process. It is important for FIN to be kept informed by area departments of safeguards issues, including logistical issues such as the timing of new arrangements and reviews.

G. Program Objectives and Design

Program objectives

133. SCF-supported programs are aimed at achieving, maintaining, or restoring a *stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth* (see definition in Section A).This would involve addressing and typically aiming to resolve the country's macroeconomic imbalances over the course of the arrangement. Specifically, SCF-supported programs should aim to maintain or achieve (i) strong and durable poverty reduction and growth, (ii) low or moderate inflation, (iii) sustainable fiscal and current account balances, (iv) limited debt vulnerabilities, (v) adequate international reserves, and (vi) sufficient policy and institutional capacity to implement appropriate macroeconomic policies.

134. The design of an SCF-supported program should be aligned with the country's own poverty reduction and growth objectives (see further below). Specific policy objectives should be clearly articulated in the LOI/MEFP and associated staff report for a new SCF arrangement and would typically include:[112]

- ***Fiscal policies*,** where (i) the fiscal stance is well anchored to help ensure macroeconomic stability and fiscal/debt sustainability, (ii) revenue and spending policies take due account of the country's growth and social objectives, and (iii) budgets are guided by medium-term fiscal frameworks to the extent possible.

- ***Monetary policies*** that are consistent with inflation, exchange rate, and reserve objectives, while taking due account of cyclical considerations.

- ***Exchange rate policies*** that ensure a unified exchange rate and a real exchange rate level that is broadly in line with fundamentals, ensuring a stable and sustainable external position consistent with adequate growth.

- ***Financial sector policies*** geared toward financial stability and deepening with a view to fostering investment and forestalling financial crises.

[112] For further discussion of Fund program design in LICs, see *The Role of the Fund in Low-Income Countries*, (IMF, 2008b) and *Aid Inflows—The Role of the Fund and Operational Issues for Program Design* (IMF, 2007a).

- ***Public financial management*** reforms aimed at ensuring that resources are tracked, reported, and targeted appropriately (including by providing adequate resources for social and other priority spending), public debt management aimed at supporting debt sustainability, and revenue reforms aimed at broadening the revenue base, and enhancing tax efficiencies.

- ***Other structural reforms*** that are critical for achieving the program's macroeconomic objectives.

Role of SCF financial support

135. The **balance of payments support** under SCF arrangements can assist countries in smoothing the adjustment process toward a stable and sustainable macroeconomic position.[113] The Fund's financial support can be used both to strengthen the international reserve position of the member country and to provide liquidity for making external payments. By relaxing external financing constraints, the SCF's balance of payments support in effect also loosens domestic liquidity constraints of both the public and private sectors. Specifically Fund financing reduces the need for retrenchment in the public and private savings-investment balances, thus enhancing policy options (allowing less contractionary fiscal, monetary, and exchange rate policies) and cushioning private sector adjustment (e.g., investment and import declines). The appropriate mix of financing and public/private adjustment is determined on a case-by-case basis.

136. A member may use the domestic counterpart of resources received under an SCF arrangement to finance, directly or indirectly, the budget deficit of the government. Such budget financing is consistent with the Fund's legal framework to the extent that the member has balance of payment problems and is implementing a program that will assist it in resolving such problems. *Direct* budget support[114] may be appropriate when (i) the program is designed in a manner that envisages that the entire amount of the Fund's financial support is used to meet a present or prospective balance of payments need, (ii) loosening fiscal financing constraints is an important macroeconomic objective under the program, and (iii) the central bank cannot or should not (for legal or institutional reasons) lend to the government while the domestic financial sector is too

[113] Consistent with the Fund's unique role in LICs, it can provide moderate levels of liquidity support to help address macroeconomic imbalances, while the bulk of financial assistance is normally expected to come from donors. Fund financial support, while concessional and aimed at similar long-term goals, is distinct from development assistance provided by others (often on more concessional terms) as it provides inter-temporal smoothing of adjustment rather than a permanent resource transfer. Fund lending to LICs is generally expected to catalyze such donor support, leveraging the Fund's scarce subsidy resources. See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e) and *The Fund's Facilities and Financing Framework for Low-Income Countries* (IMF, 2009b).

[114] Direct budget support refers to cases where disbursements of Fund resources are channeled to the member through the country's treasury at the request of the member. By contrast, indirect budget support can be (and is very often) provided when the Fund makes disbursements available to the member but channeled through the central bank and these help relax domestic financing constraints for the public sector as part of the broader macroeconomic program. A special case of budget financing is Fund financial support to members of a monetary union. For example, in the CFA franc zone, the regional central bank unconditionally provides credit in the (domestic currency equivalent) amount of Fund support to the relevant government. See *Staff Guidance Note on the Use of Fund Resources for Budget Support* (IMF, 2010f).

shallow (or not stable enough) to provide the necessary budget financing (or the central bank plays a largely passive domestic policy role, for instance under a currency board or in a fully dollarized economy). In these cases, staff reports should justify the use of the domestic counterpart of resources as for budget financing where relevant and discuss safeguards implications.[115]

Links to poverty reduction strategies and social spending

137. SCF-supported programs should be aligned with the country's own poverty reduction and growth objectives. The following specific guidance applies to PRS linkages:[116]

- Any financing request or program review under the SCF must be accompanied by a statement, normally in the LOI or MEFP, of how the program advances the country's poverty reduction and growth objectives. It is expected that the description would be more detailed at the time of the initial program request or when a new PRSP (or I-PRSP) is produced.[117] In cases where a relevant PRS document exists, this description in the LOI/MEFP could cross-reference to the PRS document.

- If a PRS document exists, the SCF-supported program should be consistent with the objectives of the PRS in the context of promoting a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

- In cases where a relevant PRS document[118] does not exist, the SCF documentation (e.g., in an attachment to the LOI or MEFP) should outline the country's medium-term poverty reduction and growth objectives and policies. Subsequent program documents should refer to this documentation and update it as necessary.

- PRS documents are not required for the approval or review of an SCF arrangement, consistent with its short-term focus. Nonetheless, whenever a future PSI- or ECF-supported program is under consideration, staff should inform the authorities at an early stage about the relevant definitions and timelines for PRS documentation requirements (Appendix V) to ensure adequate time for the PRS process.

- More generally, PRS documents should normally be produced by the country authorities on a 12-month cycle and aligned with other domestic policy cycles. Staff are required to prepare a JSAN for PRSPs and I-PRSPs and circulate it to the Executive Board for information or discussion,

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[115] See *The Acting Chair's Summing Up on Safeguards Assessments—Review of Experience; The Safeguards Policy—Independent Panel's Advisory Report* (IMF, 2010h) and *Safeguards Assessments—Review of Experience* (IMF, 2010g).

[116] See Appendix IV for detailed guidance on poverty reduction objectives and related documents.

[117] See Appendix V for a definition of an I-PRSP.

[118] A PRS document refers to a PRSP, PRSP Preparation Status Report, I-PRSP, and APR as defined in the PRGT-HIPC Trust Instrument (Annex to Decision No. 11436-(97/10), as amended). See Appendix Box 1 of Appendix V for a description of various PRS documents.

generally within four months of the transmission of the PRSP and I-PRSP. For APRs, it is good practice to provide feedback in the context of an AFP. In case of significant weaknesses in the PRS, including those identified in the JSAN or through the AFP, program staff reports should report how these weaknesses are being addressed.

138. Social and other priority spending should be safeguarded and, whenever appropriate, increased under SCF-supported programs. This should be monitored through explicit program targets, typically an indicative floor on social and other priority spending, whenever possible. The definition of what constitutes social or other priority spending should be consistent with the authorities' poverty reduction and growth objectives. In cases where tracking of such expenditures is not feasible, the program documentation should report on which measures are envisaged to develop an adequate tracking system. Staff should monitor progress in establishing these tracking systems, and the program may include relevant structural benchmarks if appropriate.

Debt sustainability analysis (DSA)

139. SCF-supported programs should be underpinned by a thorough DSA to inform the elaboration of medium-term debt strategies and fiscal frameworks. Country teams should engage with the authorities in the preparation of DSAs, discuss the results, and share the final files with the relevant officials. DSAs for most LICs are usually prepared jointly with the World Bank, and country teams should also involve other relevant MDBs in the preparation of DSAs. Joint DSAs are required for PRGT-eligible IDA-only countries; for LICs that are not IDA-only, close consultation with the Bank is recommended.

140. A fully elaborated DSA is required at least once every three years, with shorter annual updates in the interim years possible in the absence of significant changes in the macroeconomic and financial environment. Full DSAs should be prepared in periods of heightened domestic, external, or global risk. The precise timing of a DSA may be driven by program requirements. In particular, the design of debt limits under an SCF arrangement is systematically related to the assessment of countries' debt vulnerabilities (see Appendix II). Also, as discussed above, the determination of access to the Fund's concessional resources needs to take account of the country's debt vulnerabilities based on the most recent DSA, and a DSA (or DSA update) may need to be prepared for higher access financing requests (augmentation or new arrangement). In cases where a DSA is required outside the regular joint Bank-Fund DSA cycle, a DSA update may be prepared unilaterally by Fund staff drawing on a prior full joint Fund-Bank DSA as long as a joint DSA was prepared recently and the analysis would not result in a change of the risk of debt distress rating.

141. DSAs for LICs should be presented as self-contained documents (see Appendix I). They should normally be prepared using the LIC Debt Sustainability Framework (DSF), although for countries with durable and substantial access to market financing, the template designed for middle-income countries can be used instead. The analysis includes three components:[119]

- A forward-looking analysis (20-year projection) of debt and debt-service dynamics under a baseline scenario, alternative scenarios, and standardized stress tests;
- An explicit assessment of the risk of external debt distress (low, moderate, high, or in debt distress) based on indicative country-specific debt-burden thresholds that depend on the quality of policies and institutions in the country; and
- Recommendations on a borrowing (and lending) strategy to limit the risk of debt distress, while maximizing the resource envelope to achieve the country's development objectives.

Collaboration with the World Bank and other development partners

142. Fund staff should consult closely with all major development partners active in the country when designing and monitoring a SCF-supported program. In addition to this routine collaboration, the JMAP[120] approved by the Boards of the World Bank and IMF calls on Bank and Fund country teams to consult with each other at least once a year in order to identify the country's key macroeconomic and structural reform challenges and coordinate work plans in support of addressing these challenges (see Appendix I).

H. Conditionality

Conditionality principles

143. Conditionality, i.e., the set of program-related conditions, under an SCF arrangement is intended to ensure that Fund resources are provided in support of meeting the program's objectives, with adequate safeguards to the Fund's resources. Consistent with the Fund's *Guidelines on Conditionality*,[121] conditions will normally consist of macroeconomic variables and structural measures that are reasonably within the member's direct or indirect control and that are, generally, either (i) of critical importance for achieving the goals of the program or for monitoring program implementation, or (ii) necessary for the implementation of specific provisions of the IMF Articles of Agreement or policies adopted under them. In some cases, conditions may be outside the Fund's core areas of expertise, in which case a more detailed explanation of their critical importance is required.

[119] For details on the use of the DSF, see *Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries* (IMF, 2013g).

[120] See *Enhancing Collaboration—Joint Management Action Plan* (IMF, 2007c) and *Implementation of the Joint Management Action Plan on Bank-Fund Collaboration* (IMF, 2010d).

[121] See *Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines: Revised January 25, 2010* (IMF, 2010b) and *Revised Staff Statement on Principles Underlying the Guidelines on Conditionality and Operational Guidance Note on the 2002 Conditionality Guidelines* (IMF, 2006a).

144. SCF-supported programs must meet the UCT conditionality standard, which requires the commitment and capacity by the authorities to implement a set of policies that is adequate to correct external imbalances and enable repayment to the Fund. The appropriate adjustment path would be determined on the basis of the country's economic circumstances and objectives, policy constraints, and the severity of the balance of payments needs. The adjustment effort required to attain full sustainability would not be expected to extend much beyond the expiration date of the SCF arrangement, and would often fall fully within the arrangement period. In any case, conditionality should be limited to those policies that are critical to achieving the part of the overall adjustment process that is covered by the arrangement. Given its focus on restoring sustainability in the short term, the SCF will generally permit less flexibility than the ECF in the timing of these measures.

Specification of program conditions

145. Program conditionality will include quantitative periodic and continuous PCs, and typically also quantitative and structural benchmarks, as well as prior actions if necessary (see Appendix II for detailed guidance on quantitative conditions). Conditionality is set at the time of approval of the arrangement and updated at the time of program reviews. Conditionality should normally be set (or modified) by the Board before the test date. For the establishment (or modification) of post-dated PCs, the program documents would have to be signed and circulated to the Board along with the staff report before the test date, and no information on implementation of the so established conditionality would be available at the time of the Board meeting.

146. Prior actions are measures that a member is expected to adopt prior to the Fund's approval of an SCF arrangement, completion of a review, or the granting of a waiver with respect to a PC, when it is critical for the successful implementation of the program that such actions be taken to underpin the upfront implementation of important measures. Prior actions are to be applied parsimoniously and specified in clear, objective, and unambiguous terms. Prior actions should in principle be implemented at least five working days before the Board discussion. They should be defined in the LOI/MEFP and cross-referenced in the relevant Board Decision.

147. Quantitative PCs would normally be set on a semi-annual basis and tied to semi-annual program reviews, while quantitative benchmarks (also referred to as indicative targets) would normally be specified on a quarterly basis. Where closer monitoring or more flexibility in tailoring of reviews to country circumstances is needed, quantitative PCs and reviews could be set flexibly with the conditions that they be scheduled no more than six months apart (see below) and that each review is associated with a set of performance criteria and a disbursement. This flexibility in setting the specific test dates relative to three- or six-monthly cycles could, for example, be used to align monitoring with national budget/reporting cycles. It is expected that the overwhelming majority of cases will follow the standard semi-annual or quarterly review schedule. Conditionality should cover the 12 months following the Board meeting (initial approval or review). PCs would therefore normally be established for two future test dates at the time of approval of the arrangement and at each review (except for the penultimate and final reviews) under semiannual monitoring. Similarly, under quarterly monitoring, PCs should normally be set for four future test dates, and in any case not less than for two future test dates.

148. Quantitative periodic PCs typically include measures of net international reserves, central bank domestic assets, domestic and fiscal balances or financing, and any other macro-critical indicators. In most cases, there is also a limit on nonconcessional external debt, which could be set as a periodic or continuous PC.[122] PCs are usually subject to program adjustors that reflect deviations from projected external flows. Indicative targets should include a floor on social and other priority spending where possible, and may include other indicators such as reserve money.

149. Continuous PCs always include, inter alia, commitments related to non-introduction or intensification of certain exchange restrictions and on non-introduction or modification of multiple currency practices. Other continuous PCs typically include the non-accumulation of external payments arrears and may include the non-contracting of nonconcessional external debt. See Appendix II, Section G, for details.

150. SCF arrangements should cover structural reforms that are deemed to be critical for achieving a stable and sustainable macroeconomic position in the short term. Structural benchmarks are critical measures that are intended to serve as clear markers in the assessment of progress in the implementation of critical structural reforms in the context of a program review. Structural benchmarks should be used as parsimoniously as possible, and their macro-criticality explicitly justified in program documents, ideally in the structural benchmark table. Reviews are the primary tool for monitoring performance on the structural elements of the program, by judging progress relative to the relevant objectives.[123] Specific objectives should be defined for periods covered by individual reviews, with related structural benchmarks that are critical for achieving the program's objectives. The appropriate number of structural benchmarks depends on a variety of country-specific factors, including the centrality of structural reforms for achieving the program's objectives and country capacity; SCF arrangements would typically contain less than 5 structural benchmarks per semiannual review. The use of structural PCs was discontinued in 2009.

151. Any structural benchmark that is significantly delayed can be re-dated and re-linked to the next program review, if the benchmark remains macro-critical to the program. If it seems that implementing a structural benchmark is no longer possible as defined under the program (say, due to a change in the authorities' reform plans or other changes in circumstances), a new benchmark or a modified version of the original one may be appropriate as long as it is critical to achieve program goals.

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[122] See Appendix II, Section E. The debt limits policy was reformed in 2009 to allow more flexibility and tailor it better to country circumstances. See *Debt Limits in Fund Supported Programs—Proposed New Guidelines* (IMF, 2009g) and *Staff Guidance Note on Debt Limits in Fund- Supported Programs* (IMF, 2009l).

[123] See Decision No. 14280-(09/29) and *GRA Lending Toolkit and Conditionality—Reform Proposals* (IMF, 2009c).

Waivers and modifications

152. A **waiver for non-observance** of a PC may be granted if the Fund is satisfied that the program will nevertheless be successfully implemented—i.e., that it will achieve its goals— either because of the minor or temporary nature of the nonobservance or because of remedial actions taken by the authorities to preserve program objectives. Upon verification that a PC was not met, a request for a waiver of its nonobservance can be made by the member in the LOI. If staff supports the granting of the waiver, relevant justification would be provided in the staff report, which will also include a proposed decision on the waiver. Waivers for nonobservance are only required for quantitative PCs that are tied to the specific disbursement and to the review that is being completed (and for any standard continuous PC that has been missed). Waivers for PCs that are tied to subsequent disbursements and reviews are not required even if information on nonobservance already exists. In these cases, however, the staff report and LOI/MEFP would need to provide assurances that understandings on appropriate policies have been reached to complete the subsequent review, even though relevant PCs will need to be waived when that review is concluded.

153. **Waivers of applicability** could in principle be granted if the Fund is satisfied that, notwithstanding the unavailability of the information necessary to assess observance of a PC, the program will be successfully implemented and there is no clear evidence that the PC has not been met. However, in the case of the SCF, waivers of applicability would be highly unusual. Unlike purchases under the SBA, each SCF disbursement is linked to specific PC test dates and to a specific review, and thus the disbursement is not blocked—and there is consequently no need for a waiver of applicability—when a new test date passes and information on performance under it is unavailable, because such test date is linked to a future disbursement and review. While in theory a waiver of applicability could be granted for a PC at a test date linked to the current review, this would raise serious questions about the country's capacity to provide timely data as reviews under the SCF should generally be scheduled with sufficient time to monitor the data relevant for the applicable test dates. In arrangements with blended financing, waivers of applicability will be required for the GRA-financed arrangement if the review is being conducted after the most recent test date has passed and data are not yet available. Additionally, with respect to the GRA financial arrangement, the member may purchase any amount available based on earlier completed reviews if the purchase is requested within 45 days of the most recent test date and all the conditions specified in paragraph 2 of the Reduction of Blackout Periods in GRA arrangements decision (Decision No. 14407-(09/105)).

154. **Modifications** to program conditionality that has already been set by the Board may be appropriate when departures from PCs are expected to occur, for instance when basic program assumptions have not been realized or significant developments have occurred that had not been anticipated when the PCs were set, provided that the targets remain macro-critical. Requests for such modifications must be submitted to the Board before the relevant test date has been passed, and must be approved by the Board before information on the observance of the PC is available, normally in the context of a program review. In exceptional cases, modifications of conditionality can be approved by the Board outside the context of a program review, provided the authorities and staff have common understandings on appropriate policies through the next review, as documented in a revised or new LOI with an updated PC table and, where relevant, TMU. This could be appropriate if the original targets are no longer appropriate due to developments beyond the authorities' control (including staff errors). Board approval would require a staff report that discusses the reasons for the modification, including why it is proposed outside the review context, the status of the program, and relevant policy understandings.

Misreporting[124]

155. Misreporting occurs when members with a Fund-supported program obtain resources on the basis of inaccurate information regarding observance of quantitative or continuous PCs or prior actions (a "noncomplying disbursement"). Under the SCF arrangement, a noncomplying disbursement occurs when (i) the Fund makes a disbursement on the basis of a finding that applicable conditions established for that disbursement (which include the accuracy of the information on PCs for which waivers have been requested) have been observed and (ii) that finding later proves to be incorrect. Upon evidence that a member may have received a noncomplying disbursement, the Managing Director shall inform the member promptly. After consultation with the member, if the Managing Director determines that the member did receive a noncomplying disbursement, the Managing Director shall promptly notify the member and submit a report to the Executive Board with recommendations. The Board may decide either (a) that the member shall be expected to repurchase/repay the disbursed amount, or (b) that the nonobservance will be waived. Waivers will normally be granted only when the deviation from the relevant PC or other condition was minor or temporary, or if the member had adopted additional measures appropriate to achieve the objectives supported by the relevant decision on the disbursement.

156. Whenever the Executive Board finds that the noncomplying disbursement has been made but that the nonobservance of the relevant PC or other specified condition was also *de minimis* misreporting; i.e., when a deviation from a PC would be so small as to be trivial with no impact on the assessment of performance under the relevant member's program, a waiver for nonobservance shall be granted by the Executive Board.[125] *De minimis* misreporting will not be published in a staff report.

I. Reviews and Disbursements

Purpose of program reviews

157. Program reviews evaluate whether the program is on track to achieve its objectives. This evaluation is based on a backward-looking assessment—taking into account performance against

[124] Misreporting in the context of financial assistance under the PRGT does not trigger the application of Article VIII, Section 5 regarding members' obligations on data provision for Fund's activities.

[125] For more details on misreporting, see Appendix I of the PRGT Instrument and (Decision No. 14354-(09/79)). Also, see *Making the Misreporting Policies Less Onerous in De Minimis Cases* (IMF, 2006e).

quantitative PCs, structural and quantitative benchmarks, and prior actions—and a forward-looking assessment of the prospects for successful program implementation, in particular whether policy capacity and commitments are adequate to achieve the program's objectives. At the time of the consideration of the final review under an SCF arrangement, and assuming no further program support from the Fund is expected, the scope of the forward-looking assessment could be more limited than for previous reviews.

158. Reviews also update the program design, in particular by specifying forward-looking policies and conditionality, and are the main vehicle for any potential modifications to program design—such as changes in access, phasing, and conditionality—as may be necessary to achieve the program's objectives in changing circumstances. At the time of approval and for each review, the authorities' LOI presents or updates their policy program, and a staff report provides an overall assessment of performance and policy commitments.

Timing of reviews, test dates, and disbursements

159. The timing of all reviews, test dates, and disbursements is summarized in a staff report table at the time of approval of an SCF arrangement and updated as needed at the time of reviews. Moreover, the Arrangement text attached to the staff report for the initial SCF request specifies the test dates, reviews, availability dates, and disbursements for the first year of the arrangement. The quantitative indicator table ("PC table") attached to the LOI/MEFP should clearly identify PCs, indicative targets, and adjustors for at least a 12-month period from the Board date of the program approval or review, as indicated above. Similarly, the structural benchmark table should cover measures over at least a 12-month period, clearly indicating the reviews that individual benchmarks are linked to. The Decision attached to the staff report should specify all PCs and review/availability dates normally over the next 12 months from the Board date of the program approval/review. The first disbursement is made available upon approval of the arrangement, and subsequent disbursements will be conditional on observance of PCs and a program review that confirms satisfactory progress in implementing the economic program and adequate safeguards continue to be in place.

160. Disbursements and reviews under an SCF arrangement are expected to normally be semiannual, or quarterly in cases where closer monitoring is needed, for instance in the context of significant volatility and/or uncertainty. When designing the schedule of test dates, careful consideration should be given to alignment with the country's budget cycle. There is flexibility in setting the specific review dates and test dates with the condition that they be scheduled no more than six months apart. This flexibility could be used, for example, to align monitoring with national budget/reporting cycles. It is also possible to shift between semiannual reviews and higher frequencies of phasing during the course of an arrangement, for example, if deemed useful in the context changes in the external environment other country-specific circumstances. Such shifts could also be scheduled at the time of approval of a new SCF arrangement if warranted based on the projected risk profile over time.

161. The test dates for PCs must be set such that all scheduled disbursements can take place before the end of the SCF arrangement, taking into account reporting lags and preparation and circulation periods for staff reports. Similarly, the availability dates for disbursements should be set such that all data needed to confirm observance of PCs at the related test dates would have become available. Availability dates are specified in the Arrangement text and subsequent Decisions, and are summarized in the staff report table on the schedule of disbursements. Reviews cannot be completed prior to the applicable availability date.

162. The program period supported by an SCF arrangement would typically start somewhat before the Board approves the SCF arrangement,[126] and three to six months before the first test date under semi-annual monitoring. The program period should normally not start more than three months prior to the Board meeting, and in any case not before the authorities and staff have discussed the parameters of the program.

163. In contrast to SBAs, the design of an SCF arrangement typically avoids "blackout periods" because each disbursement is linked to the completion of a specific review and to the observance of specific periodic performance criteria, and thus a disbursement is not blocked—and there is consequently no need for a waiver of applicability upon data unavailability—when when a new test date passes, because such new test date applies to a future disbursement subject to completion of a future scheduled review.[127] [128]

Addressing interruptions in program implementation: track records, combined reviews, and rephasing

164. The implementation of SCF-supported programs may encounter interruptions and delays. If these are caused by substantial policy slippages, it is often appropriate to establish a ***track record*** before completing the review. As discussed in more detail in Appendix III, a track record could be informal (based on informally agreed time-bound policy actions and targets) or monitored more formally under an SMP, or, in case of urgent financing needs caused by an exogenous shock, the RCF (assuming the applicable policy commitments are in place). In some cases, bringing the program back on track may also require modification to the planned timing of disbursements and reviews. Such delays and interruptions can sometimes be addressed through extensions of the arrangement (see above), combining reviews, rephasing of access, or some combination of the three.

[126] See *Relationship Between Performance Criteria and Phasing of Purchases Under Fund Arrangements—Operational Guidelines* (Decision No. 7925-(85/38), as amended).

[127] The broader policy is described in *Reduction of Blackout Periods in GRA Arrangements* (IMF, 2009h) and *Blackout Periods in GRA Arrangements and the Extended Rights to Purchase Policy—A Review* (IMF, 2013a). It applies to all SBAs, including those that involve blending with SCF financing.

[128] However, as noted above, previously approved disbursements may still be blocked once a scheduled review date has passed (or if a continuous PC has not been met).

165. Under certain circumstances, two ***reviews can be combined*** when delays in program implementation have occurred and performance can be assessed against two test dates that were linked to successive reviews. Combining three or more reviews, while theoretically possible, would be very unusual as PCs are typically not defined for more than two future test dates under semiannual monitoring and because long-lasting deviations from program objectives would often justify cancellation of the arrangement. Combining reviews is only possible if: (i) the conditionality has been fully defined, including through applicable PCs, for these reviews and approved by the Board; (ii) data are available for measuring observance of conditionality for the reviews; and (iii) the anticipated dates for conclusion of the reviews in the text of the arrangement have all passed. Typically, reviews are combined when the program is on track with respect to the most recent review and sufficient corrective action had been taken to offset any problems with observance of the conditions for earlier reviews. By contrast, where slippages relative to the objectives and conditionality for the most recent review are significant, it would not be appropriate to combine reviews. In such circumstances, the authorities could request cancellation of the arrangement and discussion of a support under a new instrument once conditions for such support are appropriate. Alternatively, in cases where performance relative to the objectives and conditionality for the earlier review was broadly satisfactory (or slippage has been addressed through sufficient corrective action) and program objectives can still be obtained through modifications of the program, this past review could be completed, while a new, future test date and conditionality should be established for the next review, typically combined with rephasing of access over the remainder of the arrangement.

166. Disbursements under an SCF arrangement may be ***rephased*** to change the amounts of financing provided under individual disbursements associated with specified reviews and/or change the number or timing of disbursements and reviews. If delays in program implementation cannot be accommodated by extensions or combining reviews alone, the total amount of access under the arrangement can be rephased into a new pattern of test dates and reviews, generally only after making full use of the maximum possible extension. Access should never be rephased in a manner that would make it impossible for the member to get the full, undisbursed amount under the arrangement. If delays in program implementation have been substantial and rephasing would involve compressing a very large amount of access into a short period of time (even with a potential extension of the arrangement period), it would normally be appropriate to let the current arrangement expire, or for the member to cancel it, and to proceed to a new SCF arrangement with more attainable goals, unless there has been a very sharp turnaround in performance.

J. Other Relevant Policies

167. A number of additional modalities and policy requirements apply to the SCF, including the following:

- ***EPAs.*** Access to resources under SCF arrangements counts toward the policy on LTPE, except if the arrangement was treated in its entirety as precautionary and no disbursements were made.[129] Members that have had a UCT arrangement in place for at least seven out of the past ten years, and for whom an EPA has not been prepared in the past five years, an EPA should be prepared in time to be considered by the Board *prior* to a request for a new arrangement.[130]

- ***PPM.*** Outstanding SCF credit will be subject to PPM.[131] Normally, members with outstanding credit from the Fund in the GRA and/or PRGT exceeding 200 percent of quota after the expiry of their arrangements are expected, upon the recommendation of the Managing Director, to engage with the Fund in PPM of their economic developments and policies (unless the member is implementing a Fund-supported program or SMP).

- ***Article IV cycle.*** The 24-month cycle for Article IV consultations applies to members with an SCF arrangement.[132] Specifically, Article IV consultations with members that have an on-track SCF arrangement in place would be expected to be completed within 24 months after the completion of the previous Article IV consultation. In cases where a program review is not completed by the date for completion specified in the arrangement, the next Article IV consultation would be expected to be completed by the later of (i) six months after the scheduled review date and (ii) 12 months, plus a grace period of three months after the previous Article IV consultation, *unless* the program review has been completed prior to the later of these two dates, in which case the 24-month cycle continues to apply. A member that has completed an SCF by drawing all amounts may remain on the 24-month cycle, if it does not meet any of the criteria specified in paragraph 2 of Decision No. 14747-(10/96): (i) the member is of systemic or regional importance; (ii) the member is perceived to be at risk, or is facing pressing policy issues of broad interest to the Fund membership; or (iii) the member has outstanding Fund credit exceeding 200 percent of quota. At the time of the final review under the arrangement, staff should assess whether the consultation cycle should be shortened back to 12 months, based on the criteria mentioned above. When this is the case, the staff report for the final review should seek the Board's approval of such shortening.[133] Where the arrangement is cancelled by the member or expires with undrawn amounts, the member will remain on the existing cycle, unless the Executive Board determines, based on the above criteria that a different cycle will apply.

- ***Exchange System obligations under Articles VIII and XIV and Data Provision under Article VIII, Section 5.*** Requirements under Article VIII Sections 2, 3, 4, and Article XIV are discussed in

[129] Fund financial arrangements that qualify for the definition of LTPE are those drawing on upper credit tranche GRA or PRGT resources, or any blend of the two. For a complete discussion of LTPE, see *The Acting Chair's Summing Up Review of Ex Post Assessments and Issues Related to the Policy on Longer-Term Program Engagement* (IMF, 2006c); *Review of Ex Post Assessments and Issues Relating to the Policy on Longer-Term Engagement* (IMF, 2006b); and *Ex Post Assessments of Members with a Longer-Term Program Engagement—Revised Guidance Note* (IMF, 2010c).

[130] See Appendix I for more details on documentation and review of EPAs.

[131] See *Extension of Post-Program Monitoring to Cover the Use of PRGF Resources* (IMF, 2005), *Guidance Note on the Implementation of Post-Program Monitoring* (IMF, 2010e) and Decision No. 13454-(05/26)**,** as amended.

[132] See Decision No. 14747-(10/96).

[133] See the IMF (2009j).

Article VIII Acceptance by IMF Members—Recent Trends and Implications for the Fund (IMF, 2006d). A standard continuous PC applies, inter alia, to the non-introduction or intensification of exchange restrictions and on the non-introduction or modification of multiple currency practices (see Appendix II, Section G). Article VIII, Section 5 of the Fund's Articles of Agreement does not apply to the provision of information that is required for the purposes of Fund financial assistance under the SCF.[134]

- ***HIPC and MDRI.*** Performance under an SCF arrangement can count toward a track record of strong policy performance under Fund-supported programs required for the HIPC decision point and completion point.[135] The minimum required track record for the decision point is six months and one year for the completion point.

- ***Side letters.*** The use of side letters in LIC programs has been extremely rare. Side letters may be used when release of information on policy understandings at the time of a program request or review would cause adverse market reaction or undermine the authorities' efforts to prepare the domestic groundwork for a measure.[136]

[134] PRGT resources are held in an administered account and the obligations of a member using such resources are not governed by the Fund's Articles (Article V, Section 2(b)). The obligations of a member using PRGT resources are governed exclusively by the terms of the PRGT Instrument, which are incorporated by an explicit reference into the terms of each SCF arrangement. Accordingly, for the purposes of an SCF arrangement, the Fund cannot require a member to provide the Fund with information for the purposes of Article VIII, Section 5, and the failure of a member to provide information for the purposes of an SCF arrangement cannot give rise to the application of sanctions under Article XXVI, Section 2, as it is not a breach of obligation under the Articles of Agreement.

[135] See Appendix IV for details on the HIPC Initiative and MDRI.

[136] For the Fund's policy on side letters, see Decision No. 12067-(99/108).

CONTENTS

CHAPTER III—RAPID CREDIT FACILITY

The RCF provides low-access concessional financing with limited conditionality to LICs facing an urgent balance of payments need.[137]

A. Objectives and Qualification

Purpose and objective

168. The RCF provides rapid concessional financial assistance as outright disbursements to LICs facing urgent balance of payments needs. These financing needs include those caused by exogenous shocks, natural disasters, and emergence from conflict, as well as other factors such as domestic instability, emergencies, and fragility. The RCF is designed for situations where a multi-year UCT-quality Fund-supported program is either not necessary (e.g., due to the transitory nature of the adjustment need and the financing) or not feasible (e.g., due to the member's limited capacity, including in post-conflict, disaster, or other fragile situations or when more time is needed to design a multiyear program). In the latter case, the member country would typically be expected to make efforts to move to a UCT-quality program (typically supported under the ECF), in which case repeated use of the RCF may be warranted under certain circumstances and subject to certain limitations under the legal framework of the PRGT Instrument.

169. The purpose of RCF support is to meet urgent balance of payments needs of eligible member countries and assist them in implementing economic policies aimed at moving toward achieving or restoring a ***stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth***. Such a position would be characterized by the absence of a present or prospective balance of payments need and by the domestic and external stability that is necessary to support strong and durable poverty reduction and growth. It would typically be associated with sustainable fiscal and current account balances, limited debt vulnerabilities, adequate international reserves, and sufficient policy and institutional capacity to implement appropriate macroeconomic policies. This position might still involve significant levels of donor assistance, though aid dependence would be expected to decline over time.

170. Similar to other Fund instruments, RCF financing assists countries in addressing their balance of payments difficulties by providing temporary financial support (in this case, on a concessional basis) to smooth economic adjustment and avoid excess volatility. By meeting urgent balance of payments needs, RCF support can help replenish international reserves and loosen financing constraints for both the public and private sectors as the country aims to address its balance of payments difficulties. The RCF is also expected to provide policy support and catalyze additional financing from donors.

[137] The RCF became effective on January 7, 2010, as part of a comprehensive reform of the IMF's facilities for LICs. See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e and 2009f) and Decision No. 14354-(09/79).

Eligibility and qualification

171. Assistance under the RCF is available to PRGT-eligible member countries[138] that face urgent balance of payments needs *unless* (i) the balance of payments difficulties that underlie the financing need are predominantly caused by a withdrawal in financial support by donors or (ii) a UCT-quality program is both feasible and necessary. In this context:

- An ***urgent balance of payments need*** is characterized by a present balance of payments need[139] that, if not addressed, would result in immediate and severe economic disruption. Non-urgent financing needs could be met by the ECF or SCF, assuming relevant qualification requirements are met, including the commitment and capacity to implement a UCT-quality program (see below).

- The RCF can only be used if it is ***either not feasible or not necessary to implement a Fund-supported program with a UCT-conditionality standard***; i.e. a program with the commitment and capacity by the authorities to implement a set of policies that is adequate to correct external imbalances and enable repayment to the Fund within the specified maturity period. Specifically, a member would normally only qualify for the RCF if either (i) the balance of payments need is expected to be resolved within one year and no major policy adjustments are necessary to address underlying balance of payments difficulties (as may be the case with some temporary shocks, but not for a country also facing a *protracted balance of payments problem*[140]); or (ii) a UCT-quality Fund-supported program cannot be put in place owing to limited policy implementation capacity or when the urgency of the balance of payments need calls for financial assistance before a UCT-quality program can be put in place (or, where relevant, be brought back on track). In the latter case, the RCF can be used to build a track record for moving to a UCT-quality arrangement.

172. Qualification also requires several ***ex ante policy undertakings***. The member would need to outline, in a LOI, the policies it plans to pursue, and set out any additional understandings to

[138] The PRGT eligibility framework is discussed in *Eligibility to Use the Fund's Facilities for Concessional Financing* (IMF (2009k, 2012b, and 2013c)). See Appendix VI for a list of PRGT-eligible countries as of July 2013.

[139] A balance of payments need can arise because of a member's balance of payments deficit, reserve position, and developments in reserves. The need can be *present* (a need that exists in the current period), *prospective* (i.e., a need that is expected/projected to arise in the future, including during the implementation of a Fund-supported program), or *potential* (i.e., a need that may arise under an alternative, typically downside, macroeconomic scenario, but is not expected to arise based on baseline/program projections). An urgent need is by definition always also a present need, whereas prospective and potential needs are by definition not urgent.

[140] A *protracted balance of payments problem* exists when the resolution of macroeconomic imbalances needed to establish a stable and sustainable macroeconomic position (as defined above) is expected to extend over normally three years or more. Distinct from the concept of balance of payments need, a *protracted balance of payments problem*, as defined above, is a related but broader concept that examines the components of the balance of payments need (rather than focusing on the overall balance of payments position), as well as a variety of other indicators. Countries with a protracted balance of payments problem may experience a combination of present, prospective, and potential needs. This may involve a combination of urgent and non-urgent (present) balance of payments needs.

provide assurance that it will not introduce measures or policies that would compound its balance of payments difficulties. This would typically encompass, inter alia, a commitment not to introduce or intensify exchange and trade restrictions. Moreover, sufficient policy capacity and commitment to implement the policies must exist to safeguard Fund resources, and the Fund would need to assess that the member will cooperate with the Fund in an effort to find, where appropriate, solutions for its balance of payments difficulties. Other requirements for the approval, repeated use, and implementation of RCF support are discussed further below.

B. Repeated Use

173. RCF resources are provided as outright loan disbursements and not phased under an arrangement. The RCF can flexibly accommodate both one-off disbursements (e.g., in case of shocks) or repeated disbursements over a (limited) period in case of recurring or ongoing urgent financing needs. In the latter case, the RCF should typically be used (similar to an SMP) to facilitate an eventual transition to a UCT-quality program, normally to be supported under an ECF arrangement. The use of the RCF in post-conflict and similar situations of instability and limited capacity would be similar to the use of the RFI (previously EPCA).[141] In cases where a country seeks to build a track record for a UCT-quality arrangement and faces urgent financing needs, use of the RCF, with appropriate policy understandings, would often obviate the need for an SMP (see Appendix III).

174. To help ensure that the RCF does not support continued weak policies or create moral hazard, RCF financing is subject to ***limitations on repeated use.*** As discussed below, there are also sub-ceilings on access to avoid weak policies or moral hazard. Specifically, a member may not receive more than two RCF disbursements in any 12-month period and can qualify for an RCF disbursement only if one or more of the following three circumstances apply:

- no RCF disbursements have been made in the past three years; or
- the balance of payments need was caused primarily by a sudden, exogenous shock, in which case a member qualifies under a “shocks window” (see below); or
- the member country has established a track record of adequate macroeconomic policies for a period of about six months prior to the request (see below).

[141] See *Staff Guidance Note on the Fund’s Engagement with Countries in Fragile Situations* (IMF, 2012d).

C. Concurrent Use and Blending

Concurrent use

175. A member cannot obtain RCF financing if a UCT-quality financial arrangement (e.g., under the ECF or SCF) is in place and on track. Should additional balance of payments needs arise during an ECF or SCF arrangement, an augmentation of access under this arrangement would typically be the appropriate response. RCF financing during an ECF or SCF arrangement can be provided only when (i) disbursements under the ECF or SCF arrangement are not possible, for instance due to policy slippages or delays in program discussions, (ii) qualification requirements for the RCF are met, including the existence of an urgent balance of payments need and relevant policy commitments, and (iii) the balance of payments need giving rise to the request for financing under the RCF is primarily caused by a sudden exogenous shock. When access under the RCF exceeds 25 percent of quota in these circumstances, existing and prospective policies should be sufficiently strong to address the shock. In addition, RCF-supported polices could serve as a track record to bring the ECF- or SCF-supported program back on track. The RCF can be used concurrently with GRA financing under certain circumstances (see below).

176. The RCF can be combined with programs supported under the PSI or monitored under an SMP. Satisfactory performance under a PSI or SMP for at least six months would normally satisfy the track record requirement for repeated use of the RCF, if relevant, and would facilitate rapid disbursement of RCF support. A short LOI together with a short staff paper would normally suffice for requesting an RCF loan disbursement when an urgent balance of payments need arises during an on-track PSI or SMP. In case of program slippages under a PSI, the policies supported under the RCF (similar to an SMP) could help build a track record for bringing the PSI-supported program eventually back on track.

Blending

177. Certain PRGT-eligible countries are expected to receive financial assistance through blended PRGT and GRA resources, rather than relying on fully concessional Fund financing.[142] Blending can provide a signal that the borrower is moving toward middle-income or emerging market status. PRGT-eligible countries, including members qualifying for support under the RCF, would be expected to use either fully concessional or blended resources, rather than GRA-only financing, although they are always eligible for access to the Fund's general resources.

178. Blending of RCF and GRA resources is subject to the following presumptions and limitations:[143]

[142] See *A New Architecture of Facilities for Low-Income Countries* (IMF (2009e) paragraph 91–92), and *Review of Facilities for Low-Income Countries—Proposals for Implementation* (IMF, 2013d).

[143] Access policies under blended arrangements as discussed further below.

- Blending is presumed for PRGT-eligible countries with either (i) per capita income above the prevailing operational cutoff used by the IDA[144] or (ii) sustained past and prospective market access and a per capita income that exceeds 80 percent of the IDA operational cutoff.[145] The income presumption applies at the time of each RCF disbursement irrespective of whether or not previous financial support under any instrument was blended. Other PRGT-eligible countries are expected to use concessional financing only.

- If there is no available GRA instrument for blending an RCF loan disbursement with GRA resources, in particular when RFI purchases cannot be used, RCF-only financing is possible irrespective of the presumption of blending.

- Blending should normally not be used for countries at a high risk of debt distress or in debt distress (as assessed by the most recent joint Bank-Fund LIC DSA), even if per capita income or market access creates a presumption for blending.

- In exceptional circumstances, when financing needs exceed the applicable access limits, blending can be used irrespective of the per capita income, market access, and debt sustainability criteria (see Section D on access under blended financial assistance).

179. When providing financial assistance with blended resources, RCF resources will normally be provided together with GRA resources under the RFI. Use of the RCF in conjunction with financing under GRA arrangements would only be expected in cases where the programs financed under the pre-existing SBA or EFF arrangements (typically in the context of blended financial support) are off track. In this case, RCF financing would normally be provided together with RFI resources.

180. The modalities (and documentation) of blended RCF-GRA financing would be broadly the same as those applicable under a stand-alone RCF disbursement. In particular, the financing would aim to meet urgent balance of payments needs for countries where a UCT program is either not needed or not feasible. The main difference is that Fund financial assistance would typically involve both RCF and GRA resources (see Section D), implying lower average concessionality of the Fund's financial support than under stand-alone RCF support. Additionally, RFI qualification requirements must be met when applicable.[146]

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[144] As of July 2014, this cut-off was US$1,215. It is revised each year, typically in July.

[145] A member is presumed to have had past market access if it tapped international financial markets during at least two of the last five years, and with the total access over the five years amounting to a minimum of 50 percent of quota. Accessing international financial markets refers to 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 such markets. The above criterion is closely aligned with the market access criterion for entry into PRGT eligibility, see *Eligibility to Use the Fund's Facilities for Concessional Financing* (IMF, 2013c; paragraph 18).

[146] See *The Fund's Financing Role—Reform Proposals on Liquidity and Emergency Assistance* (IMF, 2011b).

D. Access

181. When considering access under the RCF, area departments may wish to consult with SPR and FIN at an early stage; i.e., before a policy note is circulated for formal review. Furthermore, staff reports for RCF assistance should explicitly discuss the basis on which access was determined, with reference to the main criteria and access limits discussed below.

Determination of access—main criteria

182. Access under the RCF is determined on a case-by-case basis based on the following standard criteria: (i) the member's (present) balance of payments need (taking into account all balance of payments flows, including reserve accumulation and financing from other sources);[147] (ii) the strength of its policies and capacity to repay the Fund (taking into account the member's policy plans, adjustment effort, commitment to implement the program, institutional capacity, track record of policy implementation, and country circumstances such as vulnerabilities, imbalances, and debt sustainability);[148] and (iii) the amount of outstanding Fund credit and the member's record of past use.

183. The amount of individual RCF disbursements may not exceed the member's present balance of payments need, and would typically be less than total financing needs, keeping in mind that RCF support is expected to catalyze financing from donors and creditors. When requesting individual disbursements, the member will need to make a representation, normally in an LOI, that it is experiencing an urgent balance of payments need.

184. In case of repeated RCF disbursements, the timing and amounts of access[149] would not be expected to mirror the projected evolution of financing needs. In particular, given the limits on the number of disbursements available in any 12-month period and the sub-ceilings on RCF access (see below), disbursements would often cover only a small part of total financing needs, with the remainder being mobilized from other development partners.

185. When urgent financing needs are projected to persist or reoccur for some time, and transition to a UCT-quality arrangement is not expected in the near term, it may be appropriate to set access such that successive disbursements, at semiannual intervals and roughly equal magnitudes, could be accommodated under the applicable RCF access sub-ceilings (see below).

[147] See Section A for definitions of balance of payments need.

[148] Sufficient recovery in the balance of payments must be in prospect to provide appropriate assurance that loans can be repaid on schedule without strain.

[149] In the RCF context, there is no ex ante "phasing" of disbursements, in contrast to the ECF and SCF where the amounts and timing of access are predetermined through an arrangement.

Access limits

186. A member's total access under all concessional facilities is subject to "global" annual and cumulative limits. This includes credit outstanding and disbursements under the ECF, SCF, RCF, and ESF. Specifically, total access to financing under the PRGT should normally not exceed 100 percent of quota per year across all concessional facilities. This annual access limit refers to past and future scheduled disbursements in any 12-month period, specifically (i) any actual disbursements under the RCF and past ECF and SCF arrangements at the time they became available (i.e., the date of the Board decision that makes the disbursement available), (ii) any disbursements to date that became available under the current ECF or SCF arrangement, as relevant, irrespective of whether they have been drawn or not, and (iii) any future disbursements under the current ECF or SCF arrangement, as relevant, at the scheduled availability dates. Furthermore, total access to financing under the PRGT should normally not exceed 300 percent of quota cumulatively, net of scheduled repayments. Specifically, this cumulative access limit requires that total outstanding Fund concessional credit (including disbursements that were made available but not drawn in the context of the current arrangement) cannot normally exceed 300 percent of quota at any point in time, based on projected disbursements and repayments.

187. In exceptional circumstances, access above the normal global limits can be made available to countries that (i) experience an exceptionally large balance of payments need that cannot be met within the normal limits (e.g., very large external shocks, very low levels of reserves), (ii) have a comparatively strong adjustment program and ability to repay the Fund—this criterion would generally not be met for countries with a high risk of debt distress or those that are in debt distress as defined under the joint Bank-Fund DSA, unless expected debt relief or restructuring is projected to reduce the risk of debt distress to a moderate level or low level, and (iii) do not meet the income or market access criteria for blending (see above). Exceptional access is subject to hard caps of 150 percent of quota annually and 450 percent of quota on a cumulative basis (as defined above) across all concessional facilities.

188. In addition to these global limits on access under all facilities under the PRGT, access to the RCF is subject to sub-ceilings, set at 25 percent of quota per year (i.e., over any 12-month period) and 100 percent of quota on a cumulative basis (i.e., total stock of RCF credit outstanding at any point in time).

189. These sub-ceilings can be exceeded under the "shocks window" of the RCF, where augmented access of up to 50 percent of quota per year and up to 125 percent on a cumulative basis could be made available provided that: (i) the primary cause of the balance of payments need is a sudden exogenous shock other than a withdrawal in financial assistance by donors, and (ii) existing and prospective policies are sufficiently strong to address the shock. The concept of a sudden and exogenous shock mirrors that used in the past for the ESF. In particular, an exogenous shock may include both economic (e.g., terms of trade) and non-economic shocks (e.g., natural disasters) that are sudden and not related to members' policies. The amount of augmented access provided under the shocks window cannot exceed the size of the financing need created by the exogenous shock.

190. There are no norms for access under the RCF, and the above sub-ceilings on RCF access should not be considered norms. Individual disbursements would in most cases be below the applicable annual sub-ceilings. For instance, a disbursement of 50 percent of quota under the shocks window would only be expected in cases where the financing need is very large and the economic policy context is relatively strong (including limited debt vulnerabilities). Similarly, in the absence of an exogenous shock, a disbursement of 25 percent of quota would be rare, and could only be appropriate in cases where the financing need is relatively large and the economic policy context strong enough (including limited debt vulnerabilities) to provide a realistic near-term prospect of a transition to a UCT-quality program.[150]

Access under blended financial assistance

191. When RCF disbursements are blended with concurrent GRA disbursements (see Section C on the criteria that create a presumption for blending), total access to financial assistance (e.g., RCF together with RFI) is determined based on the standard criteria (see above), implying that total access should be comparable across countries with similar balance of payments needs, strength of policies, and outstanding Fund credit, irrespective of whether the Fund's financial assistance comes in the form of blended or PRGT-only resources.

192. Analogous to financial arrangements involving blended financial assistance, access to the concessional (RCF) financing component of blended financial assistance would normally be half of total access, with access to concessional resources capped at the annual access limit (see above). The remainder of the total access would be met by GRA financing.

Procedural safeguards on high access requests—DSAs and informal Board meetings

193. Financing requests are subject to procedural safeguards that apply uniformly across all concessional facilities. These safeguards are aimed at protecting PRGT-eligible members' debt sustainability and the Fund's concessional resources.[151] Specifically, the staff report for any RCF disbursement should provide an up-to-date assessment of the debt vulnerabilities, with an explicit reference to the impact of new borrowing from all sources, including prospective IMF disbursements. In addition:

- A DSA or DSA update is required for any financing requests under the PRGT if it (i) involves exceptional access to concessional resources; or (ii) brings total access, i.e. cumulative disbursements, under all concessional facilities to more than 80 percent of quota, based on cumulative past and future scheduled disbursements in any 24-month period, specifically (a) any

[150] In addition, as set forth in the PRGT Instrument, commitments of PRGT resources and any disbursement of such resources are subject to the availability of resources in the PRG Trust, and hence, could result in access reductions in those very specific circumstances (PRGT Instrument, Section II, paragraph 2(g) and paragraph (3)(a)).

[151] See paragraph 87 of IMF (2009e) that updates the procedural safeguards that apply to all concessional financing instruments, elaborated in IMF (2009d).

actual disbursements under the RCF, ESF, and past ECF and SCF arrangements at the time they became available (i.e., the date of the Board decision), (b) any disbursements to date that became available under an existing ECF or SCF arrangement, irrespective of whether they have been drawn or not, and (c) any future scheduled disbursements under an existing ECF or SCF arrangement; or (iii) involves a member country with a high risk of debt distress or in debt distress. A DSA update can be prepared unilaterally by Fund staff drawing on a prior full joint Fund-Bank DSA as long as a joint DSA was prepared recently and the analysis would not result in a change of the risk of debt distress rating.

- An early informal Board meeting is required if a financing request under the PRGT would (i) involve exceptional access to concessional financing or (ii) bring total access, i.e. cumulative disbursements, under all concessional facilities to more than 180 percent of quota, based on cumulative past scheduled (not necessarily drawn) and future scheduled disbursements in any 36-month period specifically (a) any actual disbursements under the RCF, ESF and past ECF and SCF arrangements at the time they became available (i.e., the date of the Board decision), (b) any disbursements to date that became available under an existing ECF or SCF arrangement, irrespective of whether they have been drawn or not, and (c) any future scheduled disbursements under an existing ECF or SCF arrangement. Information to the Board would typically be in a 2–3 page note that would include (i) the factors underlying the large balance of payments need, taking into account financing from donors, (ii) a brief summary of the needed main policy measures and macroeconomic framework, (iii) the expected strength of the program and capacity to repay the Fund, (iv) an analysis of debt vulnerabilities, reflecting all projected debt financing, including from the Fund, (v) a reference to the impact on the Fund's concessional resources (drawing on the latest available paper on concessional resources), (vi) the likely timetable of discussion with the authorities, and (vii) a selected indicators table and, if possible, the standard DSA charts. The meeting should take place before staff reaches understandings, *ad referendum*, with the authorities.

- In addition, staff would provide early notice to the Board, for instance in an informal country matters session, of upcoming financing requests where the envisaged financing commitment, in absolute terms, would have a large impact on the Fund's overall concessional resources.

- As an exception to these procedures, new financing requests of 10 percent or less of quota do not trigger either the need for a DSA update or a Board briefing.

E. Financing Terms

194. ***Repayments*** of RCF credit are made in 10 equal semiannual installments, subject to a 5.5-year grace period from the date of the first disbursement and 10-year final maturity. The authorities may decide to make early repayments at any time, but would not be expected to do so.

195. ***Interest*** is paid semiannually. The interest rate on RCF credit is currently set at zero percent,[152] but subject to biennial Board reviews that take account of developments in world interest rates. At each review, interest rates would normally be adjusted if warranted by the prevailing SDR rate, within a 0.0–0.5 percent range for the RCF.[153] The new interest rate would apply to all outstanding RCF credit. The next such review is scheduled by end-December 2014.

F. Financing Assurances, Arrears, and Safeguards

196. The Fund's policy on financing assurances[154] requires that financial arrangements can only be approved (and reviews can only be completed) when the program is fully financed. In contrast to arrangements under the ECF and SCF, such financing assurances are not required for RCF disbursements. However, staff reports for RCF requests should provide information on projected financing gaps. Moreover, to the extent that the RCF may be used to build a track record for a UCT-quality arrangement, the staff report should discuss the prospects for financing assurances that would be required for such an arrangement. Assurances should also be given that the member country has the capacity to repay the Fund based on medium-term projections of the balance of payments and the standardized table on indicators of the capacity to repay the Fund.

Arrears

197. The Fund's policy of non-toleration of sovereign arrears to official (multilateral and bilateral) creditors remains generally applicable in the context of RCF support. Under this policy, the Fund generally calls for the resolution of existing arrears to official creditors and non-accumulation of new arrears. Existing arrears need not necessarily be settled immediately—they can be addressed in a number of ways, depending on the type of creditor. Country teams should seek guidance from LEG and SPR on the application of the policy to specific creditors. The macroeconomic assumptions underlying RCF-supported policies should be consistent with the expectations regarding the resolution of existing arrears to official creditors, implying that the authorities and staff have common understandings on the timing and modalities of arrears clearance to the extent possible. However, as was the case with EPCA and ENDA (and is the case for the RFI), flexibility can be practiced under certain circumstances, making RCF disbursements possible without understandings on clearance of sovereign arrears. This would especially be in the wake of a conflict or natural catastrophe, where concerted action by the international community is expected to lead to the normalization of relations with official creditors and a program supported by a Fund financial arrangement. In any event, staff reports for RCF requests should provide detailed information on such arrears and discuss prospects for arrears resolution.

[152] See *Poverty Reduction and Growth Trust Interest Rate Mechanism—Extension of Temporary Interest Rate Waiver* (IMF, 2012i). This does not apply to interest on any overdue interest or overdue repayments of PRGT loans, which is charged at a rate equal to the SDR interest rate.

[153] See IMF (2009f) for details.

[154] Article V, Section 3(a) of the Fund's *Articles of Agreement*.

198. There is also scope for flexibility in applying the Fund's LIA policy, which covers sovereign arrears to private external creditors and non-sovereign arrears that arise by virtue of the imposition of exchange controls.[155] Under this policy, the Fund can lend, on a case-by-case basis, in a situation of sovereign arrears to private external creditors and only where: (i) prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and (ii) the member is pursuing appropriate policies and is making a good faith effort to reach a collaborative agreement with its creditors (or to facilitate a collaborative agreement between private debtors and their creditors and good prospects exist for the removal of exchange controls). For the RCF, these conditions may not be required in all cases, in particular in the wake of a conflict or natural catastrophe, although staff reports should in any event provide information on arrears to private external creditors.

199. RCF-supported economic policies should also take into account the presence of any domestic arrears. The specification of policies related to domestic arrears will depend on the country context, in particular, the fiscal framework (see Appendix II).

Overdue obligations to the Fund

200. Where a member is in arrears to the Fund in the GRA, the Special Disbursement Account, or the SDR Department, or to the Fund as Trustee (including the PRGT), a request for IMF financing, including under the RCF, will not be approved and disbursements under an existing arrangement will be suspended (PRGT Instrument, Section II, paragraph 1(e)(3) and 3(g)) until the arrears are cleared.[156] After one month the Managing Director will notify the Executive Board that an obligation is overdue, and in the case of protracted arrears to the Fund (i.e., arrears of more than six months' duration), semiannual reports are to be issued to the Executive Board. The Managing Director may also recommend postponing for up to one-year periods the Executive Board's consideration of a report regarding a member's overdue obligations in exceptional circumstances where the Managing Director judges that there is no basis for an earlier evaluation of the member's cooperation with the Fund. While a member is in arrears to the Fund, policy support can only be provided through surveillance, technical assistance and, under certain circumstances, SMPs.[157] Remedial measures for dealing with PRGT arrears include removal from the list of PRGT-eligible countries, declaration of noncooperation and suspension of technical assistance.

Safeguards assessments policy

201. Under the RCF, a member's request for assistance will require a commitment to undergo a safeguards assessment and to provide Fund staff access to the central banks' most recently

[155] See *Summing Up by the Acting Chairman: Fund Policy on Arrears to Private Creditors—Further Considerations* (IMF, 1999a).

[156] See also Appendix II of the PRGT Instrument on the Procedures for Addressing Overdue Financial obligations to the PRGT.

[157] See *Review of the Fund's Strategy on Overdue Financial Obligations* (IMF, 2012f).

completed external audit reports (whether or not the audit is published); the member shall authorize its external auditors to hold discussions with staff. The commitment and authorization is to be provided at the time when the member makes a formal written request for RCF resources. The timing and modalities of the assessment will be determined on a case-by-case basis depending on the institutional and administrative capacity of the central bank. It is presumed, however, that the safeguards assessment would have been completed before Board approval of any subsequent arrangement to which the Fund's safeguards policy applies.[158] The safeguards process involves a continuous analysis of information obtained primarily through the collection of documents, and discussions with the authorities and the central bank's external auditors. It entails an evaluation of the central bank's safeguards framework covering governance, auditing, financial reporting, control systems, and its legal autonomy. Close cooperation and coordination between FIN, other functional departments, and area departments is essential for the effective conduct of the safeguards process. It is important for FIN to be kept informed by area departments of safeguards issues, including logistical issues such as the timing of new arrangements.

G. Policy Objectives and Design

Policy objectives

202. While the policy standard for RCF support is considerably more flexible than for UCT-quality arrangements supported under the ECF and SCF, the member's policies should not compound existing balance of payments difficulties and should in general be aimed at making progress toward achieving or restoring a *stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth* (see definition in Section A). This would involve steps to address, though not necessarily resolve, the country's macroeconomic imbalances and maintain or move toward (i) strong and durable poverty reduction and growth, (ii) low or moderate inflation, (iii) sustainable fiscal and current account balances, (iv) limited debt vulnerabilities, (v) adequate international reserves, and (vi) sufficient policy and institutional capacity to implement appropriate macroeconomic policies.

203. RCF-supported policies should, to the extent possible, be aligned with the country's own poverty reduction and growth objectives (see further below). The LOI and staff report for an RCF request should discuss the current situation, including the cause of the urgent balance of payments need, and macroeconomic prospects. Near-term RCF-supported policies should be clearly articulated in the LOI/MEFP and associated staff report, and should be consistent with the country's medium- and longer-term policy objectives, which would typically include:[159]

[158] See *The Acting Chair's Summing Up on Safeguards Assessments—Review of Experience; The Safeguards Policy—Independent Panel's Advisory Report* (IMF, 2010h).

[159] For further discussion of Fund program design in LICs, see *The Role of the Fund in Low-Income Countries*, (IMF, 2008b) and *Aid Inflows—The Role of the Fund and Operational Issues for Program Design* (IMF, 2007a).

- ***Fiscal policies,*** where (i) the fiscal stance is well anchored to help ensure macroeconomic stability and fiscal/debt sustainability, (ii) revenue and spending policies take due account of the country's growth and social objectives, and (iii) budgets are guided by medium-term fiscal frameworks to the extent possible.

- ***Monetary policies*** that are consistent with inflation, exchange rate, and reserve objectives, while taking due account of cyclical considerations.

- ***Exchange rate policies*** that ensure a unified exchange rate and a real exchange rate level that is broadly in line with fundamentals, ensuring a stable and sustainable external position consistent with adequate growth.

- ***Financial sector policies*** geared toward financial stability and deepening with a view to fostering investment and forestalling financial crises.

- ***Public financial management*** reforms aimed at ensuring that resources are tracked, reported, and targeted appropriately (including by providing adequate resources for social and other priority spending), public debt management aimed at supporting debt sustainability, and revenue reforms aimed at broadening the revenue base, and enhancing tax efficiencies.

- ***Other structural reforms*** that are critical for achieving the member's macroeconomic objectives.

Role of RCF financial support

204. The ***balance of payments support*** through the RCF can assist countries in smoothing the adjustment process toward a more stable and sustainable macroeconomic position.[160] The Fund's financial support can be used both to replenish international reserves of the member country and to provide liquidity for making external payments. By relaxing external financing constraints, the Fund's balance of payments support in effect also loosens domestic liquidity constraints for both the public and private sector. Specifically Fund financing reduces the need for retrenchment in the public and private savings-investment balances, thus enhancing policy options (allowing less contractionary fiscal, monetary, and exchange rate policies) and cushioning private sector adjustment (e.g., investment and import declines). The appropriate mix of financing and public/private adjustment is determined on a case-by-case basis.

[160] Consistent with the Fund's unique role in LICs, it can provide moderate levels of liquidity support to help address macroeconomic imbalances, while the bulk of financial assistance is normally expected to come from donors. Fund financial support, while concessional and aimed at similar long-term goals, is distinct from development assistance provided by others (often on more concessional terms) as it provides inter-temporal smoothing of adjustment rather than a permanent resource transfer. Fund lending to LICs is generally expected to catalyze such donor support, leveraging the Fund's scarce subsidy resources. See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e) and *The Fund's Facilities and Financing Framework for Low-Income Countries* (IMF, 2009b).

205. A member may use the domestic counterpart of resources received under an RCF to finance, directly or indirectly, the budget deficit of the government. Such budget financing is consistent with the Fund's legal framework to the extent that the member has balance of payments problems and is implementing a program that will assist it in resolving such problems. *Direct* budget financing[161] may be appropriate when (i) the policies are designed in a manner that envisages that the entire amount of the Fund's financial support is used to meet a present or prospective balance of payments need, (ii) loosening fiscal financing constraints is an important macroeconomic objective under the policies, and (iii) the central bank cannot or should not (for legal or institutional reasons) lend to the government while the domestic financial sector is too shallow (or not stable enough) to provide the necessary budget financing (or the central bank plays a largely passive domestic policy role, for instance under a currency board or in a fully dollarized economy). In these cases, staff reports should justify the use of the domestic counterpart of resources obtained from RCF support for budget financing where relevant and discuss safeguards implications.[162]

Links to poverty reduction strategies and social spending

206. RCF-supported policies should generally be aligned with the country's own poverty reduction and growth objectives. The following specific guidance applies to PRS linkages:[163]

- Any financing request under the RCF must be accompanied by a statement, normally in the LOI or MEFP, of how the RCF-supported policies advance the country's poverty reduction and growth objectives—given the focus of RCF support on urgent balance of payments needs, this linkage may be indirect; e.g. primarily through efforts to bolster macroeconomic stability, which is needed to underpin poverty reduction and growth.[164] In cases where a relevant PRS document exists, this description in the LOI/MEFP could cross-reference to the PRS document.

- If a PRS document exists, the RCF-supported policies should take into account—and to the extent possible, generally be consistent with—the objectives of the PRS in the context of promoting a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

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[161] Direct budget financing (also known as direct budget support) refers to cases where disbursements of Fund resources are made directly to the country's treasury at the request of the member. By contrast, indirect budget financing can be (and is very often) provided when the Fund makes disbursements to the central bank and these help relax domestic financing constraints for the public sector as part of the broader macroeconomic program. A special case of budget financing is Fund financial support to members of a monetary union. For example, in the CFA franc zone, the regional central bank unconditionally provides credit in the (domestic currency equivalent) amount of Fund support to the relevant government. See *Staff Guidance Note on the Use of Fund Resources for Budget Support* (IMF, 2010f).

[162] See *The Acting Chair's Summing Up on Safeguards Assessments—Review of Experience and Next Steps* (IMF, 2002a) and *Safeguards Assessments—Review of Experience* (IMF, 2010g).

[163] See Appendix V for detailed guidance on poverty reduction objectives and related documents.

[164] See Appendix V for a definition of an I-PRSP.

- In cases where a relevant PRS document[165] does not exist, the RCF documentation (e.g., in an attachment to the LOI or MEFP) should outline the country's medium-term poverty reduction and growth objectives and policies. Subsequent Board documents should refer to this documentation and update it as necessary.

- PRS documents are not required for RCF disbursements, consistent with the RCF's focus on urgent balance of payments needs. Nonetheless, whenever a future ECF- or PSI-supported program is under consideration, staff should inform the authorities at an early stage about the relevant definitions and timelines for PRS documentation requirements (Appendix V) to ensure adequate time for the PRS process.

- More generally, PRS documents should normally be produced by the country authorities on a 12-month cycle and aligned with other domestic policy cycles. Staff are required to prepare a JSAN for PRSPs and I-PRSPs and circulate it to the Executive Board for information or discussion, generally within four months of the transmission of the PRSP and I-PRSP (outside the HIPC context). For APRs, it is good practice to provide feedback in the context of an AFP. In case of significant weaknesses in the PRS, including those identified in the JSAN or through the AFP, program staff reports should report how these weaknesses are being addressed.

207. Social and other priority spending should be safeguarded and, whenever appropriate, increased under RCF-supported policies. Whenever the LOI/MEFP for RCF support includes indicative targets (e.g., when the authorities seek to establish a track record, including for repeated use of the RCF), these should include a floor on social and other priority spending, whenever possible. The definition of what constitutes social or other priority spending should be consistent with the authorities' poverty reduction and growth objectives. In cases where tracking of such expenditures is not feasible, the RCF documentation should report on which measures are envisaged to develop an adequate tracking system. Staff should monitor progress in establishing these tracking systems, and the program may include relevant structural measures, if appropriate.

Debt sustainability analysis (DSA)

208. RCF-supported policies should be underpinned by a thorough DSA to inform the elaboration of medium-term debt strategies and fiscal frameworks. Country teams should engage with the authorities in the preparation of DSAs, discuss the results, and share the final files with the relevant officials. DSAs for most LICs are usually prepared jointly with the World Bank, and country teams should also involve other relevant MDBs in the preparation of DSAs. Joint DSAs are required for PRGT-eligible IDA-only countries; for LICs that are not IDA-only, close consultation with the Bank is recommended.

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[165] A PRS document refers to a PRSP, PRSP Preparation Status Report, I-PRSP, and APR as defined in the PRGT-HIPC Trust Instrument (Annex to Decision No. 11436-(97/10), as amended). See Appendix Box 1 of Appendix V for a description of various PRS documents.

209. A fully elaborated DSA is required at least once every three years, with shorter annual updates in the interim years possible in the absence of significant changes in the macroeconomic and financial environment. Full DSAs should be prepared in periods of heightened domestic, external, or global risk. The precise timing of a DSA may be driven by other IMF policy requirements. In particular, the design of possible indicative debt limits under the RCF is systematically related to the assessment of countries' debt vulnerabilities (see Appendix II and IMF, 2009l). Also, as discussed above, the determination of access to the Fund's concessional resources needs to take account of the country's debt vulnerabilities based on the most recent DSA, and a DSA (or DSA update) may need to be prepared for higher access financing requests. In cases where a DSA is required outside the regular joint Bank-Fund DSA cycle, a DSA update may be prepared unilaterally by Fund staff drawing on a prior full joint Fund-Bank DSA as long as a joint DSA was prepared recently and the analysis would not result in a change of the risk of debt distress rating.

210. DSAs for LICs should be presented as self-contained documents (see Appendix I). They should normally be prepared using the LIC Debt Sustainability Framework (DSF), although for countries with durable and substantial access to market financing, the template designed for middle-income countries can be used instead. The analysis includes three components:[166]

- A forward-looking analysis (20-year projection) of debt and debt-service dynamics under a baseline scenario, alternative scenarios, and standardized stress tests;
- An explicit assessment of the risk of external debt distress (low, moderate, high, or in debt distress) based on indicative country-specific debt-burden thresholds that depend on the quality of policies and institutions in the country; and
- Recommendations on a borrowing (and lending) strategy to limit the risk of debt distress, while maximizing the resource envelope to achieve the country's development objectives.

Collaboration with the World Bank and other development partners

211. Fund staff should consult closely with all major development partners active in the country when designing and monitoring RCF-supported policies. In addition to this routine collaboration, the JMAP[167] approved by the Boards of the World Bank and IMF calls on Bank and Fund country teams to consult with each other at least once a year in order to identify the country's key macroeconomic and structural reform challenges and coordinate work plans in support of addressing these challenges (see Appendix I).

[166] For the details on the use of the DSF, please see the *Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries* (IMF, 2013g).

[167] See *Enhancing Collaboration—Joint Management Action Plan* (IMF, 2007c) and *Implementation of the Joint Management Action Plan on Fund-Bank Collaboration* (IMF, 2010d).

H. Conditionality

Conditionality principles

212. Conditionality attached to Fund financial support is generally intended to ensure that Fund resources are provided in support of meeting the member's policy objectives, with adequate safeguards to the Fund's resources. Consistent with the Fund's *Guidelines on Conditionality*,[168] conditions will normally consist of macroeconomic variables and structural measures that are reasonably within the member's direct or indirect control and that are, generally, either (i) of critical importance for achieving the goals of the program (or for monitoring program implementation), or (ii) necessary for the implementation of specific provisions of the IMF Articles of Agreement or policies adopted under them. In some cases, conditions may be outside the Fund's core area of expertise, in which case a more detailed explanation of their critical importance is required.

213. The RCF does not require a UCT-quality economic program, and does not involve ex post conditionality (i.e., quantitative or continuous performance criteria), a time-bound arrangement, or formal program reviews. Instead, the RCF provides for outright disbursements based on a number of ex-ante policy undertakings (see Section A on Eligibility and qualification).

Prior actions

214. Prior actions could be specified if necessary, but this would be expected only in exceptional circumstances, specifically when it is critical for addressing the urgent balance of payments need effectively that a measure be taken prior to the financial assistance provided under the RCF. Prior actions could be appropriate, for example, if the RCF is used (including to support building a policy track record) after severe policy slippages that could call into question the authorities' capacity and commitment to implement policies that would not compound the balance of payments difficulties (see Section A on ex-ante policy undertakings). Prior actions should be implemented no later than five working days before the Board discussion. They should be defined in the LOI/MEFP and cross-referenced in the Board Decision approving the disbursements.

Monitoring policies

215. There is considerable flexibility on how the RCF can be used to support forward-looking economic policies. In contrast to UCT-quality arrangements, RCF disbursements do not require understandings on a program of economic policies other than general ex-ante policy undertakings by the authorities described in Section A, including the commitment to cooperate with the Fund and not to introduce measures that would compound the country's balance of payments difficulties. However, the RCF *can* be used to provide general policy support, establish a track record of

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[168] See Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines: Revised January 25, 2010 (IMF, 2010b) and *Revised Staff Statement on Principles Underlying the Guidelines on Conditionality, and Operational Guidance Note on the 2002 Conditionality Guidelines* (IMF, 2006a).

economic performance (similar to an SMP), and even help monitor the implementation of UCT-quality economic policies. The latter may occur, for example, when a country with a set of well-specified and sound economic policies experiences a temporary shock that creates a balance of payments need that is expected to be resolved within one year and without the need for major policy adjustments. By contrast, shocks that create more substantial or prolonged adjustment or financing needs should generally be addressed through a financial arrangement. To this end, RCF support can be provided together with staff recommendations on macroeconomic policies, monitoring of economic performance, specific policy commitments and indicative targets, or any combination of these.

216. In cases where the RCF supports a track record of policy performance, the LOI/MEFP for a disbursement request would typically set out agreed monitorable quantitative and structural indicators (which could be called indicative targets or benchmarks), based on specific test dates and deadlines. The design of monitoring could mirror that of SMPs or past practice under EPCAs, but is in general very flexible, and would not require specification of a time-bound program period. The specification of policy objectives and indicators should be aimed at supporting adequate policies to address the urgent balance of payments need and, if relevant, facilitating the member's transition to a UCT-quality program. As the targets do not have the status of PCs, waivers are not required if they are missed. Similarly, program adjustors would not be needed.

- Quantitative periodic indicative targets could include measures of net international reserves, central bank domestic assets, domestic and fiscal balances or financing, nonconcessional external debt, social and other priority spending where possible, and any other relevant macro-critical indicators. Continuous measures could include commitments related to non-introduction of certain exchange restrictions and multiple currency practices, and non-accumulation of external arrears.

- RCF-supported policy track records could include an agenda for macro-critical structural reforms, with flexibility on the timing of the measures. Structural benchmarks could be identified, and should be critical measures that are intended to serve as clear markers in the assessment of progress in the implementation of critical structural reforms in the context of the track record. Structural benchmarks should be used as parsimoniously as possible, and their macro-criticality explicitly justified in program documents, ideally in a structural benchmark table. Structural benchmarks do not require a specific target date, but should give an indication of the envisaged time frame.

Misreporting[169]

217. Misreporting occurs when members with a Fund-supported program obtain resources on the basis of inaccurate information regarding observance of quantitative or continuous PCs or prior

[169] Misreporting is distinct from members' obligations on data provision to the Fund under Article VIII, Section 5. See next footnote below for references.

actions (a "noncomplying disbursement"). As there are no PCs under the RCF, a noncomplying disbursement can only occur with respect to misreporting of prior actions (if applicable), in particular when (i) the Fund makes a disbursement on the basis of a finding that all prior actions established for that disbursement have been observed and (ii) that finding later proves to be incorrect. Upon evidence that a member may have received a noncomplying disbursement, the Managing Director shall inform the member promptly. After consultation with the member, if the Managing Director determines that the member did receive a noncomplying disbursement, the Managing Director shall promptly notify the member and submit a report to the Executive Board with recommendations. The Board may decide either (a) that the member shall be expected to repurchase/repay the disbursed amount, or (b) that the nonobservance will be waived. Waivers will normally be granted only when the deviation from the relevant condition was minor or temporary, or if, subsequent to the disbursement, the member had adopted additional measures appropriate to achieve the objectives supported by the relevant decision on the disbursement.

218. Whenever the Executive Board finds that a noncomplying disbursement has been made but that the nonobservance of the relevant specified condition was also *de minimis* misreporting, a waiver for nonobservance shall be granted by the Executive Board.[170] *De minimis* misreporting will not be published in a staff report.

I. Track Records

219. The RCF can be used to build a track record of policy performance to enable repeated disbursements under the RCF or support transition to a UCT-quality arrangement. As the RCF involves outright disbursements without formal program reviews, there is no pre-determined phasing of disbursements or test dates for indicative targets. As discussed in Section H, RCF-supported track records would typically include agreed monitorable quantitative and structural indicators (which could be called indicative targets or benchmarks). Test dates for quantitative targets can be set on a monthly, quarterly, semi-annual, or annual basis, including a combination thereof. Test dates should generally be set such that they provide useful information for the purpose of assessing performance in advance of potential future possible Fund support through the RCF or a UCT-quality arrangement. See Appendix III for a discussion of different types of track records.

220. A track record of adequate macroeconomic policies is required for an RCF disbursement when the member has already received RCF financing in the past three years and does not qualify under the shocks window. Such a track record would normally cover at least six months immediately prior to the disbursement, and the staff report should provide an assessment of past policy performance against any previously specified policy objectives and targets. This is also good practice if the repeated disbursement is motivated by an exogenous shock, even though a track record is not required for the subsequent disbursement. The track record period would normally start around the

[170] For more details on misreporting, see Appendix I of the PRGT Instrument and (Decision No. 14354-(09/79)). *Guidance Note on the Fund's Transparency Policy*. Also, see *Making the Misreporting Policies Less Onerous in De Minimis Cases* (IMF, 2006e).

time the relevant track record objectives and policies become clear. Specifically, the track record period should start no earlier than the first time substantive policy discussions on near-term macroeconomic targets started between the country team and the authorities, and no later than the time ad *referendum* understandings were reached on such targets. Approval of a repeated disbursement would be based on a finding that the member's overall policy performance was adequate, taking into consideration the severity of the economic situation and the member's capacity. In exceptional cases, where no relevant pre-determined monitorable objectives exist at the time a repeated RCF disbursement is requested in response to an urgent financing need (for instance because of the passage of time since the last disbursement), the track record could be based on the Fund's assessment that macroeconomic policies have been adequate at least over the most recent six-month period.

J. Other Relevant Policies

221. A number of additional modalities and policy requirements apply to the RCF, including the following:

- ***EPAs.*** Access to resources under the RCF does not count toward the policy on LTPE.[171]

- ***PPM.*** Outstanding RCF credit will be subject to PPM.[172] Normally, members with outstanding credit from the Fund in the GRA and/or PRGT exceeding 200 percent of quota after the expiry of their arrangements, are expected, upon the recommendation of the Managing Director, to engage with the Fund in PPM of their economic developments and policies (unless the member is implementing a Fund-supported program or SMP).

- ***Article IV cycle.*** RCF support does not alter the regular (typically 12-month) cycle for Article IV consultations.

- ***Exchange System obligations under Articles VIII and XIV and Data Provision under Article VIII, Section 5.*** Requirements under Article VIII Sections 2, 3, 4 and Article XIV are discussed in *Article VIII Acceptance by IMF Members—Recent Trends and Implications for the Fund* (IMF, 2006d). The Fund may require members to furnish it with such information as it deems necessary for its activities, including program monitoring.

- ***HIPC and MDRI.*** A period of performance under a monitorable track record supported by the RCF can count toward a track record of strong policy performance required for the HIPC decision point.[173] The minimum required track record for the decision point is six months.

[171] See Appendix I for more details on EPAs.

[172] See *Extension of Post-Program Monitoring to Cover the Use of PRGF Resources* (IMF, 2005), *Guidance Note on the Implementation of Post-Program Monitoring* (IMF, 2010e), and Decision No. 13454-(05/26), as amended.

[173] See Appendix IV for details on the HIPC Initiative and MDRI.

- ***Side letters.*** The use of side letters in LIC programs has been extremely rare. Side letters may be used when release of information on policy understandings at the time of a program request or review would cause adverse market reaction or undermine the authorities' efforts to prepare the domestic groundwork for a measure.[174]

[174] For the Fund's policy on side letters, see Decision No. 12067-(99/108).

CONTENTS

CHAPTER IV—POLICY SUPPORT INSTRUMENT

The PSI supports low-income countries that do not need Fund financial assistance at the time of Board approval but seek to consolidate their economic performance with Fund monitoring and policy support.[175]

A. Objectives and Qualification

Purpose and objective

222. The PSI is a non-financial instrument for low-income member countries that is designed to promote a close policy dialogue between the Fund and a member, provide more frequent Fund assessments of a member's economic and financial policies, and deliver clear signals through Board endorsement of those policies that could be taken into account by donors, creditors, and the general public on the strength of these policies.[176]

223. The purpose of the PSI is to assist eligible member countries in implementing economic programs aimed at maintaining or consolidating macroeconomic stability and debt sustainability, while deepening structural reforms in key areas in which growth and poverty reduction are constrained. Such a position would be characterized by the absence of a present or prospective balance of payments need and by the domestic and external stability that is necessary to support strong and durable poverty reduction and growth. It would typically be associated with sustainable fiscal and current account balances, limited debt vulnerabilities, reasonable growth performance, low underlying inflation, adequate international reserves, and sufficient policy and institutional capacity to support continued good performance, including in responding to shocks. This position might still involve significant levels of donor assistance, though aid dependence would be expected to decline over time. The PSI is designed for countries that at the time of program approval are already in a broadly stable and sustainable macroeconomic position and therefore do not require Fund financing or significant macroeconomic policy adjustments.[177]

[175] The framework for PSIs became effective on October 5, 2005, and was modified as part of a comprehensive reform of the IMF's facilities for LICs. See *A New Architecture of Facilities for Low-Income Countries* (IMF, 2009e and 2009f). In the context of the 2013 review of facilities for LICs, the PSI framework was further modified. See The *Review of Facilities for Low-Income Countries – Proposals for Implementation* (IMF, 2013d) further modified the PSI framework.

[176] Fund engagement in a PSI constitutes a form of Fund "technical assistance" that is voluntary for both the member concerned and the Fund. Board Decision No. 13561-(05/85) establishes the terms upon which the Fund is prepared to engage in PSIs and their modalities. This decision was amended by Decision Nos. 13814-(06/98), 13849-(06/108), 14153-(08/82), 14253-(09/8), and 14354-(09/79).

[177] Countries in such situations have on occasion been referred to as "mature stabilizers." This terminology is not used in the *Handbook*, which distinguishes countries' economic situations based on a variety of factors, including the time needed, if any, to achieve a stable and sustainable macroeconomic position.

Eligibility and qualification

224. The PSI is available to all member countries that are eligible for assistance from the PRGT[178] and *have a policy framework focused on consolidating macroeconomic stability and debt sustainability while deepening structural reforms in key areas in which growth and poverty reduction are constrained*. This implies that the member country is, at the time of the approval of the PSI-supported program, in a ***broadly stable and sustainable macroeconomic position*** (as defined above).

225. Specifically, the country (i) would not have a present or prospective ***balance of payments need***[179] unless such a need is expected to be met from other (exceptional) financing sources and (ii) would not require any significant macroeconomic policy adjustments (including to address a protracted balance of payments problem),[180] although it may still benefit from structural reforms that could strengthen resilience against shocks and boost the country's growth potential. If, by contrast, a country would require Fund financing or significant policy adjustment to achieve a stable and sustainable macroeconomic position, the PSI would normally not be approved. In particular, countries with short-term financing and adjustment needs could be supported under an SCF arrangement, whereas countries that also face a protracted balance of payments problem could be supported under an ECF arrangement.[181] If a country does not have present or prospective balance of payments needs, but *potential* needs, a precautionary SCF arrangement may be appropriate in place of, or in addition to, a PSI-supported program. In these cases, by foregoing the Fund financing extended under a precautionary SCF arrangement and focusing on medium-term policy support and endorsement, the PSI would tend to send a stronger signal about the quality of the member's policies and the soundness of its macroeconomic position.

226. Board approval of a PSI also requires, in particular, a finding by the Board that the member is committed to implement its policy framework in the context of a program that meets ***UCT-***

[178] The PRGT eligibility framework is discussed in *Eligibility to Use the Fund's Facilities for Concessional Financing* (IMF (2009k, 2012b, and 2013c)). See Appendix VI for a list of PRGT-eligible countries as of July 2013.

[179] A balance of payments need can arise because of a member's balance of payments deficit, reserve position, and developments in reserves. The need can be *present* (a need that exists in the current period), *prospective* (i.e., a need that is expected/projected to arise in the future, including during the implementation of a Fund program), or *potential* (i.e., a need that may arise under an alternative, typically downside, macroeconomic scenario, but is not expected to arise based on baseline/program projections).

[180] In this context, a *protracted balance of payments problem* exists when the resolution of macroeconomic imbalances needed to establish a stable and sustainable macroeconomic position (as defined above) is expected to extend over normally three years or more. Distinct from the concept of balance of payments need, a protracted balance of payments problem, as defined above, is a related but broader concept that examines the components of the balance of payments need (rather than focusing on the overall balance of payments position), as well as a variety of other indicators. Countries with a protracted balance of payments problem may experience a combination of present, prospective, and potential needs.

[181] See Chapters I–III of this Handbook.

conditionality[182] standards and aims to maintain or consolidate a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. Apart from the elaboration of such a program in the LOI and MEFP, qualification would thus require assurances that the authorities have the capacity and commitment to implement their program, as evidenced by recent policy performance (including under a recent Fund-supported program), and that the institutional capacity is sufficient to maintain or consolidate a stable and sustainable macroeconomic and debt position, while deepening structural reforms in key areas in which growth and poverty reduction are constrained and to address any other circumstances that may affect macroeconomic performance.

227. A PSI is available to any member that meets the criteria set out in the PSI policy, including those that have established a good track record of macroeconomic management and where institutions are of sufficient quality to support continued good performance, including in responding to shocks. Assessment of the quality of institutions will take into account the track record of macroeconomic policy implementation, as well as qualitative indicators of capacity. As noted in IMF (2013d), prior to the *2013 Review of Facilities for LICs*, the PSI had been targeted for "mature stabilizers", which were expected to have "high quality" of institutions. In the context of this review, it was clarified that PSI users should have institutions of "sufficient" quality to support continued good performance, including in responding to shocks. Qualification also requires a Board finding that the member seeks to maintain a close policy dialogue with the Fund, through the Fund's endorsement and assessment of its economic and financial policies under a PSI. Other requirements for the approval, extension, or implementation of a PSI are discussed further below.

228. Staff will assess PSI qualification using two groups of indicators: indicators of macroeconomic performance and of policy and institutional capacity:

- The **macroeconomic performance** would be assessed using key macroeconomic indicators: GDP growth, inflation, reserve adequacy, fiscal and current account balances, as well as an indicator of debt sustainability.

- The **quality of policies and institutions** would be measured using past program performance (last three years) – on the basis of conditionality met/not met, delayed and combined reviews, and implementation of structural reforms.[183] For countries that have not recently had a Fund-supported program, the quality of policies would be assessed by considering the extent to which the authorities have been implementing their macroeconomic program and structural reform agenda as assessed in recent Article IV staff reports. In addition, to assess whether institutions are of sufficient quality to support continued good performance, a minimum CPIA threshold score of 3.25 will be used, i.e., the minimum cut-off level needed to attain the "medium

[182] This standard with regard to the use of Fund resources generally refers to a set of policies that is adequate to correct external imbalances and enable repayment to the Fund within the specified maturity period.

[183] The thresholds for these variables would normally be set at levels consistent with the recent track record of program implementation of current PSI users.

institutional capacity" category used in the LIC DSA. Countries that have recorded a significant decline in their CPIA score over the last three years will not normally be expected to meet the standards for approval of a PSI, which are set forth in the PSI Framework decision.

229. Countries that have both groups of indicators above the relevant benchmarks would be potentially eligible for the PSI, but the final staff assessment would take country-specific circumstances into account at the time of the PSI request in order to evaluate if the PSI qualification standards set forth under the PSI policy are met. Countries that are below the benchmarks on either of indicators could make a case for qualification if they can demonstrate that they have a strong program in place (to support growth and poverty reduction and strengthen the ability to respond to shocks) and the capacity to implement it.[184]

230. Countries that are not currently in a position to meet the PSI qualification requirements, in particular the capacity to implement an UCT-quality program, can build a track record for moving to a PSI through an SMP or, in case of urgent financing needs, the RCF (assuming the applicable policy commitments are in place).

B. Duration, Extensions, Cancellations, and Repeated Use

231. Assistance under the PSI can be approved for an initial duration of one to four years, from the date of the Board decision approving the PSI, and may be later extended.[185] As PSI users often seek sustained signaling and policy support, and as PSI-supported programs focus on growth-enhancing reforms, requests for three-year PSIs have been the norm and are expected to remain the default length for medium-term PSIs at approval. A longer initial duration could be helpful when needed to align the PSI more closely with the member's PRSP cycle. A PSI may be extended (including multiple times) subject to an overall maximum duration of five years. After the expiration, cancellation, or termination of a PSI, a successor PSI may be approved if the relevant qualification criteria are met.[186] There is no limit on the number of successor PSIs that can be approved.

232. PSI-supported programs can be extended at the member's request subject to appropriate conditions consistent with the PSI framework. Extensions that involve the establishment of additional test dates and reviews may be appropriate in a variety of circumstances, including when (i) more time is needed to implement envisaged policies or reforms, (ii) unforeseen events warrant an extended period of monitoring—this could include an exogenous shock that requires some degree of policy action and possibly Fund financial support through the RCF or SCF, (iii) more time is needed to design a successor medium-term program.

[184] Note that in any event, the quality of the reform program will be a key factor for Board approval of any proposed PSI.

[185] "Duration" of a PSI refers to the time between Board approval and expiration of the instrument. It does not refer to the duration of the member's economic program.

[186] If a successor PSI is requested for immediate approval, for example, at the time of the last review, the member will have to first request the cancellation of the existing PSI (even if all reviews have been completed).

233. Extensions must be requested by the member and approved by the Board before the expiration of the PSI period. Extensions that involve the establishment of new test dates and reviews would normally be approved by the Board on the basis of an LOI and in the context of a program review (where the conclusion of the review demonstrates that the program is on track). In exceptional circumstances (e.g., when a severe natural disasters prevents conducting the final review in a timely manner), extensions that involve establishment of new test dates and review may be approved by the Board outside the context of a scheduled program review, provided the authorities and staff have understandings on appropriate policies to be implemented through the next review, as documented by a letter from the authorities. Board approval would require a staff report that discusses the reasons for the extension, including why it is proposed outside the review context, the status of the program, and relevant policy understandings.

234. In cases that do not involve establishment of additional test dates or reviews, and where some additional time is needed to complete the final review before the expiration of the PSI, PSIs can also be extended for a short period (a few weeks or months). Such short-term extensions (sometimes referred to as "technical") can be granted outside the context of a review, provided that the authorities and staff have reached (or are expected to reach in the very near term) understandings on appropriate policies to complete the review. Board approval of short-term extensions generally takes place in the context of a very short staff paper with a decision proposed for lapse-of-time Board approval. The staff paper is subject to the regular review process and should explain the status of the discussions and document preparation and any relevant policy understandings.

235. A PSI may be cancelled by the authorities at any time. This could be appropriate for instance when the country experiences financing or adjustment needs that are expected to extend beyond the short term (possibly warranting a switch to an ECF arrangement), the authorities no longer have the capacity or commitment to implement the program, the objectives or modalities of the authorities' economic policies have changed substantially, or the authorities no longer seek Fund support.

236. A PSI will terminate automatically upon: (a) noncompletion of two consecutive PSI scheduled reviews (or, in case of concurrent use of the PSI with the SCF, if no scheduled review is completed within 12 months of the completion of the last scheduled review, see below); (b) the relevant member incurring overdue financial obligations to the GRA or PRGT; or (c) approval of an ECF arrangement for that member.

C. Concurrent Use

237. While the PSI cannot be used concurrently with an ECF arrangement, countries with an approved PSI can receive financial support under the SCF or RCF without the need to cancel the PSI.

238. Qualification for an SCF arrangement, while not automatic, would be presumed for countries with an on-track PSI that experience a balance of payments need, provided that the relevant qualification requirements for the SCF are met. Such a need could be present, prospective, or potential (see definitions in footnote above). In the latter case, the PSI user can request concurrent precautionary support under the SCF, which may be useful in periods of increased uncertainty or risk. The SCF arrangement would provide access to Fund financing in case a balance of payments need materializes, and the PSI would provide greater continuity in terms of policy support (usually beyond the shorter SCF arrangement period). An on-track PSI, with the associated UCT-conditionality standard, would also reduce the time normally required to design an SCF-supported program. Modification of the PSI-supported program may be warranted in some cases, in particular when the changed circumstances affect the country's ability to meet the program objectives. In case the PSI-supported program is off track, SCF approval would typically only occur when appropriate corrective actions have been taken.

239. Concurrent support under a PSI and an SCF arrangement would have modalities akin to those applicable under a PSI or an SCF arrangement individually with regard to program documentation and program targets. In particular, the two instruments would support an economic program based on a single set of program conditions, schedule of reviews, and other requirements that largely mirror those applicable to stand-alone SCF arrangements or PSIs. Key differences, however, include:

- SCF qualification requirements must be met at the time of the approval of the SCF arrangement, in particular the existence of a present, prospective, or potential balance of payments need. Moreover, use of the SCF is normally limited to 2.5 years out of any 5-year period, assessed on a rolling basis,, with exceptions for SCF arrangements treated as precautionary and SCF arrangements for which the Fund assesses the member does not have an actual BoP need. See Chapter II of this Handbook for details.

- The choice of the duration of the SCF arrangement (between 12 and 24 months) would depend on the length of financing and adjustment needs, and would not necessarily be tied to the PSI period.

- If the expiration date of the SCF arrangement comes after that of the PSI, approval of a new PSI would normally take place only after the expiration or cancellation of the SCF arrangement, as qualification for the PSI requires a broadly stable and sustainable macroeconomic position—implying that no IMF financing is needed—at the time of approval of the PSI. However, a new PSI could be approved when the authorities intend to treat the SCF as precautionary. It may also be possible to extend the existing PSI for a short period to complete the final review (see Section B).

- While an SCF arrangement does not require the issuance of a PRS-related document, such a document must exist by the time of the completion of the second and subsequent reviews under a PSI or the requirement must be otherwise met (see Section E).

- The review schedule for the PSI could remain on the "fixed review cycle" (see Section G) or be aligned to the more flexible review cycle of the SCF.

240. Access to RCF support is presumed for countries with an approved PSI that subsequently experience an urgent balance of payments need, subject to qualification requirements for the RCF (see Chapter III of this Handbook).

241. Countries meeting the criteria that create a presumption for blending[187] would be expected to receive financial assistance through blended GRA and PRGT resources in the event they experience a balance of payments need during the course of a PSI-supported program. PRGT-eligible countries, including members qualifying for SCF or RCF financing during a PSI, would be expected to use either fully concessional or blended resources, rather than GRA-only financing, although they are always eligible for access to the Fund's general resources.

242. Members may use an SMP (or, in case of urgent financing needs and assuming the applicable policy commitments are in place, the RCF) to establish a track record for a PSI. The normal procedure for bringing an off-track PSI-supported program back on track would be through completing the next scheduled review (after appropriate corrective actions) rather than through an SMP.

D. Financing Assurances, Arrears, and Safeguards

Financing assurances

243. PSI-supported programs require the same financing assurances as those that are required for Fund financial arrangements. This implies that PSIs can only be approved (and reviews can only be completed) when the program is fully financed. This means that donors and creditors (both official and private) have furnished assurances that they will provide the necessary support (through new loans and/or refinancing) to meet the program financing requirements on terms consistent with the member's maintenance of a stable and sustainable macroeconomic position. Specifically, staff should confirm that there are no unfilled financing gaps over, normally, the next 12 months immediately following the approval of the PSI (and completion of each review) and that there is a clear expectation that the program will be fully financed through the remainder of the PSI period.

244. When PSI support is provided alongside financial assistance under the SCF or RCF, assurances should also be given that the country has a capacity to repay the Fund through medium–term projections of the balance of payments and the standardized table on indicators of the capacity to repay the Fund.

Arrears

245. Under the Fund's policy of non-toleration of sovereign external arrears to official (multilateral and bilateral) creditors, which applies analogously to the PSI, the Fund generally calls

[187] These criteria relate to the country's per capita income, market access, and debt sustainability, see for example Chapter III, Section C of the *Handbook*.

for the resolution of existing arrears to official creditors and non-accumulation of new arrears during the period of the program. It is not expected that PSI users would have any external arrears, given the qualification requirement of a broadly stable and sustainable macroeconomic position. In those rare cases where external arrears do exist, they can be addressed in a number of ways, depending on the type of creditor. Country teams should seek guidance from LEG and SPR on the application of the policy to specific creditors. The macroeconomic program assumptions under the PSI should be consistent with the expected resolution of any existing arrears to official creditors, which implies that the authorities and the staff have common understandings on the timing and modalities of arrears clearance. The assumptions on arrears clearance do not prejudge eventual agreements between the member and official creditors. Staff should have reasonable assurances that arrears clearance understandings are realistic.

246. Sovereign arrears to private external creditors and non-sovereign arrears that arise by virtue of the imposition of exchange controls are covered by the LIA policy,[188] which applies analogously to the PSI. Under this policy, the Fund can lend, on a case-by-case basis, in a situation of sovereign arrears to private external creditors and only where: (i) prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and (ii) the member is pursuing appropriate policies and is making a good faith effort to reach a collaborative agreement with its creditors (or to facilitate a collaborative agreement between private debtors and their creditors and good prospects exist for the removal of exchange controls).

247. PSI-supported programs should also address domestic arrears, if any, as part of the overall program design. The specification of policies related to domestic arrears will depend on the country context, in particular, the fiscal framework (see Appendix II).

Overdue obligations to the Fund

248. A member in arrears to the Fund in the GRA, or to the Fund as Trustee (including the PRGT), is not eligible for PSI support. Moreover, if a member were to incur arrears into GRA or PRGT, any existing approved PSI would be terminated.

Safeguards assessments policy

249. A safeguards assessment is not required for a PSI. However, members with a PSI are encouraged to undertake such an assessment on a voluntary basis as a way of enhancing the accountability, transparency, and institutional strength of their central banks. This would also facilitate quick access to Fund resources in the event of need.[189] The safeguards process involves an analysis of information obtained primarily through the collection of documents, and discussions

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[188] See *Summing Up by the Acting Chairman: Fund Policy on Arrears to Private Creditors—Further Considerations* (IMF, 1999a).

[189] See *The Acting Chair's Summing Up on Safeguards Assessments—Review of Experience: The Safeguards Policy—Independent Panel's Advisory Report* (IMF, 2010h).

with the authorities and the central bank's external auditors. It entails an evaluation of the central bank's safeguards framework covering governance, auditing, financial reporting, control systems, and its legal autonomy. Close cooperation and coordination between FIN, other functional departments, and area departments is essential for the effective conduct of the safeguards process. It is important for FIN to be kept informed by area departments of safeguards issues, including issues such as the timing of new arrangements and reviews.

E. Program Objectives and Design

Program objectives

250. All PSI-supported programs are aimed at maintaining or consolidating a *stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth* (see definition in Section A of this chapter). Specifically, PSI-supported programs should aim to maintain or consolidate (i) strong and durable poverty reduction and growth, (ii) low or moderate inflation, (iii) sustainable fiscal and current account balances, (iv) limited debt vulnerabilities, (v) adequate international reserves, and (vi) sufficient policy and institutional capacity to implement appropriate macroeconomic policies.

251. The design of a PSI-supported program should be aligned with the country's own poverty reduction and growth objectives (see further below). Specific policy objectives should be clearly articulated in the LOI/MEFP and associated staff report for a new PSI and would typically include:[190]

- ***Fiscal policies***, where (i) the fiscal stance is well anchored to help ensure macroeconomic stability and fiscal/debt sustainability, (ii) revenue and spending policies take due account of the country's growth and social objectives, and (iii) budgets are guided by medium-term fiscal frameworks to the extent possible.

- ***Monetary policies*** that are consistent with inflation, exchange rate, and reserve objectives, while taking due account of cyclical considerations.

- ***Exchange rate policies*** that ensure a unified exchange rate and a real exchange rate level that is broadly in line with fundamentals, ensuring a stable and sustainable external position consistent with adequate growth.

- ***Financial sector policies*** geared toward financial stability and deepening with a view to fostering investment and forestalling financial crises.

- ***Public financial management*** reforms aimed at ensuring that resources are tracked, reported, and targeted appropriately (including by providing adequate resources for social and other

[190] For further discussion of Fund program design in LICs, see *The Role of the Fund in Low-Income Countries*, (IMF, 2008b) and *Aid Inflows—The Role of the Fund and Operational Issues for Program Design* (IMF, 2007a).

priority spending), public debt management aimed at supporting debt sustainability, and revenue reforms aimed at broadening the revenue base, and enhancing tax efficiencies.

- ***Other structural reforms*** that are critical for achieving the program's macroeconomic objectives, with a focus on "second-generation reforms" aimed at enhancing the country's growth potential and the capacity to manage volatility.

Links to poverty reduction strategies and social spending

252. PSI-supported programs should be aligned with the country's own poverty reduction and growth objectives. The following specific guidance applies to PRS linkages:[191]

- Analogous to the requirements for financial support under the PRGT, it is expected that new PSI requests and PSI reviews would be accompanied by a statement, normally in the LOI or MEFP, of how the PSI advances the country's poverty reduction and growth objectives. It is expected that the description would be more detailed at the time of the initial request for a PSI or when a new PRSP (or I-PRSP) is produced. In cases where a relevant PRS document exists, this description in the LOI/MEFP could cross-reference to the PRS document.

- If a PRS document exists, the PSI-supported program should be consistent with the objectives of the PRS in the context of maintaining a broadly stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

- In cases where a relevant PRS document[192] does not yet exist, the program documentation (e.g., in an attachment to the LOI or MEFP) should outline the country's medium-term poverty reduction and growth objectives and policies. Subsequent program documents should refer to this documentation and update it as necessary.

- While a PRS document is not required at the time of initial Board consideration of the PSI request, the second (and every subsequent) review under the PSI can only be completed if a PRS document has been issued to the Board, normally within the previous 18 months, and has been the subject of a staff analysis, including in the staff report on a new PSI or on a review.

- It is also permissible to meet the PRS documentation requirements for completion of the second or any subsequent review under a PSI by describing in the LOI/MEFP how the current budget, the upcoming fiscal budget (if available), and planned structural reforms advance the implementation of the PRS. This flexibility is only available to members that, at the time of the Board meeting considering the review, have in place a PRSP which has been issued to the Board and which covers at least 12 months from the date of the completion of the review. This extends

[191] See Appendix V for detailed guidance on poverty reduction objectives and related documents.

[192] A PRS document refers to a PRSP, PRSP Preparation Status Report, I-PRSP, and APR as defined in the PRGT-HIPC Trust Instrument (Annex to Decision No. 11436-(97/10), as amended). See Appendix Box 1 of Appendix V for a description of various PRS documents.

the existing requirement that at the time of each review the LOI/MEFP describes in concrete terms how the program advances the goals of the PRSP. The accompanying staff report must provide staff's views on how the fiscal budgets and planned structural reforms help advance PRS implementation.

- Whenever a PSI-supported program is under consideration (including cases where support is currently provided under an SMP, SCF, or RCF), staff should inform the authorities at an early stage about the relevant definitions and timelines for PRS documentation requirements (Appendix V) to ensure adequate time for the PRS process.

- While not required for PSI support, staff are required to prepare JSANs for PRSPs and I-PRSPs generally within four months of the transmission of a PRSP or an I-PRSP (outside the HIPC context).[193] For APRs, it is good practice to provide feedback in the context of an annual feedback process.[194] In cases where a JSAN has not yet been prepared, the Executive Board is not prevented from making decisions governing member's PSIs, including the completion of reviews if the relevant preliminary staff analysis has been included in the staff report for the PSI or a supplement (and the JSAN, together with the PRSP, would be discussed at the next Board meeting). JSANs can be submitted to the Board for information or discussion (Appendix V).[195]

- More generally, and irrespective of requirements on PRS document issuance to the Board and related staff analysis in the context of a PSI, PRS documents should normally be produced by the authorities on a 12-month cycle and aligned with other domestic policy cycles. In case of significant weaknesses in the PRS, including those identified in the JSAN or through the AFP, program staff reports should report how these weaknesses are being addressed. While it would be expected that any identified weaknesses in the member's PRS would be addressed, this is not a requirement for support under the PSI.

253. Social and other priority spending should be safeguarded and, whenever appropriate, increased under PSI-supported programs. Analogous to programs supported through financial assistance under the PRGT, this objective could usefully be monitored through explicit program targets, for instance through an indicative floor on social and other priority spending. The definition of what constitutes social or other priority spending should be consistent with the authorities' poverty reduction and growth objectives. In cases where such expenditures are not tracked, the program documentation could report on progress in developing a tracking system. Staff should also alert the authorities that Fund's concessional financial support generally includes conditionality related to safeguarding social and other priority spending where feasible.

[193] This requirement is established in paragraph 3 of Executive Board Decision No. 14253-(09/8).

[194] See IMF (2009a), paragraph 8.

[195] See Decision No. 14253-(09/8), as amended and IMF (2013d), paragraph32.

Debt sustainability analysis (DSA)

254. PSI-supported programs should be underpinned by a thorough DSA to inform the elaboration of medium-term debt strategies and fiscal frameworks. Country teams should engage with the authorities in the preparation of DSAs, discuss the results, and share the final files with the relevant officials. DSAs for most LICs are usually prepared jointly with the World Bank, and country teams should also involve other relevant MDBs in the preparation of DSAs. Joint DSAs are required for PRGT-eligible IDA-only countries; for LICs that are not IDA-only, close consultation with the Bank is recommended.

255. A fully elaborated DSA is required at least once every three years, with shorter annual updates in the interim years possible in the absence of significant changes in the macroeconomic and financial environment. Full DSAs should be prepared in periods of heightened domestic, external, or global risks. The precise timing of a DSA may be driven by program requirements. In particular, the design of debt limits in the PSI is systematically related to the assessment of countries' debt vulnerabilities (see Appendix II). Also, in cases where PSI support is provided alongside RCF or SCF support, the determination of access to the Fund's concessional resources needs to take account of the country's debt vulnerabilities based on the most recent DSA, and a DSA (or DSA update) may need to be prepared for higher access financing requests (augmentation or new arrangement). In cases where a DSA is required outside the regular joint Bank-Fund DSA cycle, a DSA update may be prepared unilaterally by Fund staff drawing on a prior full joint Fund-Bank DSA as long as a joint DSA was prepared recently and the analysis would not result in a change of the risk of debt distress rating.

256. DSAs for LICs should be presented as self-contained documents (see Appendix I). They should normally be prepared using the LIC Debt Sustainability Framework (DSF), although for countries with durable and substantial access to market financing, the template designed for middle-income countries can be used instead. The analysis includes three components:[196]

- A forward-looking analysis (20-year projection) of debt and debt-service dynamics under a baseline scenario, alternative scenarios, and standardized stress tests;
- An explicit assessment of the risk of external debt distress (low, moderate, high, or in debt distress) based on indicative country-specific debt-burden thresholds that depend on the quality of policies and institutions in the country; and
- Recommendations on a borrowing (and lending) strategy to limit the risk of debt distress, while maximizing the resource envelope to achieve the country's development objectives.

[196] For the details on the use of the DSF, please see *Staff Guidance Note on the Application of the Joint Fund-Bank Debt Sustainability Framework for Low-Income Countries* (IMF, 2013g).

Collaboration with the World Bank and other development partners

257. Fund staff should consult closely with all major development partners active in the country when designing and monitoring a PSI-supported program. In addition to this routine collaboration, the JMAP[197] approved by the Boards of the World Bank and IMF calls on Bank and Fund country teams to consult with each other at least once a year in order to identify the country's key macroeconomic and structural reform challenges and coordinate work plans in support of addressing these challenges (see Appendix I).

F. Conditionality

Conditionality principles

258. Conditionality, i.e., the set of program-related conditions, under a PSI is aimed at assessing whether a member's policies are strong enough to meet the program objectives. Consistent with the Fund's Guidelines on Conditionality,[198] conditions will normally consist of macroeconomic variables and structural measures that are reasonably within the member's direct control and that are, generally, either (i) of critical importance for achieving the goals of the program (or for monitoring program implementation, or (ii) necessary for the implementation of specific provisions of the IMF Articles of Agreement or policies adopted under them. In some cases, conditions may be outside the Fund's core areas of expertise, in which case a more detailed explanation of their critical importance is required.

259. Analogous to ECF and SCF arrangements, PSI-supported programs must meet the UCT-conditionality standard, which requires the commitment and capacity by the authorities to implement a set of policies that is adequate to correct external imbalances, and enable repayment to the Fund within the specified maturity period in the event that the member uses Fund resources or has any credit outstanding under the GRA or PRGT.

Specification of program conditions

260. Program conditionality will include quantitative periodic and continuous ACs, and typically also indicative targets and structural benchmarks, as well as prior actions if critical (see Appendix II for detailed guidance on quantitative conditions). Conditionality is set at the time of approval of the PSI and updated at the time of program reviews. Conditionality should normally be set (or modified) by the Board before the test date. For the establishment (or modification) of post-dated ACs, the program documents would have to be signed and circulated to the Board along with the staff report

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[197] See *Enhancing Collaboration—Joint Management Action Plan* (IMF, 2007c) and *Implementation of the Joint Management Action Plan on Fund-Bank Collaboration* (IMF, 2010d).

[198] See IMF (2010b) and *Revised Staff Statement on Principles Underlying the Guidelines on Conditionality, and Operational Guidance Note on the 2002 Conditionality Guidelines* (IMF, 2006a). As specified in the PSI Framework Decision, the Guidelines on Conditionality apply to the PSI where relevant and except where the PSI Framework decision sets forth different or more specific provisions. (Decision No. 13561-(05/85), as amended paragraph 17).

before the test date, and no information on implementation of the so established conditionality would be available at the time of the Board meeting.

261. Prior actions are measures that a member is expected to adopt prior to the Fund's approval of a PSI, completion of a review, or the granting of a waiver with respect to an AC, when it is critical for the successful implementation of the program that such actions be taken to underpin the upfront implementation of important measures. Prior actions are to be applied parsimoniously and specified in clear, objective, and unambiguous terms. Prior actions should in principle be implemented at least five working days before the Board discussion. They should be defined in the LOI/MEFP and cross-referenced in the relevant Board Decision. The use of prior actions is expected to be less frequent than in Fund financial arrangements, though they may nevertheless provide a mechanism for a member to remedy policy or other slippages.

262. Quantitative ACs would normally be set on a semiannual basis and tied to semiannual program reviews, while quantitative benchmarks (also referred to as indicative targets) would normally be specified on a quarterly basis. However, when warranted by country circumstances, such as the need to align with the member's budget cycle, review dates may be set at different intervals. The interval between scheduled review dates may not exceed six months and there should be ACs associated with each review. Conditionality should cover all test dates that fall within the 12 months after the Board meeting. Specifically, at the time of initial approval and each review, ACs *must* be established for the shorter of (a) the next two scheduled reviews or (b) the remaining period of the PSI.

263. Quantitative ACs typically include measures of net international reserves, central bank domestic assets, domestic and fiscal balances or financing, limits on nonconcessional external debt,[199] and any other macro-critical indicators. ACs are usually subject to program adjustors that reflect deviations from projected external flows. Indicative targets should include a floor on social and other priority spending where possible, and may include other indicators such as reserve money.

264. Continuous ACs always include, inter alia, commitments related to non-introduction or intensification of exchange restrictions and on non-introduction or modification of multiple currency practices. Other continuous ACs typically include the non-accumulation of external payments arrears. See Appendix II, Section G, for details.

265. PSI-supported programs normally include an agenda for macro-critical structural reforms, with a focus on "second-generation reforms" aimed at enhancing the country's growth potential and the capacity to manage volatility. Structural benchmarks are critical measures that are intended to serve as clear markers in the assessment of progress in the implementation of critical structural reforms in the context of a program review. Structural benchmarks should be used as

[199] See Appendix II, Section E. The debt limits policy was reformed in 2009 to allow more flexibility and tailor it better to country circumstances. See *Debt Limits in Fund Supported Programs—Proposed New Guidelines* (IMF, 2009g) and *Staff Guidance Note on Debt Limits in Fund-Supported Programs* (IMF, 2009l).

parsimoniously as possible, and their macro-criticality explicitly justified in program documents, ideally in the structural benchmark table. Reviews are the primary tool for monitoring performance on the structural elements of the program, by judging progress relative to the relevant objectives.[200] Specific objectives should be defined for periods covered by individual reviews, with related structural benchmarks that are critical for achieving the program's objectives. The appropriate number of structural benchmarks depends on a variety of country-specific factors, including the centrality of structural reforms for achieving the program's objectives and country capacity; PSI-supported programs would typically contain less than five structural benchmarks per semiannual review. The use of structural ACs was discontinued in 2009.

266. To the extent the implementation of a structural benchmark is delayed beyond the relevant test date, such a measure will be found not to have been met but it can be proposed to the Board to establish such a measure as a new structural benchmark linked to the next program review, if the benchmark remains macro-critical to the program. If it seems that implementing a structural benchmark is no longer possible as defined under the program (say, due to a change in the authorities' reform plans or other changes in circumstances), a new benchmark or a modified version of the original one may be appropriate as long as it is critical to achieve program goals.

Waivers and modifications

267. A ***waiver for nonobservance*** of an AC may be granted if the Fund is satisfied that the program will nevertheless be successfully implemented—i.e., that it will achieve its goals— either because of the minor or temporary nature of the nonobservance or because of remedial actions taken by the authorities to preserve program objectives. In contrast to Fund financial arrangements, a formal request from the member to grant waivers is not required under the PSI, and the title of the staff report need not state that waivers are proposed. Waivers for nonobservance are only approved for quantitative ACs that are tied to the review that is being completed or for continuous ACs that have been missed.

268. ***Waivers of applicability*** are not possible under a PSI. Where the authorities do not provide data on performance that would allow the Fund to determine the observance of an assessment criterion or that a waiver of nonobservance is warranted, the corresponding review cannot be completed. In those circumstances where data with respect to an assessment criterion is unavailable, the review (which cannot be completed) will nevertheless assess performance against the other assessment criteria and program elements for which data were available.

269. ***Modifications*** to program conditionality that has already been set by the Board may be appropriate when departures from ACs are expected to occur, for instance when basic program assumptions have not been realized or significant developments have occurred that had not been anticipated when the ACs were set, provided that the new targets remain macro-critical. Requests

[200] See Decision No. 14280-(09/29), *GRA Lending Toolkit and Conditionality—Reform Proposals* (IMF, 2009c), and Decision No. 14317-(09/41).

for such modifications must be submitted to the Board before the relevant test date has been passed, and must be approved by the Board before information on the observance of the AC is available, normally in the context of a program review. In exceptional cases, modifications of ACs can be approved by the Board outside the context of a program review, provided the authorities and staff have common understandings on appropriate policies through the next review as documented in a revised or new LOI with an updated AC table, and, where relevant, TMU. Such modifications outside of a review could be appropriate if the original targets are no longer critical due to developments beyond the authorities' control (including staff errors). Board approval would require a staff report that discusses the reasons for the modification, including why it is proposed outside the review context, the status of the program, and relevant policy understandings.

Misreporting

270. The framework for dealing with misreporting under the PSI is tailored specifically to the PSI modalities and the fact that the PSI does not entail the use of Fund resources (UFR). Accordingly, the PSI misreporting framework is simplified compared to the more comprehensive framework applicable in the UFR context.[201]

271. Board decisions approving a PSI or completing a review under a PSI are conditioned on the accuracy of information reported by the member on performance under assessment criteria (whether found to have been met or waived) and on the implementation of prior actions (if any) specified in the respective Board decision. Whenever evidence comes to the attention of the staff indicating that the member's reporting of such information was inaccurate in relation to a PSI approved or a review completed within the preceding three years, the Managing Director shall promptly inform the member concerned. "Inaccuracy" of information should be interpreted in the same manner as in cases of misreporting under financial arrangements. For example, with respect to a quantitative AC, information would be inaccurate if the member reported that the AC was met when it turns out not to have been met. If the Managing Director finds, after consultation with the member, that the member had reported inaccurate information to the Fund, in the above-noted circumstances, the Managing Director shall promptly notify the member of this finding.

272. The Board's consideration of the misreporting will normally take place at the same time as the next scheduled PSI review, based on a combined misreporting/review staff report, but could take place earlier if, e.g., the review is some way off and the circumstances of the misreporting warrant earlier consideration. The Executive Board shall reassess program performance in light of the revised information associated with the misreporting. Such a reassessment of past program performance in

[201] The misreporting framework under Article VIII, Section 5, of the Fund's Articles of Agreement does not apply to information provided to the Fund solely for the purposes of a PSI. However, Article VIII, Section 5 and its associated procedures would apply to information provided in the context of a PSI when such information is otherwise subject to Article VIII, Section 5 (such as data listed in Annex A of Decision No. 13183-(04/10), adopted January 30, 2004), for instance because it is also provided in the context of bilateral surveillance.

the light of a misreporting will not lead to the Board retroactively reversing its decision completing a review, which subsequently had become associated with a misreporting.

273. In all cases in which the Board has determined that misreporting has occurred (except those cases found to be *de minimis*),[202] relevant information on the Board decision, such as the finding of misreporting and any impact on past Board assessments under the member's PSI, will be published. There are no waivers in the context of the PSI misreporting framework.

G. Program Reviews

Purpose of program reviews

274. Program reviews evaluate whether the program is on track to achieve its objectives. This evaluation is based on a backward-looking assessment—taking into account performance against quantitative ACs, structural and quantitative benchmarks, and prior actions—and a forward-looking assessment of the prospects for successful program implementation, in particular whether policy capacity and commitments are adequate for implementing the UCT-quality program and achieving the program's objectives. The second (and every subsequent) review can only be completed if a PRS document has been issued to the Board, normally within the previous 18 months (Appendix V). However, as noted above, there is flexibility in how the PRS documentation requirements may be met (see section E and Appendix V). At the time of the consideration of the final review under a PSI, and assuming no further Fund program support is expected, the scope of the forward-looking assessment could be more limited than for previous reviews.

275. Completion of a review by the Board would signify the Fund's assessment that the program is on track,[203] whereas noncompletion of a scheduled review would provide a signal that the program is off track. Noncompletion of two consecutive scheduled reviews would automatically terminate the PSI.

276. Reviews also update the program design, in particular by specifying forward-looking policies and conditionality, and are the main vehicle for any potential modifications to program design, such as changes in conditionality, as may be necessary to achieve the program's objectives in changing circumstances. At the time of approval and for each review, the authorities' LOI presents or updates their policy program, and a staff report provides an overall assessment of performance and policy commitments.

[202] See PSI Framework, Decision No. 13561-(05/85), as amended, paragraph 15 and 16(c). For a discussion of the misreporting policies in *de minimis* cases see IMF (2006e).

[203] The last sentence of the staff appraisal is standardized: "Staff recommends completion of the X scheduled review." The Chairman's statement also includes standardized language: "The X scheduled review is completed." In addition, the factual statement to be issued as a press release along with, or instead of, the Chairman's statement should include this same reference.

"Fixed" review schedule and test dates

277. The timing of all reviews and test dates is summarized in a staff report table at the time of PSI approval, and updated as needed at the time of reviews. The quantitative indicator table ("AC table") attached to the LOI/MEFP should clearly identify ACs and indicative targets, including adjustors, for at least a 12-month period from the Board date of the PSI approval or review, as indicated above. Similarly, the structural benchmark table should cover measures over at least a 12-month period, clearly indicating the reviews that individual benchmarks are linked to. The Decision attached to the staff should specify all ACs and review dates over the next 12 months from the Board date of the program approval/review.

278. Test dates for quantitative ACs are linked to reviews that will be conducted irrespective of the status of program implementation or prospects. When designing the schedule of test dates, careful consideration should be given to alignment with the country's budget cycle. There is scope for some flexibility in setting the specific review dates and test dates relative to the regular cycle, as long as they scheduled at most six months apart. The periodicity of program reviews can be timed flexibly. Each review would need to be associated with its own set of ACs and disbursements, so PSIs with a higher frequency of reviews would require ACs and disbursements of a similar frequency.

279. The test dates for ACs must be set such that all scheduled reviews can take place before the end of the PSI period, taking into account reporting lags and preparation and circulation periods for staff reports. Similarly, the review dates that are specified in the LOI/MEFP and the Decision for approval/review should be set such that all data needed to confirm observance of ACs at the related test dates would have become available.

280. All the program documentation for a review should normally be issued to the Board within four months following the test date for the quantitative ACs linked for that review, and the LOI shall in any case be issued prior to the test date for the earliest periodic quantitative ACs linked to the next scheduled review.[204] In line with circulation periods (Appendix I), it is expected that Board discussion of the review would normally occur two weeks after the issuance of such documentation. This "fixed" review schedule provides for regular reviews, with flexibility around a semiannual schedule, and is intended to ensure the strength and consistency of the Fund's signal and provide donors and the private sector timely information to help them make independent judgments about their financing decisions.

281. The program period supported by a PSI would typically start somewhat before the Board approves the PSI, and three to six months before the first test date under semiannual monitoring. Analogous to programs supported through Fund financial arrangements, the program period

[204] The staff report can be issued up to one month after that test date. This flexibility could be helpful, as noted in IMF (2013d), for instance, when additional time is needed to finalize understandings with the authorities, or when there are clear indications that essential structural reforms required to complete the review are expected to be implemented within the one-month extension. Nonetheless the LOI and MEFP would normally have to be signed and circulated to the Board before the test date of the periodic assessment criteria associated with the next review.

should normally not start more than three months prior to the Board meeting, and in any case not before the authorities and staff have discussed the parameters of the program.

282. In the event that a member implementing a PSI-supported program also has an SCF arrangement in place, program reviews under the SCF arrangement should be scheduled at the same time as reviews of the PSI-supported program, and performance criteria under the SCF arrangement shall normally be established for the same test dates (and apply to the same variables and measures) as ACs under the PSI. A single set of documents related to PSI and SCF reviews should normally be issued to the Board. As noted in Section C, when used concurrently with the SCF, the schedule of reviews can be aligned either with the "fixed review cycle" of the PSI or on the more flexible review cycle of the SCF. With a PSI remaining on the fixed cycle, it is still required that the documentation for a review under the PSI would have to be issued to the Executive Board before the next relevant test date, irrespective of program performance and whether the review will be completed. Shifting a PSI to the SCF review schedule would require amending the approved PSI such that a PSI review can be completed at a later stage.

Noncompletion of reviews

283. In the event that performance is not sufficiently strong, or if understandings cannot be reached on the forward-looking elements of the program, a staff report must still be circulated to the Board normally within four months of the test date of the periodic ACs linked to that review and in any event prior to the test date linked to the next scheduled review. The report will provide an assessment of performance relative to program objectives and indicate clearly areas where staff's and the authorities' views diverge. The staff appraisal will recommend that the review not be completed at this time. To the extent possible, the staff appraisal will elaborate on the steps needed to bring the program back on track.[205]

284. The normal procedure for indicating that an off-track program has been brought back on track would be through completion of the next scheduled review. To the extent that performance was not sufficiently strong to complete a particular review, bringing a PSI-supported program back on track would require corrective action. In addition, staff assessment letters can be used to fill information gaps between two scheduled reviews, and in particular to report on performance improvements following an uncompleted scheduled review.

285. While it is in principle possible to return to an uncompleted review, this would be very rare in practice as related documentation would have to be issued to the Board prior to the test linked to the review, thus allowing only a very narrow timeframe. Moreover, this option is not available if the review is the second consecutive uncompleted scheduled review.

[205] The last sentence of the staff appraisal would be standard: "Staff does not recommend completion of the X scheduled review." The Chairman's statement also includes standardized language: "The X scheduled review is not completed." In addition, the factual statement to be issued as a press release along with, or instead of, the Chairman's statement should include this same reference.

286. The noncompletion of two consecutive scheduled reviews (or, in case of concurrent use of the PSI with the SCF, if no scheduled review is completed within 12 months of the completion of the last scheduled review) signifies the lack of Board endorsement of the member's policies, and the PSI would automatically lapse as of the date of the Board's second consecutive decision not to complete a scheduled review.[206] An SMP may be appropriate, in some circumstances, to reestablish a track record for a future Fund-supported program under the PSI, SCF, or (in rare cases) ECF after a PSI has terminated in this fashion. See Appendix III for a discussion of different types of track records.

H. Other Relevant Policies

287. A number of additional modalities and policy requirements apply to the PSI, including the following:

- ***EPAs.*** Engagement under the PSI does not count toward determining the policy on longer-term program engagement (LTPE). However, for members interested in a PSI, and for which an EPA is otherwise required, it is expected that the EPA would be conducted before, and in any case no later than, the Executive Board's consideration of the request for a PSI.[207]

- ***PPM.*** Engagement in a PSI would provide an alternative vehicle for PPM with respect to members that are, in principle, subject to such monitoring in light of their outstanding obligations to the Fund.[208] Accordingly, members with a PSI would be treated similarly to members with programs supported by a Fund financial arrangement or SMPs for the purposes of PPM. In such cases, PSI staff reports should include a section on the member's capacity to repay the Fund.

- ***Article IV cycle.*** The 24-month cycle for Article IV consultations applies to members with a PSI.[209] Specifically, Article IV consultations with members that have an on-track PSI arrangement in place would be expected to be completed within 24 months after the completion of the previous Article IV consultation. In cases where a program review is not completed by the date for completion specified in the arrangement, the next Article IV consultation would be expected to be completed by the later of (i) six months after the scheduled review date and (ii) 12 months plus a grace period of three months after the previous Article IV consultation, *unless* the program review has been completed prior to the later of these two dates, in which case the 24-month cycle continues to apply. A member that has completed a PSI by completing all reviews

[206] The staff appraisal would include the following standard language: "Staff does not recommend completion of the X scheduled review. With two consecutive reviews not completed, the current PSI would lapse." The Chairman's statement also includes standardized language: "The X scheduled review is not completed. With two consecutive reviews not completed, the current PSI will now lapse." In addition, the factual statement to be issued as a press release along with, or instead of, the Chairman's statement should include this same reference.

[207] See Appendix I for more details on EPAs.

[208] As per Decision No. 13454-(05/26), as amended.

[209] See Decision No. 14747-(10/96).

may remain on the 24-month cycle, if it does not meet any of the criteria specified in paragraph 2 of Decision No. 14747-(10/96): (i) the member is of systemic or regional importance; (ii) the member is perceived to be at risk, or is facing pressing policy issues of broad interest to the Fund membership; or (iii) the member has outstanding Fund credit exceeding 200 percent of quota. At the time of the final review under the PSI, staff should assess whether the consultation cycle should be shortened back to 12 months, based on the criteria mentioned above. When this is the case, the staff report for the final review should seek the Board's approval of such shortening.[210] Where the PSI is cancelled by the member or expires with uncompleted reviews, the member will remain on the existing cycle, unless the Executive Board determines, based on the criteria specified in paragraph 1 of Decision No. 14747-(10/96) that a different cycle will apply.

- ***Exchange System obligations under Articles VIII and XIV and Data Provision under Article VIII, Section 5.*** Requirements under Article VIII Sections 2, 3, 4, and Article XIV are discussed in *Article VIII Acceptance by IMF Members—Recent Trends and Implications for the Fund* (IMF, 2006d). A standard continuous AC applies, inter alia, to the non-introduction or intensification of exchange restrictions and on the non-introduction or modification of multiple currency practices (see Appendix II, Section G).

- ***HIPC and MDRI.*** Countries with unsustainable external debt situations that qualify for HIPC debt relief would, by definition, not meet the qualification standard for a PSI. PSI-supported programs are therefore not included in the programs specified by the PRGF-HIPC Trust Instrument for establishing track records toward the HIPC decision or completion points.

- ***Side letters.*** The use of side letters in LIC programs has been extremely rare. Side letters may be used when release of information on policy understandings at the time of a program request or review would cause adverse market reaction or undermine the authorities' efforts to prepare the domestic groundwork for a measure.[211]

[210] See the latest version of IMF (2009j).

[211] For the Fund's policy on side letters, see Decision No. 12067-(99/108).

Appendix I. Documentation and Review Process

This Appendix summarizes documentation requirements and the chronological steps for a typical mission cycle in a LIC.

A. Introduction

1. All staff papers concerning the UFR, other program support (PSI and SMP) and surveillance for a particular country are prepared by area department-led mission teams. The area department and SPR have joint responsibility for clearance prior to submission to management. The review process also involves LEG and FIN. Other functional departments will review these documents according to their own internal rules and will follow the review-on-demand principle (area departments can request from non-reviewing functional departments to review documents on demand).

B. Pre-Mission Work

2. **Early consultation:** In cases where new financing or program support is envisaged, mission teams are encouraged to consult informally with SPR (and if relevant FIN or LEG) at an early stage to get information on relevant Fund policies, in particular on the choice of LIC instrument, access and phasing, PRS and DSA requirements, early Board briefings, as well as technical issues related to HIPC/MDRI, safeguards assessments, external arrears, financing assurances (including from the Paris Club), misreporting, exchange restrictions, as applicable.

3. **Policy Note (PN):** In preparation for policy discussions with country authorities (UFR, surveillance, and other program support), area departments will prepare a PN. The PN should include a sufficient exposition of (i) background diagnostics (including recent developments), (ii) the economic outlook, (iii) the staff's and the authorities' positions on key policy issues, (iv) program objectives and design where relevant, and (v) risks and mitigation measures. Supportive charts should be included. The PN should always include the standard set of macroeconomic tables (see below). Divergences of views with reviewing departments, brought up during the Policy Consultation Meeting (see below), should be flagged upfront in the PN. The final PN should be sent to management for clearance. Procedures for management clearance should be decided jointly by the area department and SPR according to the criteria in Table 1.

4. The standard macroeconomic tables include the following: (a) selected economic indicators; (b) government accounts (in national currency and percent of GDP); (c) monetary survey (central bank accounts and commercial bank accounts); and (d) the balance of payments. Program tables should include: (a) a table with quantitative conditionality (the "PC table") that covers (i) previously established targets and outturns (PCs and indicative targets) over at least the past 12 months, (ii) PCs established for the next 12 months (from the expected Board date), and (iii) indicative targets through the end of the calendar year (or fiscal year) for which policies are being discussed; (b) a structural benchmark table covering (i) the implementation status of previously established benchmarks and (ii) benchmarks covering the next 12 months, highlighting their timing and macro criticality; (c) a table with the approved and proposed schedule of disbursements and reviews; (d) financing requirements and sources, and, in the case of new financing requests or augmentations; or if the macroeconomic environment has changed significantly, (e) the member's capacity to repay the Fund.[212]

5. Area departments are encouraged to attach background material in the form of concise and focused appendices to the PN, including the analytical underpinnings of program design, the DSA, exchange rate assessment, HIPC/MDRI issues, and others as applicable. Attaching draft staff reports is not encouraged. Area departments can request from functional departments cross-country information and analysis that would be useful for the PN. To do this on a timely basis, area departments should informally contact functional departments about one to two months before the scheduled mission.

6. A full PN (typically 3–4 pages text)—to be circulated for departmental review—is required for all missions, staff visits, and authorities' visits with substantive policy discussions that are not mostly covered in a previously cleared PN. The PN should be shorter for missions and visits whose aim is to continue policy discussions on the basis of a previously cleared (full) PN. Such a shortened PN would also be appropriate for staff visits aimed at holding substantive (as opposed to purely technical) discussions on key budget parameters if these parameters are consistent with the macroeconomic framework set out in a previous full PN or staff report. Such a shortened PN should include a brief update on recent developments, the status of discussions, and, if relevant, justification for any proposed changes to the previous PN.

7. For staff visits that are technical or information-seeking, a short memorandum—to be circulated to review departments for information only—would be sufficient provided that area departments and SPR agree that there is no change in the policy line or economic circumstances since the last staff report and/or PN.

[212] In the case of SCF arrangements treated as precautionary, the baseline scenario should be presented showing no Fund financing, while an alternative scenario should illustrate the potential balance of payments need, including the potential capacity to repay the Fund indicators.

8. Policy Consultation Meetings (PCM): A PCM should be held approximately two to three weeks prior to missions. The PCM should establish a firm idea of what the final PN will look like, discussing issues and ideally reaching agreement. Review departments should ensure that the "right" people (i.e., able to speak for their department on the policy line) attend the meeting. Functional departments may send technical experts but this status should be made clear. All policy issues should ideally be raised at the PCM (not opened up subsequently). PCM participants are encouraged to check at the end of the PCM that they share the same understanding of what was agreed and to thereafter work interactively toward finalizing the policy note. If needed, a follow up meeting may be called. Reviewing departments are encouraged to circulate any cross-country and technical analyses ahead of the PCM and to give the area department an informal heads up of the issues they intend to raise (but avoid extensive written comments).

9. Cover memorandum for PN: The final PN should be sent to management for clearance with a cover memorandum. The cover memorandum should provide concise and candid information on the following: (i) key issues—economic situation, including vulnerabilities to an external or financial crisis; (ii) staff's main recommendations; (iii) main issues raised in the review process; and (iv) any controversial aspects. The cover memorandum should also clarify the requested management action. SPR will review the cover memorandum but does not "clear it"—any departmental disagreements should be *fully* reflected in the cover memorandum. The protocol for management clearance of the cover memorandum is provided in Table 1 below.

Appendix Table 1. Management Clearance

Process	Circumstances
Management review	Systemic, vulnerable, new program, or exceptional access countries
Lapse of Time basis	All other countries
Meeting with Management	Major differences of views between area and reviewing departments

C. On Mission

10. LOI/MEFP: For new financing/program requests and for program reviews, the authorities of the member country will need to sign a statement that sets out the policies and measures they intend to pursue in line with their Fund-supported program. This statement is presented in the form of an LOI and typically includes an accompanying MEFP. Under the standard that has been long applied in the Fund, the LOI must be signed by representatives of those agencies of the member that are responsible for formulating and implementing the policy commitments included in the LOI/MEFP. Accordingly, it is standard practice that both the Minister of Finance and the Governor of the Central Bank sign the LOI, although the latter may not be appropriate in currency unions. Signature by presidents and prime ministers is also possible. For routine program reviews, a more detailed LOI could in some cases obviate the need for an MEFP. However, this would presume that a previous MEFP discussed the policies applicable to the 12-month period following the review. The LOI/MEFP should draw out specific actions in support of the program and usually contain (i) a table with quantitative performance criteria that cover the next 12 months (from the Board date) and indicative targets that extend through the end of the calendar year (or fiscal year) for which policies are being discussed, and (ii) a structural benchmark table, with benchmarks covering the next 12 months, highlighting their timing and macro criticality.[213] The LOI should also include the standard consultation clause that authorities will consult with the Fund ahead of any revisions to the measures outlined in the MEFP, in accordance with the Fund's policies on such consultations. For the initial program/financing request and at each review, the LOI/MEFP should specify how the program advances the country's poverty reduction and growth objectives and policies. It is expected that the description would be more detailed at the time of the initial program request or when a new PRSP (or I-PRSP) is completed. In cases where a relevant PRS document exists, this description in the LOI/MEFP could cross-reference the PRS document. In cases where a relevant PRS document does not exist, the program documentation (e.g., in an attachment to the LOI or MEFP) should outline the country's medium-term poverty reduction and growth objectives and policies. Subsequent program documents should refer to this documentation and update it as necessary. A draft LOI/MEFP should be discussed during the mission, and the authorities should be advised that these understandings are reached with staff ad referendum; i.e., subject to Fund management approval. The authorities should therefore not sign the LOI prior to management approval.

11. Technical Memorandum of Understanding (TMU): For new program/financing requests, the LOI/MEFP must be accompanied by a TMU that clearly and precisely defines the PCs under the program, including the definitions of indicators, the coverage of government and the monetary authorities, exchange rate valuation for program purposes, program adjustors, data submission

[213] For more details, see *Revised Operational Guidance Note on Conditionality* (IMF, 2008a) and *Creating Policy Space—Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs* (IMF, 2009i).

requirements, etc.[214] Standard language[215] on the definition for external debt should also be included.

12. Side letters: The use of side letters in LIC programs has been extremely rare. Side letters may be used when release of information on policy understandings at the time of a program request or review would cause adverse market reaction or undermine the authorities' efforts to prepare the domestic groundwork for a measure.[216]

13. Concluding Statement: Mission Concluding Statements summarize the discussions between country authorities and an IMF staff team. They are agreed by the country authorities and the IMF mission team, and they can be posted on the IMF website, if desired by the country authorities and Fund mission team. For Article IV missions, it is standard practice for teams to leave a Concluding Statement with the authorities, recapitulating the mission's assessment of the macroeconomic situation and its policy advice. A Concluding Statement is also sometimes useful in missions that do not result in understandings on a new financing/program request or program review.

14. End-of-mission Press Release: It is often useful for missions to issue a press statement at the end of a mission, especially when understandings on a new program/financing request or program review are reached. Such press statements can provide an opportunity to focus the attention of the local media and key stakeholders on the main policy issues and build an understanding for the role of the Fund in the country. Staff should inform the authorities of their intention to issue a press statement. Missions are encouraged to inform the COM country press officer or Media Relations of press plans, and should clear the written statement before its release. The mission should also give the authorities an opportunity to review the draft press statement.

D. Post-Mission Work

15. Back-to-Office Report: The mission chief should send a back-to-office report (BTO) to management within two working days of the mission's return to headquarters. The BTO should be

[214] For more details, see *Revised Operational Guidance Note on Conditionality* (IMF, 2008a) and *Creating Policy Space—Responsive Design and Streamlined Conditionality in Recent Low-Income Country Programs* (IMF, 2009i).

[215] See *Guidelines on Performance Criteria with respect to External Debt in Fund Arrangements*, and Decision No. 6230-(79/140), as amended, and *Staff Guidance Note on Debt Limits in Fund-Supported Programs* (IMF, 2009l).

[216] For the Fund's policy on side letters, see Decision No. 12067-(99/108).

short (up to two pages), and should mention the nature of the mission (with mission members listed in a footnote) and the key issues, with an attached Selected Economic Indicators table.

16. **Staff Report:** A staff report is required for an Article IV consultation, initial program or financing request, and at the time of each program review. This includes the ECF, SCF, RCF, PSI, and SMP. Short staff reports to the Board would also be required where program design is modified in between reviews (e.g., modification of PCs, short-term extension of arrangements, augmentation requests at ad hoc reviews, etc.). All such staff reports should include (i) background diagnostics (including recent economic and political developments), (ii) the economic outlook, including downside risks and debt vulnerabilities (referring to the most recent DSA), (iii) the authorities' policy objectives and plans, and (iv) a staff appraisal of the key policy issues. Article IV reports contain a number of additional elements and requirements.[217] Where applicable staff appraisals should also make recommendations for approvals of requests for (i) waivers of nonobservance of PCs, (ii) extension of arrangement, (iii) augmentation, (iv) rephasing, and (v) modification of existing PCs, providing justification that builds on material in the main body of the report to support the recommendation. For combined UFR and Article IV staff reports, it is important that the Article IV coverage remain comprehensive and deal with all the relevant issues, in particular critical medium- or longer-term policy issues.

17. Program documents involving initial requests for ECF, SCF, RCF, or PSI support should set out overall program objectives and specific policy understandings. Staff reports should explain the choice of instrument, the determination and phasing of access, and the design of conditionality.[218] All program staff reports, both initial requests and reviews, should discuss key near-term policy goals and commitments (typically over the next 12 months), and program financing.[219] Staff reports for program reviews should also discuss performance relative to program conditionality.

18. Staff reports should contain a full set of macroeconomic tables, including: (a) selected economic indicators; (b) government accounts (in national currency and percent of GDP), (c) monetary survey (central bank accounts and commercial bank accounts), and (d) the balance of payments. A standard table on Millennium Development Goals (MDG) indicators should be included

[217] See the latest version of Guidance *Note for Surveillance Under Article IV Consultations* (IMF, 2012h).

[218] In the case of SCF arrangements treated as precautionary, the baseline scenario should be presented showing no Fund financing. The potential balance of payments need that might emerge could be highlighted, for example, by discussing how the most volatile external flows may be affected by exogenous shocks, and/or by presenting alternative scenarios showing the possible sources of need.

[219] For more details, see the sections on "Financing Assurances, Arrears, and Safeguards" and "Conditionality" in Chapters I–IV of this Handbook.

in staff reports about once a year (normally staff reports covering Article IV consultations and request for new Fund-supported programs).

19. Staff report tables for program requests or reviews should also include: (a) the approved and proposed schedule of disbursements and reviews, (b) financing requirements and sources, and, in the case of new financing requests or augmentations, or if the macroeconomic environment has changed significantly, (c) the member's capacity to repay the Fund.[220] In the latter case (significant change in macro-environment), the staff report should also include staff's qualitative assessment of the member's capacity to repay the Fund.

20. The LOI/MEFP attached to program requests or reviews should include (a) a table with quantitative conditionality (the "PC table") that covers (i) previously established targets and outturns (PCs and indicative targets) over at least the past 12 months—alternatively, reporting on past performance relative to quantitative targets can be included as a separate table in the staff report, (ii) PCs established for the next 12 months (from the expected Board date), and (iii) indicative targets through the end of the calendar year (or fiscal year) for which policies are being discussed; and (b) a structural benchmark table covering (i) the implementation status of previously established benchmarks—alternatively, reporting on the status of previously established structural benchmarks can be included as a separate table in the staff report, and (ii) benchmarks covering the next 12 months, highlighting their timing and macro criticality.

21. **Management Clearance Memo:** Management clearance of staff reports is based on a clearance note that states the main issues addressed in the report, clearly lays out any differences in views among departments, explains clearly any significant deviations from the PN, and highlights potentially controversial issues. A copy of the staff report's Executive Summary should be attached.

22. **Debt Sustainability Analysis (DSA):** A Joint Bank-Fund low-income country DSA (LIC DSA) should be prepared once a year for PRGT-eligible, IDA-only countries.[221] A DSA (or DSA update) may also be required to support the proposed level of access (see Section D of the Handbook Chapters on the ECF, SCF, and RCF). The main conclusions of the DSA and its update should be discussed in the body of the staff report. The DSA or its update is subject to the same review process as a staff report and, when finalized, if not published as a stand-alone document, should be included as a

[220] In the case of SCF arrangements treated as precautionary, the baseline scenario should be presented showing no Fund financing, while an alternative scenario should illustrate the potential balance of payments need, including the potential capacity to repay the Fund indicators.

[221] For further details, see *Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries* (IMF, 2013g).

supplement to the staff report. The final versions of the DSA files (external and fiscal templates) should be submitted to the SPR review box at the time the DSA (and staff report) is sent to the Board.

23. Informational Annex: An informational annex should be issued as a supplement to ECF, SCF, RCF, PSI, SMP, and Article IV reports. This annex comprises Relations with the Fund and Bank-Fund Collaboration, including the JMAP matrix (see below), and Relations with other Multilateral Institutions if applicable. A Statistical Issues annex should be included at least for Article IV reports. The annexes are subject to departmental review but do not require management clearance. The annexes should not be attached to the staff report. Instead, at the time of the issuance of the staff report to the Board, the annexes should be sent to SEC and posted on the web as a supplement to the staff report.

24. Summing Up/Chairman's Statement: All stand-alone UFR discussions and combined UFR with Article IV discussions require both a Summing Up and Chairman's Statement (Table 4). Summings Up are read out for directors' comments at the conclusion of the Board meeting, and should summarize issues in a readily understandable way and avoid sentences that are overly long or complex, or long lists of topics or measures and acronyms that are not widely known or previously defined. The key differences between Summing Ups and Chairman's Statements include the following:

- The *Summing Up* is intended to present the Executive Board's formal views on the key issues at stake. For a combined UFR with Article IV discussions, the Summing Up contains a section on key policy issues discussed in the context of the Article IV consultation followed by a separate short section at the end on key program issues. Only the latter section is required for a stand-alone UFR discussion. The Summing Up should cover certain core areas: recent economic performance or performance under the program, the economic outlook, risks and challenges, and macroeconomic and structural policy issues. The Summing Up should have a clear forward-looking element, and, for a program country, include what directors consider the most critical elements for the success of the program. In cases where the Executive Board approves the staff appraisal to shorten the Article IV consultation cycle, the Summing Up should reflect such approval by the Board.

- *Chairman's Statements* are prepared after the Executive Board adopts a decision regarding a country's use of Fund resources, or completes a discussion about a country's participation in the HIPC initiative or a country's PRSP-related document. The Chairman's Statement is intended to inform the public of the Board's decision on a UFR program and the Board's overall policy message. The Chairman's Statement should not attempt to cover the discussion as a whole or reflect divergent Directors' views, but rather convey a few (three to four) points on which the Board placed emphasis. It does not attribute statements to directors. Staff should exercise caution when referring to highly market-sensitive issues.

Appendix Table 2. Summing Up, Chairman's Statement, and Press Release

Type of discussion	Summing Up	Chairman's Statement	Press Release
Stand-alone UFR	Yes	Yes	No
Combined UFR with Article IV	Yes	Yes	Yes
Combined Ex Post Assessment/UFR	Yes	Yes	Yes
Stand-alone Post Program Monitoring or Ex Post Assessment	Yes	No	Yes

25. **Press Release:** COM (Media Relations Division) issues Press Releases for new arrangements and reviews, containing the Chairman's statements. Area Departments prepare the background section, to be reviewed by SPR upon demand. COM prepares the initial draft, including the Chairman's statement, and requests comments from the area department, LEG, FIN, and the executive director of the country in question.

26. **Staff Statements:** Staff Statements should be prepared as needed if new or additional information becomes available after the submission of the staff report to the Board and before the Board meeting. The statement should explicitly mention whether the new information changes the thrust of staff's assessment in the staff report. The statement should be sent to SPR for clearance. The statement should be sent to management for their information and SEC for Board circulation, at least four days before the Board meeting.

E. Other Documents

27. An **Ex Post Assessment** (EPA) is required for all members considered as having long term program engagement (LTPE), defined as having in place a Fund-supported financial arrangement for at least seven of the past 10 years.[222] Time spent under the PSI and arrangements treated as precautionary does not count towards LTPE. For members that have been identified as meeting the LTPE definition and for whom an EPA has not been prepared in the past five years, if a successor arrangement is contemplated, EPAs should be prepared in time to be considered by the Board prior to a request for a new arrangement. EPAs should preferably be prepared and circulated to departments prior to the PN for an Article IV consultation and before negotiations begin on a successor arrangement. Where this is not possible, a draft EPA should be prepared prior to the preparation of the PN for the final review of the existing arrangement. In exceptional cases, where Board discussion of the EPA together with the Article IV or last program review proves not feasible, the EPA could be considered in a stand-alone Board meeting. If no successor arrangement is contemplated, an EPA should be prepared such that it is considered by the Board with the first post-program Article IV consultation. The revised policy on EPAs distinguishes between the first EPA for a member (an EPA report) and subsequent assessments (streamlined EPA updates). The Executive Board should be informed of an upcoming preparation of a streamlined EPA at the penultimate review of the current arrangement—or at an informal country matters session, if no current arrangement exists—up to six months in advance of the required EPA, to give Executive Directors an opportunity to request a comprehensive EPA on a case-by-case basis.

28. A **Joint Bank-Fund LIC DSA** should be prepared annually for PRGT eligible, IDA-only countries.[223] A fully elaborated DSA is required at least once every three years, with shorter annual updates in the interim years possible in the absence of significant changes in the macroeconomic and financial environment, including in periods of heightened domestic, external, or global risk. A DSA (or DSA update) may also be required to support the proposed level of access. DSAs should be prepared as self-contained documents, normally issued as a supplement to staff reports. In particular, they should include a clear description of macroeconomic assumptions without referring to the Fund staff report to which they are a supplement. Full DSAs should be concise (four to five pages, excluding tables or any appendices). LIC DSA updates (between full DSAs) would be

[222] For a complete discussion of LTPE, see *Review of Ex Post Assessments and Issues Relating to the Policy on Longer-Term Program Engagement* (IMF, 2006b); and *Ex Post Assessments of Members with a Longer-Term Program Engagement—Revised Guidance Note* (IMF, 2010c).

[223] See *Staff Guidance on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries* (IMF, 2013g) and *Revisiting the Debt Sustainability Framework for Low-Income Countries* (IMF, 2012a).

significantly lighter exercises and consist of a very short write up covering important changes from the previous DSA and including the usual set of tables and charts. All DSAs must be prepared jointly by both institutions, regardless of whether the DSA is included in a Board document of one institution only, and must be submitted to both the IMF's and World Bank Executive Boards, be it for discussion or for information.

29. JSANs and PRS documents (I-PRSP, PRSP, APR):[224] Within four months of a country's issuance of an interim or full PRSP, Fund and Bank staffs should prepare a JSAN, with feedback on the strategy and its implementation. Even in cases in which a PRS document is needed to allow completion of the second (and every subsequent) review, the accompanying JSAN need not be completed in order to allow completion of the review—i.e., the JSAN can be completed and circulated after the Board meeting, provided that this is within the four-month window (see Appendix V). JSANs for APRs are not required, but it is good practice to provide feedback on APRs in the context of the annual feedback process.[225] Staff should report on the PRS to the Executive Board at least once a year in the staff report for the Article IV consultation or the next program review. PRS documents and JSANs are not required prior to the approval of a Fund arrangement or PSI. But in order to complete the second (and every subsequent) review of an ECF arrangement and PSI a country must have circulated to the Board a PRS document, normally within the previous 18 months, and the PRS must be discussed in the staff report (possibly through a reference to the JSAN).[226] JSANs are a requirement for interim and full PRSPs, PRSP preparation status reports, and APRs for all countries reaching HIPC decision and completion points. Standard procedures apply to JSANs for their review, clearance by management, and submission to the Board. JSANs must also be reviewed by the Bank. All I-PRSPs and full PRSPs outside HIPC Initiative context are submitted to the Executive Board for information, while the associated JSANs can be submitted for information or discussion, normally at the time of the next scheduled Board meeting. Improving coordination between the Fund and the World Bank on the review of JSANs (among other papers), should follow the good practices set under the Information Note prepared jointly by the Fund and the World Bank, which suggests timelines the staffs can follow to facilitate coordination. Similarly, as noted below, staffs should also follow the recommendations of the Joint Management Action Plan, by conducting regular meetings between counterparts as a means of increasing coordination.

[224] For further details, see Appendix V, as well as *Guidelines for World Bank and IMF Staffs for Joint Staff Advisory Notes (JSAN) for Poverty Reduction Strategy Papers* (IMF, 2001) and *Joint Staff Advisory Notes: Proposed Amendments to Streamline Modalities* (IMF, 2009a).

[225] See IMF (2009a).

[226] For further details on the role of PRS documents in the context of Fund financial and program support, see sections on "Program Objectives and Design" in Chapters I–IV of the Handbook.

30. The Joint Management Action Plan (JMAP):[227] Under the JMAP, Bank and Fund country teams are asked to document the results of an annual consultation in a joint memorandum for files, identifying (i) the key macroeconomic and macro-critical structural challenges facing the country; (ii) policies and reforms to address these challenges and of each institution's priorities for supporting these reforms; (iii) respective work plans and outputs for the next 12 to 24 months, together with tentative mission schedules and delivery dates (summarized in an "action matrix" appended to the memorandum); (iv) information, analytical cross support, and other inputs (e.g., assessment letters) needed from institutional counterparts, including agreed delivery dates; and (v) any substantive disagreement on any of the above issues. In addition, when a Fund team prepares a staff report, it is expected to document Bank-Fund Collaboration in the appendix to the staff report. To avoid duplication, the appendix can simply be an appropriately reformatted version of the memorandum. Procedural detail of little interest to the Board can be deleted.

31. Review of Joint Fund-Bank Documents: Staff of both institutions should communicate at the outset with their counterparts to discuss respective review requirements and agree on a coordinated timetable for all joint documents that require review by both institutions and consideration by the Boards of the institutions.

32. Assessment Letters:[228] Assessment Letters or statements are typically produced in response to requests from multilateral or bilateral donors or creditors, in particular the World Bank and other multilateral institutions, although in some instances the request may come directly from the member country that is approaching donors for financial assistance. Assessment Letters should contain a clear and candid assessment of the member's macroeconomic conditions and prospects, and of macroeconomic and related structural policies. Specifically, the assessment should (i) identify existing macroeconomic imbalances and structural distortions; (ii) indicate to what extent current and planned policies are dealing with (or perhaps contributing to) these imbalances and distortions; and (iii) highlight policy areas where there are major outstanding concerns. To the extent possible, Assessment Letters should be derived from and consistent with the most recently available report (PNs, staff reports, etc.). Assessment Letters should also contain an account of the Fund's relations with the member country, including, where relevant, program discussions. They may not include language directly encouraging or discouraging assistance from donors. Assessment Letters are subject to the same SPR review and clearance procedures as program-related documents, and they

[227] See *Enhancing Collaboration—Joint Management Action Plan* (IMF, 2007c) and *Implementation of the Joint Management Action Plan on Bank-Fund Collaboration* (IMF, 2010d).

[228] For more information, see *Guidance Note on Letters and Statements Assessing Members' Economic Conditions and Policies* (IMF, 2011d).

require management approval. Circulation to the Board for information is required at the time of external dissemination. Although not generally done, Assessment Letters may be published on the IMF's external website or by the recipient institutions, only with the consent of the authorities.

33. HIPC Documents: If a country satisfies all eligibility criteria and decides to request HIPC assistance, a preliminary HIPC document is first required, followed by a decision point document and, finally, a completion point document (see Appendix IV). HIPC documents, including HIPC DSAs, are produced jointly with the Bank and are reviewed by both institutions. Standard procedures apply at the Fund for the review, clearance, and submission to the Board of HIPC documents.

34. Disbursements between reviews of available but undrawn amounts under SCF arrangements: A country is within its rights to draw between reviews previously approved but undrawn amounts under the SCF if (i) its representation of a balance of payments need meets the requirements of the PRGT instrument; and (ii) the most recently scheduled review under the arrangement prior to the request has been completed; and (iii) available information indicates that its continuous PCs are being met. The Trust Instrument precludes staff from challenging a member's representation of a balance of payments need prior to providing the requested disbursement. However, the Trust Instrument indicates that if subsequently the Board decided that the disbursement took place in the absence of a need, it could seek repayment with interest normally within 30 days of its decision that early repayment is required. For a country to draw between reviews, it must send a letter to the Managing Director communicating and explaining the decision. Staff will then circulate a short note for information to the Board, attaching the letter of the authorities. A press release is issued shortly afterwards.

Appendix Table 3. Chronological Steps of Mission Related Work

Approx. Timing (in business days)	Review Stage	Action	Comment
1–2 months before mission (T-75)	Preparation of policy note	Country team collects information, conducts policy analysis, and prepares macroeconomic framework. Team drafts PN, including full set of tables and concise topical background notes. Area department can request cross-country analysis or information from functional departments, if needed.	In cases where new financing or program support is envisaged, mission teams are encouraged to consult informally with SPR (and if relevant FIN or LEG) at an early stage to get information on relevant Fund policies such as the choice of LIC instrument, access and phasing, PRS and DSA requirements, early Board briefings etc.
3 weeks before mission (T-58)	Draft policy note	At least three days before the PCM, country team sends a draft policy note to SPR and other departments. All relevant background materials, including a draft DSA (if required), should be circulated at this time.	Teams should ensure that all reviewing departments have ample opportunity to prepare for a substantive discussion on the key issues.
2–3 weeks before mission (T-54)	Policy Consultation Meeting	Hold the Policy Consultation Meeting. Reviewing departments are encouraged to indicate the key issues they wish to discuss approximately a day ahead of the PCM.	All major issues related to the design of the program/staff's assessment and advice, including content, coverage, and broad assumptions of the analysis, should be raised and resolved at this meeting.
1.5 weeks before mission (T-50)	Department Review of Revised policy note/PRMED revised preliminary review	Circulate revised policy note to SPR together with the cover note; copy other reviewing divisions - allow at least 1 day for review and clearance.	
1 week before mission (T-48)	Revised policy note to management	Fund management reviews and clears the revised policy note. Allow full 3 business days for management clearance, and another 1–2 days for answering questions.	If management does not clear the paper or has substantive questions raised on the cover page in clearing the paper, the are department should respond to management's questions with a formal memo that is copied to SPR. Any marginal questions/comments from management can be responded to informally, perhaps through an e-mail to the relevant advisor, copying SPR.
(T-43) days	Start of Mission		

Appendix Table 3. Chronological Steps of Mission Related Work (continued)

Approx. Timing (in business days)	Review Stage	Action	Comment
(T-33) days	End of mission	Reach understandings *ad referendum* on a LOI/MEFP.	The LOI and MEFP are reviewed together with the Staff Report.
		In non-program missions, the staff often leave behind a Concluding Statement that serves as a record of the discussions.	The mission's Concluding Statement does not have to be reviewed. It should, however, be forwarded to reviewing departments for information.
		Missions typically also issue a Press Statement.	The Press Statement should be cleared with COM.
2 days after return to HQ (T-31)	BTO	Mission chief sends a BTO to management under a cover from the department director.	The back-to-office is not reviewed, but is copied to reviewing departments.
(T-21) days	Department Review of Staff Report, LOI/MEFP	Area department sends the Staff Report and supporting documents to departments for review. Allow a full 3 business days for review. Allow another 1–2 days for revisions and 1 day for final SPR review and clearance.	
(T-15) days	Clearance memo and Executive Summary of Staff Report to Management	Fund management clears the Staff Report and related documents based on the clearance memorandum and the Executive Summary of the Staff Report.	Management should be provided a full 3 business days for clearance. Allow 1 day for answering questions. Allow another 0.5 days for issuance by SEC (the final reports should be submitted before noon for issuance on the same day).
(T-10) days	Circulation of Staff Report to Board		The country's ED would need to request a waiver if the staff report is issued to the Board later than 2 weeks prior to the Board meeting (plus 1 day grace).
(T-3) days	Staff Statement to SPR	SPR will review and clear staff statements in one working day.	
(T-2) days	Summing Up, Chair Statement, and PIN to SEC	SEC will pro forma clear the Summing Up, Chair Statement, and PIN, prior to submission to management.	PINs are only required for combined UFR and Article IV reports.
(T-1) days	Staff Statement to SEC	SEC will circulate statements to the Board.	
T	Board Meeting 1/		Staff Report subsequently published (given authorities' approval).

1/ Decision No. 14766-(10/115) for the guideline about when Lapse-of-Time procedures apply to program reviews and Article IV consultations, respectively.

Appendix II. Quantitative Conditionality

This Appendix discusses the specific issues concerning the selection, definition, and monitoring of quantitative (periodic and continuous) conditions under Fund-supported programs for LICs.[229]

A. Periodicity and Definitions

1. Under Fund-supported programs for LICs, quantitative performance criteria ("PCs")—or assessment criteria ("ACs") in the case of the PSI—shall be phased no more than six months apart. In practice, PCs are usually set on a semiannual basis and tied to semiannual program reviews, while quantitative benchmarks (also referred to as indicative targets) are normally specified on a quarterly basis. When closer monitoring is considered helpful for program implementation, PCs and reviews could be both at quarterly intervals, for instance in the context of significant short-term volatility and/or uncertainty. There is scope for some flexibility in setting the specific test dates relative to strict three/six-monthly cycles, for example when there is a need to align monitoring with national budget/reporting cycles, as long as deviations are minor.

2. Quantitative periodic conditionality should cover all test dates that fall within the 12 months after the Board meeting (initial approval or review). Under semiannual monitoring, PCs would therefore normally be established for two future test dates at the time of approval of the arrangement and at each review (except for the penultimate and final reviews). Specifically, the table of quantitative conditionality (the "PC table") attached to the LOI/MEFP should clearly identify PCs, indicative targets, and adjustors for at least a 12-month period from the Board date of the program approval or review. Indicative targets should extend through the end of the calendar year (or fiscal year) for which policies are being discussed.

3. The precise definitions of PCs should be set out in a TMU attached to the LOI. PCs and indicative targets for the main economic and financial indicators should be defined simply and clearly, and in a manner that makes it easy and relatively quick to measure.

4. Quantitative periodic conditionality is normally set as cumulative flows or changes in stocks from a single reference date (normally, the beginning of a calendar or fiscal year) through each test

[229] The Fund's Guidelines on Conditionality (IMF, 2002d) apply to all Fund members. Principles and modalities of conditionality under the ECF, SCF, RCF, and PSI are discussed in the sections on "Conditionality" in Chapters I–IV of this Handbook, including discussion of prior actions, structural conditionality, waivers, modifications, and misreporting.

date. The first such reference date, set at the time of approval of a new financial arrangement or PSI, would have to coincide with or predate the start of the program period. The reference date would usually be moved ahead by one year on an annual basis. If it is considered appropriate, certain indicative targets (for instance on monetary aggregates or international reserves) may be set as period averages (e.g., over a number of days before or after the end-quarter date).

5. Quantitative PCs typically include measures of net international reserves, central bank domestic assets, domestic and fiscal balances or financing, limits on nonconcessional external debt, non-accumulation of external payments arrears, and any other macro-critical indicators. PCs are often subject to program adjustors that reflect deviations from projected external flows. Indicative targets should include a floor on social and other priority spending where possible.

B. Fiscal Targets

6. Programs should have fiscal PCs and indicative targets that are based on appropriate analytical fiscal indicators and have the desired institutional coverage. Fiscal targets should also aim to cover all relevant government entities and transactions. Most targets are specified at the level of the central government or the general government, with the general government being the appropriate choice where sub-national governments have major fiscal responsibilities and relevant data are available. The fiscal PCs should generally cover both budgetary and extra-budgetary activities of the government. In all cases, the TMU should provide a clear definition of what is included in the term "government" (e.g., central, central and local, or including nonfinancial public organizations) for purposes of fiscal PCs.

7. Fiscal conditionality should be set on the indicator(s) that are most crucial for achieving program goals. The general stance of fiscal policy, i.e. the program's near-term fiscal anchor, is normally monitored through a PC on either a credit aggregate (e.g., net domestic financing of the government or net banking system credit to the government) or a deficit measure, (e.g., the overall deficit or the primary deficit of the government) or some combination of the above. Where a program is designed to address broad macroeconomic concerns, a deficit measure is a more appropriate basis for a PC. In particular, the overall deficit excluding grants will often be a good summary guide to the impact of fiscal policy on aggregate demand and inflation, while the overall deficit including grants will contain the governments' borrowing requirement and debt accumulation. In many LICs, the near-term fiscal anchor focuses on domestic revenues and spending (excluding more volatile receipts and outlays related to donor support), whereas countries with relatively high capacity may focus on the overall fiscal deficit. Oil exporters may focus on non-oil balances. Adjustors may be used to correct for volatile or one-off flows, as discussed below. Where debt sustainability is a concern, the primary fiscal balance is sometimes used as an alternative to the overall balance. It may also be appropriate to set (typically indicative) fiscal targets on domestic revenue, domestic arrears, or on social and other priority spending (see below). The quality, accuracy, and timeliness of data will be important factors determining the precise definition of the fiscal targets, and whether certain targets should be monitored as PCs or indicative targets.

8. The PC measuring the general stance of fiscal policy is often measured using "below-the-line" financing data. While targets measured from "above-the-line" have advantages from an ownership and transparency standpoint—because national budgets focus on revenue, expenditure, and the fiscal deficit, and not on the financing of the deficit—financing data are usually available more frequently, are more timely, and are of better quality. Revenue and expenditure data should be monitored to establish an above-the-line fiscal deficit that can be reconciled with below-the-line financing data, which can provide some reassurance that the data on the fiscal PC is accurate.

9. Exceptional receipts to the budget, such as proceeds from privatization or from a petroleum fund, should normally be defined as a financing item for the purposes of the program, though provisions may be made to allow some or all of these resources to be spent, where appropriate. In any case, the underlying economics of such exceptional expenditure items should guide program treatment (e.g., one-off receipts should not be used to finance permanent expenditure increases, even if such receipts are treated as revenue in statistical manuals).

10. Social and other priority spending should generally be safeguarded in Fund-supported programs in LICs. This should be monitored through explicit program targets, typically an indicative floor on social and other priority spending, whenever possible. The definition of what constitutes social or other priority spending should be consistent with the authorities' poverty reduction and growth objectives. In cases where tracking of such expenditures is not feasible, the program documentation should report on which measures are envisaged to develop an adequate tracking system. Staff should monitor progress in establishing these tracking systems, and the program may include relevant structural benchmarks if appropriate.

C. Monetary Targets

11. Monetary developments are normally monitored by setting a PC on net domestic assets, either of the central bank or the banking system (for reasons of data availability and quality, the former is more likely than the latter in many LICs). For purposes of monitoring, net domestic assets of the central bank may be defined as reserve money minus net international reserves or reserve money minus net foreign assets. In some cases, it may be appropriate to also include an indicative target on reserve money, banking sector credit, or broad money, in particular when money or credit growth are of significant concern for inflation or banking system stability. A few Fund arrangements have set a PC on reserve money instead of net domestic assets. Which of the two is preferable depends on the priorities and risks of the program, the monetary regime, and the importance placed on protecting/increasing net international reserves relative to that placed on controlling inflation.[230] Money targets that are set as PCs should include an adjustor for changes in the reserve requirement, if applicable.

12. To provide flexibility and incentives for the development of a coherent framework for monetary analysis and monitoring, a review-based monetary policy consultation clause (MPCC) could be used in Fund-supported programs. Such option may be used by countries with evolving monetary policy frameworks that have minimal fiscal dominance, relatively low and stable inflation, and a good track record of monetary policy implementation supported by central bank technical and institutional development (especially the capacity to analyze monetary conditions), or are committed to a substantial strengthening of the policy framework. Consideration of country-specific circumstances relative to this "standard" would be undertaken flexibly on a case-by-case basis, with learning from experience. Under the MPCC, monetary conditionally would include a quantified macroeconomic framework with a set of quarterly or semiannual monetary aggregate or inflation targets set normally within a single tolerance band, which would be assessed during relevant program reviews. Deviations from the band will trigger a consultation with the Executive Board as part of the general review process, which would focus on: (i) a broad-based assessment of the stance of monetary policy and whether the Fund-supported program is still on track; and (ii) the reasons for program deviations, taking into account compensating factors; and (iii) proposed remedial actions if deemed necessary. When the consultation is triggered, access to Fund resources would be interrupted until it takes place and the relevant program review is completed. In addition, these programs would include a NIR floor, as a PC, to maintain external sustainability and safeguard the use of Fund recourses. Indicative targets related to monetary policy (e.g., on NDA or credit to the government) could also be included to address country-specific risks, such as external stability of fiscal dominance concerns. If the MPCC regime selects inflation as the central target variable, a narrower inner band could be used as an early warning mechanism that would trigger an informal consultation with Fund staff.[231] Monetary ceilings are not required in programs that incorporate a

[230] For a further discussion, see *Aid Inflows—The Role of the Fund and Operational Issues for Program Design* (IMF, 2007a, paragraph 40).

[231] For a further discussion, see *Conditionality in Evolving Monetary Policy Regimes* (IMF, 2014a). See also Revised *Operational Guidance to IMF Staff on the 2002 Conditionality Guidelines* (IMF, 2014b) for a further discussion of the review-based approach to monetary policy conditionality in Fund-supported programs (paragraphs 21-22).

currency board arrangement, or when the country is a member of a monetary union. However, where the rules of the currency board or monetary union give the member country some degree of control over credit growth, a monetary ceiling may be included in program conditionality.

D. Targets for International Reserves

13. Developments in international reserves are normally monitored by setting a floor on official (i.e., the central bank's) net international reserves (NIR). The definition of the PC should specify the precise coverage of the monetary authority, particularly where this differs from, or is broader than, the net foreign assets on the balance sheet of the central bank.

14. In programs involving disbursements of Fund resources made directly to an account of the member's Treasury in the central bank or monetary authority (i.e., direct budget financing) a composite central bank-Treasury aggregate should be used. In this case, the NIR (and net domestic asset—NDA) measure used as a PC, should combine together the central bank and Treasury positions. For instance, where Fund disbursements are deposited to the account of the member's Treasury at the central bank, while central bank NIR increases, composite NIR remains unchanged (central bank gross reserves increase, while Treasury liabilities to the Fund increase). Similarly, while central bank NDA declines, composite NDA remains unchanged (with increased government deposits at the central bank lowering central bank NDA and increasing Treasury NDA).

15. Because international reserves must be usable, they should be defined to include only convertible, liquid, and unpledged (unencumbered) assets that constitute claims on nonresidents, net of short-term foreign liabilities that are public or publicly guaranteed; the outstanding stock of Fund credit is also netted out. Assets that are the counterpart to foreign currency reserve requirement liabilities (i.e., foreign currency liabilities of the central bank to domestic commercial banks) are often excluded from the definition of NIR since these are not usable for balance of payments purposes (e.g., foreign exchange interventions) or under the control of the authorities (as they would need to be refunded to the extent that foreign currency deposits of commercial banks are withdrawn). Foreign liabilities are defined as loan, deposit, swap, and forward liabilities to residents and nonresidents whose value is guaranteed in foreign currency terms (denominated or indexed). The TMU should specify if liabilities to the participants to the SDR department are included.

16. Valuation effects arising from changes in the exchange rate or the price of gold should be excluded when defining the floors for net international reserves. To this end, the set of exchange rates and gold valuation that will be used for the purpose of calculating net international reserves should be specified in the TMU. Monetary authorities' NIR typically comprise assets denominated in a number of different currencies. The TMU should specify the exchange rate at which each of these components of NIR will be valued for the purposes of program monitoring. To avoid any suggestion that these accounting rates are forecasts, constant values should be used. Net domestic assets and net credit to the government should also be calculated using accounting exchange rates where foreign currency items are important in the domestic banking system and where these can be monitored. Accounting exchange rates should be based on those prevailing at some recent, easily-checked date (e.g., the end of the previous year) and may be updated periodically during the life of an arrangement.

17. In cases in which the member maintains a currency board arrangement, the monetary authority ensures the maintenance of full foreign reserve backing for the currency board's liabilities for the duration of the Fund-supported program. The definition of this PC should specify the exact coverage of the foreign reserve backing. As with monetary limits, floors on international reserves are not required for a country that is a member of a monetary union.

E. External Debt Limits

18. External debt limits in Fund-supported programs seek to prevent the build-up of unsustainable debt, while allowing for adequate external financing.[232] The policy includes a menu of options for concessionality requirements—a major component of this policy—depending on countries' debt vulnerabilities and macroeconomic and public financial management capacity ("capacity"). Unless debt sustainability is a serious concern, the framework generally allows some nonconcessional borrowing. A loan is normally classified as concessional if its grant element is at least 35 percent. The present value (PV) of debt at the time it is contracted is calculated by discounting the borrower's future debt service on this debt.[233] The discount rate used for both PV and grant element calculations is set at 5.0 percent until the completion of the next review of the Debt Sustainability Framework for Low-Income Countries, expected in 2015[234]. A grant element of more than 35 percent may be required where countries have high debt vulnerabilities. A grant element of less than 35 percent could be considered for countries with strong debt indicators or

[232] See IMF (2009g and l); and Decision No. 6230-(79/140), as amended.

[233] The calculation of concessionality takes into account all the aspects of the loan contract, including the due date, differing repayment, maturity, contracting commissions and management costs.

[234] See *Unification of Discount Rates Used in External Debt Analysis for Low-Income Countries* (IMF, 2013f).

countries that meet the criteria for PRGT-GRA blending. For the most advanced LICs, concessionality requirements can be dropped altogether.

19. Definitions and coverage. Concessionality requirements apply to ***medium- and long-term external debt of the official sector*** (see IMF, 2009g), for a definition of debt). Limits should also be used for ***short-term debt***, with some exclusions (e.g., normal import financing). In countries with relatively closed capital accounts, the ***residency criterion*** is used to define external debt; systematic exclusion of nonresident transactions in the secondary domestic debt market can be considered. The ***currency-denomination criterion*** can be used for countries with more open capital accounts. The coverage of the official sector is expected to be broad.

20. Limits for lower capacity countries.[235] Concessionality requirements apply loan by loan:

- In countries with **higher debt vulnerabilities**, the minimum concessionality requirement should be consistent with the results of the DSA, and a grant element higher than 35 percent may be required on a case-specific basis.[236] Nonconcessional borrowing should be exceptional; i.e., only for critical high-return projects for which concessional financing is not available.

- In countries with **lower debt vulnerabilities**, the minimum concessionality requirement should be 35 percent. Nonzero limits tied to specific projects, or untied nonzero limits for countries with relatively higher capacity levels in this group, can be contemplated if they do not result in pushing a country into the higher debt vulnerability category.

21. Limits for higher capacity countries. Concessionality requirements do not apply loan by loan:

- PV targets can apply to countries with **higher debt vulnerabilities** and average concessionality requirements to countries with **lower debt vulnerabilities**. If sufficient information on the timing of external financing operations is available, the annual targets can be complemented by semiannual or quarterly guideposts.

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[235] The two-step capacity assessment process is described in detail in *Debt Limits in Fund-Supported Programs—Proposed New Guidelines* (IMF, 2009g) and *Staff Guidance Note on Debt Limits in Fund-Supported Programs* (IMF, 2009l).

[236] The methodology used to assess concessionality remains unchanged as outlined in *Debt Limits in Fund-Supported Programs—Proposed New* Guidelines (IMF, 2009g). A spreadsheet to calculate the grant element of a debt is available at: http://www.imf.org/concessionality.

22. Debt limits for advanced LICs. Concessionality requirements may be dropped altogether. These countries, in addition to be assessed as higher capacity, are expected to have per capita income above the IDA operational cutoff, a strong track record of macroeconomic and public resource management, and sustained past and prospective access to nonconcessional financing. If debt vulnerabilities remain high, nominal debt ceilings can be considered.

F. Payments Arrears

23. In cases where there are external or domestic payments arrears, quarterly indicative targets or performance criteria may be set for their phased elimination. For these purposes, the concept of government should be clearly defined (for example, whether state-owned enterprises or the social security and pension funds are included), as should the method for measuring arrears. Particularly in the case of domestic arrears, there may be significant measurement and controllability problems that preclude the use of such limits as performance criteria. Judgment as to whether limits on domestic arrears should be PCs or indicative targets should take into account the commitment control and measurements systems and data quality of individual countries.

G. Continuous PCs

24. Continuous PCs always include, inter alia, commitments related to non-introduction of exchange restrictions and multiple currency practices. Specifically, continuous conditionality covers (i) imposition or intensification of restrictions on the making of payments and transfers for current international transactions; (ii) introduction or modification of multiple currency practices; (iii) conclusion of bilateral payments agreements that are inconsistent with Article VIII; and (iv) imposition or intensification of import restrictions for balance of payments reasons. These continuous PCs are always included in the text of all Fund arrangements, and, given their non-quantitative nature, are usually not listed in the PC table. Other continuous PCs typically include the non-accumulation of external payments arrears. Where external debt ceilings are set at zero, these should also be specified as continuous PC. In monitoring continuous PCs, staff should ascertain continuous compliance with the PC, based on representation by the authorities.

H. Wage Bill Ceilings

25. The use of wage bill ceilings over extended periods of time should be avoided, while ensuring flexibility in their application and requiring a clear justification in program documents. Wage bill ceilings should be used selectively and their use limited to circumstances when they are designed as short-term measures when first-best options are not available.[237] The use of medium-term expenditure frameworks and strengthened budget and payroll systems is preferable and expected to obviate the need for wage ceilings over time. When countries might need substantial technical assistance to develop such systems, wage ceilings may be needed in exceptional cases based on macroeconomic considerations.

I. Adjustors

26. The purpose of adjustors is to protect the program from foreseeable shocks beyond the authorities' immediate control. Adjustors allow the program to pre-specify the policy response to deviations from program assumptions in a manner that does not compromise the objective and predetermined nature of PCs applying to the disbursement of Fund resources. The automatic nature of adjustors distinguishes them from alternative ways of dealing with unanticipated developments, namely waivers, modifications of PCs, and adjustments during program reviews.

27. The following main principles should guide the design of adjustors.

- They should be used sparingly, with the aim of limiting the need for major policy adjustments in the face of uncertainty and volatility of key economic variables, such as export prices, foreign financing,[238] privatization receipts, or certain policy actions (such as bank recapitalization or changes in reserve requirements).
- They should be simple and clearly defined, including in the TMU and PC table.
- They are used for temporary deviations. Lasting or large deviations (which are likely to require changes in the policy thrust) should be addressed in the context of program reviews.
- They should be based on realistic projections. For instance, in programs that consistently overestimate external financing, an adjustor that allows domestic bank financing to compensate for any shortfalls, may result in a program that is, de facto, overly relaxed.

28. Several technical points apply to the design of adjustors: (a) by convention, adjustors are applied to ceilings/floors set for the PCs rather than to actual outturns; (b) if several adjustors are

[237] See *IMF Executive Board Discusses Operational Implications of Aid Inflows for IMF Advice and Program Design in Low-Income Countries* (PIN 07/83), *Aid Inflows—The Role of the Fund and Operational Issues for Program Design* (IMF, 2007a), and *2011 Review of Conditionality—Content and Application of Conditionality* (IMF, 2011a).

[238] See also *Aid Inflows—The Role of the Fund and Operational Issues for Program Design* (IMF, 2007a; paragraphs 49-51).

applied to the same PC (e.g., for deviations in foreign financing, privatization receipts, and oil prices), they should apply to the net cumulative sum of deviations from the program assumptions for these variables; (c) unless the potential shock affects money demand, an adjustor on net international reserves should have a symmetric adjustor (with the opposite sign) on net domestic assets; (d) it is important to make a distinction between project and program financing.

29. Adjustors are frequently used such that (i) deviations from projected external program grants and lending (budget/balance of payments support) lead to adjustment of the NIR floor, the NDA ceiling, and the net domestic financing of the government ceiling, (ii) deviations from projected external project lending lead to adjustment of the overall fiscal balance floor if applicable (whereas no adjustor is needed if the fiscal deficit concepts excludes project financing and expenditures), and (iii) deviations from projected fiscal revenues lead to (usually partial) adjustment in the overall fiscal balance floor or net domestic financing of the government ceiling. In all cases, it is often useful to apply adjustors symmetrically and apply symmetric caps.

30. Finally, in the same way that the TMU defines the components of PCs, it should also define the adjustors, including specification of the variables subject to adjustment, explicit adjustment formulas, trigger events, caps, and thresholds. The baseline projection for the economic indicator that gives rise to potential adjustment of PCs should be included in the PC table and a footnote should indicate the adjustor mechanism.

Appendix III. Staff-Monitored Programs and Other Track Records

This Appendix discusses the use of Staff-Monitored Programs and other track records in the low-income country (LIC) context.

A. Staff-Monitored Programs (SMPs)

1. SMPs are informal agreements between national authorities and Fund staff to monitor the implementation of the authorities' economic program, with a view to establishing a track record of policy implementation which could pave the way for a new Fund financial arrangement or Fund emergency assistance, or for the resumption of an existing arrangement that has gone off track. SMPs resemble other Fund-supported programs in form, but they are not required to meet UCT conditionality standards and are not endorsed by the Fund's Executive Board. Guidance on the use of SMPs, which applies across all member countries.

2. In the LIC context, SMPs have been an important part of the Fund's toolkit. In particular, SMPs would typically be used when:

- Limited institutional capacity, domestic fragility or instability, weak economic policy implementation, or absence of financing assurances[239] raise significant doubts about the member country's capacity and/or commitment to implement a UCT-quality program;
- A country's program supported by a Fund financial arrangement has gone off track and a track record is needed to provide assurances that the authorities have the capacity and commitment to achieve the program's objectives;[240]
- A member country has overdue obligations to the Fund; in these cases, careful examination of a country's financing situation will be needed in light of a probable subsequent request for a Fund arrangement or for the resumption of an arrangement that has gone off track.

[239] Absence of financing assurances includes situations when multilateral and donor support is insufficient to meet the program financing assurances for a UCT-quality program or when the member has external arrears to official creditors and not yet reached understandings on arrears clearance. An SMP could help demonstrate that the policies are strengthened in a manner that would help secure financing assurance as a precondition for a UCT-quality program.

[240] As an alternative to an SMP, it is also possible in some cases to rely on more informal track records to bring a program back on track, in particular when near-term corrective actions are expected to meet earlier program objectives, and there are adequate assurances that the authorities have the capacity and commitment to implement the program.

3. The design of an SMP should be consistent with its goal to build a track record; i.e., policies should be sufficiently ambitious to provide a good basis for proceeding to a Fund financial arrangement. In particular, staff should refrain from reaching an understanding on an SMP if a consistent policy package is not in place, and the SMP should be designed in such a way that its implementation would provide assurances on the capacity and commitment of the authorities to implement a UCT-quality program. For a PRGT-eligible member country, this would imply that the ultimate objective of an SMP is to help a member move to a UCT-quality program, aimed at progressing toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

4. Under certain circumstances, the Board could also make a finding that an SMP may count toward the track record of policy performance for moving to the decision point under the HIPC Initiative. For such a case, staff must make an assessment, which must be supported by the Board, that macroeconomic and structural reform policies under the SMP meet the policy standards associated with programs supported by arrangements in the upper credit tranches or under the ECF ("SMPs of UCT-quality policies"). Reaching the HIPC decision point using an SMP of UCT-quality policies requires an assessment by the Board that the member's performance under the SMP has been satisfactory for a sufficient period of time (in practice, a minimum of six months) since the Board's initial determination of UCT-quality policy standards.[241]

5. For members not eligible for a Rights Accumulation Program (RAP),[242] an SMP with UCT-quality conditionality would qualify only if members have no arrears to the Fund, and, in cases where they have arrears to the World Bank, an agreed financing plan and a timetable for normalizing relations with the Bank are in place. RAP-eligible members would not be required to clear existing arrears to the Fund either prior to or during an SMP, but would be expected to remain current on new obligations falling due to the Fund during the period of the SMP; they would need to have in place an agreed financing plan and timetable for normalizing financial relations with the World Bank in case of arrears to them. Some RAP-eligible members that have emerged from conflict with severely limited payments capacity may, to the extent its payments capacity requires it, be allowed to accumulate new arrears to the Fund during the duration of the SMP. SMPs should closely

[241] The Board's agreement with the staff assessment that the macroeconomic and structural policies under a given SMP meet the UCT quality standard is recorded in a Summing Up or the Chairman's closing remarks of the Board discussion.

[242] RAP-eligible countries are the eleven members that had financial obligations to the Fund overdue for six months or more at the end of 1989 (*Summing Up by the Chairman—Operational Modalities of the Rights Approach* (IMF, 1990)). Following Liberia's clearance of arrears and the achievement of the HIPC Completion Point in June 2010, the remaining RAP-eligible countries are Somalia and Sudan (IMF, 2007d).

resemble a Fund-supported program in form, including specification of a quantified macroeconomic framework and structural reform agenda to be monitored through quantitative benchmarks (normally on a quarterly basis) and structural benchmarks. As SMPs are aimed at building a track record for an eventual UCT-quality program, the choice of indicators to monitor should be similar to those indicators that would be appropriate under an eventual UCT-quality program.

6. While PRS documents are not required, SMP-supported policies should be consistent with the member's poverty reduction and growth objectives. Requests for an SMP should therefore be accompanied by a statement, normally in the LOI or MEFP, of how the program advances the country's poverty reduction and growth objectives, cross-referencing any existing PRSP where relevant. Analogous to Fund financial support under the PRGT, SMPs should also include safeguards on social and other priority spending, such as an indicative floor on social and other priority spending, defined by the authorities, where possible. If a PRS document exists, the SMP-supported policies should be consistent with the objectives of the PRS in the context of promoting a stable and sustainable macroeconomic environment consistent with strong and durable poverty reduction and growth. In cases where a relevant PRS document does not exist, the SMP documentation should outline the country's medium-term poverty reduction and growth objectives and policies or refer to previous staff reports and update as necessary. If a PRS document does not exist and the SMP is aimed at building a track record for an ECF arrangement or PSI, staff should alert the authorities on Definitions and Timeliness for PRS Documentation requirements (Appendix V) to ensure adequate time for the PRS process.

B. Choice of Track Record: SMPs, Informal Track Records, and RCF Support

7. Track records are generally used to provide additional assurances about the authorities' capacity and commitment to implement a UCT-quality program aimed at moving toward or maintaining a stable and sustainable macroeconomic position. Track records should not be used purely for signaling purposes.

8. Track records are typically used to bring an existing ECF or SCF arrangement, or PSI, back on track. Track records may also be appropriate to pave the way for a prospective new ECF-, SCF- or PSI-supported program, in particular when factors such as limited institutional capacity, domestic fragility or instability, weak economic policy implementation, or absence of financing assurances raise significant doubts about the member country's capacity and/or commitment to implement a UCT-quality program.

9. Track records should be distinguished from *prior actions*, whose primary purpose is to ensure implementation of measures that are immediately critical to underpin the upfront implementation of important measures. Prior actions may in some cases also be necessary for starting or continuing an SMP, in particular when there are significant doubts about the capacity and commitment of the authorities to put in place a consistent policy package that would form an appropriate basis for building a track record for a Fund financial arrangement or for bringing an existing arrangement back on track.

10. Three types of track records can be distinguished for PRGT-eligible member countries: (i) informal track records, which involve time-bound near-term policy actions and targets, agreed informally between staff and the authorities—such informal track records still require interdepartmental review and management clearance, typically based on a PN, (ii) SMPs, as discussed above, and (iii) RCF-supported policies, as discussed in Chapter III of the *Handbook*, which typically would involve time-bound indicative targets and structural benchmarks specified at the time of the request for an RCF disbursement. When a UCT-quality program is not possible and a member still wishes to engage with the Fund, a decision must be made on whether to proceed with one of these track records. In some cases, the RCF may be used concurrently with an SMP or informal track record, for instance when an urgent financing need caused by an exogenous shock arises while establishing a track record.

- Informal track records are typically appropriate when there are reasonable near-term prospects that the authorities will implement a UCT-quality program, and, in case of an existing Fund-supported program that is off track, take near-term corrective policy actions that are expected to help meet the original program objectives.

- SMPs are typically appropriate when (i) significant uncertainty exists about whether the authorities have the capacity and commitment to implement (or bring back on track) a UCT-quality program in the near term, for example due to significant policy slippages, a sharply deteriorated political or economic environment, or the absence of adequate financing assurances, and (ii) there is no urgent financing need that warrants the use of the RCF.

- RCF support can help build a track record in cases where (i) a member country experiences an urgent financing need, and, in case of an off-track UCT-quality program, this need was caused by a sudden exogenous shock (see Chapter III of the Handbook) and (ii) there are adequate safeguards to the Fund's resources. Access to assistance under the RCF is not possible if the member has overdue obligations to the Fund. RCF support also requires a commitment to undergo a safeguards assessment and an authorization for Fund staff to have access to the central bank's most recently completed external audit reports (whether or not the audit is published) and to hold discussions with the external auditors.

C. Track record period

11. A track record period in an SMP can vary as a function of the member's past track record and the measures needed to establish a record of policy implementation. Normally, such monitoring would be expected to cover a minimum of six months and two test dates, and would not be expected to extend beyond 18 months. Longer durations are, however, not precluded. Track records for the RCF would normally cover at least six months. The duration for informal track records is more flexible and depends on the country circumstances.

12. The track record period for an SMP, RCF, or informal track record would normally start around the time the relevant track record objectives and policies become clear. Specifically, track record periods should start no earlier than the first time substantive policy discussions on near-term macroeconomic targets were held between the country team and the authorities, based on management approval of the policies and track record period; e.g., in a Policy Note. In addition, track record periods should not start much later than the time the staff and the authorities reach understandings on the specifics of the track record.

Appendix IV. HIPC and MDRI

This Appendix summarizes key elements of the HIPC Initiative and MDRI.

1. The HIPC Initiative is a major international effort led by the IMF and the World Bank to provide debt relief to heavily indebted poor countries. The Initiative was launched in 1996, enhanced in 1999, and supplemented in 2005 by the MDRI. The list of countries potentially eligible for debt relief under the HIPC Initiative was ring-fenced in 2006 and in 2010, comprising PRGT-eligible countries pursuing or program supported by the IMF by October 1, 1996 or having adopted such a program between October 1, 1996 and December 31, 2006, who have received or are eligible to receive assistance to the full extent available under traditional debt relief mechanisms, whose debt ratios at end-2004 and end-2010, after the hypothetical application of traditional debt relief mechanisms, were assessed to have exceeded the HIPC Initiative debt thresholds. To be qualified for debt relief under the HIPC Initiative a member's present value (PV) of external public and publicly-guaranteed debt based on end-2004 and end-2010 data must exceed 150 percent of exports or 250 percent of revenue. The fiscal revenue threshold only applies if exports to GDP are at least 30 percent and revenue to GDP 15 percent.[243]

2. If a country satisfies all eligibility criteria and decides to request HIPC Initiative assistance, a *Preliminary HIPC document* (prepared jointly with the World Bank) will be issued to the Boards informing them that the country meets the HIPC eligibility criteria. This document will include a streamlined discussion of the debt situation and the policy track record and a loan-by-loan HIPC DSA; provide preliminary estimates of the costs and timing of debt relief; and discuss in broad terms the conditionality envisaged for reaching the completion point. A number of requirements have to be met before a country qualifies for debt relief. To reach the HIPC decision point, the point at which the Trustee decides whether a member qualifies for assistance under the Initiative and the amount of assistance to be provided, the following conditions must be met:

- The country's debt burden indicators must be above the HIPC Initiative debt sustainability thresholds based on the most recent data for the year immediately prior to the decision point.

[243] See Table 7A to the paper on *Initiative for Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation and Proposals for the Future of the HIPC Initiative* (IMF, 2011c). As of May 2011, 32 HIPCs, have reached the completion point, another four have reached the decision point, and a further three are classified as pre-decision point; see *The Acting Chair's Summing Up Initiative for Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation and Proposals for the Future of the HIPC Initiative* (IMF, 2011e).

- While the HIPC Trust Instrument states that normally a three-year track record of policy performance under a Fund-supported program immediately preceding the decision point is needed is needed, in practice a track record with a minimum of six months' duration has been required. Programs that count toward qualification include those supported by ECF, SCF, or Extended Arrangements, or, on a case-by-case basis as determined by the Board, SBA, RAP, RFI and RCF. Under the Rights Accumulation Program "RAP," a member in arrears to the Fund will be able to earn rights, conditioned on satisfactory performance under an adjustment program monitored by the Fund, toward a disbursement from the Fund once the member's overdue obligations have been cleared and upon approval of a successor arrangement by the Fund. Somalia and Sudan are the only two remaining countries that are eligible for the RAP. An SMP can count toward the track record when the Executive Board agrees that its macroeconomic and structural policies meet the policy standards associated with programs supported by UCT arrangements or under the PRGT (this applies for countries where the existence of protracted arrears precludes other forms of Fund engagement). Liberia was the only country thus far to have used an SMP to reach the decision point.

- A satisfactory poverty reduction strategy set out in a PRSP, I-PRSP, PRSP preparation status report or APR must be in place and must have been subject to an analysis in a JSAN also issued to the Executive Board. The PRS document must have been issued to the Executive Board normally within the previous 12 months but in any case within the previous 18 months.

3. A country that has reached decision point may begin receiving interim HIPC assistance subject, inter alia, to (i) the existence of satisfactory participation assurances from creditors (in practice, assurances from creditors jointly holding at least 70 percent of HIPC-eligible debt) and (ii) the requirement that the Fund-supported program remains on track in order for interim assistance to be disbursed. A country may receive up to 20 percent (in NPV terms) of total assistance committed for each 12-month period following the decision point and up to 60 percent of the total of the assistance committed prior to completion point (or 25 percent and 75 percent, respectively, in exceptional circumstances).

4. To reach the HIPC *completion point*, when the Trustee decides to disburse remaining undisbursed assistance committed for a qualifying member (together with any MDRI or MDRI-like relief), the following conditions must be met:

- A track record of at least six months of policy performance under an ECF, SCF, or Extended Arrangement has been established in the period immediately preceding the completion point.

- The member has a stable macroeconomic position.

- A full PRSP must have been adopted and satisfactorily implemented for at least one year preceding the completion point, as evidenced by an APR issued to the Executive Board and subject to a JSAN. The APR must have been issued normally within the previous 12 months but in any case within the previous 18 months. The JSAN must also have been issued to the Executive Board.

- All floating completion point triggers, the structural conditions set at the decision point, must have been implemented.

- Satisfactory participation assurances from creditors (in practice, assurances from creditors jointly holding at least 80 percent of HIPC-eligible debt) should have been obtained.

5. Progress under the HIPC Initiative by a country should be adequately reflected in program documents. It is expected that program documents will contain information on the status of preparation or implementation of an I-PRSP/PRSP, and implementation of the completion point triggers. The possible timing for reaching the completion point and any obstacles toward it should also be documented. Separate documents are also prepared for both the decision point and the completion point.

6. Preparation for the HIPC Initiative decision and completion points requires careful planning. An HIPC debt relief analysis (HIPC DRA) based on a loan-by-loan data reconciliation needs to be conducted. This analysis is used to determine the member's current external debt situation, and it is a joint exercise among SPR and World Bank staff and, where appropriate, the relevant regional development bank, which dispatch a mission to the country to perform the data reconciliation. The entire process of conducting the HIPC DRA and preparing an HIPC document may take between 18 and 24 weeks from pre-mission preparation to Board meeting. The HIPC DRA should not be confused with the LIC DSA, which is undertaken annually jointly by Bank and Fund staff and employs a different methodology.

7. The treatment of prospective debt relief may differ between the macro framework and the HIPC DRA. This is because the former is expected to reflect realistic assumptions, including prospects for debt relief, while the latter should reflect the legal situation regarding debt (and demonstrate the unsustainable debt burden before debt relief).

8. The HIPC Initiative was supplemented in 2005 by the Multilateral Debt Relief Initiative, which is to provide 100 percent debt relief on eligible debt to eligible countries, including HIPC-eligible countries that have reached the HIPC completion point and whose performance since reaching the completion point has not deteriorated substantially. While the HIPC Initiative entailed coordinated action by multilateral organizations and governments, the MDRI is provided by four IFIS—the IMF, IDA, AfDB, and IADB. A member is eligible for assistance under the MDRI-I Trust when it is PRGT-eligible, has annual per capita income of US$380 or less on the basis of the 2004 gross national income (Atlas method) from the World Bank's Operational Manual as updated on July 21, 2005; has debt outstanding to the Fund, including to the Fund as Trustee, as of December 31, 2004; and in the case of a member that is HIPC eligible or potentially eligible, the member has reached the completion point under the HIPC Initiative.

Questions on the HIPC Initiative and the MDRI should be addressed to SPR's Debt Policy Division.

Appendix V. Poverty Reduction Objectives in the Context of Operations Under the Fund's Concessional Facilities, the PSI, and the HIPC Initiative

A. Background

1. On January 27, 2009, the Executive Board approved amendments to the PRGF-ESF Trust Instrument and to the Policy Support Framework Decision to streamline the procedures related to the PRS documents and the JSANs on the basis of *Joint Staff Advisory Notes (JSANs)—Proposed Amendments to Streamline Modalities* (IMF, 2009a).[244] On July 23, 2009, effective January 7, 2010 the Board approved changes to the architecture of the IMF's concessional facilities for LICs.[245] These changes include modifications to the PRGF-ESF Trust, which was renamed as the PRGT and provides for three concessional facilities: the ECF to assist LICs facing protracted balance of payments problems (replacing the PRGF), the SCF, for short-term balance of payments needs, and the RCF, to assist LICs with urgent balance of payments needs. The PSI framework decision was modified in the context of these reforms, including with regard to requirements related to PRS documents. On April 8, 2013, the Board approved changes to the initial duration and extension of ECF arrangements; the timing of reviews, phasing and performance criteria for ECF and SCF arrangements; the augmentation procedures for ECF and SCF arrangements; provisions on the computation of the period of SCF arrangements treated as precautionary for the purpose of the limits on repeat use of SCF arrangements; provisions on defunct ECF arrangements; and PRS documentation requirements for ECF arrangements. Amendments were also made to lapse-of-time procedures; access limits under PRGT facilities; and the duration, timing of reviews, assessment criteria, and required PRS documentation for the PSI.[246] As part of this review, the preexisting requirement to issue JSANs on PRSPs and I-PRSPs for Board discussion was changed to allow the issuance for information.

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[244] The amendments were approved by Executive Board Decision No. 14253-(09/8). In addition to these amendments, the Executive Board decision includes a stand-alone provision requiring the preparation and circulation for Executive Board discussion or information of JSANs for PRSPs or I-PRSPs generally within four months of their transmission to the Fund in a non-HIPC context. The pre-existing procedures were based on *Poverty Reduction Strategy Papers—Progress in Implementation* (IMF, 2004b), modifications to the Poverty Reduction Strategy (PRS) framework. Amendments to the PRGF and PRGF-HIPC Trust Instruments to give effect to the modifications based on these documents were presented in Poverty Reduction Strategy Papers—Proposed Amendments to the PRGF Trust and PRGF-HIPC Trust Instruments (IMF, 2004c), and adopted as Decisions No. 13373-(04/105) PRGF and No. 13374-(04/105) PRGF.

[245] Executive Board Decision No. 14354-(09/79).

[246] For further details, please see *Review of Facilities for Low-Income Countries—Proposals for Implementation* (IMF, 2013d).

2. This Appendix provides guidance on the changes resulting from these Board decisions in Fund's approach to integrating poverty reduction objectives into its LIC operations, including in the rules and procedures for PRS documents and the implications of these changes for operations under the Fund's concessional financing facilities (ECF, SCF, and RCF), PSI and HIPC Initiative processes. These changes fall into two categories: (i) changes to regular staff assessments on the implementation of existing PRS in both program and non-program countries, and (ii) changes to requirements for PRS documents, and in the manner in which countries' poverty reduction efforts are to be integrated into the Fund's financing operations under the new architecture of concessional facilities. This Appendix focuses on the *processes* involved, and does not address in detail the expected *content* of the information to be provided to the Executive Board by countries obtaining financing under the new LIC facilities on their poverty reduction activities, or the reporting to the Board required from staff on PRS implementation in connection with the newly introduced AFP for APR documents produced by the authorities.

3. Guidelines on the content of JSANs for full PRSPs are included in the joint Bank-Fund guidance note, *Guidelines for World Bank and IMF Staffs for Joint Staff Advisory Notes (JSAN) for Poverty Reduction Strategy Papers* (IMF, 2001). As most countries pursuing the PRSP process already have full PRSPs or expect to issue them shortly, relatively few additional I-PRSPs or PRSP Preparation Status Reports are expected. Authorities and staff may choose to refer to the earlier guidelines for these documents as an indication of best practice. However, the content of the JSANs and operational procedures are superseded by those set out in later decisions. While this guidance note has benefited from informal consultation with Bank staff, it is focused on Fund policies, documents, and procedures. Improving coordination between the Fund and the World Bank on the review of JSANs (among other papers), should follow the good practices set under the Information Note on the Review of Joint Bank-Fund Documents prepared jointly by the Fund and the World Bank, which suggests timelines the staffs can follow to facilitate coordination. Similarly, as noted below, staffs should also follow the recommendations of the Joint Management Action Plan by conducting regular meetings between counterparts as a means of increasing coordination.

4. For Fund staff, a key operational change resulting from recent Executive Board decisions are modifications to the procedures for assessing PRS implementation, which apply in both program and non-program countries. In particular, JSANs for APRs have been eliminated, and assessments of PRS implementation will now take the form of staff participation in an AFP with country authorities and other stakeholders, with the outcome summarized as part of a subsequent regular staff report to the Executive Board. Further information on the AFP is provided below. JSAN and PRS requirements in connection with the enhanced HIPC Initiative are unchanged.

B. Integrating Country Poverty Reduction Efforts into Lending Activities Under the New Architecture of Facilities for LICs

5. The three concessional facilities established under the PRGT (ECF, SCF, and RCF) and the PSI are designed to assist LICs in making progress toward, or in achieving, maintaining, or restoring a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. Accordingly, policies supported by Fund concessional financing under all facilities or the PSI should be aligned with the country's poverty reduction and growth objectives. Specific documentation and reporting requirements have been established to demonstrate and monitor this. The following specific guidance applies to PRS linkages:

- Any financing request or program review under the ECF, SCF, or RCF must be accompanied by a statement, normally in the LOI or MEFP, of how the program advances the country's poverty reduction and growth objectives.[247] It is expected that the description would be more detailed at the time of the initial program request or when a new PRSP (or I-PRSP – see Box 1 for definitions) is produced. In cases where a relevant PRS document exists, this description in the LOI/MEFP could cross-reference the PRS document.

- If a PRS document exists, the policies supported by the ECF, SCF, RCF, or PSI should be consistent with the objectives of the PRS in the context of promoting a stable and sustainable macroeconomic environment consistent with strong and durable poverty reduction and growth.

- In cases where a relevant PRS document (see Appendix Box 1 for definitions) does not exist, the program documentation (e.g., in an attachment to the LOI or MEFP) should outline the country's medium-term poverty reduction and growth objectives and policies. Subsequent program documents should refer to this documentation and update it as necessary.

- While a PRS document is not required at the time of initial Board consideration of an ECF arrangement or a PSI, the second (and every subsequent) review can only be completed if either (a) a PRS document has been issued to the Board, normally within the previous 18 months, and has been subject to staff analysis, including a staff report on an initial request for an ECF arrangement or PSI or on a review, or (b) the member has a poverty reduction strategy set out in a PRSP that has been issued to the Board and which covers a period of twelve months from the date of the completion of the relevant review and the member's program documents describe

[247] See PRGT Instrument, Section II, paragraph 1.

how the current fiscal budget, the upcoming fiscal budget when available, and planned structural reforms advance PRS implementation.

- Whenever an ECF- or PSI-supported program is under consideration (including cases where support is currently provided under an SMP, RCF, or SCF), staff should inform the authorities at an early stage about the relevant Definitions and Timelines for PRS Documentation requirements to ensure adequate time for the PRS process.

- While not required to complete a review for Fund financial support or the PSI, staff are required to prepare and circulate for discussion or information to the Executive Board a Joint Staff Advisory Note (JSANs) for PRSPs and Interim Poverty Reduction Strategy Papers (I-PRSPs) generally within four months of the transmission of a PRSP or an I-PRSP (outside the HIPC context).[248] For APRs, it is good practice to engage in an annual feedback process.[249] In cases where a JSAN has not yet been prepared, the Executive Board is not prevented from making decisions governing a member's ECF arrangement or PSI, including the completion of reviews, if the required staff analysis has been included in the relevant staff report or a supplement. If a JSAN is circulated to the Board for information, it can be used as a background information for the next Board meeting for that country.

- Given possible different timing schedules for the distribution of JSANs to the Executive Boards of the IMF and the World Bank and differences in Board procedures, IMF country teams are encouraged to engage with the corresponding World Bank country director (Regional department) to ensure that the JSANs are published on the IMF and World Bank external website at the same time.

- More generally, and irrespective of requirements for issuance of PRS documents to the Board in the context of the ECF or PSI, PRS documents should normally be produced by the country authorities on a 12-month cycle and aligned with other domestic policy cycles. In case of significant weaknesses in the PRS, including those identified in the JSAN or through the AFP, program staff reports and the LOI/MEFP should report how these weaknesses are being addressed. While it would be expected that any identified weaknesses in the member's PRS would be addressed, this is not a requirement for support under any of the Fund's facilities.

[248] This requirement is established in paragraph 3 of Decision No. 14253-(09/8).

[249] See IMF (2009a).

- Under all Fund facilities for LICs, social and other priority spending should be safeguarded and, whenever appropriate, increased. This should be monitored through explicit targets, typically an indicative floor on social or other priority spending, whenever possible. The determination of what constitutes social or other priority spending should in general be based on the authorities' PRS, or, where that does not exist, the medium-term poverty reduction and growth objectives and policies outlined by the authorities as part of program documentation. In cases where such tracking is not feasible, members will be encouraged to develop adequate expenditure tracking systems, which may require technical assistance, so that social and other priority spending can be monitored.

6. It will not always be the case that the PRS documents are fully aligned with other national policy documents (e.g., the budget) and the policies set out in the PRS documents may not, by themselves, provide a satisfactory basis for a Fund-supported program. In these circumstances, staff has to consider the implications of inconsistencies between the policies set out in poverty reduction strategy documents and policies that could be supported by a Fund arrangement, including any implications for program ownership or implementation. In cases where these inconsistencies result simply from differing vintages of PRS and other documents and policies, the authorities' description of policies should explain the difference in timing and the reasons for a modification in the strategy, and the next PRS document should discuss these modifications and how they relate to the broader strategy.

7. More rarely, PRS documents might differ substantially from other roughly contemporaneous national policy documents (such as the budget or an LOI/MEFP). In these circumstances, IMF staff teams would need to evaluate whether a Fund-supported program would still be appropriate. Inconsistencies that come to light during the implementation period of a PRS should be discussed with the authorities as part of the AFP. Conflicts between PRS documents and other national policy documents clearly have implications for likely program ownership and implementation. Should a decision be made to proceed with an ECF-supported or PSI program, the ECF or PSI LOI/MEFP should explain how the authorities intend to modify policy coordination procedures to ensure alignment with future PRS documents and prevent a recurrence of conflicting national policy documents. The ownership implications and implementation concerns should be explicitly and frankly assessed in JSANs and ECF or PSI staff reports. While missions should urge the authorities to improve internal coordination mechanisms to avoid a recurrence of such conflicts and IMF staff teams should provide frank advice to country authorities on policy choices, they should not directly set conditions for the contents of PRS documents.

8. ECF or PSI staff reports and LOIs/MEFPs should discuss how significant weaknesses in the poverty reduction strategy, including those identified in the JSAN or through the AFP, have been addressed. In supporting a request for an ECF loan disbursement, IMF staff and management would recommend approval of the operation based in part on the country's PRS and taking into account the JSAN, as well as the authorities' commitment to remedy the major weaknesses in areas under the IMF's mandate (in particular, the macroeconomic framework).

C. Definitions and Timelines for PRS Documentation

9. The authorities of low-income countries are generally expected to produce PRS documents, including PRSPs and APRs. The various forms that these documents can take are set out in the PRGT Instrument and in the PSI Framework Decision, and they are defined in the PRG-HIPC Trust (see Appendix Box 1). PRS documents should normally be produced on a 12-month cycle and aligned with other domestic policy cycles. However, the revised PRGT Instrument and the PSI Framework Decision now establish a normal limit of 18 months between the time of issuance of a PRS document to the Fund Board and the Board completion of the second and subsequent reviews on a subsequent ECF or PSI operation.

Appendix Box 1. Poverty Reduction Strategy Documents

- *Interim Poverty Reduction Strategy Paper (I-PRSP),* a transitional document prepared by a member that sets out a preliminary poverty reduction strategy as a precursor to a first full PRSP (see IMF, 2002b and 1999b). The use of I-PRSPs will be eventually phased out as countries are expected to produce their first full PRSPs; i.e. countries cannot have I-PRSPs subsequent to full PRSPs.
- *PRSP Preparation Status Report*, a document prepared by a member, reporting on the updates to the preliminary poverty reduction strategy set out in an I-PRSP in anticipation of a PRSP.
- *Poverty Reduction Strategy Paper (PRSP)*, a document prepared by a member in a participatory process, which sets out a comprehensive three-year poverty reduction strategy and assesses the nature and determinants of poverty and the links between public actions and poverty outcomes. The document also presents outcome-related goals for poverty reduction and proposes a set of integrated multiyear institutional, structural, and sectoral interventions to help achieve these goals within a consistent macroeconomic framework. The poverty reduction strategy could be extended to as much as five years.
- *Annual Progress Report (APR)*, a document prepared by a member reporting on the implementation of the PRSP and updating it as appropriate.

10. Staff should report to the Board on each country's PRS about once a year. Such reporting should cover progress in the PRS (and, when applicable, PRSPs and their JSANs or the AFP) and be presented in a staff report; e.g., an Article IV staff report, or a staff report for approval of a new ECF, SCF, or SCF arrangement, disbursement under the RCF or approval of a PSI, or for the completion of a program review. These accounts are expected to focus on the thrust of staff's discussion with the authorities. For a PRSP preparation status report, the staff report should briefly highlight progress and constraints in preparing the PRSP, discusses the feasibility of the roadmap for its completion, and possibly provides advice on further steps including recommendations for technical assistance.

Joint Staff Advisory Notes (JSANs)

11. The JSAN is a document prepared jointly by the staffs of the Bank and the Fund containing an analysis of the strengths and weaknesses of the poverty reduction strategy of the member concerned and identifying priority areas for strengthening the poverty reduction strategy during implementation. In the case of an interim PRSP, the JSAN should focus on the roadmap for preparing the strategy, provide advice on these preparations, and consider the need for technical assistance.

12. A key objective of the JSAN is to provide focused, frank, and constructive feedback to country authorities on their PRS. Accordingly, JSANs should identify a limited number of priority areas in the PRS that are expected to be addressed**,** including in the context of existing or possible future ECF-supported programs. While the JSAN is to be frank, it should avoid normative language in assessing the PRS as a whole and, in particular, avoid language that suggests that the PRS document meets or falls short of overall standards.

13. A JSAN for an I-PRSP or PRSP, if it is to be discussed, should end with suggested points for discussion by the Executive Boards of the Fund and the Bank. The concluding paragraph should draw on the advice in the main text of the JSAN to highlight the areas for discussion and seek the Boards' views on staffs' conclusions regarding: (i) priority action areas for strengthening the PRS; and (ii) areas where (a) there are inconsistencies between the PRS and its policy framework and the analytical basis that underpins Bank- and Fund-supported programs that reflect existing analysis; or (b) areas in which further analysis is needed or in which adjustments to the strategy are expected.

14. Bank and Fund staffs should divide responsibilities in preparing the JSAN. Bank and Fund staffs are expected to contribute to the JSAN in their areas of primary institutional competencies, taking account of overlapping competencies and important linkages among areas. In particular, in the latter areas, the staffs need to reach a common understanding.

15. No JSAN is needed for PRSP preparation status reports and APRs. Instead, feedback to the authorities will be provided through the AFP (see below). An exception is that a JSAN is required when a PRSP preparation status report or APR is prepared for the HIPC decision point.

Annual Feedback Process (AFP)

16. The Annual Feedback Process is an assessment of PRS implementation, based on informal consultations and dialogue with country authorities. The conclusions of these consultations are then summarized as part of a regular staff report to the Executive Board, such as one prepared for an Article IV discussion, or program request or review.

17. The consultations under the AFP would be expected to cover: (i) performance relative to PRS benchmarks and monitoring indicators; (ii) the linkages between the PRS and national systems and processes (e.g., budget, monitoring, and planning); and (iii) the coming year's policy intentions, particularly, but not exclusively, as reflected in the budget.

18. While the AFP should be coordinated with Bank staff to ensure that the feedback given is comprehensive and coherent, the staffs of the Fund and the Bank could provide their input individually. In terms of coverage, Fund staff would be expected to focus on its areas of expertise, notably macro-critical aspects of the PRS. The Bank and Fund staff would not be required to provide separate written feedback to the government but could choose the most conducive mechanism to convey their views on PRS implementation. Where applicable, Policy Consultation Notes should indicate that feedback will be provided to countries in the context of the forthcoming mission. The content and modalities of this feedback will not be subject to special clearance procedures. Such feedback could be provided either in writing or orally. Any written comprehensive assessments of the macroeconomic situation, if provided, would be circulated to the Executive Board for information, consistent with the policy on assessment letters and statements.

19. The AFP should draw, to the extent possible, on existing in-country mechanisms, such as implementation reviews, other suitable domestic review processes, or annual reviews of budget financing groups and consultative groups/roundtables. The timing of the process would be country specific, but feedback should ideally be given about once a year, ideally in line with the budget calendar and in-country donor review process. However, it is understood that in countries with weak policy environments, or in the absence of program relationships, the ability of staff to provide feedback may be limited.

PRS and the HIPC Initiative

20. There is no change to the operational link between the PRS and the HIPC Initiative processes. Fund staff will recommend approval of an operation under the HIPC Initiative if, among others, the PRS requirements for HIPC Initiative decisions set out in the PRG-HIPC Trust Instrument are met. For the completion point, these include a requirement for the satisfactory implementation of a full PRSP for at least a year, as evidenced by an APR that has been recently issued to the Board and has been analyzed in a JSAN also issued to the Board. The Executive Boards' determinations as to whether the HIPC Initiative decision point and completion point conditions related to the members' poverty reduction strategies (see Appendix Box 2) are met will be made at the time of the decision and completion points rather than at the time the JSAN for the PRS document is submitted to the Boards (including in the case where PRS documents were circulated to the Boards some time before the HIPC Initiative decision).

Appendix Box 2. Summary of PRS-Related Conditions for Assistance Under the HIPC Initiative

- *At the decision point,* a member should have in place a satisfactory PRS set out in an I-PRSP, PRSP preparation status report, PRSP or APR that has been issued to the Board normally within the previous 12 months but in any case within the previous 18 months, and which has been analyzed in a JSAN that has also been issued to the Board.
- *At the completion point*, a member should have in place a PRSP with at least one year of satisfactory implementation by the completion point. Evidence of satisfactory implementation of the PRSP should be provided in an APR normally issued to the Executive Boards within the previous 12 months but in any case within the previous 18 months and analyzed in a JSAN that has also been issued to the Board.

Other issues

21. Circulation to the Boards. The PRS documents and the corresponding JSANs are issued to the Executive Board in the EBD series as soon after the PRS documents are officially received (i.e., with a notification from a senior official indicating that the document is final and can be issued to the Executive Boards and posted on the external websites of the Bank and Fund). A PRSP or I-PRSP will be issued together with the accompanying JSAN for Board discussion when feasible. If the JSAN is not ready, issuance of the PRS document should not be held up. If it is not possible to issue the JSANs together with PRS documents, the JSAN should be issued to the Boards within four months of official transmission of the PRS document to which it relates. JSANs can be issued for discussion or information to the IMF Executive Board. APRs are normally issued for information of the Boards.

22. Board discussion. The Boards will either discuss a PRSP or I-PRSP (and the related JSAN) together with a concessional financing, PSI, or HIPC Initiative operation, or an Article IV consultation, whichever is earlier following the receipt of the relevant PRS document and the JSAN, or on a standalone basis if no such operation is contemplated. JSANs can also be issued for information to the IMF Executive Board. Executive Board discussions at the Bank and the Fund should preferably be scheduled within five working days of each other; the institution taking an operational decision would normally have the later Board date. The Fund's minimum circulation period for PRS documents and JSANs is two weeks, with an additional business day required for document dissemination. However, the Bank generally requires a three week circulation period and additional time for document preparation. In cases in which operational decisions are being made at both institutions, the sequencing of Board meetings will need to be made judgmentally. However, standalone Board discussion of a PRSP or I-PRSPs at the Fund would only be expected in the unusual circumstance that there is an operational need at the Bank but not at the Fund. As I-PRSPs are needed only as an interim document pending completion of the full PRSP, I-PRSPs should be finalized by the authorities and issued to the Boards only when there is an operational need at either the Bank (rarely) or the Fund. As noted above, APRs and PRSP preparation status reports are not normally scheduled for Board discussion.

23. Publication. The publication of PRS documents and JSANs is voluntary, but presumed.[250] A member's consent is required for their publication. The Managing Director will not recommend the approval of (i) an ECF arrangement or completion of a review under such arrangement, or (ii) an HIPC decision point or completion point decision, or (iii) a member's request for initial approval or review of a PSI, if the member concerned does not explicitly consent to the publication of the PRSP-related document (i.e., I-PRSP, PRSP, PRSP preparation status report, or PRSP annual progress report). In this regard, a member is expected to indicate that it intends to consent to the publication of the related PRSP-related documents before the Board meeting or the date of adoption of a decision on a lapse-of-time basis to which those documents relate. In instances in which consent has not been received prior to the circulation of documents to the Board, the cover memo should indicate this, using standardized wording similar to that for staff reports. When the authorities' consent has been received, PRSPs and APRs may be published immediately after formal transmission to the Bank and the Fund when circulated for information, JSANs and PRSPs that are scheduled for discussion by one or both Boards may be published only after discussion by the relevant Board(s). Where modifications are being introduced to the JSAN before publication, the JSAN cannot be posted on the Fund's website until both the Fund's and Bank's Board have been formally informed of these changes. A Chairman's statement will also be released after the Board meeting as part of a press release.[251]

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[250] Provisions of the *Guidance Note on the Fund's Transparency Policy* (IMF, 2013h), apply.

[251] SEC's cover memo to the Executive Board for an APR issued "for information" should read: "Attached for information of Executive Directors is [member's] APR for its PRSP. The authorities of [member] have consented to the publication of the document. It is intended to post this paper on the Fund's external website after [date + five working days]."

Appendix VI. Eligibility to Use the Fund's Facilities for Concessional Financing

1. The policy framework for determining countries' eligibility for IMF concessional financing is set out in *Eligibility to Use the Fund's Facilities for Concessional Financing* (IMF, 2009k) and Executive Board Decision No. 14521-(10/3), adopted January 11, 2010, as amended pursuant to the proposals set out in IMF (2012b and 2013c). PRGT eligibility will be reviewed by the Executive Board every two years, with the next review scheduled for 2015. However, decisions regarding entry onto the PRGT-eligibility list could also be adopted between reviews. Decisions regarding graduation from the PRGT-eligibility list can also be adopted in the interim period between reviews for members that request graduation and meet the graduation criteria. The key elements of the framework are:

a. **Entry criteria:** A Fund member will be added to the list of PRGT-eligible countries if: (i) its annual per capita gross national income is below the operational IDA cut-off (based on the latest available qualifying data);[252] and (ii) the sovereign does not have capacity to access international financial markets on a durable and substantial basis as defined below.

b. **Graduation criteria:** A PRGT-eligible country will graduate if it meets either or both the income and market access criteria, and does not face serious short-term vulnerabilities, as set out below:

- *Income*: The country's annual per capita GNI: (a) has been above the IDA operational cutoff for at least the last five years (for which qualifying data are available); (b) has not been on a declining trend in the same period (comparing the first and the last relevant annual data); and (c) is currently (based on the latest available qualifying data) at least twice the operational IDA cutoff.

Or

[252] These assessments of per capita GNI for purposes of both entry and graduation decisions would normally be based on World Bank data derived using the Atlas methodology, but other data sources may be used in exceptional circumstances (e.g., data estimated by Fund staff in the absence of World Bank data). Qualifying data is 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. Where more recent data are not available and cannot be estimated, it would be expected that no decisions would be taken in respect of the relevant country. For FY2015, the operational cut-off for IDA eligibility is US$1,215, based on 2013 GNI income per capita.

- *Market Access*: The sovereign has the capacity to access international financial markets on a durable and substantial basis,[253] *and* their annual per capita GNI is above the IDA operational cutoff (based on the latest available qualifying annual data) and has not been on a declining trend during the last five years for which qualifying data is available, comparing the first and last relevant data available.

And

- *Absence of short-term vulnerabilities:* In addition to meeting at least one of the above two criteria, the country must 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, and limited debt vulnerabilities as indicated by the most recent debt sustainability analysis, as well as confirmation that overall debt vulnerabilities since the most recent debt sustainability analysis remain limited. With regard to the limited debt vulnerabilities requirement, those members with a LIC-DSA, should have a risk of external debt distress that is moderate or less, and the level of domestic debt should not raise serious concerns regarding debt sustainability. For the assessment of risks of a loss of market access, large spreads on recent external borrowing could provide an indication of risks to prospective market access.

c. **Small and very small (microstate) country criteria:** For small countries and microstates, the criteria for entry and graduation from PRGT eligibility largely mirror the general rules but are less stringent as regards per capita income. Small countries are defined as those with a *population below 1.5 million*. Microstates are defined as those with a *population below 200,000*. The exceptional treatment of small countries and microstates is made operational as follows:

- **Entry:** Small countries (microstates) that are not currently PRGT-eligible will be added to the PRGT eligibility list if: (i) the sovereign does not have capacity to access international

[253] The market access criterion is measured under one of two alternative tests. Under the first test, the existence of such capacity would normally be evidenced by 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 two and three of the last five years (for which data are available) for entry and graduation, respectively, in a cumulative amount over that period equivalent to at least 50 and 100 percent of the country's Fund quota, for entry and graduation, respectively, at the time of the assessment. As an alternative, a country could also be deemed to meet the market access criterion if there was 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.

financial markets on a durable and substantial basis (as defined in paragraph 1b above); and (ii) per capita GNI is less than *twice* (*five times*) the IDA operational threshold (based on the latest available annual qualifying data).

- **Graduation:** Small countries (microstates) will graduate on the basis of three criteria:
  - *Income*: Their annual per capita GNI: (i) has been above the IDA operational threshold for at least the last five years (for which qualifying data are available); (ii) has not been on a declining trend in the same period (comparing the first and the last relevant annual data); and (iii) is currently at least three (*six*) times the IDA threshold (based on the latest available qualifying data); or
  - *Market access:* The sovereign has the capacity to access international financial markets on a durable and substantial basis, as defined in paragraph 1b above, *and* the member's annual per capita GNI is above the IDA operational cutoff (based on the latest available qualifying data) and has not been on a declining trend during the last five years for which qualifying data is available, comparing the first and last relevant data available; and
  - *Absence of serious short-term vulnerabilities*: Small countries (microstates) that meet either of the above two criteria will graduate if they do not face serious short-term vulnerabilities as described in paragraph 1b above. With respect to the risk of a sharp decline of income, a small country (microstate) generally would not be expected to graduate if there is a serious risk of a decline in income to less than *three* (*six*) times the operational IDA cutoff.

Appendix Table 4. PRGT-Eligible Countries—2011 Per Capita GNI (US dollars) (Effective July 1, 2013)

Country	GNI per capita (US$)	Population (In millions)	Country	GNI per capita (US$)	Population (In millions)
Afghanistan	700	30.6	Maldives*	5610	0.3
Bangladesh	900	156.6	Mali	670	16.9
Benin	790	10.3	Marshall Islands***	4200	0.1
Bhutan	2430	0.7	Mauritania	1090	3.7
Bolivia	2550	11.0	Micronesia***	3440	0.1
Burkina Faso	670	16.9	Moldova	2440	3.6
Burundi	280	9.0	Mongolia	3530	2.9
Cambodia	950	15.1	Mozambique	590	25.8
Cameroon	1270	22.0	Myanmar	NA 1/	64.2
Cape Verde**	3630	0.5	Nepal	730	27.9
Central African Republic	320	4.6	Nicaragua	1780	6.1
Chad	1020	11.0	Niger	410	16.6
Comoros	880	0.7	Nigeria	2760	169.3
Congo, Rep.	2660	4.2	Papua New Guinea	2010	7.3
Congo, Dem. Rep.	400	77.0	Rwanda	620	10.8
Côte d'Ivoire	1380	24.1	Samoa***	3430	0.2
Djibouti	1270 1/	0.9	São Tomé and Principe	1470	0.2
Dominica***	6760	0.1	Senegal	1070	14.1
Eritrea	490	6.3	Sierra Leone	680	6.1
Ethiopia	470	88.9	Solomon Islands	1610	0.6
Gambia, The	510	1.9	Somalia	NA 1/	0.0
Ghana*	1760	25.6	South Sudan	1120	11.3 3/
Grenada*	7460	0.1	St. Lucia***	7090	0.2
Guinea	460	11.1	St. Vincent and the Grenadines	6580	0.1
Guinea-Bissau	520	1.7	Sudan	1130	34.4
Guyana**	3750	0.8	Tajikistan	980	8.1
Haiti	810	10.3	Tanzania	630	46.3
Honduras	2200	8.1	Timor-Leste**	3580	1.2
Kenya	930	41.8	Togo	530	6.8
Kiribati	2620	0.1	Tonga***	4490	0.1
Kyrgyz Republic	1200	5.6	Tuvalu***	6510	0.0
Lao PDR	1460	6.8	Uganda	510	36.8
Lesotho	1550	1.9	Uzbekistan	1900	30.2
Liberia	410	4.1	Vanuatu**	3120	0.3
Madagascar	440	23.0	Vietnam*	1730	89.7
Malawi	270	17.1	Yemen	1330	26.7
			Zambia	1480	14.5
Memorandum Item:					
Zimbabwe	820 2/	13.1			

Sources: Fund WEO, World Bank, World Development Indicators, and OP 3.10, Annex C, of July 2014.
* Maintained on the list due to short-term vulnerabilities.
** Maintained on the list because it satisfies the small country exception.
*** Added or maintained on the list because it satisfies the micro state exception.
1/ Data for 2013 are not available. 2009 data given for Djibouti.
2/ Zimbabwe is not PRGT-eligible due to its removal from the PRGT-eligibility list by a Board decision in connection with its overdue obligations to the PRGT. It is expected to become PRGT-eligible if the remedial measure were lifted.
3/ The source of South Sudan population is World Development Indicators, and the sources of other countries are Fund WEO.

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