INTERNATIONAL MONETARY FUND

IMF POLICY PAPER

April 2022

PROPOSAL TO ESTABLISH A RESILIENCE AND SUSTAINABILITY TRUST

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

- A **Press Release** summarizing the views of the Executive Board as expressed during its April 13, 2022 consideration of the staff report.
- The **Staff Report**, prepared by IMF staff and completed on April 11, 2022 for the Executive Board's consideration on April 13, 2022.
- A **Staff Supplement 1**: Proposal to Establish a Resilience and Sustainability Trust—Revised Proposed Decisions and Instrument.

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International Monetary Fund
Washington, D.C.

PRESS RELEASE

PR22/119

IMF Executive Board Approves Establishment of the Resilience and Sustainability Trust

FOR IMMEDIATE RELEASE

- *The Executive Board of the International Monetary Fund (IMF) approved the establishment of the Resilience and Sustainability Trust (RST) to help countries build resilience to external shocks and ensure sustainable growth, contributing to their long-term balance of payments stability.*
- *The RST will complement the IMF's existing lending toolkit by focusing on longer-term structural challenges – including climate change and pandemic preparedness – that entail significant macroeconomic risks and where policy solutions have a strong global public good nature.*
- *About three quarters of the IMF's membership will be eligible for longer-term affordable financing from the RST, including all low-income countries, all developing and vulnerable small states, and lower middle-income countries.*

Washington, DC – April 13, 2022: Challenges from the pandemic, spillovers from geopolitical shocks, and long-standing structural problems pose an enormous impediment for balance of payments stability and resilient and sustainable growth, especially for low-income and vulnerable middle-income countries. In this context, on April 13, 2022, the Executive Board of the International Monetary Fund (IMF) approved the establishment of the Resilience and Sustainability Trust (RST) with effect from May 1, 2022.

The RST will complement the IMF's existing lending toolkit by focusing on longer-term structural challenges— including climate change and pandemic preparedness—that entail significant macroeconomic risks and where policy solutions have a strong global public good nature. It will channel Special Drawing Rights (SDRs) contributed by countries with strong external positions to countries where the needs are the greatest, providing policy support and affordable longer-term financing to strengthen members' resilience and sustainability and thereby contributing to prospective balance of payments stability.

The RST will be a loan-based trust, with resources mobilized on a voluntary basis. About three quarters of the IMF's membership will be eligible for longer-term affordable financing from the RST, including all low-income countries, all developing and vulnerable small states, and lower middle-income countries. Access will be based on the countries' reforms strength and debt sustainability considerations and capped at the lower of 150 percent of quota or SDR 1 billion. The loans will have a 20-year maturity and a 10½-year grace period, with borrowers paying an interest rate with a modest margin over the three-month SDR rate, with the most concessional financing terms provided to the poorest countries.

The RST will stand ready to commence lending operations once a critical mass of resources from a broad base of contributors is achieved and once sufficiently robust financial systems and processes are in place, which is anticipated to occur by the end of the year. Fundraising toward the estimated total resource needs of about SDR 33 billion (equivalent to US$45 billion) will be initiated immediately.

Executive Board Assessment[1]

Executive Directors approved the establishment of a Resilience and Sustainability Trust (RST) to support member countries' longer-term structural reform efforts by channeling SDRs to low-income and vulnerable middle-income members. They concurred that the envisaged role of the Trust to provide affordable long-term financing to enhance economic resilience and sustainability would contribute to prospective balance of payments stability, consistent with the Fund's purposes. Directors noted that the economic costs of not addressing macro-critical longer-term structural challenges could be very high, and the support from the RST combined with the additional financing it will help catalyze would contribute to alleviating these risks.

Most Directors supported RST operations to initially focus on addressing climate change and pandemic preparedness while maintaining flexibility to add additional qualifying challenges in the future with sufficiently broad consensus. A number of Directors, however, proposed expanding from the outset the qualifying challenges to a broader set of longer-term challenges. Directors generally considered that the proposed eligibility criteria, and the resulting list of 143 RST-eligible members, strike the right balance between breadth of access and resource constraints.

Directors broadly welcomed the longer lending terms and endorsed the tiered interest rate structure that increases concessionality for lower income members. They noted that periodic interest rate reviews should balance the need to ensure the financial sustainability of the Trust and provide appropriate terms for borrowers, with an interest rate cap to be considered if needed to protect the lowest income borrowers from rising interest rates, following consultations with contributors.

Directors endorsed the proposed lending modalities under RSF arrangements. They generally supported the requirement for a concurrent IMF instrument with upper-credit tranche-quality conditionality.

Directors agreed with the access norm of 75 percent of quota with an access cap at 150 percent of quota or SDR 1 billion, whichever is lower. Many Directors, however, would have preferred higher access limits for small quota countries, vulnerable states, and other qualifying members with large financing needs to address longer-term challenges. Most Directors agreed that RST access would not count towards triggering existing GRA and PRGT exceptional access policies and high combined access safeguards, although some Directors would have preferred such additional safeguards. Directors also welcomed counting RST credit outstanding toward post-financing assessments triggers, which may be recalibrated as appropriate at the RST review.

Directors endorsed the governance structure of the RST, which places the IMF's Executive Board at its center, complemented by consultation with contributors on key issues and requiring the consent by contributors for certain amendments that affect key contributor interests. They emphasized the need for a timely, comprehensive review of the RST, in three years at the latest. They also agreed to an interim review to take stock of the initial experience

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

and revisit the set of qualifying structural challenges at around 18 months after its operationalization. Directors looked forward to receiving regular updates on the adequacy of RST resources with the possibility to adopt contingency measures at that time, typically near the end of each financial year, and on an ad hoc basis if warranted.

Noting the large scale of longer-term structural challenges, Directors underscored the importance of close and systematic coordination with the World Bank and other relevant institutions to leverage specialized expertise, provide coherent policy advice, and catalyze financing. They encouraged the prompt development of a coordination framework for pandemic preparedness similar to the proposed framework for climate change.

Directors supported the financial design of the RST based on three pillars: a Loan Account (LA), a Reserve Account (RA), and a Deposit Account (DA). They endorsed the terms of the borrowing agreements for the LA, and the contribution agreements for the RA and the DA as detailed in the RST Instrument, including allowing stand-alone contributions to the RA and DA. Directors concurred that the RST's robust financial framework and the encashment regime of the LA and DA are critical in maintaining the reserve asset nature of creditors' claims on those accounts of the Trust.

Directors emphasized that the financial risks associated with RST lending should be managed carefully through a multilayered risk management framework, including assessments of the member's capacity to repay and debt sustainability and the RST's financial design. They stressed the importance of building up strong buffers via gross and net reserves to safeguard against financial risk and to cover administrative expenses of the Trust. Directors called on all Fund members, within the limits of their laws, to treat the RST as a preferred creditor, consistent with such treatment of the GRA and PRGT.

Directors recognized the importance of raising sufficient contributions to meet estimated demand for RST financing, calling on members with stronger external positions to finalize contribution agreements in time to start RST operations around the time of the 2022 Annual Meetings. They supported pooling RST assets with those of the PRGT for investment purposes, and urged contributors to the PRGT's subsidy accounts to consent in a timely manner to the proposed amendment to the PRGT Instrument that would enable such pooling, which is key for RST operationalization. Directors expected that SDR contributors to the RST would participate actively in SDR transactions through their Voluntary Trading Arrangements to support the conversion of channeled SDRs into currencies.

Directors recognized that implementation of the RST would result in new demands on staff resources. They agreed that the RST should pay a fee to the GRA to cover trust management activities which would constitute budget receipts. Directors supported reimbursement of the GRA for the cost of administering the Trust excluding activities covered by the fee, which would be discussed in the context of the annual income paper.

INTERNATIONAL MONETARY FUND

April 11, 2022

PROPOSAL TO ESTABLISH A RESILIENCE AND SUSTAINABILITY TRUST

EXECUTIVE SUMMARY

Context. The challenges from the pandemic, spillovers from geopolitical shocks, and long-standing structural problems pose an enormous impediment for balance of payments stability and resilient and sustainable growth, especially for low-income and vulnerable middle-income countries. The $650 billion SDR allocation in August 2021 has helped support economic stability by supplementing members' reserves. There is scope to amplify the effect of these SDRs by channeling them from countries with strong external positions to countries where the needs are the greatest.

A new IMF-administered Trust. The IMFC has supported channeling SDRs to a Resilience and Sustainability Trust (RST) established at the IMF to "provide affordable long-term financing to support countries undertaking macro-critical reforms to reduce risks to prospective balance of payment stability, including those related to climate change and pandemic preparedness." Based on multiple rounds of feedback from members and key stakeholders, this paper details a proposal for establishing the RST.

Rationale. The proposed RST complements the IMF's existing lending toolkit by focusing on longer-term structural challenges that entail significant macroeconomic risks. Not addressing such challenges in a timely manner could have economic consequences with adverse fiscal, monetary, financial, and external implications. But, tight fiscal space, debt vulnerabilities, and limited access to long-term financing constrain many low-income and vulnerable middle-income countries from taking the necessary actions, which have a global public good nature. To address these issues, RST lending would provide policy support and affordable longer-term financing to help address such risks and strengthen members' resilience and sustainability.

Purpose. The RST aims to enhance economic resilience and sustainability—by (i) supporting policy reforms that reduce macro-critical risks associated with select longer-term structural challenges, and (ii) augmenting policy space and financial buffers to mitigate the risks arising from such longer-term structural challenges—thereby contributing to *prospective balance of payments (BoP) stability*. The RST would provide general BoP support to help meet a range of financing needs, including direct costs of RST-supported reforms and the augmentation of longer-term policy space and financial buffers to manage risks to prospective BoP stability. RST loans would initially support measures addressing climate change and enhancing pandemic preparedness given their global public good nature; other challenges could be added over time.

Eligibility and financing terms. Members eligible to request RST support include all PRGT-eligible low-income countries, all small states (population under 1.5 million) with per capita GNI below 25 times the 2021 IDA operational cutoff, and all middle-income countries with per capita GNI below 10 times the 2021 IDA operational cutoff. Consistent with the longer-term nature of addressed structural challenges, RST loans would have a 20-year maturity and a 10½-year grace period, with borrowers paying an interest rate with a modest margin over the three-month SDR rate. A tiered interest structure would differentiate financing terms across country groups, with low-income members benefiting from more concessional terms (i.e., lower margin).

Qualification, policies, and access. RST loans can be accessed by an eligible member under an instrument called the Resilience and Sustainability Facility (RSF). To qualify for an RSF arrangement, a member would need: (i) a package of high-quality policy measures consistent with the purpose of the Trust; (ii) a concurrent financing or non-financing program with "upper credit tranche" (UCT) quality policies; and (iii) sustainable debt and adequate capacity to repay the Fund. Access would be based on the reforms' strength and debt sustainability considerations, and capped at the lower of 150 percent of quota or SDR 1 billion. Close coordination with the World Bank and other relevant MDBs/IFIs is envisaged to leverage comparative expertise and institutional knowledge.

Governance. The proposed RST is grounded in the Fund's legal framework for the establishment of IMF-administered trusts, and would be consistent with the Fund's purposes. Like the PRGT and other trusts previously established by the Fund, the Fund would be the Trustee of the RST. The Executive Board would have the authority to make discretionary decisions pertaining to the RST, with creditor consent needed to alter the fundamental terms of the Trust. RST lending presumes the de facto preferred creditor status that applies to Fund financing under the GRA and PRGT. It is proposed that the RST be reviewed three years after its creation, or earlier, if warranted.

Financial architecture. The RST is proposed to be a loan-based trust, broadly similar to the PRGT. RST resources would be mobilized on a voluntary basis from members with strong external positions who wish to channel their SDRs or currencies to support low-income and vulnerable middle-income countries. The proposed financial structure ensures the safety and liquidity of contributors' claims on the Trust while minimizing their budgetary costs, including through strong policy safeguards, a supportive multilateral context, an adequate reserve buffer, and a funding mechanism that helps maintain the reserve asset status of these claims. These features will be operationalized through a Loan Account, a Reserve Account, and a Deposit Account. To meet the projected baseline demand, the RST would need to mobilize SDR 33 billion (some US$46 billion) in total resources. A member survey suggests frontloaded demand for RST financing; the effects of the Russo-Ukrainian war could lead to additional RSF requests in tandem with more UCT programs. A smooth functioning SDR Voluntary Trading Arrangement (VTA) market would underpin successful RST operations.

Risks. There are potential risks for IMF business operations (if not coordinated well with other IFIs), finances (credit, liquidity, and investment risks as well as pressure on the VTA market), human resources (inadequate expertise and/or inadequate resourcing for the RST's operations), and reputation (small size of trust due to fundraising shortfalls or low demand) from creating a new RST. RST policy design and financial modalities alleviate these risks, and the planned 3-year review provides room to course correct as needed.

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Acronyms and Abbreviations

BBAs	Bilateral Borrowing Agreements
BoP	Balance of Payments
C-PIMA	Climate Public Investment Management Assessment
CCPA	Climate Change Policy Assessments
CCDR	Country Climate and Development Reports
CCRT	Catastrophic Containment and Relief Trust
CD	Capacity Development
CMAP	Climate Macroeconomic Assessment Program
CtR	Capacity to Repay
DA	Deposit Account
DPO	Development Policy Operation
DRS	Disaster Resilience Strategy
DSA	Debt Sustainability Analysis
DSF	Debt Sustainability Framework
EA	Exceptional Access
ECF	Extended Credit Facility
ECL	Expected Credit Losses
EFF	Extended Fund Facility
EMs	Emerging Markets
EMDEs	Emerging Markets and Developing Economies
FCS	Fragile and Conflict States
FCL	Flexible Credit Line
GFN	Gross Financing Needs
GRA	General Resources Account
GNI	Gross National Income
GoC	Guidelines on Conditionality
HICs	High-Income Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFIs	International Financial Institutions
IMFC	International Monetary and Financial Committee
LA	Loan Account
LICs	Low-Income Countries
LOI	Letter of Intent
MAC	Market Access Country
MDBs	Multilateral Development Banks
MEFP	Memorandum of Economic and Financial Policies
MICs	Middle-Income Countries
NAB	New Arrangements to Borrow
NDCs	Nationally Determined Contributions

PCI	Policy Coordination Instrument
PCM	Policy Consultation Meeting
PCS	Preferred Creditor Status
PFA	Post-Financing Assessment
PLL	Precautionary Liquidity Line
PRGT	Poverty Reduction Growth Trust
PSI	Policy Support Instrument
PS-HCC	Policy Safeguards for High Combined Credit
QPCs	Quantitative Performance Criteria
RA	Reserve Account
RCF	Rapid Credit Facility
RFI	Rapid Financing Instrument
RSF	Resilience and Sustainability Facility
RST	Resilience and Sustainability Trust
SBA	Stand-By Arrangement
SCF	Stand-By Credit Facility
SDA	Special Disbursement Account
SDFI	Short-Duration Fixed Income
SDR	Special Drawing Rights
SDRi	Special Drawing Rights (SDR) Interest Rate
SLL	Short-Term Liquidity Line
SRDSF	Sovereign Risk and Debt Sustainability Framework
UCT	Upper Credit Tranche
UCT program	Fund arrangement or instrument with UCT-quality conditionality
UFR	Use of Fund Resources
VTA	Voluntary Trading Agreements
WDI	World Development Indicators
WEO	World Economic Outlook