The IMF's New Resilience and Sustainability Trust (RST): A Technical Summary

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On April 13th the IMF Executive Board approved the establishment of the Resilience and Sustainability Trust (RST), with operations expected to commence before the end of the year. This is a summary of the Executive Board paper that establishes the RST.

Purpose

- Enhance economic resilience and sustainability by helping countries address risks to balance-of-payments (BOP) stability stemming from specific longer-term (LT) structural challenges (for now, these are defined as climate change and pandemic preparedness).
- RST loans are not earmarked for projects but intended to enhance countries' longer-term policy space and could, for example:
    - Cover shorter-term BOP/fiscal needs stemming from RST reforms,
    - Increase policy space to continue priority spending addressing LT challenges, or
    - Augment buffers to address risks from climate change and pandemics.

Context and collaboration

- RST is modest in relation to huge financing needs of massive LT structural challenges.
- Should be seen as part of a concerted effort by the international community.
- Close coordination with World Bank (WB) and other international financial institutions (IFIs) essential. WB and IMF have developed principles for collaboration on RST.

Legal basis

- Article V, section 2(b) of the IMF's Articles of Agreement authorizes the Fund to provide financial and technical services (including trusts) that are consistent with the purposes of the Fund (Article 1), do not entail risks for the General Resources Account (GRA) and depend on voluntary contributions.
- The RST would, consistent with the Article 1, assist countries in strengthening "BOP stability."

Eligibility

- A country is RST eligible if:
    a) Per capita GNI in 2020 ≤ (10 x IDA operational cutoff) i.e., $12,050 or
    b) Population < 1.5 million and per capita GNI in 2020 ≤ (25 x IDA cutoff) i.e., $31,125.
- Currently 143 eligible (based on Oct. 2021 data).
- Eligibility to be reviewed regularly (as in the Poverty Reduction and Growth Trust (PRGT)).

Qualification

- A package of reform measures geared to addressing "qualifying" long term challenges—currently those related to climate change and pandemic preparedness. (A guidance note will elaborate on how to design and assess these reforms which would be developed in consultation with the WB and others. See text box at end for hypothetical examples of reform measures.)
- An upper-credit-tranche (UCT) standard program with at least 18 months remaining at the time of the approval of the RST. (But in the first 6 months of the RST's operation programs with only 12 months remaining would also qualify.) Emergency financing programs (Rapid Credit Facility (RCF) or Rapid Financing Instrument (RFI)) do not meet this standard. For the purposes of the RST, the Flexible Credit Line (FCL) is UCT. (This implies that Brazil, Colombia, Mexico, and Peru could qualify but the baseline scenario assumes that they do not request access under the RST.)
- An IMF assessment that the country's debt is sustainable.

Access

- Cumulative RST access would be capped at the lower to 150% of quota or SDR 1 billion.
- The starting point for determining access would be a norm of 75% of quota; deviations from this norm would depend inter alia on the size of BOP needs stemming from the RST reforms and the strength of these RST reforms.

Conditionality and phasing

- RST conditionality would take of the form of Board reviews assessing implementation of reform measures; there would not be prior actions, quantitative PCs and structural benchmarks or indicative targets. However, reform measures in the RST would need to be implemented over the remaining duration of the concurrent UCT program.
- Disbursements would be phased in line with the expected completion date of reform measures and require completion of the related board review. There would be no upfront disbursements.
- Disbursements under the RST would halt if the concurrent UCT program is off track, and the RST arrangement would automatically terminate upon when the UCT program ends.
- Extension of an RST program to allow access to undisbursed amounts would also require extension or approval of a UCT program.

Terms

- 20-year maturity (double that of the PRGT) and a grace period of 10½ years.
- Interest charged at the SDR interest (SDRi) rate plus a margin and, for most countries, a one-time service fee on disbursements. Tiered costs for three groups of countries:
    A. PRGT eligible, not presumed blenders (51 countries):
        SDRi +55 bps:
    B. PRGT presumed blenders (18) and non-PRGT eligible small states (9):
        SDRi +75 bps, +25 bp service charge on each disbursement.
    C. Other RST eligible (65):

SDRi + 95 bps, + 50 bp service charge on each disbursement.

- Under this tiered structure each group of countries would pay about the same or more for RST usage as they would to borrow from existing IMF windows (PRGT; PRGT/GRA blend; or GRA):
    - Group A countries would pay more: the PRGT interest rate is zero while at the current SDRi of 44bp the RST cost would be almost 1 percent. Moreover, unlike the PRGT the interest rate structure does not include a cap. If average SDRi > 1½% for 12-months, and reserve account has adequate resource to cover the cost, a cap could be introduced. Cross subsidization from other borrowers could be considered.
    - At the other extreme, the RST would not be subject to surcharges and the RST credit would not count towards the threshold for level-based surcharges (currently 187.5% of quota), thus moderating the relative cost for GRA users.

Financial architecture

This broadly mirrors the PRGT where bilateral loan resources are on lent and the reserve asset qualities of this lending is supported by an encashment regime (to provide liquidity) and a reserve account (to provide an additional buffer against credit risks in addition to the security provided by policy safeguards and preferred creditor status of lending). But unlike the PRGT, the RST starts without a reserve account funded largely by past gold sales. To minimize the upfront cost to be funded by with budgetary approvals, the reserve account would gradually accumulate to provide a buffer against credit risks when RST loans fall due. The structure has three accounts:

- **Loan account.** SDR (or freely usable currency) commitments that are on-lent to RST borrowers. All lenders to be paid the SDRi on amounts drawn. 20 percent of all committed loan amounts held in reserve to meet possible encashment needs of other lenders. Loans can be counted as international reserve assets.

- **Deposit Account.** Funded by upfront SDR (or freely usable currency) deposits from loan contributors of equal to at least 20% of each contributor's loan commitment. Contributors would earn the SDRi. Funds to be invested in short-duration fixed-income instruments, expected over the medium term to yield a premium of 45-50 bp over the SDRi. Deposits can be counted as international reserve assets given the relatively low investment risks and the ability of depositors to withdraw funds in the event of BOP need. The main function of the deposit account is to generate income to add to the reserve account, but the deposit account itself also provides additional "gross" reserves.

- **Reserve account**. Initially funded by contributions equal to at least 2% of each contributor's loan commitment. No interest would be paid to contributors, and it is expected that contributions would typically involve a budgetary authorization. Overtime the reserve account would be augmented by investment income from the deposit and reserve accounts and interest margins and service charges paid by RST borrowers. The reserve account does not subsidize interest costs to borrowers (as it does in PRGT) but it would reimburse the IMF's General Resources Account (GRA) for the RST's administrative costs (mirroring the now suspended reimbursement of the GRA for the admin costs of the PRGT). Reserve account contributions would not be encashable and would not count as international reserve assets; SDR contributions are thus less likely.

- **Contribution package.** Loan contributors will be expected to sign a contribution package that include the corresponding 20% loan to the deposit account and 2% contribution to the reserve account.

Possible demand and financing

- Baseline scenario assumes all 70 countries that had UCT programs over the last 10 years would seek RST financing. This implies 31 from Group A, 12 from group B, and 27 from group C. Access assumed to average 100 percent of quota (or 50% of quota for countries whose quota > 3% of GDP).
- Implies total demand of SDR 22 billion/US$31 billion (or an average of SDR 4.4/US$6 billion for 5 years).
- An initial round of fundraising of about US$45 billion is needed:
    - US$38 billion in loan commitments of which:
        - US$31 billion would be lent
        - US$7 billion would be held to cover possible encashment.
    - US$7 billion for the deposit account.
    - US$0.7billion for the reserve account.
- Baseline scenario assumes no further fundraising after this initial round. When all RST loans have been repaid, deposits would also be returned together with initial reserve account contributions and pro-rata shares of remaining income generated by the RST.

Hypothetical Reform Measures (from Box 1 of RST paper)

Climate adaptation

- Approve a National Adaptation Plan, which: (1) identifies climate vulnerabilities and adaptation gaps; (2) identifies adaptation solutions, including cost estimates for all major projects; (3) mainstreams adaptation into national planning and PFM; and (4) monitors and reports progress regularly.
- Adopt measures to achieve at least full cost recovery in water utility pricing while ensuring access to adequate water consumption of the vulnerable to maintain affordability.

Climate mitigation

- Issue regulations on carbon pricing policy (e.g., removing exemptions, increasing carbon price levels, and expanding sector coverage).
- Introduce/apply the standard VAT rate for electricity and fossil fuels.
- Introduce/increase excises on coal, natural gas, and petroleum products.
- Phase out agricultural subsidies that encourage emissions-intensive farming.

Climate finance

Approve a disaster risk financing strategy for both low impact/frequent events and higher impact/low frequency events, using a risk layering approach covering both risk retention (budget reallocation/ augmentation) and risk transfer (climate risk insurance and climate-contingent loan rescheduling).

Public investment management

- Define and publish climate-related elements among the criteria used by the government for the selection of all major public investment projects
- Establish a standard methodology to conduct mandatory climate-related analysis for the ex-ante appraisal of all major public investment projects.
- Produce centralized guidance and/or establish a central support unit to assist government agencies on the preparation and costing of climate-aware public investment strategies

Public financial management

- Require that the climate implications of major new budget measures be systematically included in ex ante impact assessments and cost-benefit analyses and published in budget documents.
- Develop a climate budget tagging system to improve allocation and monitoring of climate-related expenditure and publish report on climate-related expenditure alongside budget documents.
- Develop a fiscal risk statement to include climate risks and natural disasters, and include narrative on risk management strategies, notably with respect to climate-related risks to public infrastructure assets.