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ANNEX 2

of the Commission Decision on the financing of a special measure for 2022 for the Union response to the food security crisis and economic shock in African, Caribbean and Pacific countries following Russia's war of aggression against Ukraine

Action Document for an EU contribution in favour of the most vulnerable and exposed ACP countries via the IMF's Poverty Reduction and Growth Trust Fund (PRGT)

1. Title/basic act/ CRIS number	EU contribution in favour of the most vulnerable and exposed ACP countries hit by the consequences of the Russia's war of aggression against Ukraine via the IMF's Poverty Reduction and Growth Trust Fund (PRGT) CRIS number: FED/2022/44-395 financed under the European Development Fund (EDF)	
2. Zone benefiting from the action/location	African, Caribbean and Pacific (ACP) Countries eligible to the PRGT The action shall be carried out at the following location: ACP countries eligible to the PRGT – project managed by the International Monetary Fund (IMF) in Washington DC and ACP countries selected	
3. Programming document *(if applicable)*	10^{th} and 11^{th} EDF (see Council Decision 2022/1223 of 12 July 2022)	
4. Sustainable Development Goals (SDGs) *(if applicable)*	Main SDG: 17 Strengthen the means of implementation and revitalize the global partnership for sustainable development. Particularly: 17.3 (mobilize additional financial resources); 17.4 (address debt sustainability); 17.13 (enhance global macroeconomic stability); 17.14 (enhance policy coherence); 17.15 (respect policy space and leadership); 17.16 (enhance multi-stakeholder partnerships). Other significant SDGs: 1 (End poverty) and 2 (End hunger, achieve food security and improved nutrition and promote sustainable agriculture).	
5. Sector of intervention/ thematic area	Macroeconomic stability/sustainable debt/economic and social response	DEV. Assistance: YES
6. Amounts concerned	Total estimated cost: EUR 100 000 000 Total amount of EDF contribution: EUR 100 000 000	

The EC grant will contribute to the IMF's PRGT subsidy account for which a target of Special Drawing Rights (SDR) 2.3 billion (about EUR 3 billion) over the period 2021-25 has been set. The table below shows the IMF member states' pledges as of mid-2022 indicating that only about 1/3 of the funding target has so far been met. This includes the EC's contribution of EUR 100 million (SDR 80 million) and EU Member States' (EU MS) pledges of SDR 230 million.

PRGT Subsidy Account pledges (mio SDR) 1/ 2/

Australia	36	Netherlands	23
Canada	62	Singapore	21
Germany	80	Slovak Republic	6
Greece	13	Sweden	24
Italy	83	Switzerland	39
Japan	59	Thailand	8
Korea	41	United Kingdom	100
Lithuania	2	Non-specified	124
TOTAL excluding EU EDF contribution			720
EU EDF contribution (EUR 100 mio = SDR 79,7 mio)			80
TOTAL			800
of which: Team Europe			*310*
IMF Target			2300
Remaining funding gap			1500

1/ Estimates based on the April 2022 IMF board paper "*2022 Review of Adequacy of Poverty Reduction and Growth Trust Finances", and updated* mid-July 2022, (all subject to change).

2/ Not all countries pledged in SDRs, so exchange rate movements can influence these numbers. EU Member States's pledges in EUR (DE, LT, NL, SK) calculated at EUR=0,797 SDR exchange rate of 21 April 2022 and decimal numbers rounded up.

7. Aid modality(ies) and implementation modality(ies)	Project Modality Indirect management with the International Monetary Fund (IMF)
8 a) DAC code(s)	15142: Macroeconomic policy; 15110: Public sector policy and administrative management; 15111: Public finance management; 15114: Domestic revenue mobilization; 16010: Social Protection 100 Standard grant
8 b) Main Delivery Channel	International Monetary Fund – Poverty Reduction and Growth Trust – 43001
9. Markers (from CRIS DAC form)	

General policy objective	Not targeted	Significant objective	Principal objective
Participation development/good governance	☐	☐	x
Aid to environment	x	☐	☐
Gender equality and Women's and Girl's Empowerment	☐	☐	☐
Trade Development	x	☐	☐
Reproductive, Maternal, New born and child health	x	☐	☐

	Disaster Risk Reduction	x	☐	☐
	Inclusion of persons with disabilities	x	☐	☐
	Nutrition		X	☐
	RIO Convention markers	**Not targeted**	**Significant objective**	**Principal objective**
	Biological diversity	x	☐	☐
	Combat desertification	x	☐	☐
	Climate change mitigation	x	☐	☐
	Climate change adaptation	x	☐	☐
10. Internal markers	**Policy objectives**	**Not targeted**	**Significant objective**	**Principal objective**
	Digitalisation	x		
	Migration	x		
11. Global Public Goods and Challenges (GPGC) thematic flagships	N/A			

SUMMARY

The outbreak of Russia's war of aggression against Ukraine has made many Low Income Countries (LIC) more vulnerable as it is exacerbating the food crisis through a sharp increase in the price of food and energy. Consequently, many LICs that are net importers of food and energy do not have sufficient financial resources and struggle to pay for the price increase while their debt outlook worsens.

In its response to this crisis - and adding to other efforts by the EU and its Member States - the Council of the EU agreed to allocate EUR 600 million from the funds de-committed from projects under the 10^{th} and 11^{th} European Development Funds for EUR 350 million for food production and resilience of food systems, EUR 150 million for humanitarian assistance and EUR 100 million for macro-economic support. These three areas are complementary and reinforce each other.

This action describes the implementation of the macro-economic support component. It consists of a financial contribution to the IMF PRGT's General Subsidy Account to provide subsidies for loans to eligible ACP countries that have (actual, potential, protracted or urgent) Balance-of-Payments (BoP) problems and need to make significant progress toward stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth.

Access to concessional loans will increase liquidity and available budgetary resources in the ACP countries under IMF programmes financed by the PRGT. These resources will be used by vulnerable countries to support macro-economic and fiscal stability, avoid depletion of international reserves, which can in turn lead to balance-of-payments crises, and address economic and social needs created by Russia's war of aggression against Ukraine. It will help them to shield against inflationary risks as the lack of international reserves may exacerbate downward pressures on domestic currencies, to import essential goods (such as food and energy) and to put in place adequate social transfers in support to the most vulnerable (and avoid potential social unrest).

The contribution to the PRGT General Subsidy Account would be in the spirit of a Team Europe approach where EU Member States voluntarily lend part of their SDRs to the PRGT loan account and provide grant to the subsidy account. This is part of their contributing effort to the G20 leaders' target of re-channelling up to USD 100 billion worth of SDRs to vulnerable countries. The contribution to the PRGT subsidy account, alongside existing Member States' contributions, will effectively help transforming the SDR loans (given out at market rates) into concessional PRGT loans to Low-Income Countries (LICs). The contribution to the PRGT intends to complement the efforts already made by EU Member States, while at the same time hoping to motivate further pledges.

1 CONTEXT ANALYSIS

1.1 Context Description

The global food security situation is rapidly deteriorating with Low-Income Countries (LICs) among the most affected. Even before Russia's war of aggression against Ukraine, close to 193 million people (almost 40 million more than in 2021) across 53 countries were acutely food insecure and in need of urgent assistance. The war in Ukraine is exacerbating the food crisis as it is responsible for an increase in the price of food and energy.

Russia's war of aggression against Ukraine, a major producer of critical staple foods, has exacerbated global food insecurity has led to a drastic reduction in supply of grains to global markets. As a result, global food prices have risen rapidly and are at their highest level in three decades. The increase in energy prices, in itself problematic for fuel importing countries, also drives up prices of agricultural inputs (notably fertilizer), transport and ultimately food. These price hikes are worsening the macro-economic outlook in many LICs – especially those highly dependent on food imports, with low level of food autonomy and fragile local and regional supply chains (most of them African countries). The macro-economic consequences are that food and fuel importing countries are struggling to pay for these crucial imports, which could in turn lead to a further increase in the already elevated number of countries in debt distress. A situation that could also be exacerbated by the tightening of monetary policies across advanced economies. Conflicts and droughts further exacerbate the situation in vulnerable regions. As seen with social unrest and uprisings in the past decades, it is often a (food) price shock that sets off instability and conflict.

1.2 Policy Framework (Global, EU)

The outbreak of Russia's war of aggression against Ukraine has made many LICs more vulnerable at a time when many are still struggling with the economic consequences of the COVID-19 pandemic. Partner countries worldwide are looking at the conflict through the prism of rising energy and food prices. They expect the EU to match its focus on Ukraine with global solidarity, and as expressed in the Council decision article 1 to finance actions addressing the food security crises and economic shocks in LICs following Russia's war of aggression against Ukraine.

There is no answer to the cost-of-living crisis without an answer to the finance crisis in LICs. Existing international financing mechanisms need to support strong national fiscal responses to be fully funded and operationalized quickly. During the 2022 Spring Meetings of the IMF and the World Bank, important commitments to the PRGT and the newly created Resilience and Sustainability Trust (RST) were made and should be allocated immediately. Especially the PRGT is key to create fiscal space and liquidity access so that LICs can preserve and strengthen their social protection systems and safety nets.

In its 23 March Communication on food security, the European Commission voiced its commitment to fighting global food insecurity together with its partners. On 12 May, the Commission presented solidarity lanes to help Ukraine export its agricultural produce. Finally, the urgency in support of the most exposed countries was underlined by the Conclusions of the European Council of 24-25 March and 30-31 May 2022.

The EU is already at the forefront of international efforts to improve food security in partner countries. Funds under the NDICI-Global Europe geographic pillar are fully programmed (up until 2024 for country programs and up until 2027 for regional programs). From these funds, around EUR 3 billion is planned to support agriculture, nutrition, water and sanitation.

The Council Decision of 12 July is adding to these efforts, with the Council agreeing to re-orient, on an exceptional basis, an amount of up to EUR 600 million from the funds de-committed from projects under the 10th and 11th European Development Funds. These funds will be re-oriented towards financing actions addressing the food security crisis and economic shock in ACP countries following Russia's war of aggression against Ukraine. These funds will support the EU Global Food Security Response[1], which was developed following a request by the European Council. The Response includes immediate and medium-term actions to demonstrate to partners worldwide that the EU is providing integrated, comprehensive and swift support to address the impact of the war.

This allocation from EDF de-committed funds should finance actions with a view to providing support as follows: up to EUR 350 million for food production and resilience of food systems, up to EUR 150 million for humanitarian assistance, and up to EUR 100 million for macro-economic support. These three areas are complementary and reinforce each other, in the framework of a comprehensive Team Europe approach.

This action describes the implementation of the macro-economic support component which aims to ensure macro-economic stability, regain fiscal space and increase international reserves through multilateral bodies.

Key challenges to address

- The price increases of food and energy imports are worsening the macro-economic outlook in many partner countries. This is a drag on international reserve positions in partner countries which could lead to shortages of hard currency. This can easily lead to difficulties in importing essential goods, with the potential of full-blown balance-of-payments crises.
- Fiscal space has been substantially reduced in many low-income countries because of the consequences of the pandemic. Due to the fiscal response to the COVID-19 pandemic, debt burdens which were already high in many countries, increased, with 60 per cent of PRGT-eligible countries at high risk of debt distress or already in debt distress.
- The rapid tightening of monetary policy in advanced economies in response to rising inflation is increasing the cost of financing fiscal deficits. It could trigger a flight to safety from private investors further deteriorating the financial situation in partner countries.

1.3 Public Policy Analysis of the partner country/region

The ACP countries which will benefit from interest rate subsidies on their IMF PRGT loans, are facing the economic and social consequences of Russia's war of aggression against Ukraine. The PRGT loans will enable these countries to pursue their medium and long-term development, economic, social and poverty reduction policy objectives without putting at risk their macroeconomic stability and debt sustainability. They need increased access to international reserves (to improve their balance-of-payments prospects) and improved fiscal space, underpinned by sound macro-economic frameworks.

[1] The EU Global Food Security Response operationalise the various strands of action – as foreseen within FARM and the G7 Global Alliance and providing the necessary support to the UN Global Crisis Response Group. It comprises four strands of action, to be implemented jointly with Member States in a Team Europe approach: 1. Solidarity: emergency relief and affordability; 2. Production and resilience; 3. Trade: facilitating food trade; 4. Effective multilateralism.

1.4 Stakeholder analysis

The target group are ACP countries eligible to benefit from interest rate subsidies on their loans, contracted through the IMF's programmes under the PRGT. The population of the ACP countries will be the beneficiaries of the action. The action will help address populations' needs through reducing macro-economic vulnerabilities. Through PRGT concessional loans, ACP countries will increase the foreign currency available to buy essential imports such as food, energy and health products and increase their resources to commit to social sectors such as education, health, social protection. National authorities, in particular ministries of finance and planning, will be strongly involved.

The IMF is a major institution in the international financial system and a lender in case countries experience balance-of-payments problems. IMF programmes are ongoing in about a third of PRGT-eligible countries (most of them ACP countries). IMF programmes are designed to restore conditions for macro-economic stability and debt sustainability through lending, capacity building and periodic assessments of a country's macro-economic, fiscal policies and public financial management.

The IMF has been a crucial partner in ACP countries monitoring their economic and debt situation. During the COVID-19 pandemic, the IMF provided substantial liquidity support through: (i) the Rapid Credit Facility, which is a PRGT-funded lending facility delivering a one-off injection of resources to eligible countries without ex-ante conditionality, (ii) the August 2021 SDR allocation (worth SDR 456 billion) (iii) the Catastrophe Containment and Relief Trust (CCRT), reformed to provide rapid debt-service relief and (iv) disbursements of other ongoing PRGT-funded programmes. The IMF also provides technical assistance to upgrade countries' debt management capacities, public finance management systems and emergency spending frameworks. EU Member States and other contributors to the PRGT are also stakeholders (see section 3.2).

1.5 Problem analysis/priority areas for support

Russia's war of aggression against Ukraine has a significant economic impact on LICs, mainly due to a sharp increase in world food and fuel prices. Growth in 2022 in LICs, which was already slowing down as stimulus packages put in place in the wake of the COVID-19 pandemic were gradually withdrawn, is being revised down by almost a percentage point.[2] Moreover, growth in 2023 is also expected to remain low as LICs went into the current crisis with less room for manoeuvre (less fiscal space, lower reserve buffers) to address the consequences of the war compared to most advanced economies and emerging markets. The current situation has led in some cases to balance-of-payments problems, making it more challenging for these countries to import essential goods and service external debt. Many other LICs experience similar challenges and might turn to the Fund for financial assistance. The World Bank estimates that more than half of the population in LICs is experiencing food shortages. Moreover, COVID-19 and the current crisis exacerbate pre-existing gender gaps (see section 4.3).

Support to the IMF's PRGT, which is the primary vehicle for IMF support to LICs, is crucial to improve the current situation. The IMF's PRGT lends to eligible countries who have balance-of-payments problems. Advanced economies make available loans at market rates (recently this has taken the form of SDR re-channelling, see sections 3.2 and 4.2), which are then made concessional by donor grants through the PRGT's subsidy accounts.

[2] See World Bank "Global Economic Prospects" (June 2022).

COVID-19 has increased demand for PRGT loans significantly, and Russia's war of aggression against Ukraine is only amplifying that trend. The PRGT thus helps vulnerable countries to import essential goods and to put in place adequate social transfers in support to the most vulnerable. This comes even more into focus as the overall macro-economic environment is becoming more challenging, with many LICs likely to lose access to affordable financing.

The needs for the subsidy account are large, with the IMF setting a fund-raising target of SDR 2.3 billion in July 2021 to preserve the future capacity of the PRGT to make concessional loans. The IMF April 2022 report on the finances of the PRGT points to a significant financing gap for the subsidy account: Fundraising for subsidy resources, however, is progressing more slowly than expected.'[3]

2 RISKS AND ASSUMPTIONS

Risks	Risk level (H/M/L)	Mitigating measures
Inadequate policies decided and implemented by countries in response to the economic fallout	M	IMF Staff agree with the authorities in countries under a PRGT-funded program on reform policies to address the economic fallout. PRGT loan disbursements are linked to the completion of regular programme reviews to ensure that policy targets are met. Policy review and dialogue, as well as capacity building is undertaken by the EU (including Delegations) on a regular basis, particularly in countries receiving budget support (among those under a PRGT-funded program) as part of EU's risk management frameworks.
Inadequate use of freed resources	M	IMF Staff assesses that countries under a PRGT-funded program are generally pursuing sensible macroeconomic policies and implementing transparent and accountable public finance management procedures. IMF continues applying its strong governance and accounting framework in place for programme countries. Policy review and dialogue, as well as capacity building is undertaken by the EU on a regular basis, particularly in countries receiving EU budget support (among those under a PRGT-funded program), as part of the EU's risk management frameworks. Close coordination between IMF and the EU (including Delegations) is undertaken with the IMF keeping the EU abreast of ongoing program discussions during reviews and both exchanging on policy dialogue messages, capacity building initiatives and risk mitigation measures.
Non transparent use of loans	M	
Assumptions underpinning the	M	IMF Staff thoroughly assesses macro-economic stability and debt sustainability in countries under a

[3] See IMF (2022) "2022 Review of Adequacy of Poverty Reduction and Growth Trust Finances".

macro-economic frameworks of PRGT-funded programs are too optimistic which would result in increased debt vulnerabilities.		PRGT-funded programme. IMF Staff also assesses that those countries are pursuing tailored policy reforms, credible development plans, comprehensive country financing strategies and improved transparency, especially related to debt transactions and use of funds.
Assumptions		
The IMF supports LICs with the following actions: Surveillance activities involve the continuous monitoring and evaluation of members' economic, financial and structural reform policies. Discussions with country authorities focus on how their economic policies affect stability and explore desirable policy adjustments. Countries who agree programs with the IMF go a step further as they commit to implementing certain macro-economic policies to improve their macro-economic outlook in return for in-depth advice and resources from the IMF. In order to mitigate the risks regarding PRGT-supported loans mentioned above, the IMF applies a multi-layered governance and accounting framework. Since 2018, the IMF has enhanced its Engagement on Governance issues through a specific Framework (including the assessment of governance vulnerabilities and corruption, and their macroeconomic implications, policy advice and capacity building). Moreover, in 2020, the Board last reviewed the Fund's Safeguards Assessments Policy. Under this policy, due diligence exercises are carried out to obtain assurance that the country's central bank receiving IMF resources is able to manage the funds and provide reliable information. The main objective is to mitigate the risks of misuse of Fund resources and misreporting of program monetary data under Fund arrangements. Capacity-building activities, often made possible through EU-funded Technical Assistance, focus largely on how LICs can boost domestic revenues, manage public finances (including debt) and monetary policy, regulate the financial system, and develop statistical systems to help them implement sound policies and good practices, as well as progress toward the country's poverty reduction and growth objectives as well as towards the United Nations' Sustainable Development Goals. Close coordination is expected between IMF and the EU on ACP countries that are eligible for PRGT loans, in particular in countries receiving budget support. This coordination is expected to be enhanced on the ground, involving IMF country teams and EU Delegations.		

3 LESSONS LEARNT AND COMPLEMENTARITY

3.1. Lessons learnt

The PRGT is the IMF's main vehicle for support to LICs and delivers concessional loans and macro-economic stability programs to a number of PRGT-eligible countries, with about 70 countries qualifying as of mid-2022, of which about 80 per cent are ACP countries.

During the recent period of low interest rates, LICs could contract PRGT loans at zero per cent interest, making these loans highly attractive. At end-June 2022, PRGT credit outstanding was SDR 14.9 billion, of which 85 per cent was outstanding to ACP countries.

PRGT loans have allowed LICs to confront balance-of-payments difficulties, with IMF accompanying programs ensuring a path towards macro-economic stability. It has especially helped countries to deal with a quick succession of economic shocks, notably the COVID-19 pandemic and the consequences of Russia's war of aggression against Ukraine. During the pandemic, the IMF was quick to adapt the toolkit of the PRGT increasing access limits and granting countries access to the PRGT's emergency financing tool, the Rapid Credit Facility which has limited conditionality.

These increased access limits have now been approved formally by the IMF board, which should enable the PRGT to disburse adequate resources to countries with balance-of-payments problems. As the increase in lending (including from the PRGT) in response to the recent shocks, has increased debt vulnerabilities in many LICs, it needs to be ensured that the macro-economic frameworks agreed with countries continue paying attention to debt sustainability issues.

3.2. Complementarity, synergy and donor coordination, including TE approach

All IMF members have access to the General Resources Account (GRA) on non-concessional terms. The Trust to which this action intends to contribute, the Poverty Reduction and Growth Trust (PRGT), has been set up by the IMF to finance subsidised loans to LICs. Through this Trust, which is effectively the IMF's concessional finance window and is better tailored to the diversity and needs of LICs, the Fund assists LICs in moving toward a stable and sustainable macroeconomic position consistent with durable poverty reduction and strong growth.[4]

IMF programs financed through the PRGT put together a macro-economic framework that is fully financed – both from the fiscal (the budget) and the external (balance-of-payments – so that adequate imports can be purchased) side. In this sense, it brings together all financial flows (including donor contributions) in a consistent macro-economic framework. The Fund is hence in constant dialogue with donors on prospective financial contributions, be it in the form of budget support or project support. From the EU's perspective, many PRGT-eligible ACP countries have on-going budget support (BS) programmes, and these resources, added to IMF PRGT loans, help ACP countries achieve the macro-economic objectives of their respective IMF programmes.

Apart from the direct financial contributions, synergies between IMF and EU also often emanate from the policy dialogue that accompanies Budget Support programmes. This is especially the case with regard to the EU's budget support eligibility criteria: public policy, macroeconomic stability, public financial management (PFM) reform and budgetary transparency. Policy dialogues around these themes are often coordinated with IMF staff. The EU is also maintaining a dialogue on PFM reforms with several non-BS countries. Technical assistance is also ongoing.

The contribution to the PRGT General Subsidy Account would be in the spirit of a Team Europe approach where EU MS voluntarily lend part of their SDRs to the PRGT loan account (known as SDR-re-channelling, see section 4.2) and the EU, alongside some Member states, provides a contribution to the PRGT's subsidy accounts, effectively transforming the SDR

[4] The PRGT has three concessional lending facilities: (i) the Extended Credit Facility (ECF), which provides sustained medium- to long-term engagement in case of protracted balance of payments problems; (ii) the Standby Credit Facility (SCF) which provides financing for LICs with actual or potential short-term balance of payments and adjustment needs; (iii) the Rapid Credit Facility (RCF) which provides rapid financial support as a single up-front payout for LICs facing urgent balance of payments needs.

loans (given out at market rates) into concessional PRGT loans to LICs. The PRGT contribution intends to complement the efforts already made by EU Member States, while at the same time hoping to motivate further pledges. This Team Europe approach would be communicated both globally by the EU and the IMF at the Annual Meetings and locally by the EU and Member States using their existing communication infrastructure in ACP benefitting countries.

The Resilience and Sustainability Trust (RST) can also be seen as complementary to the PRGT. It is expected the RST will help re-channel additional SDRs to LICs (section 4.2).

For the purpose of ensuring complementarity, synergy and coordination, the Commission may sign or enter into joint donor coordination declarations or statements and may participate in donor coordination structures, as part of its prerogative of budget implementation and to safeguard the financial interests of the Union.

The Commission Decision on the special measure for the Union EU response to the food security crisis and economic shock in ACP countries covers actions on 'Food Production and Resilience of Food Systems in African, Caribbean and Pacific (ACP) countries' and on an EU contribution to the IMF's Poverty Reduction and Growth Trust Fund (PRGT) to support social policies/measures benefiting the most vulnerable in ACP countries; and to stabilize the macro-economic outlook. Humanitarian assistance is also provided, under a separate but related Commission Decision. Complementarity between these actions as well as country level and regional programmes will be ensured on the appropriate country or regional level in view of building a more robust macro-economic framework and an enhanced food production and resilience of food systems.

4 DESCRIPTION OF THE ACTION

4.1. Overall objective, specific objectives, expected outputs and indicative activities

Overall objective (expected impact): Enhanced ACP countries' capacity to mitigate the impact of the Russia's war of aggression against Ukraine.

ACP countries benefitting from concessional PRGT loans will be better placed to implement appropriate policies as a response to the increased food insecurity and economic consequences of Russia's war of aggression against Ukraine, while keeping their macro-economic and debt outlook stable.

Specific objectives (expected outcomes):

Outcome 1: Freed up fiscal space is used to implement social policies/measures benefiting the most vulnerable in ACP countries

Outcome 2: The macro-economic outlook is kept stable and debt remains sustainable in ACP countries

Expected output: Concessional PRGT loans are provided to ACP countries - allowing them to free up fiscal space and improve their international reserve position. More resources will then be available to face the ongoing effects of Russia's war of aggression against Ukraine (notably global food and energy price increases), balance of payment needs, implement priority social policies and provide transfers to the most vulnerable populations.

Activities:

(i) Financial contribution to the General Subsidy Account of the PRGT for subsidising loans to ACP countries in order to help finance essential spending and maintain their macro-economic stability;

(ii) Policy dialogue with governments of ACP countries benefitting from concessional PRGT loans with regard to implementation of economic and social policies to face the consequences of Russia's war of aggression against Ukraine in close coordination with the IMF.

4.2. Intervention Logic

In August 2021, the IMF allocated USD 650 billion in Special Drawing Rights to its members to provide additional liquidity and help countries' recovery from the COVID-19 pandemic. Even though this provided breathing room for many LICs, as it added to their international reserves, LICs have not received enough to cover their financing needs (only USD 21 billion is going to low-income countries and USD 33 billion to Africa) which have further increased since Russia's war of aggression against Ukraine. At the Summit on the Financing of African Economies organized by France in May 2021, advanced economies put forward a plan to re-channel up to USD 100 billion of SDRs to vulnerable countries, which was supported by the G7 Leaders at Carbis Bay. This ultimately resulted in a total global ambition of USD 100 billion in support of vulnerable countries that was agreed at the G20 Summit in Rome in October 2021.[5]

There are two commonly agreed ways through which the re-channelling from advanced economies to vulnerable countries can be operationalized: (i) via the IMF's poverty reduction and growth trust fund (PRGT); (ii) via the recently set-up Resilience and Sustainability Trust (RST). The first option is the quickest and most relevant route as the PRGT already exists, as the main resource for the IMF support to LICs, and as it has received re-channelled SDRs in the past, while the RST will only be fully operational by end 2022.

As of mid-July 2022, total SDR-rechanneling pledges have reached about USD 79 billion with EU Member States having pledged USD 22 billion[6] in SDR re-channelling to either the PRGT or the RST. The PRGT works as follows: advanced economies make available loans at market rates, which are then made concessional by donor grants through the PRGT's subsidy accounts. The IMF has asked its members to pledge to the subsidy accounts according to their quota. For the EU, this would amount to around SDR 710 million. EU MS have so far pledged around SDR 230 million to these PRGT subsidy accounts.

Given that only LICs are eligible to the PRGT, that most countries currently under a programme financed by PRGT resources are ACP countries (20 out of 24), and that this action will represent only a limited portion of the funds used to make PRGT loans concessional, it is expected that the EU contribution is used for ACP countries, which will be confirmed by financial reporting.

The use of the notional approach allows the EU and Member States to jointly co-finance an action although some of the costs of this action are not eligible for EU funding. Budget and EDF contributions are subject to specific requirements regarding eligibility of costs that do not necessarily apply to the other donors pooling funds together under a jointly co-financed action. Since complying with these requirements would require a degree of traceability, it would be difficult to reconcile these requirements with the nature of jointly co-financed actions and would make it difficult for the Commission to take part in this type of actions.

[5] See g20-leaders-declaration-final.pdf (europa.eu).

[6] This includes the contribution of Germany is a loan from the national budget of USD 6.85 billion.

However, it is possible for the EU to contribute to multi-donor actions without earmarking of funds (i.e. jointly co-financed actions), using the notional approach. Under this approach, the EU cost eligibility requirements are met as long as the action includes an amount of costs eligible under EU rules equivalent to the EU contribution and the amount contributed by other donors is sufficient to cover the costs that are ineligible under EU rules (Article 155(5) FR). The financial reporting on this action (section 5.7) will confirm that the funds consumed for subsidising concessional loans to ACP countries will at least be equivalent to the funds allocated through this action.

Access to concessional loans will increase liquidity and available budgetary resources in the ACP countries under IMF programmes financed by the PRGT. These resources will be used by vulnerable countries to support macro-economic and fiscal stability, avoid depletion of international reserves, which can in turn lead to balance-of-payments crises, and address economic and social needs created by Russia’s war of aggression against Ukraine. It will help them to shield against inflationary risks as the lack of international reserves may exacerbate downward pressures on domestic currencies, to import essential goods (such as food and energy) and to put in place adequate social transfers in support to the most vulnerable (and avoid potential social unrest).

4.3. Mainstreaming

By contributing to the IMF’s PRGT subsidy account, this action will help to free some fiscal space and increase international reserves which will allow countries to direct their resources towards social expenditures and pursue the implementation of their development and social sector policies including related to inequality, gender and climate change. The action will, in particular, benefit from the IMF’s first Gender Strategy[7] aimed at integrating gender into the Fund’s core activities - surveillance, capacity development, and lending (including PRGT facilities) - in accordance with its mandate. This means more systematically assessing the macroeconomic consequences of gender gaps where they are macro-critical, evaluating the gender-differentiated impact of shocks and policies, and providing granular and tailored macroeconomic and financial policy advice and capacity development support.

4.4. Contribution to Sustainable Development Goals (SDGs)

This intervention is relevant for the United Nations 2030 Agenda for Sustainable Development. It contributes, primarily, to the progressive achievement of SDG(s) 17 ‘Strengthen the means of implementation and revitalize the global partnership for sustainable development’; particularly through 17.3 - ‘Mobilize additional financial resources for developing countries from multiple sources’; 17.4 - ‘Assist developing countries in attaining long-term debt sustainability through coordinated policies aimed at fostering debt financing, debt relief and debt restructuring, as appropriate, and address the external debt of highly indebted poor countries to reduce debt distress’; 17.13 - ‘Enhance global macroeconomic stability, including through policy coordination and policy coherence’; 17.14 - ‘Enhance policy coherence for sustainable development’; 17.15 - ‘Respect each country’s policy space and leadership to establish and implement policies for poverty eradication and sustainable development and 17.16 - ‘Enhance the global partnership for sustainable development, complemented by multi-stakeholder partnerships that mobilize and share knowledge, expertise, technology and financial resources, to support the achievement of the sustainable development goals in all countries, in particular developing countries’.

[7] See https://www.imf.org/en/Topics/Gender-Strategy

The expected outcome of the action is that countries will be able to better implement appropriate policies as response to the increased food insecurity and economic consequences of Russia's war of aggression against Ukraine, while keeping their macro-economic and debt outlook stable. This intervention is therefore also indirectly contributing to SDG 1 – 'End poverty in all its forms everywhere', and SDG2 - 'End hunger, achieve food security and improved nutrition and promote sustainable agriculture'.

5 IMPLEMENTATION

5.1 Financing agreement

In order to implement this action, it is not foreseen to conclude a financing agreement with the partner countries.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities will be carried out and the corresponding contracts and agreements implemented, is 24 months, starting from the date of the adoption by the Commission of this Financing Decision.

Extensions of the implementation period may be agreed by the Commission's responsible authorising officer by amending this Decision and the relevant contracts and agreements.

5.3. Implementation of the budget support component

N/A

5.4. Implementation modalities

The Commission will ensure that the EU-appropriate rules and procedures for providing financing to third parties are respected, including review procedures, where appropriate, and compliance of the action with EU restrictive measures.[8]

5.4.4 Indirect management with an international organisation

This action may be implemented in indirect management with the IMF.

The Trust to which this action intends to contribute, the Poverty Reduction and Growth Trust (PRGT), has been set up by the IMF to finance subsidised loans to LICs. Through this Trust, the Fund assists LICs in moving toward a stable and sustainable macroeconomic position consistent with durable poverty reduction and strong growth.

The action will consist of a contribution of EUR 100 million to the IMF PRGT General Subsidy Account[9] to provide subsidies for loans to eligible ACP countries. In July 2021, the

[8] For this, see www.sanctionsmap.eu while noting that the sanctions map is an IT tool for identifying the sanctions regimes. The source of the sanctions stems from legal acts published in the Official Journal (OJ). In case of discrepancy between the published legal acts and the updates on the website it is the OJ version that prevails.

[9] The subsidy accounts of the PRGT contain bilateral contributions from (i) members, (ii) the IMF's own resources, and (iii) returns from the investment of the balances of the subsidy accounts themselves. The accounts provide the resources that enable the PRGT to extend loans to eligible members at below market interest rates although it acquires its loan resources at market interest rates. There are subsidy accounts dedicated to subsidizing interest payments for each PRGT facility (ECF, SCF, and RCF subsidy accounts), in addition to the General Subsidy Account (GSA), which may subsidize any of these facilities.

IMF estimated that the subsidy cost of making SDR 1 billion of PRGT credit concessional, is about SDR 150 million[10].

5.5. Scope of geographical eligibility for procurement and grants

N.A.

5.6. Indicative budget

	EU contribution (amount in EUR)	**Indicative third party contribution, in currency identified**
Objective/Outcomes/Outputs (all)	100 000 000	
Indirect management with an international organisation – (cf. section 5.4.4)	100 000 000	
Evaluation (cf. section 5.9) – Audit/Expenditure verification (cf. section 5.10)	To be covered by another decision	N.A.
Communication and visibility (cf. section 5.11)	N.A.	N.A.
Total	100 000 000	Over 15 countries have made pledges amounting to SDR 800 000 000 (approximately EUR 1 000 000 000)

5.7. Organisational set-up and responsibilities

The IMF's PRGT, which is a multi-donor trust fund has separate accounts for conducting its operations. The Commission's contribution is a one-off payment to the PRGT General Subsidy Account.

IMF loans to ACP countries are thus made concessional thanks to the resources provided by donors to the subsidy accounts. IMF programs that accompany these loans assess the macro-economic situation and then specify remedial action and policy measures to help those countries maintain or regain macro-economic stability and debt sustainability. The duration of PRGT-financed IMF programmes range from one-off payments (RCF) to 1-3 years (SCF) and 3-5 years (ECF), with regular reviews and disbursements to ensure the country remains on a good macro-economic path. These reviews are made public in IMF staff reports after the approval of the IMF Board.

The financial situation of the subsidy accounts is published by the IMF on a quarterly basis (as part of the financial reporting on the whole PRGT). The IMF will report to the EC on the use of its aforementioned one-off payment. This will be done through reporting on the amount

[10] See table 2, p.30 of IMF (2021) "*Fund Concessional Financial Support for LICs – Responding to the Pandemic*". Calculations made based on SDR 1 billion of credit outstanding over ten year period and zero rate paid by PRGT borrowers.

of interest payments made from the subsidy accounts in favour of lenders to the PRGT for concessional loans accorded to ACP countries.

In addition, progress in the implementation of the EU contribution will also be monitored and discussed within the bilateral IMF-DG INTPA Strategic Partnership Framework (SPF)[11] as well as in regular consultations with the IMF at country level.

As part of its prerogative of budget implementation and to safeguard the financial interests of the Union, the Commission may participate in the above governance structures set up for governing the implementation of the action.

5.8. Performance and Results monitoring and reporting

The financial monitoring of this action will be part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a financial monitoring system for the action that will be shared for consultation with the EC and then submit a final report confirming that the Commission's contribution to the General Subsidy Account has been consumed before the end of the implementation period.

The reporting of the implementation of this action will be based on the existing reporting mechanisms of the implementing partner and in particular, as indicated in the Logframe matrix, the IMF country reports (Article IV and PRGT-funded program reviews, including reporting on social indicators, when available) and IMF/WB Debt Sustainability Analyses.

The day-to-day technical and financial monitoring of the implementation of this action will be a continuous process, and part of the implementing partner's responsibilities. To this aim, the implementing partner shall establish a permanent internal, technical and financial monitoring system for the action and elaborate regular progress reports (not less than annual) and final reports. Every report shall provide an accurate account of implementation of the action, difficulties encountered, changes introduced, as well as the degree of achievement of its results as measured by corresponding indicators, using as indicative reference the simplified Logframe matrix available in the appendix to this action.

Reports shall be laid out in such a way as to allow monitoring of the means envisaged and employed and of the budget details for the action. The final report, narrative and financial, will cover the entire period of the action implementation.

The Commission may undertake additional project monitoring visits both through its own staff and through independent consultants recruited directly by the Commission for independent monitoring reviews (or recruited by the responsible agent contracted by the Commission for implementing such reviews).

5.9. Evaluation

Having regard to the nature of the action, a mid-term, final and ex-post evaluations will not be carried out for this action or its components.

The Commission may, during implementation, decide to undertake an evaluation for duly justified reasons either on its own decision or on the initiative of the partner. The financing of the evaluation shall be covered by another measure constituting a financing decision.

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[11] The IMF-INTPA SPF setup in 2016 aims at supporting economic institution building, including the design and implementation of sustainable macroeconomic policies and structural reforms. It is organised around three main pillars: an "Africa Flagship Initiative"—supporting economic growth in Africa; "Collect More"—fostering revenue mobilisation; and "Spend Better"—achieving tangible expenditure outcomes.

It will be carried out for accountability and learning purposes at various levels (including for policy revision).

The Commission shall inform the implementing partner at least 2 months in advance of the dates foreseen for the evaluation missions. The implementing partner shall collaborate efficiently and effectively with the evaluation experts, and inter alia provide them with all necessary information and documentation, as well as access to the project premises and activities.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

5.10. Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

The financing of the audit shall be covered by another measure constituting a financing decision.

5.11. Communication and visibility

It will remain a contractual obligation for all entities implementing EU-funded external actions to inform the relevant audiences of the Union’s support for their work by displaying the EU emblem and a short funding statement as appropriate on all communication materials related to the actions concerned. This obligation will continue to apply equally, regardless of whether the actions concerned are implemented by the Commission, partner countries, service providers, grant beneficiaries or entrusted or delegated entities such as UN agencies, international financial institutions and agencies of EU member states.

However, action documents for specific sector programmes are in principle no longer required to include a provision for communication and visibility actions promoting the programmes concerned. These resources will instead be consolidated in Cooperation Facilities established by support measures action documents, allowing Delegations to plan and execute multiannual strategic communication and public diplomacy actions with sufficient critical mass to be effective on a national scale.

APPENDIX - INDICATIVE LOGFRAME MATRIX (FOR PROJECT MODALITY)

The indicative logframe matrix will evolve during the lifetime of the Intervention. The activities, the expected outputs and related indicators are indicative and may be updated during the implementation of the Intervention as agreed by the parties (the European Commission and the implementing partner/s).

	Results chain: Main expected results (maximum 10)	**Indicators (at least one indicator per expected result)**	**Sources of data**	**Assumptions**
Impact (Overall Objective)	Enhanced ACP countries' capacity to mitigate the impact of the Russia's war of aggression against Ukraine	Poverty headcount ratio; GDP growth; UN Human Development Index (HDI)	UNDP annual Human Development Reports, WEO data	*Not applicable*
Outcome(s) (Specific Objective(s))	**Outcome 1 (specific objective):** Freed up fiscal space is used to implement social policies/measures benefiting the most vulnerable in ACP countries	Social expenditures as a share of total (central) government spending; Indicators of access to and quality of social services (when available); Qualitative assessment of social policies/measures implementation	Government reports, Budget documents, IMF country reports, WEO data, WB database	ACP countries are using funds appropriately and transparently and are generally pursuing sensible macro-economic policies helping to respond to the economic and social fallout from Russia's war of aggression against Ukraine. The quality of the appropriate policies implementation is assured by the content of the PRGT programs associated with the PRGT loans. These are carefully assessed by IMF staff and the IMF board (including EU MS & IMF EDs) IMF keeps the Commission abreast of ongoing policy discussions with ACP countries during programme reviews.
	Outcome 2 (specific objective): The macro-economic outlook is kept stable and debt remains sustainable in ACP countries	BoP position; Debt Sustainability Analysis; International reserves position; Fiscal balance/GDP; Inflation rate	National Accounts, External assessment of the IMF, IMF/WB Debt Sustainability analysis, Government data, IMF country reports, WEO data	

Outputs	**Output 1:** Concessional PRGT loans are provided to ACP countries	Number of ACP countries supported by PRGT resources (ECF, RCF, SCF); Total PRGT financing provided	Government data, IMF reports	In the current macroeconomic environment, including the shock that is the war against Ukraine, ACP PRGT-funded countries have moved/continue to meet commitments made to the Fund to enhance governance and transparency arrangements and implement social and macroeconomic policies.