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**Statement by Ms. Mannathoko, Mr. Nakunyada, and Ms. Maudi on Fund Concessional
Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting
July 14, 2021**

1. We thank staff for the detailed report. The proposed package of policy reforms is an important component of current efforts to avert a divergent recovery for LICs. Enhanced access to and adequate augmentation of the Fund’s concessional resources is critical to support efforts by LICs to place their economies back on a path of income convergence and back on track towards the 2030 SDGs. We appreciate staff’s continued efforts to accommodate Directors’ views on how best to adapt Fund facilities to the rapidly evolving needs of LICs. We are broadly supportive of staff proposals, but with a couple of caveats relating to points we raised at the Board informal in June, as we remain concerned that the Fund may be moving too fast on the path back to normalization of stringent program requirements when many of our LICs are still trapped in the midst of crisis.

Reforms to enhance PRGT lending framework

2. **Access limits:** We continue to seek the extension of the temporary increase in the normal access limit to 245 percent of quota beyond 2021 as the crisis is far from over in our region. As countries continue to grapple with the third wave and delays in vaccine supply, it is clear that they will not have herd immunity or full operations by year end. As we indicated before, we are of the view that an approach that matches expiry of the temporary 245 percent of quota access limit with the re-establishment of a convergence path, would be more effective in ensuring timely adjustment. We agree that after the temporary increase, PRGT access limits should be set on par with GRA thresholds for evenhandedness across Fund facilities. We therefore support pegging the new normal access limits for the PRGT at 145/435 percent of quota once the temporary increase expires. Given the extent of scarring in many of our LICs, it is unlikely that countries will

have fully recovered four years from now, therefore we stress the need to maintain or increase these new access limits beyond 2025.

3. While increased access limits are enabling some LICs to shift from emergency financing to UCT quality programs that support fiscal and structural reforms, this shift is more difficult for others who are encumbered by the third wave of the pandemic alongside marginal vaccinations (in many cases only 2 percent or less of the population is fully vaccinated). Thus, the situation remains dire, and fiscal consolidation measures that are invariably built into all UCT programs could resume too early under the current normalization drive, and risk delaying recovery in some LICs and deepening scarring. Analysis for our region suggests that what is often intended as pro-growth fiscal consolidation is sometimes redistributive rather than growth oriented, limiting allocations to boost growth and raise the average public investment rate. Thus, while fiscal consolidation is necessary, we hope LICs can also be given adequate respite where necessary, to recover from the crisis, as has been the policy for other members.
4. We agree with the need to retain the higher flow and stock thresholds of 240 and 300 percent of quota respectively under the High Access Procedures until the next full review of the LIC facilities as the old thresholds have been overtaken by financing needs in the wake of the COVID crisis. We also endorse the removal of hard caps on PRGT exceptional access (EA) as this will ensure that countries with strong programs can access required levels of support to stabilize in a timely manner and secure financing support for their reform efforts. We also support the adoption of a simplified, unified 145 percent of quota access norm for three-year ECF arrangements, given that the rationale for differentiated norms no longer holds.
5. **Enhanced safeguards:** We support the alignment of the PRGT EA criteria with those under the Policy Safeguards on High Combined Credit, as this does not have material implications for risk, and at the same time the fundamental requirement that the program achieve moderate risk of debt distress within the program period, remains. We once again underscore the importance of flexibility and tailoring to country-specific circumstances in programs, including in determining the best path to achieving debt sustainability.
6. **Simplifying blending rules:** We support a simplified blending framework to avoid excessive switching by PRGT members in the wake of large shocks. Importantly, the modification of the income threshold will help to limit the risk of premature graduation and early-reversal of blend status, while allowing consistent treatment of countries. We also support the proposed commencement period of 2019-2020 to determine blend status eligibility. We support the removal of market access in determining the blend status as articulated in paragraph 42. Further, we support the simplification of rules for determining the mix of PRGT and GRA resources for blenders. *Could staff clarify the criterion in paragraph 41 regarding when debt vulnerabilities are deemed to limit market access, which reads: “Countries are deemed to face such limits on their access to international financial markets if they are i) in debt distress or ii) at high risk of debt distress and a) have had limited past access to international financial markets or b) are small/micro-states.” Contrary to the principle asserted in paragraph 42 that countries in*

debt distress or at high risk will not be required to blend, this criterion seems to imply that distressed countries would still be expected to blend if they previously had sustained market access in the past, while small states in the same situation would not. Could staff clarify this and the reasoning for requiring LICs to blend, while exempting small states?

7. **Dual interest rate mechanism:** We support continued work to explore reforms that would introduce a dual interest rate mechanism to support the proposed blending framework, as it provides some benefit for blenders when compared to accessing GRA resources, while still allowing PRGT-eligible countries to meet all their financing needs from the PRGT and ensuring the sustainability of PRGT subsidy resources. We further urge staff to explore ways to operationalize the dual interest rate lending framework in a timely manner, to ensure that LICs' protracted balance of payments (BoP) needs and deeper structural impediments can be appropriately and comprehensively addressed within the PRGT.

Adequacy of concessional financing

8. **Funding strategy:** We support the two-stage funding strategy to finance crisis-related lending and preserve the PRGT lending capacity. We note that the success of the proposed framework largely depends on securing additional resources. As such, we encourage efforts to mobilize the required SDR12.6 billion additional resources under the first phase, and appeal to countries with stronger external positions to pledge resources, including excess SDR allocations, to enhance the PRGT's lending capacity and help ensure the PRGT has adequate resources to support LICs through the recovery phase. We endorse the proposed burden sharing and the flexibility to encourage subsidy contributions. We also urge staff to closely monitor the PRGT resources through the end of phase one of the PRGT funding strategy and support annual reviews of PRGT financing to ensure the adequacy of the facility and allow for the adoption of contingency measures if warranted, while also guiding the long-term financing trajectory. We encourage staff to continue exploring measures to ensure the adequacy of PRGT resources in the second stage, covering all financing options including from internal resources.
9. **Creation of two new PRGT accounts:** We support efforts to facilitate bilateral subsidy contributions through the creation of the Subsidy Reserve Account (SRA) and the Deposit and Investment Account (DIA). Creation of these two accounts helps to address the shortcomings of the current Reserve Account. We are assured that the DIA could enhance the sustainability of the PRGT resource with the proposed 10+ years agreements with the option of an encashment regime. *Nonetheless, the proposed long-term strategy could require an additional contingency plan in the event of extreme cases of urgent BoP challenges that call for sizable early encashment, and thereby affect the adequacy of the facility. Staff comments are welcome.*
10. **Interest rate mechanism:** Finally, we support maintaining the existing PRGT interest rate mechanism through July 2023 but encourage timely work on the dual interest rate mechanism. At the same time, we look forward to finalization of related workstreams on

the role of new trust funds in augmenting the IMF's lending instruments, and on strengthening the Fund's role in Fragile and Conflict Affected States.