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**Statement by Mr. Andrianarivelo, Mr. Sylla, and Mr. Nguema-Affane on Fund
Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting
July 14, 2021**

We thank staff for the comprehensive set of papers and the technical Q&A session. We welcome the proposed package of policy reforms and funding strategy of the PRGT for the Fund to adequately meet current and projected high financing needs during the pandemic. We particularly appreciate the comprehensive analytical work on lending scenarios to ascertain prospective PRGT resource needs and develop a realistic funding strategy. This approach will contribute to enhance the lending capacity and reserve coverage of outstanding credit over the medium-term and preserve the self-sustainability of the trust fund over the long-term.

We support the proposals made in the report, as they mainly aim to increase the PRGT lending capacity over the medium-term by simplifying some provisions, or keeping exceptional provisions adopted over the past months until the next review of Fund facilities for LICs in 2024-25. While those proposals will help mitigate multiple enterprise risks and will generate risks within acceptance levels, increased vigilance will be needed going forward to contain risks to PRGT resources. We therefore focus our comments on the following issues for emphasis.

Due to Covid-19 fallout and preexisting resource gap for development, LIC financing needs will remain substantial in the 2020s. We commend the Fund's rapid and substantial support to the membership during the pandemic through the provision of emergency financing, debt relief and the forthcoming SDR allocation, as well as better-tailored policy advice and technical assistance. Many countries are now engaging in UCT-quality programs to support their recovery and enhance their resilience to shocks. However, as recent staff reports have pointed out, many countries are facing significant financing constraints which prevent them from supporting a sustainable recovery while addressing the impact of the

pandemic. These constraints include limited fiscal space, higher debt vulnerabilities and, for low-income countries, scarce concessional resources. In addition, there remain considerable uncertainties around the outlook of LICs and their financing needs will remain substantial due to the long-term effect of the pandemic, considering also that structural reforms underway to build resilience could take time to bear fruit. As a result, demand for Fund resources is expected to increase and remain high over the medium term.

Against this background, we welcome the proposals to enhance the lending framework to help meet LICs’ financing needs throughout the pandemic and the recovery period.

We agree that by making more concessional resources available to LICs, those proposals would help contain debt vulnerabilities as otherwise LICs would resort to more expensive sources of financing to cover their financing needs.

We therefore support the proposals in Box 1, including increasing access limits by setting the limits on *normal access* to the PRGT at 145/435 percent of quota. As for the *temporary increase of limit on annual access to 245 percent* through end-December 2021, we are of the view that this limit should revert to 145 percent in the medium term rather than in six months’ time. The slow pace of the recovery in LICs and the need to frontload significant resources in some programs call for maintaining for a longer period the limit of 245 percent of quota. We welcome the *proposal to remove hard caps on access to PRGT resources* for countries eligible for exceptional access (EA).

We support the proposed *simplification of access norms* but would have preferred a suspension until the next facilities review as it would make the framework easier to understand and end the confusion between access limits and norms. Indeed, staff indicated in the Q&A session that norms are neither a maximum nor a minimum. Yet, it is used to cap access to PRGT under blending rules. Given that access should be ultimately determined by BOP needs, we do not see the rationale for keeping access norms. This issue should be addressed in the next review of Fund facilities for LICs.

On *safeguards*, we support the alignment of the PRGT EA criteria with the Policy Safeguards in cases of High Combined Credit (PS-HCC) requirements that would make countries at high risk of/in debt distress eligible for PRGT EA without any requirement for debt restructuring or debt relief operations.

On the *blending policy*, we support the proposed simplification of the blending rules to ensure a more robust blend status. In particular, we support enhancing the income criterion and simplifying the prospective market access criterion to reduce the risk of premature access to or exit from blend status. However, the fact that a country that has market access may not blend because it does not meet the income threshold runs the risk of having countries borrowing in capital markets at higher costs compared to the GRA resources. That would be

counterproductive with regard to debt sustainability objectives. Staff should remain vigilant of such developments. *We would appreciate staff comments on this issue.*

As regard the ***interest rate mechanism in the PRGT***, while we do think that a unique interest rate in the PRGT with blending remains appropriate given the current circumstances, we also see merit in exploring a dual interest rate structure that could allow full financing within the PRGT for presumed blenders. We look forward to the staff findings on this issue. In the meantime, we support setting the PRGT interest rate at zero until end-July 2023.

On the ***funding strategy***, we support the proposed two-stage approach. This strategy has the advantage of de-linking the fundraising efforts needed to shore up the PRGT's lending capacity over the medium-term at the first stage, from the second stage where more funds will be raised for the PRGT's long-term self-sustainability. For the first-stage financing, we thank member countries that have already indicated their intention to contribute to the PRGT with their "excess" SDRs, including from the proposed new allocation. We fully support the suspension of PRGT administrative cost reimbursement through FY2026. As regards the second-stage fundraising, as we stressed in previous meetings, gold sales and alternative options should be strongly considered, especially if a dual interest rate structure is adopted later. We look forward to the next review of facilities for low-income countries to discuss the longer-term self-sustainability of the PRGT lending capacity.

We agree that ***annual reviews of concessional resources and fundraising progress*** during the first stage will be needed to ensure that the funding strategy remains on track. We appreciate the early identification of contingency measures to preserve adequate PRGT's lending capacity in case underlying assumptions of the funding strategy do not materialize.

Finally, we support the ***creation of two new PRGT accounts, the Subsidy Reserve Account (SRA) and the Deposit and Investment Account (DIA)***, that are designed to receive members' contributions and support the subsidization of the PRGT lending.