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**Statement by Mr. El Qorchi and Mr. Osei Yeboah on Fund Concessional Financial Support for LICs—Responding to the Pandemic  
(Preliminary)  
Executive Board Meeting  
July 14, 2021**

We thank staff for the detailed report on the Fund's concessional financing to LICs with particular emphasis on responding to the pandemic. We think the review is timely and will well-position the Fund to offer effective assistance to poorer countries in addressing protracted BoP and financing gaps, which have worsened due to the pandemic. We broadly agree with the thrust of staff appraisal. On Fund immediate response, we believe the Fund reacted promptly by providing exceptional financing in support of LICs' emergency actions at the onset of the pandemic. This response provided critical resources at a time when most LICs were constrained by limited buffer space.

**PRGT Lending Framework**

While the Fund's PRGT lending framework has served its most vulnerable members well, the pandemic and its aftermath are exposing limitation. With a still uncertain path of the pandemic, the Fund needs to boost its lending capacity to meet anticipated high demand for PRGT resources from LICs with strong economic programs in a context where most LICs have significant outstanding balances to the Fund.

1. We broadly agree with the outlined modifications to the LIC's lending framework, which proposes increasing normal access limits on concessional resources to 145/435 percent of quota. The proposal provides scope for the Fund to offer multiyear UCT-quality arrangements to LICs beyond the immediate pandemic shock window to enable these countries to navigate the recovery and mitigate long-standing BoP problems.

2. We agree with the approach to gradually weaning off higher income LICs from PRGT resources to GRA in exceptional access (EA) situations. However, amid the prevailing pandemic environment where all LICs have been hit hard, we are concerned about the financing cost implications for EA blenders. *Can staff comment on the possibility of moderating the financing cost to presumed LIC blenders?*
3. The Fund's PRGT procedural safeguards are a core feature of all its lending programs to LICs, designed to mitigate and manage credit risk and preserve debt sustainability. We support maintaining the thresholds for triggering the high access procedure at the current flow and stock triggers of 240 and 300, respectively, until the next full review of LIC facilities.
4. We see the relevance in aligning the PRGT EA criteria with the criteria under the Policy Safeguards on High Combined Credit (PS-HCC). We think the alignment ensures uniformity of treatment for LIC blenders and non-blenders in EA cases. Particularly, for LICs at high risk/in debt distress, it shifts the emphasis on program achieving moderate risk of debt distress rather than requiring debt restructuring operation.
5. While the access norm is neither a floor nor a ceiling, the graduated threshold linked to outstanding Fund credit sends a conflicting signal. In this regard, we think the proposed 145 percent starting point stipulation simplifies the use of access norms and offer flexibility for a case-by-case determination of access criteria.

### **Reforms of the Bending Policy**

We support the rule modifications that places a requirement for LICs' GNI per capita to exceed the IDA operational cutoff by 5 percent for two consecutive years to be an eligible blender. The change puts more emphasis on country's GNI, which in our view is a more predictable indicator than market access.

We think the rule changes on market access and debt vulnerability in determining blend status, require further clarification. In our view, it is difficult to anticipate market access for a country in debt distress or at high risk of debt distress, irrespective of past successes. *Staff may wish to comment.*

### **Reforms of LICs Access Norms**

We think the zero-interest rates on PRGT loans should be maintained, consistent with the established rules. That said, the Fund should continue to explore ways of simplifying its lending instruments to LICs that ensures all their borrowings are from PRGT resources. *Can*

*staff comment whether ensuring all LICs' funding in PRGT will constrain the level of access for higher-income LICs?*

### **Fundraising and Subsidy Accounts**

We support the two-stage fundraising plan and the creation of the two internal accounts (SRA and DIA) to manage bilateral subsidy contributions. That said, we think future Fund strategies should seek to boost permanent concessional resources consistent with self-sustaining PRGT that shifts dependence away from borrowed resources.