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Joint Statement by Mr. Huh, Ms. Lim, Ms. Johnson, Mr. Mahyuddin, Mr. Yoo, and Mr. Dacharux on Fund Concessional Financial Support for LICs—Responding to the Pandemic (Preliminary) Executive Board Meeting July 14, 2021

We thank staff for the proposals to step up Fund assistance to LICs in response to the exceptional shock of COVID-19. Timely and adequate Fund concessional financing will be both necessary and critical for LICs to secure a more sustainable recovery from the adverse socio-economic impacts of the pandemic. It remains critical to ensure that Fund financing remains catalytic in nature and appropriate safeguards are in place to mitigate the increased risk exposures. **We broadly support staff's proposals, both the PRGT policy reforms and the two-stage funding strategy as outlined in the paper.**

The proposals on access limits and norms, a more robust and simplified blending framework, and maintaining the concessional rate at zero, are sensible and welcomed. Financing needs of LICs will continue to be substantial for the periods ahead as the countries face the pandemic aftermaths and navigate the fragile exit. Hence additional flexibility and engagement from the Fund is necessary. The reforms will allow eligible countries to continue to receive financial assistance commensurate to their respective circumstances and avoid resorting to arrangements with less favorable terms and conditions.

The Fund's level of financing through strong UCT-quality program should remain appropriate, considering its role to catalyze other external financing and maintain the self-sustainability of the PRGT framework. Given the large financing need and high indebtedness, the Fund should enhance its engagement with other development partners and financial safety net arrangements to address the overall financing gap and ensure greater burden sharing. While noting that the elimination of hard caps may elevate credit/repayment risk and potential concentration risk, we can agree to the current proposal to ensure that eligible countries receive the necessary support to finance strong adjustment programs. Even with the removal of the hard cap, the proposed arrangements must meet the PRGT EA criteria and access levels for all financing requests should

continue to be based on case-by-case assessment of program design and country circumstances. We also urge staff to revisit the hard cap in the next comprehensive review.

We are supportive of the accompanying strengthened safeguards to address concerns over debt sustainability and capacity to repay. As part of the multi-layered framework, it will be critical to ensure that the program objectives are tailored to support medium-term development. The Fund should also ensure that the countries have the institutional capacity to undertake the necessary reforms and manage their high level of debt. In this regard, the Fund should enhance capacity development initiatives and technical assistance to ensure that the countries receiving financial assistance are set on the right path and are able to equip themselves with sound policies to enable sustainable recovery from the aftermath of the pandemic. On this front, we continue to emphasize that the Fund's support should take into account the exceptional circumstances and vulnerabilities of sections of our membership, especially the small developing states.

We see merit for staff to explore reforms that would introduce a dual interest rate mechanism in the PRGT, especially taking into account the benefit of differentiating the treatment between blend and non-blend LICs in terms of cost of financing and policy challenges such as protracted BoP problems. To this end, we encourage staff to do more in-depth analysis of this potential reform so as to understand the possible rise in PRGT credit outstanding and its implication to the reserve coverage ratio.

We support the proposed two-stage funding strategy. We agree with staff that such a strategy is required given the large uncertainties around the pandemic and the actual demand for concessional support, as well as to support PRGT self-sustainability. For "stage one", we are supportive of raising additional loan resources, especially in view of the upcoming SDR allocation. We can support the strategy to increase the subsidy resources through the suspension of reimbursement to the GRA through FY2026 and bilateral grant fundraising campaign. We would also be open to suspending the reimbursement for longer beyond FY2026. Providing flexibility in term of timing and methods of contribution is extremely helpful to potential donor members given the competing financing demands on many fronts. We thus welcome the proposed creation of two new accounts, SRA and DIA, which would promote further bilateral PRGT subsidy contribution and capitalize on the potential use of new SDR allocation.

We encourage staff to continue to explore further the possible use of Fund internal resources. To ensure the reserve coverage remains above 20 percent, all financing options and fundraising should be considered, including from internal Fund resources given the expected net reduction to credit outstanding in the GRA. Staff should begin an in-depth study on the optimal use of Fund resources and its impact to help facilitate the discussion. On the potential use of gold sales or a gold pledge, we would welcome early analysis and consideration, including how it would affect the Fund's balance sheet and asset prices. Discussions on this should begin sooner rather than later, as it likely involves lengthy processes and views remain mostly mixed.

The proposed annual review of concessional resources and fundraising efforts is highly welcomed and will be an opportunity for the Board to understand financing constraints. We are encouraged to hear from staff during the Q&A session that this annual review will be made more comprehensive by taking into account other aspects of the LIC facilities, including considerations on contingency plan and early actions and we would also look forward to reserve coverage

considerations. We view that this regular update and assessment will help inform and complement the full review of LIC facilities expected in 2024-25. The timing of the next full review should remain flexible and can be brought forward if situations warrant.