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**Statement by Mr. Bhalla and Mr. Natarajan on Fund Concessional Financial Support for LICs—Responding to the Pandemic
(Preliminary)
Executive Board Meeting 21/71
July 14, 2021**

1. We thank the staff for the comprehensive paper on Fund's Concessional Financial Support for Low-Income Countries (LICs) and the extensive discussions held on the subject. The COVID-19 pandemic has severely hit the LICs causing significant macroeconomic difficulties. The Fund has been swift in providing required emergency concessional financial support. Temporary increase in access limits under Poverty Reduction and Growth Trust (PRGT) has been instrumental in delivering necessary support effectively. As the scarring effects of the pandemic persist, we agree on the need for suitable reforms in the PRGT norms to help the needy members.
2. Many LICs experience sharp declines in income level, limited fiscal space and debt-servicing difficulties. We concur that enhancing the access limits can provide critical additional resources to facilitate speedy recovery and achieve macroeconomic stability. Aligning the access limits and exceptional access criteria with general resource account (GRA) are useful as this helps in simplification of procedure and norms. We welcome the tenor of the proposal for providing enhanced safeguards and the need for intense monitoring. *Could the staff comment on the distinct improvements in the proposed safeguards measures in comparison to the existing safeguards.*
3. We find merit in modifying income and market access criteria to reduce the possibility of premature reversal to blend status. As the availability of concessional resources are expected to be scarcer, this will weigh heavily on the future reforms in pricing and other terms for presumed blenders. This assumes importance as the staff envisages significant uncertainty in demand for PRGT lending and thinning reserves in the coming years.

4. It is understandable that the exceptional demand for concessional financing is creating a large financing gap in PRGT. In this respect, it is relevant to note that even under the existing policies credit would have reached around three times pre-pandemic levels. We concur that the key objective of the proposed two-stage funding strategy should be to achieve self-sustainability of the financing model. Reimbursement of PRGT administrative cost can be helpful in enhancing subsidy resources and reserve coverage.
5. We welcome the various methods for subsidy contribution which provide sufficient flexibility for donor participation. However, raising bilateral resources could become increasingly challenging as the donor countries themselves could face enlarged fiscal burden due to the pandemic. A viable option could be to provide an effective mechanism for voluntary channeling of existing and new SDRs, particularly from advanced economies. *Staff may comment.*