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July 12, 2021

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

We welcome this robust set of proposals to strengthen the Fund’s ability to support low income countries (LICs) in their response and recovery from the COVID-19 crisis. The current crisis has presented an enormous challenge to LICs. The Fund has ably responded, with an unprecedented surge in emergency lending. It is likely that LICs will face an enormous need for concessional finance over the coming years, and the IMF’s current toolkit must rightly evolve to respond to this need by right sizing the PRGT to support LICs through their recoveries. Of course, PRGT lending can only be effective if it occurs in concert with countries’ own efforts to boost domestic revenues, raise private investment, and deliver on policy and governance reforms that will promote sustainable growth. **We thus support all of staff’s proposed decisions, including: increasing PRGT access limits to align with the GRA; eliminating caps on exceptional access to concessional support for the poorest LICs and aligning the PRGT EA criteria with those of the GRA; simplifying the framework for blending concessional and non-concessional resources; creating the Subsidy Reserve Account and Deposit and Investment Account; and suspending GRA reimbursement of the costs of administering the PRGT.** While we support the proposal to increase the limit for PRGT borrowing to enable additional fundraising and creative financing options, we stress the importance of regular Board updates on demand for new lending so as to inform the need for additional financing.

At the same time, we stress that the increases in access limits should not automatically translate into larger programs, and a case by case approach remains critical. We expect that the size of future upper credit tranche (UCT) programs for LICs will be based on the usual criteria, including strength of the program, BOP needs, and capacity to repay the Fund. Further, we remain cautious about loading up LICs with large amounts of super-senior debt, particularly given many PRGT members are facing rising debt vulnerabilities over the near and medium-term. We also see a strong need for enhanced attention to safeguards surrounding fiduciary policies and public expenditure for programs that envision budget

support. In this regard, we will need to be mindful that IMF lending is not a substitute for other forms of assistance, and that the PRGT must continue to play its catalytic and complementary role with other multilateral and bilateral support.

Below we provide some specific comments on the proposed reforms:

We support many of staff's proposed reforms that enable the PRGT to meet near-term demand, but believe the proposed blending policies and high-access procedural safeguards require further adjustments. We agree with staff's analysis that many LICs are facing severe financing challenges, and current PRGT access limits would push them into seeking non-concessional finance. Moreover, the large projected external financing needs of many LICs in the coming years reinforces the need to raise limits on access to PRGT resources, while staff's proposed safeguards should prevent countries from using emergency financing as a substitute for a comprehensive program with reform measures. We support staff's proposal to adjust the income threshold and simplify blending eligibility to more cleanly differentiate PRGT eligibility and reduce shifting between categories. We also see merit in further exploring staff's proposal to permit presumed blenders to borrow entirely from the PRGT, but at a less concessional, floating rate. We do not support staff's proposal to leave in place the high-access procedural safeguard triggers at the higher levels introduced in March 2021. Rising debt vulnerabilities in LICs merit increased, and not reduced, procedural safeguards. We urge staff to instead adopt the current practice for GRA high access, in which staff consult the Board on exceptional access programs ahead of any program negotiations. *Could staff clarify how keeping flow and stock triggers for PRGT high access procedures at the levels introduced in March 2021 would impact the list of future countries subject to Board briefings?*

We can go along with the proposal to align PRGT exceptional access criteria with those for blended GRA/PRGT access, although we have some concerns. Staff's proposal to amend the PRGT exceptional access safeguard to mirror the Policy Safeguard for High Combined Credit Exposures risks weakening safeguards around debt for LICs, as debt restructuring would no longer be required as part of the program for PRGT-only borrowers at high risk of or in debt distress. Given that many LICs face rising debt vulnerabilities, this proposal could result in countries relying on donor financing when in fact a debt restructuring or reprofiling would be necessary to restore sustainability. In such exceptional access cases, we will look closely at what measures the authorities will undertake, including their negotiations with creditors, to restore debt sustainability. We also urge staff to use this criterion with caution, so it does not result in creditors delaying a debt restructuring or countries taking on unsustainable debt immediately after the program period.

We endorse staff's proposed two-staged financing plan and welcome the proposals to facilitate additional bilateral financing and raise reserve coverage. However, given the uncertainty around PRGT lending volumes and financing for the reforms, we strongly support staff's proposal for annual reviews – and indeed, more frequent reviews may be warranted to enable the Board to conduct adequate oversight and take contingency measures if needed. We support staff's proposal to suspend the PRGT's reimbursement for the GRA and welcome the innovative proposal to create the Subsidy Reserve Account and

Deposit and Investment Account. We would further support a proposal for countries to voluntarily channel SDRs from the proposed general allocation to support PRGT loan resources. Securing commitments towards new subsidy resources will be more challenging – even if these resources are not required up front. We urge staff to provide an update this Fall on the status of these pledges and assessment of the need for contingency plans. We do not support proposals for gold sales or a gold pledge because the complexity and length of time required would undermine our ability to adequately finance the PRGT in the near-term.

We support staff’s proposal to keep zero interest rates for all PRGT credit outstanding. We look forward to the next review on PRGT interest rates in July 2023 and recommend including a discussion on interest rates for presumed blenders.

We look forward to more detailed proposals for SDR channeling as a vital part of this financing strategy. In this regard, the Biden-Harris Administration has requested authorization from Congress to lend up to SDR 15 billion to the IMF, and we are exploring a grant contribution. We intend to use these resources to support the global recovery – with some portion going to the PRGT. We would further welcome a proposal to use SDRs to co-finance IMF programs in support of countries’ pandemic recoveries and economic transformations, including on climate.