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

We thank staff for the detailed paper, which presents a package of policy reforms and a funding strategy to help LICs address the immense challenges arising from the pandemic. We would like to highlight the following points:

Following the exceptional levels of Fund financial assistance following the pandemic, it is important to have the necessary flexibility in UCT arrangements to support a sustained and inclusive recovery in LICs. In this context, the proposed reforms would facilitate provisions of more concessional financing to LICs on a case-by-case basis, reflecting country-specific needs. At the same time, it is critical to ensure that increased Fund financing remains catalytic in helping fill the enormous financing gaps confronting LICs over the medium-term. Also, to help close such funding gaps, the Fund’s advisory role, through surveillance and capacity building, cannot be overemphasized in guiding and accelerating countries’ domestic reforms. We also continue to support robust safeguards, including closer scrutiny of debt sustainability and capacity to repay the Fund. Overall, implementing ambitious, but prudent, adjustment programs will be critical to help achieve stronger and more inclusive growth as countries exit from the crisis.

On access limits, we support the proposed increased in the normal access limits given the large projected external financing needs of many LICs in the coming years. We also support allowing non-blend LICs to receive all Fund financing from the PRGT as GRA programs are not well-suited to the needs of poorer LICs. In this regard, we endorse the proposal to eliminate hard caps on exceptional access if the criteria are met. Furthermore, we support extending the application of the temporarily increased PRGT annual access limit of 245 percent of quota until end-December 2021.

Regarding access norms, we support the proposed simplification, with a unified norm set at 145 percent of quota for any three-year ECF arrangement. In this regard, it is apparent that the differentiated norms are not suitable in the current circumstances as the pandemic has created large and diverse financing needs across LICs. We also appreciate that the role of norms will be reassessed at the time of the next comprehensive review of LIC facilities in 2024/25.

On safeguards, we agree that case-by-case approach will remain critical to carefully assess debt sustainability and capacity to repay the Fund. In this connection, maintaining the higher levels of flow and stock triggers introduced in March 2021 remains important. We also endorse the proposed alignment of the PRGT-Exceptional Access criteria with the criteria under the policy on Policy Safeguards on High Combined Credit. In particular, we take positive note that programs will have a clear objective of achieving moderate risk of debt distress within the program period.

On the blending framework, we support the proposed modifications, which will make it more robust and less complex. In particular, we are encouraged by the mitigation of likelihood of countries moving too easily between blend and non-blend status by adjusting the income threshold used in determining blend status. In addition, it is appropriate not to require poorer LICs to blend irrespective of their market access status. We also see merit in assessing debt vulnerabilities in determining blend status with countries in debt distress not expected to blend.

On bringing blend countries fully into the PRGT, we take note of significant challenges, including a sharp decline in reserve coverage. At the same time, it will bring benefits to blend countries, as well as generate subsidy resources. We therefore would be interested in staff's continued work to explore reforms that would introduce a dual interest rate mechanism while allowing PRGT-eligible countries to meet all their financing needs from the PRGT.

We continue to support a **two-stage funding strategy**. We take note of the need for SDR 2.8 billion in new subsidy resources, although there is an uncertainty around demand over the coming years. In this context, we support the proposal to suspend GRA reimbursement through FY26 and are willing to consider a longer period for suspension. The creation of two new PRGT accounts that can receive member contributions – a Subsidy Reserve Account (SRA) and a Deposit and Investment Account (DIA) - would provide flexibility in facilitating subsidy contributions and strengthening reserve coverage. However, we should be realistic in view of the budgetary constraints facing donor countries and multiple demands for financial contributions. Given the large subsidy needs, we may need to start discussion on the use of internal resources sooner than envisaged in the paper. Here, we take note of possible contingency measures elaborated in paragraph 66 such as support for a “gold pledge”. As far as additional PRGT loan mobilization is concerned, we agree that the proposed new SDR allocation could facilitate it.

We agree with the proposal to keep **zero interest rates** for all PRGT credit outstanding under the ECF, SCF, and RCF through end-July 2023. This outcome is in line with the approved interest rate mechanism.

Finally, we support **the proposal to review** annually concessional resources and progress with stage one fundraising. This should facilitate implementing contingency measures, if needed, in time.