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**Statement by Mr. Itam on Modification of Access Policies for the Poverty Reduction and Growth Facility and the Exogenous Shocks Facility
(Preliminary)
Executive Board Meeting 09/39
April 20, 2009**

1. The modification of access policies on facilities for Low Income Countries (LICs) is urgent and long overdue. As the global economic and financial crisis continues to unfold, increasingly bringing the LICs under sever threat, the Fund's response needs to be timely and commensurate to the challenges. Thus, while we welcome the discussion of the proposed modifications of access policies by staff, we have serious reservations on their adequacy in view of the continuing uncertainties regarding the timeframe of the global crises and its escalating repercussions on the LICs. In this regard, we wish to emphasize the need to distinguish between, on the one hand, the medium-term architectural measures and, on the other hand, the Fund's timely and adequate response to the current crises as it affects the LICs. We, therefore, focus our comments on the latter.

Access limits

2. The paper proposes a doubling of access limits on concessional lending to respond to the needs of LICs severely affected by the global downturn. While we fully appreciate that this is an interim measure pending broader reforms of the architecture of the facilities for LICs, it is our view that the proposed doubling of the access limits and norms would be inadequate to meet the needs.

3. The most likely facility that will be tapped by LICs to meet current and emerging needs arising from the current global crises is the ESF. The ESF facility proposal is to double only the High Access Component (HAC) to 150 percent of quota, while leaving its Rapid Access Component (RAC) unchanged at 25 percent. While these adjustments may be considered enough to restore access limits to the 1998 levels, they would remain inadequate to address the substantial impact of the external shocks that has hit these countries as is being evidenced by the ramifications of the second round effects. The collapse of primary commodity prices and export volumes, the drastic reduction in remittances, the drying up of capital inflows and uncertainties about aid flows have substantially increased the LICs'

financing needs. Given these deteriorating conditions and the relatively low quota levels for LICs, a doubling of the ESF – HAC will not be adequate in these extraordinary times. The 25 percent cap on ESF – RAC is highly limiting, particularly in light of the fact that the consequences of the global economic debacle is being borne by the LICs, irrespective of whether they are in a position to meet UCT conditionalities or not.

4. Regarding the PRGF, in addition to the inadequacy of the access levels, the proposed access norms would make this facility ineffective in meeting members financing needs in the current environment. Many of the LICs are repeated users of the PRGF facility. PRGF norms have been designed to discourage repeated recourse to this facility. In the circumstance, the effective or operative access limits will not be the revised caps but, invariably, the norms as adjusted for the number of prior usage, thus reducing access to as low as 50 percent of quota. As indicated in the proposal, the highly vulnerable LICs would be requesting only 30 percent of quota in augmentation. The level of financing under such arrangement would not meet the present needs, even in instances where the policy conditionalities are satisfactorily met. In this respect, we note that the ESF and PRGF access limits have caps operating as hard ceilings while the GRA access limits are flexible and calibrated in light of specific country needs and circumstances. Evenhandedness in this regard would contribute to the effectiveness and legitimacy of the Fund in addressing demands of all members in this crisis. In this regard, exceptional access limits for the PRGFs should be significantly larger than what is proposed.

5. Staff proposes no change for the Emergency Post-Conflict Assistance (EPCA) and Emergency Assistance for Natural Disasters (ENDDA). For some LICs, the windows to Fund resources are limited to the EPCA and/or ENDDA due to the special situation they are in but are equally, if not more so, exposed to the ramifications of the global crisis as the other members. It would therefore be important for the Fund to play its role in containing the economic and social upheavals by showing flexibility in the access limits of these facilities.

6. It is our view that the proposal is overly tempered by staff's concerns about resource availability and by an underestimation of the resources needed by LICs as a result of the crisis. Although we commend the staff's effort in soliciting from Mission Chiefs and Resident Representatives their assessment of country demands, the assessment could have benefited from the views of authorities on their current and projected needs. Given the continued uncertainties in the world economic outlook, the deterioration in emerging markets, and the lagged impact of the full force of the crises on LICs, a more realistic assessment of the needs is required. In this regard, we could not agree more with the staff's assessment that there are significant uncertainties with their projections of need and that there is upside risks to the projected demand for funds.

7. In light of the forgoing concerns, we propose the following:

- (i) Access level for ESF-RAC be doubled to 50 percent of quota;
- (ii) Access level for ESF-HAC be raised to 200 percent of quota;
- (iii) Access limit for EPCA and ENDDA be raised commensurately by that of ESF-RAC;

(iv) In addition to the doubling of the PRGF access limits, the exceptional access should be larger at 450 percent of quota on the basis of country needs and circumstances; and

(v) The norms prorating access on the basis of the number of prior usage of the PRGF facility be suspended and reviewed after 3 years.

Concessional resources constraint.

8. We note staff assessment that the existing PRGF/ESF resources appear sufficient to accommodate projected demand for the next two years under their proposal. Furthermore, the proposed increases in the access limits and norms take into account concessional resource constraints. It is our view that the exercise tends to fit the needs into the existing resource envelope rather than vetting what access limits and norms are needed to deal with the crises facing LICs. While we are cognizant of resource constraints, we are of the view that the approach should place the adequacy of the access limits and norms to meet the current demand of LICs first and foremost, and then examine how adequate resources could be generated/solicit to meet the needs. Such de-linking would enable the Fund to put in place access policies that would provide effective and timely support to the LICs, as well as to mobilize the necessary level of concessional resources.

9. Again, we recognize that concessional resources are inadequate. However, rather than focus on rationing these resources, it is time to mobilize the necessary funds. In this regard—and in addition to those initiatives that are already on track, such as the “excess” proceeds from gold sales and SDR allocations—we propose that the Fund consider augmenting concessional resources by setting aside a certain portion from its income stream from current exceptionally large lendings.