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GRAY/10/45

January 8, 2010

**Statement by Mr. Lee, Mr. Duggan, and Mr. Chetwin on Eligibility to Use the Fund's
Facilities for Concessional Financing
(Preliminary)
Executive Board Meeting 10/3
January 11, 2010**

We support establishing a clear and objective framework for determining eligibility that promotes evenhandedness and recognises the need to limit access to scarce concessional resources to low-income members with significant vulnerabilities. The Fund's policies in this area should also be consistent: internally – e.g. with limits on non-concessional borrowing under Fund programs; and externally – e.g. with IDA eligibility criteria. The proposed framework generally meets these objectives, and so has our broad support.

Eligibility Criteria

We support the proposed eligibility criteria for access to PRGT resources. Importantly, the per capita income thresholds for PRGT eligibility align with the current IDA operational income thresholds. Where the two eligibility criteria diverge is with regard to the market access test, which in our view is well-justified in the staff report.

We also support expanding the existing small-island exception for eligibility to all member countries with a population of less than 1 million, reflecting their generally-greater vulnerabilities. Experience in our own constituency demonstrates that these economic and financial vulnerabilities are particularly acute for small island economies, given their lack of land borders with larger markets, geographic isolation and high risk of natural disasters.

Graduation Framework

Graduation should be seen as a desirable achievement; and we agree that the graduation threshold should be conservative to minimize the risk and consequent ill effects of needing to reverse the graduated status.

At the same time, like Mr. Itam, we note that setting more-conservative thresholds for exit (graduation) than for entry (eligibility) could - if applied too bluntly - give rise to inequities. For example, two countries with the same income level between 100 and 200 per cent of the

IDA threshold might have different access to concessional resources, depending on whether they are already on the PRGT eligibility list. Whether this will occur in practice remains to be seen but, in recognition of this risk, we would like to see assessments undertaken of whether such situations were arising - and if needed further consideration of how to address the situation – as part of the proposed two-yearly review process.

We would also see merit in the per capita income threshold for small countries under the market access criteria being set at a higher level than the threshold proposed for larger countries (i.e. higher than 80 per cent of the IDA operational threshold). Establishing a threshold at twice the IDA operational threshold would be consistent with other elements of the proposed framework. More importantly, it would also reduce the risk that countries with very low IMF quota could be excluded from accessing PRGT resources prematurely on the grounds of past market access, given that the amount of commercial borrowing necessary for a small country to meet the market access test would also be very low and therefore the associated risk assessments potentially limited (e.g. the consequence of investment decisions by a small number of creditors).

Updated Eligibility List

A review of eligibility to access the Fund's concessional resources is long overdue. Therefore, we strongly support the proposed two-year review cycle with the possibility of ad hoc decisions in-between reviews of eligibility. We concur with staff's judgments on graduation and the process that is proposed for progressing towards the revised eligibility list.