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Statement by Mr. Pereira and Mr. De la Barra on Eligibility to Use the Fund's Facilities for Concessional Financing
(Preliminary)
Executive Board Meeting 10/3
January 11, 2010

1. We can go along with the proposed framework. We observe, however, that the motivation behind today's discussions remain elusive, as the entry criteria proposed for future PRGT eligibility will be more demanding with the market access criterion and so will be the differentiated set of criteria for graduation, as proposed in paragraph 12. The alignment of blending rules to graduation criteria will also go in the same direction, with the proposed market access criterion being more stringent (particularly the rule of per capital GNI above the 80 percent of the IDA operational cutoff). Even though the staff states that the financial implications will most likely be small, we are afraid that a PRGT limited concessional envelope may underlie these changes and the need for "clear" rules and subsequent updating of the PRGT eligibility list. We remain confident that Management's efforts will pave to way for additional concessional funding and look forward to a prompt discussion of the use of Special Drawing Rights (SDRs) as loanable resources for Low-Income Countries (LICs).

2. We certainly support a targeted use of concessional resources for the poorest countries with economic and financial vulnerabilities, ensuring uniform treatment and enhancing transparency and fairness. Yet the real problem is the lack of sufficient resources for concessional Fund financing in a world economy still loomed of uncertainty. The asymmetric impact of this crisis and the need to reduce development gaps between advanced and developing countries as a prerequisite for a sustainable global growth are our main concerns. We claim that, in practice, the Fund will continue to play a critical role in addressing the most immediate needs of LICs, even beyond our catalytic and signaling role.

3. One of the most palpable lessons from this global crisis is the unprecedented impact of international financial integration on macroeconomic volatility. Both output and consumption volatility do matter. In developing countries (remarkably in LICs), its implications are huge and with long-lasting social consequences. In particular and in light of recent experience, volatility of international prices and terms of trade have proven to be a key

source of vulnerability that goes well beyond the authorities' control (external shocks). Going forward, aid shocks and aid volatility will also determine the fate of many developing countries. In other words, more and more GDP is turning into a tainted indicator of the country's true income or wealth in this globalized economy. At the minimum, avoiding a mechanistic approach in assessing annual per-capital GNI will remain of the essence until new ways of capturing wealth and demand are discussed.

4. Similarly, the concept of "durable" and "substantial" access to financial markets is also challenging both for entry and graduation at this critical juncture. We have never witnessed such significant and short-term refinancing needs in advanced countries as a whole. As Mr. Shaalan and Ms. Choueiri point out, we wonder how the staff will assess that the sovereign *could* have tapped international markets on a durable and substantial basis in the same conditions to conclude that the countries meet the market access criterion. We also support their call for higher threshold than 100 percent of quota to help determine PRGT graduations and ask Management to revisit this proposal.

5. Overall, we claim that the new framework must be applied in a flexible manner. Drawing from this crisis, it will be vital to move away from the traditional country-centric approach and take into account regional and global effects as vulnerabilities may come from the most unexpected corners. Due consultation with country authorities involved will be deemed necessary. Particularly, we concur that careful attention must be given to graduation rules. Reversal of such graduation might be very damaging for country members and pose undue risks to financial sustainability. At this stage, it is subject to challenge that decisions on graduation will turn out to be permanent. In our view, the case of Pakistan could be telling.

6. The proposed framework could be transparent, but also complex and operationally demanding based on interrelated criteria. In general, we welcome ad-hoc considerations and some degree of discretionality for keeping members ready to graduate on the basis of short-term vulnerabilities and claim that this practice should be applied in the future for all LICs. We claim that aid shocks must be taken into account going forward. We broadly support the proposed periodic review every two years and the decision of leaving open decisions regarding entry and re-entering between reviews as well as the transitional period of three months. We also endorse extending to all small countries the existing exceptional treatment as that of small islands, although the unique threshold of a population below one million seems too restricted.

7. We fail to understand why this framework for updating the PRGT eligibility list has preceded our discussion of the use of SDRs resources for concessional lending. This chair has long called for grasping the window of opportunity linked to the general SDR allocation to allow an efficient redistribution of resources in order to help sustain global demand. *Will these two mechanisms be completely separate? The staff's clarifications would be appreciated.*

With these comments, we thank the staff for a well-written and informative report.