GRAY/10/49

January 8, 2010

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

1. As much as we welcome last year's profound overhaul of the Fund's instruments for concessional lending, we consider that important elements on the financing side remain to be put in place. The regular updating of the PRGT eligibility list is a key component of the new concessional lending framework. It is indispensable that the limited resources that the Fund has at its disposal in the PRGT are used for those low-income countries most in need. The staff paper proposes a way to deal with this financing constraint that we can generally support.

2. We agree that the determination of PRGT eligibility should remain closely aligned to IDA practices. But we consider it appropriate and important that, given different institutional modalities and incentives in the World Bank for lending under IDA, the Fund makes its own determination at regular intervals. We particularly welcome the establishment of bi-annual PRGT eligibility reviews based on transparent criteria. We also welcome a coherent application of the blending of PRGT and GRA resources. This gives clear guidance for the phasing-out of concessional financing in the process of graduation.

3. While we share staff's view that the new framework should help avoid untimely or premature graduation decisions, we would support a more symmetric approach to entry and exit from PRGT eligibility. The hurdles for graduation seem to be set high. This results in a bias towards the status quo, rather than allowing for a more dynamic adjustment in line with income levels.

4. In particular, we would favor dropping the criterion of "serious short-term vulnerability", as it introduces an extensive – if not excessive – degree of discretion in assessing potential shocks, with little regard to the level of per capita income. We would argue that countries that meet the proposed income criterion for graduation – at twice the IDA cutoff level and hence including a sizable buffer – should take recourse mainly to GRA financing to deal with such vulnerabilities (the aim being to preserve scarce PRGT resources, as mentioned).

5. This reasoning also applies to the proposed less stringent entry and graduation provisions for small countries. We wonder whether the apparently higher vulnerability to external shocks of higher income countries in this category should per se allow for access to concessional resources. Despite this, we are ready to go along with the consensus on this proposal as we welcome the fact that the exception would be generalized to all small countries and the clear definition of this subgroup of members.

6. On a more general note, we would like to stress two further considerations. *Staff comments on these would be appreciated*:

– We would like to reiterate that the ultimate goal should be a self-sustained PRGT. While we acknowledge that short-term financing needs have increased, we expect the staff to continue to work on a self-sustained model and to present a timeline within which it could be operational. We suggest that this model should run at a certain predetermined level of resources, and be complemented by selective increases in times of special needs.

– We hold the view that countries close to graduation or graduating from PRGT financing are the target group for PSI arrangements. A PSI relationship with the Fund should thus also be made accessible for countries that have graduated from PRGT eligibility, and the latter should not remain a formal constraint. Since the last PSI review predated the establishment of the new concessional lending framework, we propose that this particular aspect of the PSI be revisited by the Board in the context of an upcoming related policy discussion, but earlier than at the next regular PSI review.

7. *We ask staff to provide an update on the status of consent of donors to the new PRGT financing structure and an indication when they expect the new concessional lending framework to come into effect*.