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

We would like to thank the staff for preparing a paper that proposes a new and concrete framework for determining the eligibility of member countries to use the Fund's facilities for concessional financing, and for proposing a new list of eligible countries. Given the changes in terms of income levels and other economic circumstances of low-income countries, which have been observed since the last review in 2003, at this juncture, it is necessary and appropriate to reassess the list of eligible countries in order to ensure that the access to scarce resources for concessional Fund financing is truly preserved for members with a low level of income and related economic and financial vulnerabilities. It is also adequate that the Fund introduce a clear set of criteria to determine eligible countries, because the formulation of such criteria would contribute toward heightening the transparency of eligibility decisions. While we broadly support the staff proposal, we would like to point out the problems detailed below.

Differentiation of the Criteria for Entry and Graduation

According to the Staff Paper, it is proposed that we differentiate the criteria for entry and graduation, and set the income level for graduation twice as high as that set for entry. Under these criteria, the possibility exists, as recognized by the staff, that "a country remains on the eligibility list even though it has per capita income comparable to or higher than some ineligible countries." Although this unfairness could be alleviated, to some extent, by the blending rule decided last July, this does not entirely expel the risk of unequal treatment among member countries. In order to fully eliminate any unfairness associated with the differentiation of the criteria for entry and graduation, it would be necessary, not only to strictly apply the blending rule, but also to set the income level for graduation the same as that for entry. In this regard, the staff argues that graduation is expected to be permanent and, thus, the criteria for graduation should reflect sustained progress toward middle-income emerging markets. However, such a progress would primarily be attained through adequate economic policies implemented by low-income countries, not by making the graduation criteria more lenient and indulgent than the entry criteria.

Exceptions for Small Countries

The staff proposes that the Fund introduce exceptions for small countries, including that of doubling the income level requirement for entry into the list of eligible countries. In Box 2, the Staff Paper cites a finding that indicates that the volatility of per capita real GDP growth is almost twice as high in small countries than in others. However, the proposed income level criterion for entry is expressed through an absolute number in nominal terms, not by a relative degree of change in real terms. Other citations in Box 2 also do not present any direct linkage to the idea of doubling the criterion only for small countries. Accordingly, at least from our point of view, more evidence is needed to directly substantiate the reason behind the proposal to double the entry income level for small countries. *The staff's comments in this regard would be appreciated.*

The idea of differentiating the income level requirement for entry and graduation is also proposed in the exceptions for small countries. As stated above, this treatment could create an unfair situation among member countries. Therefore, it would be necessary to apply the same income level criterion both for entry and for graduation.

Biennial Review of Eligibility

The staff proposes that the Board conduct a biennial review of only the list of eligible countries, and does not include the eligibility criteria in the scope of this biennial review. However, given the fast-changing economic environment surrounding low income countries, at this moment, it would not be a good idea to limit the scope of future reviews. In addition, as recognized by the staff, the proposed criteria could give rise to unequal treatment among member countries. Thus, when reviewing the list of eligible countries, it would be appropriate not to eliminate, at this time, the possibility of also reviewing the eligibility criteria and discussing the associated issues mentioned above. *The staff's comments in this regard would be welcome.*