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

Over the past decade, most LICs have witnessed a significant improvement in their macroeconomic performance, with some experiencing substantial increase in per capita income and even tapping the international financial markets. In the meantime, with greater international openness and integration comes greater vulnerability and exposure to the ups and downs of the global economy. Against this background, we welcome this overdue opportunity to review the eligibility to use the Fund's facilities for concessional financing.

We support that the Fund introduce a framework of its own for determining PRGT eligibility based on a clear set of transparent, objective as well as well-articulated criteria while maintaining alignment with the IDA-eligibility, given clear distinctions between the Fund financing and World bank development loans. As the proposed framework, once established, will have significant implication for all LICs concerned, the criteria and indicators used under this framework should be well designed so that "access to scarce resources for concessional Fund financing are preserved for members with a low level of income and related economic and financial vulnerabilities".

Market access criteria

We note that the staff came up with two alternative tests to gauge whether a member meet market access criterion. In particular, a country could also be deemed to meet the market access criterion if there were convincing evidence that the member could have tapped international markets on a durable and substantial basis, even though the scale and duration of actual public sector borrowing fell short of the specified threshold. As such a test inevitably involves judgment by staff, we share with Mr. Shaalan and Ms. Choueiri's concern over evenhanded treatment across member countries.

Criteria for graduation

We are concerned that the market access criterion with weak income safeguard is not robust enough to justify Executive Board decisions on graduation from PRGF eligibility. Under the proposed approach, income and market access criteria serve as two alternative preconditions for graduation as long as candidate country does not face serious short-term vulnerabilities. The underlying idea that access to the Fund's scarce concessional resources should be discontinued for LICs that has the capacity to access international financial markets on a durable and substantial basis appears understandable. Nevertheless, the key objective of PRGT is to assist LICs to achieve, maintain or restore a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. Moreover, financing on market terms may be too costly for poorest countries and the income threshold applicable to market access graduation criterion (80 percent of the IDA operational cut off) is even below the entry level. To prevent any premature graduation based on market access criterion, consideration could be given to strengthening income safeguard, say, raising the threshold level to 100 percent of the IDA operational cut off. This would further add to the fact that graduation criteria should be more demanding than blending criteria.

Other issues

We support extending to all small countries the existing exceptional treatment of small islands in determining PRGF eligibility in order to ease concern about the equality of treatment across the Fund's membership. The proposed periodicity of reviews and policies for phasing in changes in eligibility are also warranted so as to ensure continuous alignment of list with the PRGF's objectives and to smooth out transitional issues.