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

We welcome the paper of the Eligibility to Use the Fund's Facilities for Concessional Financing. Relative to the current situation, the proposed framework provides more clarity on the determination of eligibility, which could foster greater transparency, accountability and a more consistent treatment of low income members.

Any new framework should strike the right balance between limiting the risk of untimely graduation and unduly long reliance on concessional financing. Staff seems mostly concerned about the first risk. We understand that the framework should aim to make graduation decisions permanent. However, the framework should also provide countries the right incentives to draw from non-concessional resources as soon as they are ready for it. Indeed, concessional Fund resources are scarce and should be preserved for those members who really need it. In that regard, we would have preferred a more ambitious framework that provides greater incentives to faster graduation.

While we broadly agree to the proposed graduation criteria, the vulnerability criterion seems less clear-cut and the income criterion seems somewhat demanding. The vulnerability criterion is conceptually harder to link to PRGT eligibility. Moreover, we observe that the vulnerability criterion allows for quite some discretionary room for staff to assess whether a member should graduate or not. *Staff comments are sought on how debt vulnerabilities and a decline in income can be further spelled out.* We also could have supported a somewhat lower income threshold than twice the operational IDA cutoff to allow for faster graduation. On the market access criterion, the ability to tap international markets may be undermined by extreme risk aversion among investors. We expect that a temporarily hampered capacity to access markets will not lead a graduated country to return to the PRGT-list. GRA resources are available to these cases.

We can agree to move from a small islands exception to a small countries exception to strengthen uniformity of treatment among these countries. Staff claims that small countries are more vulnerable to shocks than large countries, especially given their high

degree of openness. Given the scarcity of concessional resources, it could be useful to define an upper-income ceiling for small countries to graduate (e.g. around of 4 times the IDA threshold), also given the higher number of cases that will qualify for exceptional treatment.

Based on the application of the new criteria, we can agree to the proposed amendments to the eligibility list. We take note of the policies for phasing in changes in eligibility. We also support staff's proposal that PRGT eligibility will be reviewed by the Board every two years. *We would propose that the timing of this bi-annual review be linked to the update of the operational cut-off point by the World Bank.* We agree to allow members who meet the entry criteria to be added to the list in the period between the reviews.

Staff is invited to provide an update on: (i) the status of consent of donors to the new PRGT financing structure; and (ii) the expected come into effect date of the new concessional lending framework. We feel this is a rather urgent matter, given that one or more envisaged ESF programs hinge on finalizing these steps.