

The contents of this document are preliminary and subject to change.
--

GRAY/10/70

January 8, 2010

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

We thank staff for the concise and well-focused report. We welcome this timely review aiming at formulating clear criteria to determine PRGT eligibility and ensuring that decisions on graduation are permanent and do not jeopardize the member's financial sustainability. Since we broadly support the thrust of the staff's proposals, we would like to add just few points for emphasis.

Despite their recent increase, resources for concessional Fund financing are scarce and should be preserved for members with a low level of income and related economic and financial vulnerabilities. Therefore, the set of PRGT eligibility criteria should be able to serve this purpose and it should be strictly linked to the trust's key objectives. In this respect, the proposed income and market access criteria seems to represent an improvement compared to the current IDA-based system.

Graduation from eligibility for the Fund's concessional resources represents an important step in a member's economic progress and plays a significant role in providing signals to markets and donors. It is therefore key that decisions on graduation minimize the risks of their reversal. In our view the three proposed criteria to guide decisions on graduation from PRGT eligibility (income, market access and short-term vulnerabilities criteria) contains appropriate safeguards to minimize those risks and avoid threats to the member's financial sustainability.

We particularly welcome the provision that countries would be considered candidates for graduation under the market access criterion only if their annual per capita GNI is above 80 percent of the IDA operational cut off and it has not been on a declining trend during the last

five years.

It is inevitable that the proposed criteria both for eligibility and graduation contain some degree of discretionality. Nevertheless we believe that in order to achieve the intended objectives of enhanced transparency and fairness, the proposed criteria should be used in the most objective way. In this respect we have some concerns on the second test suggested to verify the capacity to access international financial markets on a durable and sustainable basis. The judgmental elements implied by such a test seems to be excessive unless better specified. *Could staff provide further details on this specific test beyond the information provided in Annex II?*

The absence of serious short-term vulnerabilities criterion for graduation is also subject to a certain degree of discretionality. While we support the introduction of such a criterion, we underscore that the vulnerability assessment should be conducted in a transparent way in order to preserve fairness across members.

We support the staff's proposal to move from a small islands exception to a small countries exception, given the higher vulnerabilities facing small countries, as confirmed by the empirical evidence. We understand that defining "a small country" is not an easy task and alternative criteria involve pros and cons. In particular, the proposed threshold of a population below one million is simple and transparent but, if used strictly, it might potentially entail a risk of unfairness. *Could staff elaborate on the possibility of using such a definition in a flexible way, as proposed by Mr. Itam?*

Finally, we fully support the proposal for bi-annual reviews and the possibility of decisions on entry or re-entry onto the PRGT-eligibility list in the interim period within reviews. This proposal, which responds to our earlier concerns expressed to staff, would allow members outside the list to be considered PRGT-eligible, assuming eligible criteria are met, in a timely manner.