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

1. We welcome this Board discussion which responds in a timely manner to the Executive Board's call last year on an early review of eligibility to concessional facilities and relevant criteria (Buff/09/52). We thank staff for the concise and well-written report, and Management for bringing the issue to Board discussion.

General comments on the proposed approach

2. We continue to accept the premise that, given the scarcity of concessional resources, access to concessional Fund financing should be preserved for members with a low level of per capita income and related vulnerabilities. However, as Messrs. Pereira and De la Barra point out, the bigger problem is the lack of sufficient resources for concessional Fund financing, particularly in the current context of global uncertainty facing more acutely the low-income countries.

3. We agree with the requirement in the proposed framework of seeking uniform treatment of low-income countries, in line with the objectives of the new Poverty Reduction and Growth trust (PRGT), as well as uniform treatment amongst small countries which share common economic characteristics and vulnerabilities as evidenced in Box 2 of the report.

4. We also share the view that the proposed framework, by differentiating criteria for entry and for graduation, should help address the other two anomalies identified in the current eligibility list, that is that the number of eligible countries with per capita income level above the IDA-operational cutoff has increased substantially, and that several eligible countries have been able to access financial markets on a sustained basis. The report does not discuss the actual implications of the proposed amendments to the eligibility list in terms of reducing these two anomalies. *We will appreciate staff's comments*.

5. Like Messrs. Talbot and Ward, we are somewhat disappointed that blended PRGF/GRA arrangements have been granted seldom to eligible countries, despite the advantages of blending and the recent approval of new blending rules for the PRGT. Any credible approach towards graduation from PRGT eligibility should better ensure a greater use of blending as a way for progressive exit from concessional Fund financing.

6. The overall proposed approach and framework are adequate and are in line with the recommendations made by the Executive Board in its discussions last year on the new architecture of facilities for LICs and the new framework for concessional lending. We are ready to support the proposed decisions provided that the caveats we identify below are addressed.

On the proposed criteria

7. The determination of eligibility should remain aligned with IDA practices, and differentiating the sets of criteria for entry onto and graduation from the PRGT eligibility list is appropriate. We support the criteria for entry which are based on both on the income and market access. As for the graduation criteria, we share the view that the need to ensure permanent graduation and limited risk of reversal would be better met by requiring, besides the vulnerabilities criterion, both the income criterion *and* the market access criterion (as opposed to "*or*" as proposed in paragraph 12). Experience in our own constituency shows that there are developing countries with upper low-income levels and reduced short-term vulnerabilities but facing limited access to financial markets due to, for instance, underdeveloped or illiquid domestic markets and erratic access to external markets. These developing countries would benefit from being eligible to Fund's concessional financing. In our view, a dual income /market access requirement would better reflect progress toward middle-income emerging market status. *Staff's comments will be appreciated*.

8. Furthermore on the market access criterion for graduation, we view the proposed threshold of 100-percent of a country's Fund quota as being too low an amount to tap international financial markets over a five-year period to consider such country as credible a candidate for exit from concessional Fund financing. In our view, a higher threshold is required. *We would welcome staff's view on this assertion*.

9. We view the market access criterion laid out in paragraph 12 as lacking full transparency and introducing a degree of subjectivity when deciding whether a country meet this criterion or not. In particular, the alternative test to assess market access would be based on vague "convincing evidence that the sovereign *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 thresholds". *This requires clarification, and we will appreciate staff's elaboration in this regard.*

10. Regarding the special criteria for entry and graduation for small countries, we agree with

the extension of the exception from “small islands” to “small countries”. We share the view on the need for higher income thresholds in the entry and graduation criteria for this category of the membership, provided that, as for the general criteria, our concern on a dual income and market access condition for graduation is tackled.

On the regular reviews of the PRGT eligibility

11. Establishing regular reviews by the Executive Board of the PRGT eligibility is welcome. However, we wonder whether a bi-annual cycle is not too long and whether annual reviews could be more appropriate in ensuring a continuous alignment of the eligibility list with the PRGT objectives. Bi-annual periodicity may carry a reputational opportunity cost for countries that are ready to graduate between two reviews but may have to wait for a long time (up to two years) before carrying the benefits of graduation, in terms of greater credibility and larger market access. The Fund itself could potentially save concessional resources by aligning its reviews of PRGT eligibility with the yearly cycle used by IDA to update its eligibility list to which PRGT eligibility is closely aligned. Alternatively, to avoid these disadvantages for such members and for the Fund, can one envisage that decisions on graduation also be adopted in the interim period between the reviews (on a stand-alone basis) as proposed for decisions on entry? *Staff’s comments will be appreciated.*

Other considerations

We broadly support the arguments made in the report on phasing in changes in the PRGT eligibility list out of concern for preserving existing PRGT support and for approving new financing requests. Those include notably the need to make the changes effective only three months after the adoption of the related decision by the Executive Board, as well as the need to maintain countries that meet the graduation criteria but have concessional arrangements in place when the graduation decision becomes effective, eligible to the PRGT for the full duration of the arrangement. Similarly, we agree with maintaining the PRGT terms of repayments of outstanding credit incurred by a member after its graduation from the PRGT eligibility list.