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January 8, 2010

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

We thank staff for their synthetic and clear paper and we very much welcome today's discussion on reviewing countries' eligibility to access Fund's concessional financing, which we have called for a long time. We support the proposed decisions.

We support the broad thrust of the staff's proposals with the intention to enhance transparency and fairness in determining PRGT eligibility through the formulation of clear criteria. We welcome the introduction of separate criteria for entry onto and graduation from the eligibility list that can be applied in a uniform manner, while preserving a close alignment between PRGT eligibility and IDA eligibility.

We support the proposed criteria for entry and graduation and we are also in favor of the extension of the small islands' exceptional treatment to all small countries. While we find the graduation criteria to be fairly strict and likely to make the list a little rigid, we understand that these criteria- income per capita, international financial market access and short-term vulnerabilities- seek to ensure that decisions on graduation are permanent and do not pose undue risks to the member's financial sustainability, which we support. This clear graduation framework allows today for the graduation of six countries which we consider had indeed vocation to exit from the PRGT eligible country list. We welcome the proposed frequency of review intervals.

We consider that this new eligibility framework is coherent with the recent Fund reforms concerning new instruments and modalities of access to concessional financing, debt limits and debt sustainability framework flexibilization. In the context of the increasing demand for concessional financing, it is crucial to focus this type of financing on the poorest and most vulnerable countries. Moreover, the introduction of the precautionary short-term credit facility, likely to freeze an important amount of concessional financing, makes this new eligibility framework even more relevant.

We take note that staff will allow a certain margin of flexibility in assessing PRGT eligibility at least at two levels: assessing short-term vulnerabilities and assessing market access by low-income countries. While we concur that flexibility may be required, we support Messrs. Talbot and Ward's advice to adopt a cautious approach to using discretionary assessment when market access targets have not been met. Moreover, we consider that some of the criteria on assessing short-term vulnerabilities should be more precisely defined: *how does staff define a "serious risk" that income might decline to less than twice (or three times) the operational IDA cut-off? How large spreads should be to indicate risks to prospective market access? Staff's comments on these issues would be welcome*.

Finally, we take note that this new eligibility framework will de facto increase the difference between PRGT and IDA eligible countries. *What could be the operational consequences of such a divergence especially when considering the use of common instruments such as the DSF?*