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

We thank the staff for the concise paper and support the proposed decision on eligibility for concessional financing from the PRGT. The introduction of more transparent criteria and regular reviews will enhance the uniformity of treatment of low-income countries, while ensuring that access to concessional financing is preserved for those members who most need it.

The differentiated set of criteria for entry and graduation strikes the right balance between including the right countries on the list on the one hand, and minimizing the risk of a premature graduation on the other hand. This is important to ensure a transparent and predictable process, and avoid having to make exceptions. The fact that a country is PRGT eligible does not exclude the use of non-concessional financing, blended or not, should GRA financing be more appropriate given the circumstances.

Untimely graduation poses risks for debt sustainability, even more so after the recent SDR allocation. Low-income countries may be tempted, especially once they are no longer PRGT eligible, to use their SDRs with little constraint because of the historical low interest rates and the absence of any reconstitution obligation. However, the SDR rate might increase significantly, causing debt service problems for countries without adequate debt management. It should be avoided that the exceptional assistance under the HIPC and MDR initiatives would not yield lasting results.

We agree with the proposed elements of the definition of low-income countries' market access. Market access should be voluntary, durable and of sufficient size. The capacity for durable and substantial access to international financial markets should be assessed over a sufficient period of time. A time horizon of five years, given the possible volatility of international financial markets, strikes the right balance.

Eligibility criteria, specifically for small islands is difficult to justify, as all small countries, islands or not, are more vulnerable to shocks than large economies. Hence we support the proposed small countries exception based on well-defined and transparent criteria.

We would welcome more information on the financing aspect. The longer countries remain PRGT eligible, more subsidy resources may be needed. What is the staff's current estimate on the potential use of concessional financing compared to the available loan and subsidy resources? Good management would require to have sufficient financing assurances in order to avoid reducing, or even suspending, the concessionality of PRGT loans.