GRAY/20/2871

September 3, 2020

Joint Statement by Mr. Beblawi, Mr. Bevilaqua, Mr. Buisse, Mr. Chodos, Mr. Fanizza, Ms. Mahasandana, Mr. Mahlinza, Mr. Mojarrad, Mr. Mouminah, Mr. Mozhin, Mr. Raghani, Ms. Riach, and Mr. Villar on Policy Safeguards for Countries Seeking Access to Fund Financial Support that Would Lead to High Levels of Combined GRA-PRGT Exposure
(Preliminary)
Executive Board Meeting
September 9, 2020

We thank staff for the paper on Policy Safeguards for Countries Seeking Access to Fund Financial Support that would lead to High Levels of Combined PRGT-GRA Exposure.

We recognize that addressing this policy gap in the Fund's architecture is necessary both to protect the Fund's resources and to enable countries to benefit from those resources in an evenhanded manner. Prior to the COVID-19 crisis, the Board approved a series of proposals in the LIC Facilities Review to ensure that the Fund can adequately support LICs and promote the expanded use of blended concessional and non-concessional financing. As a starting point, we therefore underscore that policy safeguards should not undermine those objectives.

While policy safeguards must be fit-for-purpose over the long-term, we note that the policy will come into effect during an unprecedented global economic crisis and with an outlook that continues to be clouded with great uncertainty. In these exceptional times, it is particularly important to ensure that the Fund can provide adequate levels of financing to PRGT members to support strong UCT-quality programs, including blended arrangements during the stabilization and recovery phases of the COVID-19 crisis.

We would be ready to support the proposed policy safeguards, with the caveats described below, to strike the appropriate balance between safeguarding and providing access to the Fund's resources. Looking ahead, staff will need to be particularly careful on the implementation of this policy and we look forward to the Board discussion in the coming months on how this policy, amongst other Fund policies, is affecting low-income countries, as referred to in footnote 4 of the paper. In the meantime, we take note of Box 1. *Based on*

existing knowledge, could staff indicate how many members they anticipate being affected by the new policy over the coming months?

Regarding the criteria, we offer the following comments:

Criterion 2: For new programs, we support the flexible language – "36 months or within the program period, whichever is longer" - regarding the timeframe in which to bring the risk of debt distress down to moderate or low. For augmentations or re-phasing, criteria 2 will be challenging for countries that have a short remaining program period in which they would be required to bring the risk of debt distress to moderate or low levels. We note that this is particularly the case in the current environment, where the COVID-19 crisis will inevitably result in rising debt levels and aggravated debt vulnerabilities. We welcome the suggestions in footnote 16 for countries that have limited remaining durations on their programs but must reduce their risk of debt distress. We request that the text in this footnote is elevated into the main body of the document to ensure that it receives the visibility that it deserves; and we request that the text is clearly presented in the staff guidance note. We note that under current circumstances and if the crisis persists, programs with durations above 36 months may become more frequent and disbursements should be adequately timed, including to address more pressing BOP needs.

Criterion 4: We remain cautious on the addition of this criterion taken from the GRA framework, when no such criterion exists in the PRGT framework. We remain concerned that the interpretation of this criterion might unduly penalize countries with low institutional and political capacity to deliver adjustment plans, particularly countries in fragile situations and small states. It will therefore be critical to ensure that programs are sufficiently tailored to country conditions, including capacity to implement. For countries in fragile situations, this will also require consideration of the political economy. We request that the Board summing up underscores that this criterion should be used to give more Fund support and attention (in particular, through capacity development) to those countries facing challenges with insufficient capacity, rather than unduly restricting their access to needed financing.

Regarding criteria 1 and 3, we are content with the proposals and have no further comments.

Finally, we support the proposed procedural requirements outlined in Annex 1 and the proposal to grandfather Fund financing under existing arrangements that were approved prior to the adoption of this new safeguards policy.