October 6, 2022
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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 20/18-2

9:33 a.m., February 19, 2020

2. Eligibility to Use the Fund's Facilities for Concessional Financing, 2019

Documents: SM/20/27, and Sup. 1

Staff: Gust, FIN; Rosenberg, LEG; McGrew, SPR

Length: 48 minutes

Executive Board Attendance

M. Furusawa, Acting Chair

Executive Directors	Alternate Executive Directors
D. Mahlinza (AE)	
M. Raghani (AF)	
	B. Lischinsky (AG)
N. Ray (AP)	
	B. Saraiva (BR)
	Y. Liu (CC), Temporary
	P. Moreno (CE)
	A. McKiernan (CO)
	C. Just (EC)
A. Buisse (FF)	
R. von Kleist (GR)	
	P. Dhillon (IN), Temporary
D. Fanizza (IT)	
T. Tanaka (JA)	
	G. Nadali (MD), Temporary
H. Beblawi (MI)	
	R. Doornbosch (NE)
M. Poso (NO)	
	S. Potapov (RU), Temporary
	R. Alkhareif (SA)
	K. Tan (ST)
	P. Trabinski (SZ)
S. Riach (UK)	
M. Rosen (US)	

C. McDonald, Acting Secretary
H. Malothra, Summing Up Officer
A. Lalor / R. Smith Yee, Board Operations Officers
L. Nagy-Baker, Verbatim Reporting Officer

Also Present
Asia and Pacific Department: E. Kvintradze. Finance Department: G. Fernandez, C. Gust, K. Monasterski, H. Nguyen, N. Westelius. Legal Department: K. Kwak, Y. Liu, G. Otokwala, G. Rosenberg, J. Swanepoel, J. Swanepoel. Middle East and Central Asia Department: W. Gray. Strategy, Policy, and Review Department: K. Lee, W. McGrew, S. Nolan, A. Paret Onorato, K. Tokuoka, A. Weller. Executive Director: I. Mannathoko

(AE). Alternate Executive Director: A. Guerra (CE), W. Nakunyada (AE), R. N'Sonde (AF), M. Psalidopoulos (IT), D. Ronicle (UK), P. Rozan (FF), J. Sigurgeirsson (NO), F. Sylla (AF). Senior Advisors to Executive Directors: M. Choueiri (MI), A. Ekelund (NO), R. Farber (US), P. Harvan (EC), Z. Mahyuddin (ST), M. Maidi (AE), Z. Mohammed (BR), T. Nguema-Affane (AF), C. Sassanpour (MD), M. Sidi Bouna (AF), T. Sitima-wina (AE), L. Smith (CO), C. Wehrle (SZ). Advisors to Executive Directors: A. Abdullahi (AE), M. Albert (FF), M. Bangrim Kibassim (AF), E. Boukpessi (AF), K. Carvalho da Silveira (AF), T. Chrimes (UK), O. Diakite (AF), K. Florestal (BR), J. Garang (AE), H. Koh (GR), R. Lopes Varela (AF), A. Nainda (AE), L. Nankunda (AF), A. Olhaye (AF), T. Persico (IT), A. Ribeiro Mateus (IT), D. Susiandri (ST).

2. ELIGIBILITY TO USE THE FUND'S FACILITIES FOR CONCESSIONAL FINANCING, 2019

Mr. Beblawi, Mr. Bevilaqua, Mr. Bhalla, Mr. Buisse, Mr. Chodos, Mr. Fanizza, Ms. Levonian, Mr. Mahlinza, Mr. Mojarrad, Mr. Mozhin, Mr. Raghani, Mr. Ray, Ms. Riach, Mr. Doornbosch, Mr. Tan and Mr. Trabinski submitted the following joint statement:

We thank staff for the comprehensive report and efforts to integrate views and concerns expressed by Directors in meetings held last year.

We broadly support the thrust of this biennial review of PRGT eligibility and agree that the framework should continue to be transparent and rules-based while maintaining the self-sustained capacity of concessional resources. Specifically, we view the overall eligibility framework and proposed refinements as appropriately anchored on the key principles of transparency and uniformity; preserving the scarce PRGT resources for the poor and most vulnerable members; avoiding pre-mature graduation while ensuring that countries graduate at the right time; and maintaining close alignment with IDA best practices.

We agree that the market access criterion should be adjusted as proposed by staff with regular reviews to preserve scarce resources for the poorest and most vulnerable countries. We broadly agree that de minimis borrowing does not constitute durable and substantial access to international capital markets. We view the proposal for the quota-based 2 percent threshold for de minimis borrowing as appropriate, while noting that current quotas do not fully reflect economic realities. This criterion, together with the blending threshold should continue to ensure that the PRGT resources remain accessible to the low-income countries (LICs). Further, we agree that non-commercial borrowings outlined by staff, should be excluded from the definition of market access. We support in principle harmonizing of the market access criteria's definition for access to PRGT resources, with that for presumed blending, and exceptional access. That said, we urge staff to clearly indicate the exact impact of these changes on the list of presumed blenders and countries that qualify for exceptional access. Staff comments are welcome.

We note the importance of the data from the International Debt Statistics (IDS), as a primary information source, which simplifies data sourcing and ensures consistency. Nevertheless, we emphasize the need to carefully check the IDS data to avoid misclassifications and errors. In addition, the Dealogic database adjusted for coverage and classification errors, and information obtained directly from countries being assessed, should continue to play a complementary role in assessing the "could have tapped" principle. Further, we agree with staff on the need to maintain the current three out of five-year rule for market access but emphasize the need to follow the "could have tapped" principle in an evenhanded manner across the membership, taking country-specificities into account.

We welcome the proposed extension of the transition period for graduation to take account of: (i) on-going Fund programs and negotiations; and (ii) the need to develop new debt management strategies in graduating countries. This underlines the need for timely engagement and communication with the authorities, including well in advance of a potential graduation decision. Further, flexibility should be ensured for countries that may need a longer transition period. We encourage early engagement 2 or 3 years ahead as graduation threshold approach, and we view Article IV consultations and program reviews as providing an opportunity for this discussion.

We welcome the proposal to incorporate the effects of natural disasters, countries' institutional capacity to adopt policies to mitigate them, and a forward-looking approach in the assessment of short-term vulnerabilities. Furthermore, an in-depth analysis of other short-term vulnerabilities stemming from structural weaknesses, migrant and refugee flows, protracted conflicts and social unrest would also be key. We emphasize the need to ensure that the assessment of vulnerabilities yields consistent outcomes to avoid premature graduation. Given that the assessment of short-term vulnerabilities involves staff judgement, the development of staff guidance would be important to ensure evenhandedness. At the same time, we call for continued Fund engagement with countries experiencing elevated short-term vulnerabilities to enhance their chances of graduating in future reviews.

We support the proposed graduation of Guyana from the PRGT eligibility list. Economic prospects in Guyana are highly favorable with the commencement of oil production this year. However, like other small states, Guyana remains vulnerable to adverse external shocks and the effects of climate change and natural disasters. Moreover, poverty remains widespread, social needs are substantial, and administrative and institutional capacity have weaknesses. Looking ahead, the beginning of oil production, raises growth and income prospects. Nevertheless, the potentially debilitating risks associated with Dutch disease should be mitigated given the small size of the economy and the importance of strengthening non-oil sectors. We underline that Guyana is the first small state to graduate since the inception of the current eligibility framework in 2010. Despite idiosyncratic factors that will make any comparison difficult, Guyana offers an opportunity to monitor the consequences of graduation from PRGT on other concessional financing sources (both multilateral and bilateral).

Mr. Moreno and Mr. Tabora Munoz submitted the following statement:

We thank staff for a comprehensive report on the 2019 review of eligibility to use the Fund's facilities for concessional financing. We take this opportunity to recognize SPR Staff for taking into consideration our concerns on the methodological inconsistencies behind the eligibility framework, which were leading to a premature graduation of one member of our constituency.

We welcome the proposal for methodological refinements to improve the eligibility framework of the existing Poverty Reduction and Growth Trust (PRGT) to make it more transparent and ensure uniformity of treatment across members. The framework should be rules-based to preserve the Fund's scarce concessional resources and maintain PRGT lending self-sustainable and closely aligned with IDA best practices. We agree that the current framework remains appropriate, especially with the inclusion of the forward-looking approach to assess short-term vulnerabilities to minimize the risk of premature graduation and the potential for subsequent reversal.

We take note that the changes proposed in the PRGT's eligibility framework will not affect its self-sustainability. However, considering the list of countries assessed to be eligible for PRGT graduation and entry in the next eligibility review, we strongly recommend an early consultation with the authorities of those countries to facilitate debt management adjustment and to prevent any unforeseen or undesirable consequences.

We support the proposal to use the "share of quota" as a better metric for market access criterion, despite that quotas do not fully capture the openness and variability of market access. Notwithstanding, we still consider the de minimis threshold of 2 percent of quota in a given year too low as criterion to assess how durable and substantial access to the international financial markets a country may have. We agree with staff on maintaining the current three-out-of-five-year rule for market access. Furthermore, we emphasize our concern regarding systematically using the "could have tapped" analysis to meet the market access criterion. We want to reiterate the importance of having a forward looking "country-specific" risk assessment in addition to comprehensive short-term vulnerabilities assessment, including governance and political economy considerations, as well as vulnerability to natural disasters, among others, to determine appropriateness of any graduation recommendation.

We concur that using one primary data source to assess market access will simplify data provision, ensure data accuracy and enhance evenhandedness. In that sense, we support the use of the IDS Database as the main source to assess market access and the use of "Dealogic", together with other relevant data, when assessing short-term vulnerabilities to take advantage of its continuous update. Nonetheless, we highlight the importance to carefully check the integrity and accuracy of the IDS data to avoid errors and/or misclassifications.

We support the proposed clarifications on commercial vs non-commercial borrowing, as well as applying extra scrutiny to market access data in consultation with country authorities to identify and exclude inconsistencies. Further, we agree with the exclusion of subsidized loans or bonds, or those guaranteed (partially or fully) by an official entity from the definition of commercial borrowing for PRGT eligibility purposes, since these do not constitute borrowing contracted in markets integrated with broader international markets. Likewise, loans from foreign state-owned banks and borrowing from public corporations without sovereign guarantees should not qualify to determine sovereign market access.

We concur with staff's recommendation to harmonize the market access eligibility criterion with the market access criteria under PRGT, blending exceptional access policies as well as maintaining the FCL/PLL qualification criteria. We are pleased with the extension of the transition period to five months to support an appropriate and timely consultation process with the authorities of countries with the most likelihood to meet the PRGT graduation criteria.

We support the Staff recommendation for Guyana's graduation from the list of eligible countries for the Fund's facilities for concessional financing. We take note that this recommendation has not material implications on the overall annual average demand for IMF concessional resources for 2019-2028, as was stated in the previous medium-term estimation.

Mr. Tanaka, Mr. Harada and Ms. Mori submitted the following statement:

We thank staff for the informative report on the eligibility to use the Fund's facilities for concessional financing and outreach to our office. A robust framework with clear criteria is important to ensure self-sustainability of PRGT framework while allocating scarce resources to the poorest and most vulnerable countries. Therefore, we welcome the review of the PRGT eligibility framework and would like to make the flowing comments.

Review of the framework

We agree with staff that the existing framework remains broadly appropriate, but some methodological refinements are warranted. We take note staff's assessment that the current PRGT eligibility framework is broadly aligned with the World Bank's International Development Association practices and none of the countries are at immediate risk of reverse graduation.

We support the proposed modifications for assessing the market criterion including establishment of a de minimis threshold and use of IDS data for the most recent five years as well as the application of the modifications to the PRGT's blending and exceptional access frameworks. We welcome that the framework remains flexible to allow a positive assessment of market access if there is convincing evidence that the sovereign could have tapped international markets on a durable and substantial basis. From the viewpoint of transparency and clarity of the framework, we also appreciate that staff show factors in conducting a case-specific assessment.

Although we do not oppose the proposed definition of commercial borrowing, we encourage staff to continue seeking the possibility of more granular approach for loan classification going forward. On the loans from foreign state-owned banks, as staff pointed out, there are some cases made on commercial basis. While we note the staff's view on practical difficulties in making a case-by-case determination of commercial nature of such loans, we see merit in seeking possible granular approach based on the nature of loans, considering the necessity to use the scarce PRGT resource for most needed. In this regard, we wonder whether the debt information staff received from the authorities to conduct DSA or other related analysis is sufficient to make case-by-case determination, especially in case of program ongoing countries where staff are expected to receive detailed debt information. What is the lacking information or difficulties to make case-by-case determinations? Staff comments are welcome.

We can go along with the proposed small extension of transition period given the record of period necessary to conclude ongoing program discussion. That being said, it is critically important that communication between relevant parties on graduation should commence at the earliest stage. In this sense, we welcome that staff will begin consultation process with authorities once graduation becomes likely in the next two to three years.

Assessment of the Graduation

We support the staff's proposal to graduate Guyana given that it meets the income graduation criterion and does not have serious short-term vulnerabilities. We commend the robust macroeconomic situation and positively take note the expected growth of per capita GNI supported by the commencement of oil production in 2020.

We encourage staff and authorities to continue necessary engagement toward PRGT graduation. On the two countries (Cote d'Ivoire and Kenya) that are assessed to be well-positioned to graduate at the next review, we encourage the authorities and staff to keep consultation for the preparation of PRGT graduation including possible adjustment of debt management strategies. We note that among the 12 countries that meet income and/or market access criterion, 9 countries are not proposed to graduate due to the assessment of at high risk of debt distress or in debt distress. We expect authorities' efforts and the Fund's support through policy advice and TAs to reduce debt vulnerability of these countries.

Mr. Poso and Ms. Ekelund submitted the following statement:

We welcome the review of eligibility to use the Fund's facilities for concessional financing and thank staff for the thorough paper. We continue to endorse a transparent and rules-based PRGT eligibility framework that ensures evenhanded treatment, targets scarce concessional resources for the poorest and most vulnerable, and is closely aligned with IDA practices. Self-sustained lending capacity of the PRGT is a prerequisite for continued concessional support to those countries. We agree that the existing framework remains broadly appropriate but will be further strengthened with the proposed modifications and clarifications which we support overall.

The changes to the assessment of market access are appropriate to address the methodological issues detected during last year's preparatory work. Introducing a "de minimis" threshold for the metric of market access in a given year helps to ensure that trivial transactions are excluded from the assessment. The threshold of 2 percent of quota seems appropriate for the purpose. We accept the rationale for relying only on World Bank IDS data for market access assessment to safeguard data accuracy, comprehensiveness of coverage, and evenhandedness among members. We welcome that the timelier Dealogic data and market-based indicators will be used to inform assessment of "could have tapped" market access and analysis of short-term vulnerabilities.

We acknowledge the suggested clarification to the definition of commercial borrowing which would exclude loans or bonds subsidized or guaranteed by an official external entity and loans from foreign state-owned banks. We also note the suggestion that borrowing by public corporations would be excluded from the sovereign market access criterion when it can be judged to be based on the corporation's own balance sheet and without a sovereign guarantee. Such exclusion requires access to sufficient data on debt (including on asset collateralization) of public corporations, and an analysis of contingent liabilities. Given the potential risk of misclassifications, extra scrutiny of data and discussions with the country authorities are warranted for countries considered to approach graduation or where these sources of borrowing constitute a large part of external public sector borrowing. Could staff elaborate on what the practical difficulties are for making a case-by-case judgment in such situations?

We support the proposal to align the methodology of market access in the three PRGT frameworks and policies (eligibility, blending, and exceptional access). Discussions about FCL/PLL qualification criteria are not warranted as a part of this review but should rather be considered in the quinquennial review of the FCL and PLL planned for 2022.

While we welcome considerations of a more forward-looking approach in the assessment of serious short-term vulnerabilities (SSTV), income and market access should remain the main criteria for graduation. There seems to be a broad variety of factors that could be considered in the SSTV assessments, and thus hinder graduation, with examples including a possible delay in fiscal consolidation and upcoming elections. It is important that staff analysis is robust and based on well-reasoned judgement and that uniformity of treatment of PRGT countries is ensured. Could Staff elaborate further on what factors could be included in such assessments? For some countries, vulnerability to natural disasters and climate risks could be particularly relevant risk factors for future income development or market access. Could staff give further information of how short-term vulnerability to natural disasters or climate risks might be assessed in future evaluations?

The proposed extension of the transition period from 3 to 5 months for the effectiveness of graduation decisions can be supported. This would give a bit more time to conclude discussions and Board decisions for a request of new PRGT financing or support under the Policy Support Instrument.

We support the staff proposal to graduate Guyana from the PRGT eligibility list. This should be considered as a welcome development for Guyana and a positive signal about the progress made in improving the country's income levels and the favorable economic outlook going forward. We note that no other country of the 12 members meeting the income and/or market access criteria are proposed for graduation due to staff assessment of serious short-term vulnerabilities and in 8 cases risk of debt distress. However, Cote d'Ivoire and Kenya are considered to be well-positioned to graduate at the next eligibility review should the current significant risk factors abate. We encourage staff to be in close contact with the relevant country authorities well in advance of potential graduation.

Finally, we welcome that the proposed changes in the PRGT eligibility framework and the graduation of Guyana are assessed to be consistent with the self-sustained lending capacity of the PRGT given that their impact is expected to be small. However, in a “high case scenario” of projections, demand exceeds the capacity of PRGT resources, which indicates a necessity of a sufficiently prudent approach, as to preserve the resources for the economies in most need of concessional IMF funding.

Mr. Sun and Ms. Cai submitted the following statement:

We welcome the opportunity to review the eligibility to use the Fund's facilities for concessional financing and thank staff for the informative report. It is very important for the eligibility framework to remain rules-based and transparent, while taking county-specific circumstances into account to the extent possible. We broadly agree with staff's proposal to fine tune the current framework and encourage staff to take a timely assessment of the experiences gained from its implementation at the time of the next review.

Enhancing the eligibility framework is helpful to better target PRGT resources towards the poorest and most-vulnerable members, which could play a catalytic role to help these countries mobilize external and domestic finance. It is important that the Fund's PRGT eligibility and graduation policy remain generally aligned with practices of the International Development Association (IDA), while ensuring consistency with the principles of self-sustainability of the PRGT resources. Meanwhile, a flexible approach to graduation by relying on careful case-by-case evaluation of a country's condition remains essential.

Regarding the refinements of the framework, we have the following comments:

Assessing market access. We welcome staff's clarification on the definition of commercial borrowing. We understand that it would be difficult for staff to determine whether loans provided by foreign state-owned banks are commercial in nature on a case-by-case basis. We nevertheless encourage staff to explore additional avenues to enhance information collection and improve data quality. We take note that the identification and exclusion of subsidized and guaranteed borrowing rely mainly on staff's consultation with country authorities. It is critical to ensure uniformity of treatment among members in similar circumstances. More technical assistance could be provided to counties to enhance their debt management and statistics capacity where needed.

Serious short-term vulnerabilities. We see merit in further clarifying the conditions under which the presence of serious short-term vulnerabilities justifies non-graduation of countries that meet the income or market graduation criterion. Assessment needs to be forward-looking and prudent, taking full consideration of vulnerabilities the candidates face, including economic and political uncertainties. Enhancing engagement with authorities to learn their views is also essential. We take positive note that past natural disasters will also be considered when the assessment is made and encourage staff to strengthen collaboration with the World Bank in this aspect to improve assessment accuracy.

Transitional provision. We welcome the extension of the transition period to five months as well as the early consultation between staff and the authorities of countries potentially eligible for graduation. In this regard, we encourage staff to reflect more relevant discussions in the Article IV or program review reports, where appropriate. A comprehensive communication strategy is needed to send a positive signal a regarding country's graduation from the PRGT list. Could staff provide an update on the work to enhance communication regarding graduation?

We note that out of 12 countries that meet either the income or market access graduation criterion, or both, only Guyana is proposed for graduation as others face serious short-term vulnerabilities and their income does not exceed the income graduation threshold by a large margin. Going forward, it is critical for these countries to step up and take necessary policy actions to address the remaining vulnerabilities. We are assured by staff's assessment that the modifications to the PRGT eligibility framework and the proposed country graduations are in line with the self-sustainability of the PRGT and projected onward demand. Staff's comments on their projections regarding countries' entry and graduation over the next decade are welcome.

Finally, given the uncertainties the global economy is facing, graduation could have serious implications for the financing conditions of the graduating countries. In this regard, it is important that other Fund instruments remain accessible and better-tailored after the country's graduation to ensure a smooth transition and minimize incentives against graduation.

Mr. Rosen, Ms. Pollard and Ms. Crane submitted the following statement:

We thank staff for the paper and for the bilateral engagement. We concur with the proposed adjustments to the PRGT eligibility framework and with the proposed graduation of Guyana from PRGT eligibility. We would like to highlight several points, for emphasis.

The PRGT eligibility framework, centered around income, market access and short-term vulnerabilities, remains sound. We agree that the proposed methodological updates regarding information sources and definitions, along with a longer transition period and earlier engagement with authorities, will strengthen implementation of the eligibility framework. We appreciate that, while the comprehensive IDS database will become the source for market access information, more timely information from Dealogic will be used when assessing short-term vulnerabilities and the "could have tapped" standard.

We welcome Guyana's graduation from PRGT eligibility, in light of highly positive developments with GNI per capita. We encourage the authorities to make use of IMF technical assistance and policy advice as they navigate the upcoming challenges of creating a sound fiscal framework for rapidly rising natural resource revenues. The additional time afforded the authorities due to the delay in the Eligibility Review has contributed to the authorities' positive view of PRGT graduation. This affirms the usefulness of a slightly longer transition period, and underscores the importance of early engagement with potential PRGT graduates. We encourage staff to frame the public announcement of Guyana's graduation in a suitably positive manner.

We appreciate that the paper identifies Cote d'Ivoire, Kenya and Senegal as potential candidates for PRGT graduation in the coming years, depending on developments that impact on these countries' short-term vulnerabilities. Can staff please comment on what kind of outreach IMF country teams have made to the authorities in these countries to begin a conversation on future graduation from PRGT eligibility (and particularly for Cote d'Ivoire and Kenya which were already identified back in June 2019)?

Mr. Mouminah, Mr. Alkhareif and Mr. Keshava submitted the following statement:

We thank staff for the comprehensive paper on the review of PRGT eligibility and support the proposed decisions. Indeed, the paper addresses the issues that emerged during last year's discussions and proposes appropriate refinements to the existing framework. The biennial review of PRGT eligibility is an important undertaking to help target the Fund's scarce concessional resources to low-income countries that are most in need and for maintaining the self-sustainability of the PRGT lending.

We welcome that the review continues to be guided by a transparent and rules-based framework, which ensures uniformity of treatment among members. Here, it is encouraging to note that none of the twelve countries that graduated from the PRGT-eligibility list since the adoption of the framework in 2010 seems to be at risk of re-entering it. Notably, all twelve countries have accessed international financial markets at least once since their graduation. We are also reassured that the lists of IDA- and PRGT-eligible countries generally remain well aligned, with differences in only six cases as of November 2019. In this context, paragraph 6 provides a clear explanation for the small divergence in the two lists.

The proposed modifications are steps in the right direction.

We agree that the exclusion of de minis and subsidized or guaranteed borrowing should strengthen the integrity of the market access assessment.

We see merit in using the World Bank's International Debt Statistics (IDS) as primary data source to assess past market access. Indeed, this will simplify data sourcing, improve data accuracy, and enhance evenhandedness. Although IDS data are sourced from borrowers, are there plans to cross-check them with the authorities especially for the countries well-positioned to graduate?

To assess whether a county "could have tapped" markets to meet the market access criterion, we support a case-specific approach. At the same time, it will be important to closely consult with the authorities on this issue and reflect their views in the Board paper if they differ from the staff's assessment.

On the PRGT's blending and exceptional access frameworks, it seems logical to adopt the same modified market access criterion for assessment. Here, we are reassured to note that the impact is expected to be minimal.

We agree with the proposed increase in the transition period for effectiveness of graduation decisions as well as the planned early consultations with the authorities of countries that are close to meeting the graduation criteria at the time of Article IV and/or program reviews.

Finally, we support the proposal for graduation of Guyana from the PRGT-eligibility list due to its meeting income graduation criterion as well as the absence of serious short-term vulnerabilities. We take positive note that at least two countries seem to be well-positioned to graduate at the next eligibility review. Given the delay in concluding this review, we were wondering about the timeline for the next review.

Mr. Kaya, Mr. Just and Mr. Harvan submitted the following statement:

We thank staff for the comprehensive report. We consider the current framework broadly appropriate and can go along with the proposed modifications and clarifications, as well as their extension to blending and exceptional access. The concessional financing should continue to be guided by the principles of transparency and uniformity, while preserving the scarce resources for most in-need low-income countries on a sustainable basis.

We broadly agree with the proposals on the market access criterion. The application of a de minimis rule is sensible as is the use of one primary database. We stress that the comprehensiveness of the underlying data – sovereign and non-sovereign – is critical for an informed judgement on market access. We equally stress that without solid institutional underpinnings such as adequate debt management capacities, the three-out-of-five-year threshold only may give a false sense of durability in a low-for-long environment.

We highly welcome that climate vulnerability may guide the short-term risk assessment going forward. This, however, should be done systematically for the entire set of countries. We ask staff to exercise caution when assessing the vulnerability to domestic civil unrest, as evenhandedness will be very difficult to meet. We welcome greater flexibility on the transition period in the case of ongoing program discussions. We call on staff to engage early on with and involve the authorities that may be proposed for graduation to manage the transition smoothly.

We positively note that until now, no decision to graduate a member had to be reversed. We share staff's assessment that four countries fulfill the income and/or market-access criteria, but to propose only one country for graduation due to the absence of serious short-term vulnerabilities.

We agree with the proposed decision to graduate Guyana and wish the authorities success.

Mr. von Kleist and Mr. Braeuer submitted the following statement:

We welcome the review of PRGT eligibility and fully support the transparent, universally applicable, rules-based, and parsimonious framework. We support the proposed decisions to amend the framework to determine PRGT eligibility and to graduate Guyana from the list of PRGT eligible countries. In applying the PRGT eligibility framework, the Fund should err on the side of caution and prudently consider a potential graduate candidate's capacity to repay the Fund as well as its ability to service its obligations to the Fund on non-concessional terms following graduation. Crucially, the Fund should be mindful of the risk of untimely, premature graduation, also with a view to safeguarding its general resources.

Furthermore, we would like to underscore the close link of the graduation framework to the PRGT's objectives, as opposed to the objectives of instruments financed from the Fund's general resources. This closely relates to the underlying nature of potential balance of payments needs of countries considered for graduation (development related needs versus temporary liquidity needs), calling for a conservative application of the framework.

Against this backdrop, we would like to seek clarification on staff's characterization of the link between PRGT eligibility and the self-sustainability of the PRGT's lending capacity in the Executive Summary, where staff notes that the "application of the framework should be consistent with the self-sustainability of the PRGT's lending capacity over time." While this wording is not new, it does leave room for unwarranted ambiguity, potentially suggesting that graduation represents a discretionary tool to be used to restore PRGT self-sustainability in the face of demand-increasing measures, such as an increase in access above the levels foreseen under a prudent application of the framework. Such an interpretation of the graduation policy – similar to easing of blending rules in the context of last year's LIC Facilities Review – would not receive our support. Staff comments are welcome.

We endorse the proposed modifications in assessing the market access criterion, including the introduction of the de minimis threshold and the use of IDS data, as well as the proposal concerning the differentiation between commercial and non-commercial borrowing. The adjustments improve the preciseness of the indicator of a sustainable and durable market access and leave less room for ambiguity and possibly misinformed eligibility assessments. This also applies to the "could have tapped" criteria. However, we would advocate for an even more precise definition and benchmarking of the criteria, in order to streamline the assessment further and strengthen the comparability of assessments. Could staff please elaborate further on the usage of the "could have tapped" criteria for PRGT blending and exceptional access eligibility?

The remaining space for expert judgement in addition to quantitative indicators when evaluating short-term vulnerabilities is warranted. This leaves room to incorporate less measurable and future developments, and ensures the flexibility necessary to sustain a cautious approach to the application of the eligibility framework and to avoid premature graduations.

We do not see the need for a prolonged transitional period in light of the enhanced framework and the proposed intensified communication with potentially graduating countries well in advance of their eventual graduation. Consistent with the rules-based eligibility framework, a country that has been accepted by the Board after careful examination as a graduate from the list of PRGT-eligible countries should not be entitled to further concessional financing for a prolonged period but should focus on future-oriented financing options. An accompanying Fund communication, presenting the graduation as a sign of strength could be supportive in this matter. Accordingly, graduating and entering into a new PRGT-supported program should actually be mutually exclusive. Thus, we remain unconvinced by the proposal to extend the transitional period.

Finally, we go along with the proposal that Guyana should graduate from the list of countries eligible to use the Fund's facilities for concessional financing.

The Acting Chair (Mr. Furusawa) made the following statement:

I turn to today's agenda item, Eligibility to Use the Fund Facilities for Concessional Financing, 2019. As you may recall the formal Board discussion of the 2019 PRGT Eligibility Review set for end-May last year was postponed after the investigation of some data errors in the original staff paper. The review highlighted weaknesses in the methodology being used to assess and quantify the scale and duration of the countries' access to international financial markets. The staff presented their initial thinking on how to correct for these weaknesses, along with other suggestions on how to sharpen the framework for assessing Poverty Reduction and Growth Trust (PRGT) eligibility, at the informal Board session on November 1 of last year.

The staff paper for today's discussion is informed by the feedback received from Directors at that Board meeting. The paper proposes several refinements to the methodology for assessing market access. These changes will not have a significant impact on the pace of graduation or the PRGT self-sustainability, and will strengthen the rules-based framework and improve evenhandedness.

The paper also provides clarification on how serious shocks and vulnerabilities are assessed. As called for by Directors, it underscores the importance of close communication between the staff and the authorities of countries that may be prospective candidates for graduation. The communication should begin well in advance of the regular eligibility reviews.

We are proposing one country for graduation from PRGT eligibility, Guyana. Graduation is a positive and a welcome step for Guyana, signaling its sustained progress in achieving higher levels of income. So with that, let me invite staff to make brief remarks on key issues.

The staff representative from the Strategy, Policy, and Review Department (Mr. McGrew), in response to questions and comments from Executive Directors, made the following statement: [1]

Many chairs stressed the need to consult early with the authorities of countries that may be candidates for graduation in the next two to three years. We have internalized this, and we have identified countries that may be candidates and have reached out to country teams to ensure that they discuss with the authorities graduation prospects well in advance of actual potential graduation. This consultation will be a regular part of the eligibility review process going forward.

[1] Prior to the Board meeting, SEC circulated the staff's additional responses by email. For information, these are included in an annex to these minutes.

In addition, for countries that have met the market access criteria and were not disqualified from graduation on the basis of high-risk of debt distress, we look very carefully, we work with country teams; they reviewed the data; they spoke with the country authorities, and so all the data for those countries has been validated, and that practice will be a regular part of the review going forward.

The staff representative from the Finance Department (Ms. Gust), in response to questions and comments from Executive Directors, made the following statement:

There was one question about clarification on the link between PRGT eligibility and self-sustainability of the PRGT's lending capacity. Let me say a few words about that.

As noted at the 2018-19 LIC Facilities Review, staff explicitly take expected graduation into account when assessing PRGT self-sustainability. Staff's demand estimates include assumptions about countries' rising income levels that affect the use of blending resources for the PRGT and the GRA and also eventual graduation from PRGT eligibility.

The demand model for PRGT resources has also been refined in the context of last year's LIC Facilities Review to match the timing of countries moving to graduation more in line with the historical experience. Demand projections are not very sensitive to graduation assumptions. For instance, there are only limited savings from more rapid graduation, for instance, due to market access, as graduations mostly involve countries that use blended arrangements with two-thirds of financing already coming from the GRA.

While small differences in the timing of graduation of countries do not have large effects on the PRGT's self-sustainability, what would make a big difference is if countries never moved to blending and graduation. In the context of the eligibility reviews, staff provides an assessment of the impact of the proposed changes on the financial self-sustainability of the PRGT. As noted in the Board paper for this session, the proposals in this review are consistent with the PRGT's self-sustained annual lending capacity of SDR 1.25 billion.

As part of the three-pillar strategy for the PRGT self-sustained financing framework, contingent measures can be put in place when average financing needs exceed the base envelope by a substantial margin for an extended period of time. If the Executive Board considers that the self-sustaining capacity will decline substantially below the base envelope of SDR 1.25 billion, it could decide to activate a range of contingent measures. These include modifications of access, blending, interest rate, and eligibility policies to reduce the need for subsidy resources. In such a scenario, staff would come to the Board with a range of options to activate such contingent measures.

Mr. Mahlinza made the following statement:

I also want to thank staff for their extensive outreach and discussions with our offices, and we agree that the framework should continue to be transparent and rules-based. We issued a joint gray with 15 other Directors in which we broadly concur with staff proposals and provide the following comments for emphasis.

First, we support the proposed refinements and clarifications and underscore the need to ensure that concessional resources are preserved for the most vulnerable and poorest members. At the same time, we agree that de minimis borrowing does not constitute durable and substantial market access.

Looking ahead, the alignment of quotas with economic realities will be important to enhance the relevance of the quota-based 2 percent threshold for de minimis borrowing. We also view the harmonization of a definition of market access criteria under PRGT's blending and exceptional access frameworks with the market access criteria in the eligibility framework as important to ensure consistent application of the needed concepts.

We support the proposal for reliance on International Debt Statistics (IDS) as a primary information source. We also agree that the timeliness of the Dealogic data enhances its usefulness in assessment of serious short-term vulnerabilities and the "could have tapped" principle. On the "could have tapped" principle, we want to underscore the need to apply this principle in an evenhanded manner while considering country-specific factors.

We also welcome the proposed extension of the transition period for graduation. This remains important to take account of ongoing Fund programs and negotiations and the need to develop new debt management strategies in graduating countries. Nonetheless, we reiterate the need for effective and timely consultation and communication with countries well ahead of their graduation.

Finally, we welcome the broadening of factors considered for short-term vulnerability and the forward-looking aspects of this assessment. For countries vulnerable to natural disasters and climate change, we want to emphasize that past events may not fully capture future risks given the frequency and severity of weather-related events. We therefore agree that external assessment of climate vulnerability may be useful in informing staff's judgment.

Mr. Fachada made the following statement:

First, let me associate myself with the general comments that Mr. Mahlinza has just made. I would also like to add that we are very pleased that this discussion will finally be concluded in a positive manner. We support the improvements in the eligibility framework and the graduation of Guyana. We are glad that the case of Guyana was helpful to call attention to the importance of early engagement with the authorities of graduating countries and the need to rethink the transition period. As my chair has stressed in the past, graduation can have externalities in terms of debt management strategies that are not obvious. In the specific case of Guyana, graduation also had consequences in terms of addressing debt legacy issues that required time and effort to be completed. That said, I would like to reiterate again that for Guyana, this discussion was never about access to IMF resources but rather the signaling effect that the graduation decision could trigger to the public, both domestic and external.

At this point I just wanted to reassure Executive Directors that Guyana is prepared for graduation, and the risks of reversal are minimal. Economic prospects are positive, led by the beginning of oil production and expected broad-based expansion across all major sectors of the economy. That said, oil can be a curse on poor countries, as many cases illustrate. However, the authorities have been working tirelessly with IMF assistance to improve the fiscal framework, address governance concerns, and mitigate risks of Dutch disease. They continue to count on the Fund's technical support and policy engagement to help them navigate the new economic reality. I will stop here. Once again, I would like to offer my sincere appreciation to staff, management, and colleagues for their support.

Mr. Nadali made the following statement:

One, access as a share of quota remains an appropriate metric for the market access criterion and the de minimis threshold, provided that quotas reflect economic realities. We look forward to the 16th General Review of Quotas to increase the quota share of the EMDCs while protecting the voice and representation of the low-income countries (LICs).

Two, notwithstanding its incomplete coverage of bilateral bank loans, we agree that Dealogic data could be used to complement World Bank international data statistics when assessing short-term vulnerabilities and applying the "could have tapped" rule subject to staff's close consultation and appropriate data crosschecking with the national authorities.

Three, we endorse early engagement through the Article IV or the program reviews between the staff and the authorities potentially eligible for graduation. I look forward to annual updates to changes of GNI per capita and market access for PRGT-eligible countries. To allow more time to conclude program discussions and for external communication purposes, we prefer extending the deferred effectiveness of graduation decision from three months to six months, rather than five as suggested by staff.

Four, we are pleased to note that no new member is about to enter the PRGT list and that none of the 12 graduate countries since 2010 is currently at significant risk of reverse graduation. We support Guyana's graduation as the thirteenth member leaving the list and take positive note that three more candidates are well positioned to graduate at the next eligibility review.

Mr. Poso made the following statement:

Let me start by congratulating Guyana for graduating from the PRGT eligibility list. This should be considered as a positive step and a signal about the progress made and the outlook going forward. We note that several countries are well positioned to graduate at the next eligibility review. I welcome the additional information provided by Mr. McGrew on encouraging close contact between the Fund and the relevant country authorities well in advance to prepare for these potential graduations.

We see the rationale for relying only on World Bank IDS data for market access assessments in order to safeguard data accuracy and evenhandedness among members. However, we also very much welcome that the timelier Dealogic data will be used to inform assessment of "could have tapped" market access and analysis of short-term vulnerabilities.

Finally, we welcome that the proposed changes in the PRGT eligibility framework and the graduation of Guyana are assessed to preserve the self-sustained lending capacity of the PRGT. However, we note that in so-called high case scenario, demand exceeds the capacity of PRGT resources. This possible shortfall emphasizes a prudent approach when assessing short-term vulnerabilities to preserve resources for the economies in most need of concessional IMF funding. Thank you.

Mr. Just made the following statement:

We support the proposed modifications and clarifications as the graduation decision will overall be strengthened. Like Mr. Von Kleist and Mr. Braeuer, we would not be able to support if the self-sustainability of the PRGT would enter into the decision considerations, and here we thank staff for the clarifications.

Like Mr. Tanaka and Mr. Poso, we would see more granularity in assessing commercial loans, or the borrowing by public corporations, as beneficial and hope that this will be addressed in work when enhancing data-reporting requirements. We appreciate that the judgment used by staff on short-term vulnerabilities will bring forth a more cautious approach on graduation decisions; and while we fully support that natural disasters and weather-related shocks should be taken into account, we find it odd to characterize climate change as a short-term vulnerability. We would also like to congratulate the Guyanese authorities on their graduation.

Mr. Tanaka made the following statement:

We broadly support the proposed modifications and clarifications. Nevertheless, we would like to touch upon the definition of the commercial and noncommercial borrowing, as we are not fully convinced on this point, and as Mr. Just right now clarified this point.

We appreciate staff for responding to our question on the practical difficulties in making a case-by-case determination of commercial nature of loans from foreign state-owned banks. As staff said, there are cases where the loan term is non-concessional but influenced by public policy considerations of state-owned bank (SOB) and not purely commercial lending. At the same time, there may be cases where SOB loans are purely commercial basis without any public policy considerations. Since we do not have any information about the share or volume on the SOB lending loans in the PRGT-eligible countries, we are not sure of the impact of this loan; but if there is a country which heavily relies on SOB loans, it may be worth considering and scrutinizing the nature of the loan, especially project financing-type lending is at least a mixture of commercial and concessional aspect to some degree.

We think to continue subsidizing such countries by using scarce PRGT resources is not appropriate if the nature of the loan was commercial. We expect staff to continue considering this issue.

Ms. McKiernan made the following statement:

First, we are happy to see staff's improvement in the parameters surrounding assessing the short-term vulnerabilities, particularly the specific reference to climate change susceptibility. We are also very pleased with the decision to use both historical and forward-looking indicators when the assessment is made. We welcome staff's further refinement of the guidelines and additional work in identifying a credible suite of reputable and reliable indicators and indices to guide the use of judgment going forward.

Second, on the transition period for graduation, we believe that timing and communications are the critical elements here. In particular, authorities must have sufficient time to make the necessary adjustments to their fiscal and debt management frameworks. Therefore, we support the extension of the transition period, as well as staff's commitment to beginning the consultation process with authorities several years prior to graduation, and I appreciate your remarks at the outset on beginning the consultation period.

We also agree with Mr. Moreno and Mr. Tabora Munoz and others who emphasize the importance of early engagement with authorities, as well as Mr. Sun and Ms. Cai, who suggest the development of an enhanced communications approach that sends a positive signal to countries regarding graduation. We also think it is imperative that staff be available to provide technical support to authorities to navigate the transition effectively should that be needed. Thank you.

Mr. Trabinski made the following statement:

First, like Mr. Poso, we welcome that the proposed changes to the PRGT eligibility framework are assessed to be in line with the self-sustaining capacity of the PRGT. We believe that the refinements can help strengthen the transparent and rules-based character of the PRGT eligibility framework without negatively impacting its self-sustaining capacity.

Second, we agree with the proposals to refine the measurement of market access for purposes of graduation, including the de minimis threshold and the use of IDS data. Like Mr. Just, we also agree to the clarifications made to the definition of commercial borrowing.

On a more general note, it is also important that the Fund continue to work on transparent reporting of debt to better estimate the magnitude of the hidden debt in the composition of low-income countries' debt portfolio.

Third, the clarification on how short-term vulnerabilities are assessed is helpful. We agree that such an assessment requires a finding of the absence of risk related to a sharp decline in income or loss of market access, as well as limited debt vulnerabilities, as indicated by the latest DSA. In our view, it is particularly advisable to include the frequency and magnitude of past natural disasters in the assessment of risks. Furthermore, aligning the market access criteria with other market access concepts under the PRGT framework appears sensible. This alignment will ensure greater homogeneity of the methodology and rules, while careful monitoring of the impact of this change on new financing requests under the PRGT blending and exceptional access policies will be still crucial.

Finally, like other Directors, we agree with staff's proposal to graduate Guyana from the list of eligible countries. We agree that the 12 countries eligible for PRGT graduation are not yet ready for graduation given their high-risk of debt distress and serious short-term vulnerabilities.

Mr. Tan made the following statement:

We also join other Directors in thanking staff for your effort in continuing to strengthen the PRGT eligibility framework. The current framework has done a fairly good job, as evidenced in the track record since 2010, and we see the proposed refinements and clarifications as another step in the same direction. We issued a joint gray with 15 other Directors supporting the overall thrust of this latest review, and we would just highlight three comments for clarity.

Firstly, a transparent and rules-based framework is a precondition for ensuring evenhandedness among member countries, and we agree with the latest review for keeping this principle in place. At the same time, we would caution that we should not mistake uniformity of treatment to equate removing of all judgment as an end in itself. As well as the Fund has done to date in incorporating experiences gained every two years into the framework, we should not place ourselves in a straitjacket as a result and leave no room for taking country specificities into account, especially as we have seen how new challenges can evolve over time and often in gray areas such as in assessing market access. So implied in the new framework, sound judgment borne of on-the-ground perspective, will always remain crucial in augmenting our policy decisions, even as they remain guided by the rules-based framework.

That brings me to our second comment on the significance of close engagement with country authorities in collaboration with other institutions, such as the World Bank, not just in terms of communication and coordination in the lead-up to a potential graduation decision, but also importantly in ensuring that, one, the application of the framework itself remains prudent and supports durable graduations at the right time, which is a point raised by many Directors in their grays; and, two, that the use of expert judgment when warranted, such as in the forward-looking assessment of shocks and vulnerabilities, will grow in form and comparable in practice; and, three, that the biannual review to adapt the framework to new developments and lessons will continue to draw on well-grounded and real-life country insights.

Lastly, like Ms. McKiernan, we would also like to echo the comments by Mr. Rosen and Mr. Sun in their grays in framing the public announcement of the graduation of Guyana and others in the future in a suitably positive manner, especially given Mr. Fachada's comments that Guyana's graduation serves more to have a smoothing effect.

While we appreciate staff's response that continuous monitoring and consultation should help to avert any surprises, we see merit in giving a bit more thought on the communications strategy, which could help minimize incentives against graduation, and reflecting how useful it would be to provide more guidance on this issue more explicitly in the framework for the next biannual review.

Mr. Von Kleist made the following statement:

As we have expressed in our gray, we support the proposed decision to amend the framework to determine PRGT eligibility and to graduate Guyana from the list of PRGT-eligible countries. As others have mentioned, graduation from PRGT is a positive and very welcome development in a country's relationship with the Fund, and so we welcome, like others, that more countries are in line for this positive development. At the same time, the Fund, of course, should be mindful of the risks of premature graduation also with a view to safeguarding its general resources.

We welcome the scope for expert judgment as it will complement quantitative indicators when evaluating short-term vulnerabilities, and it will provide room to incorporate less measurable and future developments to avoid premature graduations.

Lastly, I would like to join and support Mr. Tanaka and Mr. Trabinski's comments emphasizing the importance of transparency in debt issues, including state-owned enterprises, and especially also collateralized debt for PRGT countries, and we welcome the work the Fund and the Bank are doing to help countries understand these issues better and optimize their debt strategies.

Lastly, I want to thank staff for their answer regarding the self-sustainability of the PRGT's lending capacity. As others, we think this is an extremely important pillar of the whole framework, and therefore we welcome your comments on this issue.

Mr. Moreno made the following statement:

We support the staff recommendations, and we agree with the current framework, and we particularly welcome the inclusion of a forward-looking approach to assess short-term vulnerabilities to avoid the risk of premature graduation.

We have three main concerns with the effective implementation of the new framework. First, on market access, we still find that the 2 percent de minimis can be low in certain country circumstances, but we are particularly concerned with the "could have tapped" criterion for market access. Here we emphasize that it is very important that it has to be complemented with a forward-looking country-specific analysis, risk assessment on the country, and also a comprehensive short-term analysis of the vulnerabilities, including issues such as governance, political economy, or risk of natural disasters, so that has to be a strong part of the analysis.

Our second concern is the need for a very strong communication effort with the authorities very early in the stage, as was highlighted by Mr. Mahlinza and Ms. McKiernan. I think one of the problems we have with the current framework is that there has not been--you have to have an early communication, maybe a graduation strategy, set forward with the authorities, and it is important that both the area departments and SPR are very much engaged in this bilateral dialogue with the authorities and also involving the Executive Directors, and we have had some specific experience on this in the case of Honduras, so we find that this is very important.

Finally, on external communication, the very fact that we have to reiterate here, as a number of Executive Directors have done, that this is very good news, this is a good cause for celebration. Graduation implies that we are doing things right. We need to work on the communication strategy, and that also implies communication with the authorities at an early stage to send a clear message that graduation is a positive thing, but we need to work on that in the communication with the authorities because something is not working out. We are reiterating it too much. Something is wrong with it, and we need to work on that communication strategy.

Mr. Buisse made the following statement:

We support the review of the fine-tuning of the PRGT eligibility and graduation framework as presented by staff. We also welcome Guyana's graduation from PRGT eligibility, which is a positive and welcome development. The proposed clarification of the market access condition appears adequate. We also thank staff for giving some details as to how they will assess the seriousness of short-term vulnerabilities, which will give us space for expert judgment by staff, as underlined by Mr. Von Kleist in his gray.

It is useful to see on what grounds we can assess risks and vulnerabilities, and we welcome the range of examples provided, such as vulnerability to civil unrest, commodity dependence, natural disasters, and climate change factors.

In addition, like Mr. Rosen, we welcome the proposed extension of the transition period for graduation to take account of ongoing Fund programs and negotiations and the need to develop new debt management strategies in graduating countries.

And, finally, as others and as has been mentioned, we underline the need to properly communicate very early on with authorities to prepare their exit from the PRGT.

Mr. Raghani made the following statement:

We have issued a joint gray with 15 other chairs which reiterates our support to the current transparent and rules-based eligibility framework and agree with the proposed refinements that call on the principles of avoiding premature graduation. In particular on the market access criterion, we share the view that de minimis borrowing cannot be viewed as durable and substantial access to international capital markets.

We also support the extension to this transition period for graduation, notably to take into account existing Fund programs and negotiations and to allow the developments of an adequate debt management strategy as needed. Timely engagement and communication with the authorities is essential. We also stress that flexibility should be allowed for countries that may need a longer transition period.

The proposal to incorporate the effect of natural disasters is very much welcome, as is a forward-looking approach in the assessment of short-term vulnerabilities. When assessing short-term vulnerabilities, care should be given to avoid premature graduation while also ensuring evenhandedness.

On the PRGT eligibility list, we support the proposed graduation of Guyana for the reasons laid out in our joint gray and reiterated by Mr. Fachada this morning in his oral statement. However, as we also hinted in our joint gray, the decision on the graduation of countries from the PRGT eligibility list should be attentive of the implications for access to affordable resources and debt sustainability.

Finally, we welcome the prudent approach used by staff in the assessment of the list of countries eligible for graduation. We note that three countries, of which two are in our constituency, Cote d'Ivoire and Senegal, are not proposed for graduation given existing and potential short-term vulnerabilities. We look forward to the next review of eligibility to use the Fund's facilities for concessional financing.

Mr. Alkhareif made the following statement:

We welcome that the review continues to be guided by transparent and rules-based framework. Like Mr. Tan and Mr. Raghani, we encourage staff to ensure a continued evenhandedness in the framework, including in terms of assessing market access on vulnerabilities. I join Mr. Moreno in encouraging staff to ensure effective communication with the authorities, especially as countries approach graduation threshold.

Finally, I support the point raised by Mr. Von Kleist and Mr. Trabinski and others on the importance of ensuring self-sustainability of the PRGT lending.

Mr. Fanizza made the following statement:

I am taking the floor just to thank the staff for the work done and to make a point on the process. We were very pleased that the proposal was brought to our attention after extensive discussion and consultation with the chairs and when a consensus had been reached. This should become the hope, and I think this is quite important to stress, so very good work. Very well done, and we are pleased with the approach.

Since we have issued a joint gray, I will refrain from reiterating the points in the gray.

The staff representative from the Strategy, Policy, and Review Department (Mr. McGrew), in response to further questions and comments from Executive Directors, made the following additional statement:

Thank you for all the comments, and we will take into account the concerns expressed in the next eligibility review. We look forward to an interim briefing when we have the updated data on GNI and on market access next year, and we have internalized this need for consultation, and we will be pursuing that and be able to report back on that as well.

The following summing up was issued:

Executive Directors welcomed the opportunity to review the PRGT eligibility framework and the associated list of PRGT-eligible countries, and to consider staff's proposals for refining the framework. They emphasized that PRGT eligibility should continue to be guided by a framework that is transparent and rules-based, ensures uniformity of treatment among members, and preserves the Fund's scarce concessional resources for the use of low-income members that are in most need, while maintaining the self-sustainability of PRGT lending. Directors reiterated that the eligibility framework should remain broadly aligned with International Development Association (IDA) practice, while allowing scope for some differences given the different mandates of the two institutions.

Directors concurred that the existing framework remains broadly appropriate while generally supporting the proposed refinements to improve the assessment of market access, and the extension of the transition period before graduation decisions become effective. They underscored the importance of a robust communication strategy and early engagement with countries that may be graduation candidates in upcoming reviews, to ensure a smooth transition process.

Directors agreed that for the purpose of assessing past market access borrowing from international financial markets below 2 percent of quota in any given year should not count as market access in evaluating the durability requirement for both graduation from and entry into PRGT eligibility. They also supported the proposed clarifications to the definition of commercial borrowing, which would generally exclude borrowing by public corporations on the basis of their own balance sheets and without sovereign guarantees, and would also exclude borrowing that is guaranteed or subsidized by an official external entity and loans from foreign state-owned banks. In this context, some Directors stressed the importance of debt transparency.

Directors broadly supported the proposed modifications related to database use, confirming that the IDS database will be the primary data source used to assess past market access. They agreed that use of this data source will simplify data sourcing, improve data accuracy, and enhance evenhandedness by ensuring that the same five-year period is used to assess market access in all member countries. Directors welcomed the clarifications with respect to the assessment of whether a country “could have tapped” international markets on a durable and substantial basis, even though the scale or duration of actual borrowing fell short of the specified thresholds for past market access. They emphasized the need to follow the “could have tapped” principle in an evenhanded manner across the membership, taking into account-country specificities.

Directors concurred that the proposed modifications for assessing market access in the PRGT eligibility framework should also apply to assessments of past market access under the PRGT’s blending and exceptional access frameworks. These modifications consist of (i) the use of one primary data source to assess past market access, (ii) the exclusion of de minimis borrowing below 2 percent of quota from indicating market access in that year, and (iii) the clarifications to the definition of commercial borrowing.

Directors welcomed the proposed clarifications with respect to how serious short-term vulnerabilities are assessed. They noted the importance of paying attention to risks stemming from climate change, natural disasters, structural weaknesses, and social unrest in making such assessments, giving due consideration to both historical and forward-looking indicators of risk. Directors also considered it important to ensure that the assessment of vulnerabilities yields consistent outcomes to avoid premature graduation.

Directors generally agreed with the extension of the transition period for the deferred effectiveness of graduation decisions from three to five months to allow adequate time to conclude any ongoing discussions on and obtain Board approval for PRGT financing or support under the Policy Support Instrument (PSI).

Directors supported the proposed graduation of Guyana from PRGT eligibility, noting that its graduation is a positive and welcome step signaling Guyana's sustained progress in achieving higher levels of income. Directors agreed that other members that currently meet the income and/or market access criteria face serious short-term vulnerabilities that preclude graduation from PRGT eligibility during this review. Directors concurred that no non-eligible members are currently eligible for entry onto the list of PRGT-eligible countries.

Directors agreed that the next review of PRGT eligibility would be held on the standard two-year cycle.

The Executive Board took the following decisions:

Eligibility to Use the Fund's Facilities for Concessional Financing—Amendments to the Framework for Entry and Graduation from the PRGT-Eligibility List

1. Pursuant to paragraph 5 of Decision No. 14521-(10/3), adopted January 11, 2010, as amended, the Fund has reviewed the criteria for entry onto and graduation from, the list annexed to Decision No. 8240-(86/56) SAF, as amended.

2. Subparagraph (C)(1) of paragraph 1 of Decision No. 14521-(10/3), as amended, shall be amended to read as follows:
"(C)(1) The issuance or guarantee by a public debtor of external bonds in international markets, or disbursements under external commercial loans contracted or guaranteed by a public debtor in international markets that (i) for the purposes of subparagraph (A) occurred during at least two of the last five years for which qualifying data are available (the "entry duration threshold"), and has been in a cumulative amount equivalent to at least fifty percent of the member's quota in the Fund at the time of the assessment (the "entry scale threshold")provided that (a) if the member's quota increase under the Fourteenth General Review of Quotas has become effective, the cumulative amount shall be equivalent to at least 25 percent of the member's quota and (b) if the amount of issuance or guarantee of external bonds and of disbursements under external commercial loans in a single year for which qualifying data are available totals less than two percent of the member's quota in the Fund at the time of the assessment, that year shall not count towards meeting the entry duration threshold, or (ii) for the purposes of

paragraph (B)(2), occurred during at least three of the last five years for which qualifying data are available (the "graduation duration threshold"), and has been in a cumulative amount equivalent to at least one hundred percent of the member's quota in the Fund at the time of the assessment (the "graduation scale threshold"), provided that (a) if the member's quota increase under the Fourteenth General Review of Quotas has become effective, the cumulative amount shall be equivalent to at least 50 percent of the member's quota and (b) if the amount of issuance or guarantee of external bonds and of disbursements under external commercial loans in a single year for which qualifying data are available totals less than two percent of the member's quota at the time of the assessment, that year shall not count towards meeting the graduation duration threshold, or"

3. Subparagraph (C)(2) of paragraph 1 of Decision No. 14521-(10/3), as amended, shall be amended to read as follows:
"(2) The existence of convincing evidence that the sovereign could have tapped international markets as specified under (1) above, even though the actual issuance or guarantee by a public debtor of external bonds in international markets, or actual disbursements under external commercial loans contracted or guaranteed by a public debtor in international markets, fell short of the entry and graduation duration thresholds and/or the entry and graduation scale thresholds specified under (1) above. Determinations under this paragraph shall be a case-specific assessment that takes into account relevant factors, including the volume and terms of recent external borrowing or guaranteeing of external borrowing in international markets, and the sovereign credit rating where one exists."

4. The last paragraph of subparagraph (C) of paragraph 1 of Decision No. 14521-(10/3), as amended, shall be amended to read as follows:

"For purposes of this subparagraph (C): (i) a "public debtor" shall include the sovereign (national government) as well as other public borrowers (including political subdivisions, agencies of the national government or of political subdivisions, autonomous public bodies and public corporations) whose ability to borrow in international markets is assessed to be an indicator of the sovereign's creditworthiness, however borrowing by a public corporation will generally not be assessed as an indicator of the sovereign's creditworthiness where such borrowing is based on the public corporation's own balance sheet (including by collateralizing its own assets) and is not guaranteed by the sovereign; (ii) "external bonds" are those issued in international capital markets and "external commercial loans" are commercial loans contracted in international markets by residents of a member with nonresidents, provided that bonds issued and loans contracted in markets that are not integrated with broader international market, including loans or bonds subsidized or guaranteed (partially or fully) by official external entities (including foreign governments and foreign public sector entities as well as international organizations), and loans from foreign state-owned banks, shall not qualify; and (iii) bonds and commercial loans guaranteed by a public debtor shall be obligations of a private debtor whose repayment is guaranteed by a public debtor."

5. Paragraph 2 of Decision No. 14521-(10/3), as amended, shall be amended to read as follows:

"2. Executive Board decisions to remove a member from the PRGT-eligibility list pursuant to the graduation criteria set forth in paragraph 1 of this decision shall become effective five months after their adoption (the "effectiveness date"), provided that such decisions shall not affect any arrangement under the Poverty Reduction and Growth Trust established pursuant to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended ("PRGT"), or any program subject to assessment and endorsement by the Fund under a policy support instrument ("PSI"), that are in existence as of the effectiveness date. Any such arrangement or PSI may continue until the expiration or other termination of the arrangement or PSI, and the arrangement or PSI may be extended or access under the arrangement may be augmented where appropriate in accordance with the applicable policies on extension or augmentation."

6. The first sentence of paragraph 3 of Decision No. 14521-(10/3), as amended, shall be amended to read as follows:

"3. Notwithstanding the entry into effect of a decision to remove a member from the PRGT-eligibility list in accordance with this decision, any outstanding PRGT resources disbursed to such member shall remain subject to the terms of the PRGT." (SM/20/27, 01/22/20)

Decision No. 16657-(20/18), adopted
February 19, 2020

Eligibility to Use the Fund's Facilities for Concessional Financing - Amendments to the PRGT-Eligibility List

1. In light of the criteria set forth in Decision No. 14521-(10/3), adopted January 11, 2010, as amended, the list annexed to Decision No. 8240-(86/56) SAF, adopted March 26, 1986, as amended, shall be amended by removing Guyana from such list.

2. The removal of Guyana from the list shall become effective five months from the date of adoption of this decision ("Effective Date"), provided that any arrangement under the Poverty Reduction and Growth Trust or any Policy Support Instrument in existence as of such Effective Date may

continue until the expiration or other termination of the arrangement or the PSI. (SM/20/27, 01/22/20)

Decision No. 16658-(20/18), adopted
February 19, 2020

APPROVAL: October 14, 2022

CEDA OGADA
Secretary

Annex

The staff circulated the following written answers, in response to technical and factual questions from Executive Directors, prior to the Executive Board meeting:

<u>Assessing Market Access</u>

1. We support in principle harmonizing of the market access criteria's definition for access to PRGT resources, with that for presumed blending, and exceptional access. That said, we urge staff to clearly indicate the exact impact of these changes on the list of presumed blenders and countries that qualify for exceptional access. Staff comments are welcome.

Presumed Blending

The changes to the methodology for assessing market access are not likely to have any significant impact on the list of presumed blenders and no countries with current PRGT-supported arrangements would be affected.

- Countries at low or moderate risk of debt distress are presumed to blend if either (1) their GNI per capita exceeds the IDA cutoff (currently $1,175) or (2) they have accessed international financial markets in two of the past five years in an amount of at least 25 percent of quota, and their GNI per capita exceeds 80 percent of the IDA cutoff.
- There are 19 countries that are presumed blenders based on low or moderate risk of debt distress and GNI above the IDA threshold; they would not be affected by the proposed changes
- There are only four countries whose GNI is between 80 and 100 percent of the IDA cutoff and could therefore blend if they had market access. Three of these (Nepal, Tajikistan, and Yemen) have had minimal levels of market access and would not be affected by the minor changes proposed. The fourth, Tanzania, meets the market access threshold for blending by a large margin (four out of five years, totaling over 100 percent of quota); the minor changes proposed would not affect this.
- Countries at high risk of debt distress may also qualify as presumed blenders, if they borrow on international financial markets in three out of five years in an amount of at least 50 percent of quota and their per capita GNI exceeds the IDA cutoff, and they are assessed as having prospective market access. There are currently six countries that meet the past market access and income criteria, all of which met the past market access criteria by large margins (ranging from 300 to 1,600 percent of quota). The minor proposed changes to the methodology would not affect this.

Exceptional access

The changes to the methodology for assessing market access are not likely to affect the set of countries that could qualify for exceptional access on the basis of per capita income and market access.

- A country could be excluded from exceptional access on the basis of market access if its GNI per capita is between 80 and 100 percent of the IDA cutoff. There are currently only four countries in this income range. Three of these (Nepal, Tajikistan, and Yemen) would not be affected by the proposed changes because they do not meet the market access criterion. The fourth, Tanzania, meets it by a large margin, as described above.

2. Could staff please elaborate further on the usage of the "could have tapped" criteria for PRGT blending and exceptional access eligibility?

- There is no "could have tapped" criterion for exceptional access, which considers only past market access. The "could have tapped test" also does not apply for blending (see footnote 15 of the paper).
- Under the policies governing qualification for presumed blenders, "prospective market access" needs to be assessed for countries at high risk of debt distress that meet income and past market access criteria.
- The "could have tapped" and "prospective" tests are similar in that they are case-specific assessments based on such relevant factors as the volume and terms of recent borrowing, the evolution of sovereign credit spreads and credit ratings, gross financing needs, the evolution of debt vulnerabilities, the scale and evolution of nonresident holdings of domestic-currency debt, and the quality of public debt data.
- However, the "could have tapped" test is backward-looking, while the "prospective market access" test is forward-looking and, in the context of a request for Fund support, would take account of program policies and assumptions on market access.

3. On the loans from foreign state-owned banks, as staff pointed out, there are some cases made on commercial basis. While we note the staff's view on practical difficulties in making a case-by-case determination of commercial nature of such loans, we see merit in seeking possible granular approach based on the nature of loans, considering the necessity to use the scarce PRGT resource for most needed. ***In this regard, we wonder whether the debt information staff received from the authorities to conduct DSA or other related analysis is sufficient to make case-by-case determination, especially in case of program ongoing countries where staff are expected to receive detailed debt information. What is the lacking information or difficulties to make case-by-case determinations? Staff comments are welcome.***

- A case-by-case determination of the nature of such loans would be difficult from a practical perspective as it would require in-depth scrutiny of the terms and conditions of the loan and related contracts, as well as the policy considerations and motivations of the lender. Such granular information is not available in IDS (loans from state-owned banks are classified as official rather than commercial borrowing, and IDS does not provide data on individual loans or their terms), and it may be difficult to obtain from the debtor and creditor.
- Where information on loan terms is available, e.g., from DSAs, it may be the case that loans are provided on commercial terms but are influenced by public policy considerations absent of which the loan would not have been extended. Practically speaking, it would be challenging for staff to confirm the motivations of the lender.

- There could also be cases where the financial terms of loans from a foreign state-owned bank reflect the borrowing country's creditworthiness, but the loan is combined with other financial elements, including grants, such that the overall financing package should be considered non-commercial.
- Finally, there may be cases where loans are extended on commercial terms but are tied to specific exports from the lending to the borrowing country and disbursed directly to the exporter.

4. We also note the suggestion that borrowing by public corporations would be excluded from the sovereign market access criterion when it can be judged to be based on the corporation's own balance sheet and without a sovereign guarantee. Such exclusion requires access to sufficient data on debt (including on asset collateralization) of public corporations, and an analysis of contingent liabilities. Given the potential risk of misclassifications, extra scrutiny of data and discussions with the country authorities are warranted for countries considered to approach graduation or where these sources of borrowing constitute a large part of external public sector borrowing. ***Could staff elaborate on what the practical difficulties are for making a case-by-case judgment in such situations?***

- Such judgments would require assessments by country teams, in consultation with the authorities. Considerations would include: whether the borrowing company is profitable or relies on government subsidies; its history of servicing debts through its operating income and without government support; whether loans are secured by assets of the company; and whether there is an implicit government guarantee (as evidenced by past official support to repay debt).
- In practice, international commercial borrowing by public corporations has been relatively limited in PRGT-eligible countries. For example, the IDS data over 2014-2018 show only two countries, Ethiopia and Uzbekistan, whose borrowing on international financial markets has been mainly through the non-sovereign public sector.

Communication and data verification

5. ***Could staff provide an update on the work to enhance communication regarding graduation*****?**

6. We appreciate that the paper identifies Cote d'Ivoire, Kenya and Senegal as potential candidates for PRGT graduation in the coming years, depending on developments that impact on these countries' short-term vulnerabilities. ***Can staff please comment on what kind of outreach IMF country teams have made to the authorities in these countries to begin a conversation on future graduation from PRGT eligibility (and particularly for Cote d'Ivoire and Kenya which were already identified back in June 2019)?***

7. ***Although IDS data are sourced from borrowers, are there plans to crosscheck them with the authorities especially for the countries well-positioned to graduate?***

- Staff held discussions with the offices of Executive Directors representing all of the countries that met either the income or market access criteria for graduation and were not at high risk of debt distress or in debt distress. They also worked closely with the relevant country teams, who in turn coordinated with country authorities to validate market access data from the IDS database.

- Staff is monitoring PRGT-eligible countries that might qualify for graduation in the next 2-3 years, and is reaching out to area departments to ensure that this issue is part of the Fund's dialogue with country authorities. As graduation decisions are based on slow-moving economic variables (such as GNI per capita and market access over a rolling 5-year window), such continuous monitoring and consultation should help to avoid any surprises.
- Staff will provide annual updates to the Board on changes in GNI per capita and market access data in PRGT-eligible countries.

Serious short-term vulnerabilities

8. There seems to be a broad variety of factors that could be considered in the SSTV assessments, and thus hinder graduation, with examples including a possible delay in fiscal consolidation and upcoming elections. It is important that staff analysis is robust and based on well-reasoned judgement and that uniformity of treatment of PRGT countries is ensured. ***Could Staff elaborate further on what factors could be included in such assessments?***

- The list of factors that could impact the assessment of serious short-term vulnerabilities in paragraph 29 of the staff report was intended to be illustrative, not comprehensive.
- As noted, any factors that could cause a sharp decline in GNI per capita, cause loss of market access, or undermine debt sustainability would be considered in the assessment.
- These would include, but not be limited to, domestic economic policy, the external economic environment including commodity price fluctuations, susceptibility to climate change-related extreme weather events and natural disasters, and political factors including vulnerability to civil conflict, as long as they give rise to a risk of a sharp decline in income below the graduation threshold, or can cause a loss of market access, or give rise to debt vulnerabilities that are more than limited.

9. **For some countries, vulnerability to natural disasters and climate risks could be particularly relevant risk factors for future income development or market access.** ***Could staff give further information of how short-term vulnerability to natural disasters or climate risks might be assessed in future evaluations?***

- Such assessments would be informed by a variety of vulnerability indicators, including those cited in the 2016 IMF Paper on Small States' Resilience to Natural Disasters and Climate Change, and the World Bank's World Development Indicators.
- Some of these indicators focus on past disasters to shed light on the likelihood of extreme events in a country, while others are forward-looking and focus on vulnerability to climate-related environmental changes and countries' preparedness to cope with them. Among the latter, indicators include the share of population living in areas near sea level, financial and infrastructure resilience, and disaster management strategies.

- Staff are mindful that indicators of past vulnerability to climate risk may not be fully indicative of future probabilities, as climate-related events could become more frequent.

PRGT self-sustainability

10. **We would like to seek clarification on staff's characterization of the link between PRGT eligibility and the self-sustainability of the PRGT's lending capacity in the Executive Summary, where staff notes that the "application of the framework should be consistent with the self-sustainability of the PRGT's lending capacity over time." While this wording is not new, it does leave room for unwarranted ambiguity, potentially suggesting that graduation represents a discretionary tool to be used to restore PRGT self-sustainability in the face of demand-increasing measures, such as an increase in access above the levels foreseen under a prudent application of the framework. Such an interpretation of the graduation policy – similar to easing of blending rules in the context of last year's LIC Facilities Review – would not receive our support.** ***Staff comments are welcome.***

- Staff will respond to this question during the Board meeting.

11. We are assured by staff's assessment that the modifications to the PRGT eligibility framework and the proposed country graduations are in line with the self-sustainability of the PRGT and projected onward demand. ***Staff's comments on their projections regarding countries' entry and graduation over the next decade are welcome.***

- The demand model for PRGT resources was refined for last year's LIC facilities review to better match the timing of countries moving to graduation with the historical experience. Projections for graduation are primarily based on a country's projected GNI per capita, and about 15-20 countries (including Guyana) are expected to meet the income criterion within the next 10 years. However, the actual rate of graduation is difficult to project, given uncertain prospects for possible market access and short-term vulnerabilities. No entry or re-entry was assumed at the time of the 2019 LIC facilities review.

Timing of next review

12. Given the delay in concluding this review, we were wondering about the timeline for the next review.

- Reviews of PRGT eligibility will remain on the biennial schedule so we anticipate that the next one will take place in early 2022.