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# ELIGIBILITY TO USE THE FUND'S FACILITIES FOR CONCESSIONAL FINANCING, 2015

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- A **Press Release** summarizing the views of the Executive Board as expressed during its July 17, 2015 consideration of the staff report.
- The **Staff Report** on *Eligibility to Use the Fund's Facilities for Concessional Financing* prepared by IMF staff and completed on June 24, 2015 for the Executive Board's consideration on July 17, 2015.

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**International Monetary Fund**
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# ELIGIBILITY TO USE THE FUND'S FACILITIES FOR CONCESSIONAL FINANCING, 2015

## EXECUTIVE SUMMARY

**The review of PRGT eligibility continues to be guided by the principles of maintaining a transparent, rules-based, and parsimonious framework**—ensuring uniformity of treatment across members in similar situations while taking appropriate account of country-specific circumstances. The graduation policy seeks to maintain broad alignment with the World Bank's IDA graduation practices, while also remaining consistent with the principle of ensuring the self-sustainability of the PRGT's lending capacity over time.

**The paper concludes that the existing framework remains broadly appropriate, but could be enhanced in a few areas, including:**

- Making use of additional data sources, namely the IMF BEL database, in assessing that a country has durable and substantial market access, supplementing the current reliance on the World Bank's IDS database that is produced with a significant lag.

- Sharpening the specification of circumstances under which the presence of serious short-term vulnerabilities would justify non-graduation of a country that meets the income graduation criterion. This would entail limiting the application of the serious short-term vulnerabilities criterion for countries that exceed the applicable income graduation threshold by 50 percent or more.

**Based on the proposed changes to the framework, four countries are proposed for graduation while none qualifies for entry.** Bolivia, Nigeria, and Vietnam are proposed for graduation, while Mongolia's proposed graduation depends on the proposed modification to the short-term vulnerabilities criterion. Eight other countries satisfy either the market access or income graduation criterion but face serious short-term vulnerabilities, and are therefore not proposed for graduation.

**The impact of the proposed graduation on demand for PRGT resources is expected to be small and is in line with maintaining the self-sustaining capacity of the PRGT** which is based on periodic graduation of members as their per capita incomes rise and their access to international capital markets increases.

Approved By
**Siddharth Tiwari, Sean Hagan, and Andrew Tweedie**

Prepared by the Strategy, Policy, and Review Department, Finance Department, and Legal Department, in consultation with other departments. The staff team prepared the report comprised of Chris Lane, Haimanot Teferra, Svitlana Maslova, and Kareem Ismail (all SPR); Olaf Unteroberdoerster, Chris Geiregat, Gilda Fernandez, Mariusz Sumlinski, and Saad Quayyum (all FIN); Gabriela Rosenberg, Kyung Kwak, and Gomiluk Otokwala (all LEG). Research assistance was provided by Vera Kehayova and Zhe Liu; and production assistance by Merceditas San Pedro-Pribram. Under the overall guidance of Seán Nolan, David Andrews, and Ceda Ogada.

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**ANNEXES**

# Acronyms and Abbreviations

| | |
|---|---|
| BEL | Bonds, Equities, and Loans |
| DBM | Development Bank of Mongolia |
| DSA | Debt Sustainability Analysis |
| FDI | Foreign Direct Investment |
| GNI | Gross National Income |
| IBRD | International Bank for Reconstruction and Development |
| IDA | International Development Association |
| IDS | International Debt Statistics |
| LICs | Low-Income Countries |
| ODA | Official Development Assistance |
| OECD | Organisation for Economic Co-operation and Development |
| PRGT | Poverty Reduction and Growth Trust |
| SOE | State-Owned Enterprise |
| WAEMU | West African Economic and Monetary Union |
| WB | World Bank |
| WDI | World Development Indicators |
| WEO | World Economic Outlook |

# INTRODUCTION

1. **The Poverty Reduction and Growth Trust (PRGT) eligibility framework and the related eligibility list are reviewed on a two-year cycle.** The last review was conducted in April 2013 and led to some changes to the framework.[1] Specifically, it introduced separate entry and graduation thresholds for microstates and modified the market access criterion, including by differentiating between entry and graduation thresholds. Based on this framework, two countries (Armenia and Georgia) graduated from PRGT eligibility and three microstates (Tuvalu, Marshall Islands, and Micronesia) were added to the list of PRGT-eligible countries.

2. **The structure of the paper is as follows:** a) the current PRGT-eligibility framework is summarized; b) proposed modifications to the framework in relation to the market access criterion and the short-term vulnerabilities criteria are discussed; c) the proposed new framework is used to assess PRGT eligibility across the Fund membership; and d) the potential impact on the demand for the Fund's concessional resources of the proposals in this paper is discussed.

# THE CURRENT FRAMEWORK

3. **The criteria for PRGT eligibility are closely linked with the PRGT's key objectives.** Access to the Fund's concessional financing should be reserved for members that have low per capita income levels and do not have durable and substantial access to international financial markets. Financing on concessional terms is a key source of external financing for these countries, with the concessionality of financing contributing to containing the risk of debt distress. Broad alignment with International Development Association (IDA) practices is also an important element in defining the PRGT-eligibility framework (Annex I).

4. **The framework differentiates between entry and graduation (Box 1).** Countries are eligible for inclusion in the PRGT-eligibility list if their annual Gross National Income (GNI) per capita is below the IDA operational cutoff (US$1,215 for FY 2015) and if they do not have access to international financial markets on a durable and substantial basis (Tables 1 and 2). Countries may graduate from PRGT eligibility if they either reach the applicable level of GNI per capita for a specified period or if they have the capacity to access international financial markets on a durable and substantial basis, as defined in the decision on the PRGT-eligibility criteria, provided that they do not face serious short-term vulnerabilities. Distinct income thresholds apply for entry and graduation of small and microstates.

[1] See "Eligibility to Use the Fund's Facilities for Concessional Financing" (IMF, 2013a), March 18, 2013.

## Box 1. Criteria for Entry and Graduation from PRGT Eligibility 1/

**Entry:** A Fund member would be added to the list of PRGT-eligible countries if: (i) its annual per capita gross national income, based on the latest available qualifying data, is (a) below the IDA operational cutoff, (b) less than twice the IDA operational cutoff for small countries (countries with population below 1.5 million but not less than 200,000), or (c) less than five times the IDA operational cutoff for microstates (countries with population below 200,000); and (ii) the sovereign does not have the capacity to access international financial markets on a durable and substantial basis (as defined). The market access criterion for entry is assessed using the same tests as for graduation (see below) except that market access under the first alternative test is present where bond issuance or disbursements under commercial loans during at least *two of the last five years* are equivalent to a cumulative amount of at least *50 percent of quota*.

**Graduation:**

**Income Criterion**: A Fund member would graduate from the PRGT list if the country's annual per capita GNI: (i) has been above the IDA operational cutoff for at least the last five years (for which qualifying data are available); (ii) has not been on a declining trend in the same period (comparing the first and the last relevant annual data); and (iii) is currently (a) at least twice the operational IDA cutoff, (b) at least three times the IDA operational cutoff for small countries; or (c) at least six times the IDA operational cutoff for microstates.

**Or:**

**Market Access Criterion**: The sovereign has the capacity to access international financial markets on a durable and substantial basis, as measured by one of the following two alternative tests.

- The existence of such capacity would normally be evidenced by public sector issuance or guaranteeing of external bonds or by disbursements under public and publicly-guaranteed external commercial loans in international markets during at least *three of the last five years* (for which qualifying data are available), in a cumulative amount over that period equivalent to at least *100 percent of the country's quota* at the Fund at the time of the assessment. External bonds and commercial loans issued or contracted in markets that are not integrated with broader international markets do not qualify.

- As an alternative, a country could also be deemed to meet the market access criterion if there were convincing evidence that the sovereign *could* have tapped international markets on a durable and substantial basis, even though the scale or duration of actual public sector borrowing fell short of the specified thresholds. This would be a case-specific assessment, considering such relevant factors as the volume and terms of recent actual borrowing in international markets and the sovereign credit rating.

Both tests of the market access criterion would take into account bonds/loans issued, contracted, or guaranteed by *non-sovereign* public sector debtors, where such a debtor's ability to access international markets is assessed to be an indicator of the sovereign's creditworthiness. As a further safeguard, countries would be considered candidates for graduation under the market access criterion only if: (a) their annual per capita GNI is above 100 percent of the IDA operational cutoff (based on the latest available qualifying data); and (b) their annual per capita GNI has not been on a declining trend during the last five years for which qualifying data is available (comparing the first and last relevant annual data).

**And:**

**Absence of serious short-term vulnerabilities**: In addition to meeting at least one of the above criteria, the country should not face serious short-term vulnerabilities. The assessment of these vulnerabilities will require, in particular, the absence of risks of a sharp decline in income, or of a loss of market access, and limited debt vulnerabilities, as indicated by the latest DSA, and a confirmation that overall debt vulnerabilities remain limited since such analysis.

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1/ From IMF (2009) and the Decision on PRGT-Eligibility Criteria, IMF (2012 and 2013a).

## Table 1. PRGT-Eligible Countries—Per Capita GNI

| Country | 2013 GNI per capita (US $) | 2013 Population (In Millions) | Debt Distress (March,2015) | Country | GNI per capita (US $) | 2013 Population (In Millions) | Debt Distress (March, 2015) |
|---|---|---|---|---|---|---|---|
| Afghanistan | 690 | 30.6 | High | Maldives | 5600 | 0.3 | High 4/ |
| Bangladesh | 1010 | 156.6 | Low | Mali | 670 | 15.3 | Moderate |
| Benin | 790 | 10.3 | Low | Marshall Islands | 4310 | 0.1 | High |
| Bhutan | 2330 | 0.8 | Moderate | Mauritania | 1060 | 3.5 | High |
| Bolivia | 2550 | 11.0 | Low | Micronesia | 3280 | 0.1 | n.a. |
| Burkina Faso | 750 | 16.9 | Moderate | Moldova | 2470 | 3.6 | Low |
| Burundi | 260 | 9.0 | High | Mongolia | 3770 | 2.9 | High |
| Cambodia | 950 | 15.1 | Low | Mozambique | 610 | 25.8 | Moderate |
| Cameroon | 1290 | 22.0 | Moderate | Myanmar | n.a. | 51.0 | Low |
| Cabo Verde | 3620 | 0.5 | Moderate | Nepal | 730 | 27.8 | Low |
| Central African Republic | 320 | 4.6 | High | Nicaragua | 1790 | 6.1 | Moderate |
| Chad | 1030 | 11.0 | High | Niger | 400 | 16.6 | Moderate |
| Comoros | 840 | 0.8 | Moderate | Nigeria | 2710 | 169.3 | Low |
| Congo, Rep. | 2590 | 4.2 | Low | Papua New Guinea | 2020 | 7.3 | Low |
| Congo, Dem. Rep. | 430 | 77.0 | Moderate | Rwanda | 630 | 10.8 | Low |
| Côte d'Ivoire | 1450 | 22.1 | Moderate | Samoa | 3970 | 0.2 | High |
| Djibouti | 1030 1/ | 0.9 | High | São Tomé and Principe | 1470 | 0.2 | High |
| Dominica | 6930 | 0.1 | High | Senegal | 1050 | 14.1 | Low |
| Eritrea | 490 | 6.3 | In debt distress | Sierra Leone | 660 | 6.1 | Moderate |
| Ethiopia | 470 | 88.9 | Low | Solomon Islands | 1600 | 0.6 | Moderate |
| Gambia, The | 500 | 1.9 | Moderate | Somalia | n.a. | 0.0 | n.a. |
| Ghana | 1770 | 25.6 | High | South Sudan | 950 | 10.9 3/ | n.a. |
| Grenada | 7490 | 0.1 | In debt distress | St. Lucia | 7060 | 0.2 | High |
| Guinea | 460 | 11.1 | Moderate | St.Vincent and the Grenadines | 6460 | 0.1 | Moderate |
| Guinea-Bissau | 590 | 1.7 | Moderate | Sudan | 1550 | 36.2 | In debt distress |
| Guyana | 3750 | 0.8 | Moderate | Tajikistan | 990 | 8.1 | Moderate |
| Haiti | 810 | 10.3 | High | Tanzania | 860 | 46.3 | Low |
| Honduras | 2180 | 8.1 | Moderate | Timor-Leste | 3580 1/ | 1.2 | Low |
| Kenya | 1160 | 41.8 | Low | Togo | 530 | 6.8 | Moderate |
| Kiribati | 2620 | 0.1 | High | Tonga | 4490 | 0.1 | Moderate |
| Kyrgyz Republic | 1210 | 5.6 | Moderate | Tuvalu | 5840 | 0.0 | High |
| Lao PDR | 1450 | 6.8 | Moderate | Uganda | 600 | 36.8 | Low |
| Lesotho | 1500 | 1.9 | Moderate | Uzbekistan | 1880 | 30.2 | n.a. |
| Liberia | 410 | 4.1 | Low | Vanuatu | 3130 | 0.3 | Low |
| Madagascar | 440 | 22.9 | Low | Vietnam | 1740 | 89.7 | Low |
| Malawi | 270 | 17.1 | Moderate | Yemen | 1330 | 26.7 | Moderate |
| | | | | Zambia | 1810 | 14.5 | Low |
| **Memorandum Item** | | | | | | | |
| Armenia | 3800 | 3.0 | n.a. | | | | |
| Georgia | 3560 | 4.5 | n.a. | | | | |
| India | 1570 | 1243.3 | n.a. | | | | |
| Kosovo | 3940 | 1.9 | n.a. | | | | |
| Pakistan | 1360 | 182.6 | n.a. | | | | |
| Sri Lanka | 3170 | 20.8 | n.a. | | | | |
| Zimbabwe | 860 2/ | 13.1 | In debt distress/arrears | | | | |

Sources: Fund WEO, World Bank, World Development Indicators, accessed on June 22, 2015.

1/ Data for 2013 are not available. 2005 data given for Djibouti. 2012 data given for Timor-Leste. The IDA operational cut off is defined as GNI per capita at $1,215 in fiscal year 2015.

2/ Zimbabwe is not PRGT-eligible due to its removal from the PRGT-eligibility list by a Board decision in connection with its overdue obligations to the PRGT. It would be expected to become PRGT-eligible if the remedial measure were lifted.

3/ The source of South Sudan population is World Development Indicators, and the source of other countries is Fund WEO.

4/ Risk of external debt distress is moderate, but overall debt distress is assessed to be high.

# Table 2. PRGT-Eligible Countries: Public and Publicly-Guaranteed (PPG) Debt and GNI Per Capita

| | PPG external bonds and commercial loans 1/ (Disbursements in millions of US dollars) | | | | | | | | GNI per capita, Atlas Method 2013 | 2013 GNI per capita - at 100 percent of IDA threshold ($1215) |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Cumulative 2009-2013 (in % of Quota 2013) | Cumulative 2010-2014 (in % of Quota 2013) | | |
| Afghanistan | - | - | - | - | - | - | - | - | 690 | |
| Bangladesh | - | - | - | - | - | - | - | - | 1,010 | |
| Benin | - | - | - | - | - | - | - | - | 790 | |
| Bhutan | - | - | - | - | - | - | - | - | 2,330 | ✔ |
| Bolivia 2/ | - | - | - | 500 | 500 | - | 394 | 394 | 2,550 | ✔ |
| Burkina Faso | - | - | - | - | - | - | - | - | 750 | |
| Burundi | - | - | - | - | - | - | - | - | 260 | |
| Cambodia | - | - | - | - | - | - | - | - | 950 | |
| Cameroon | 8 | 6 | 5 | 22 | 36 | - | 28 | 25 | 1,290 | ✔ |
| Cabo Verde | - | - | 10 | 26 | 145 | - | 1,089 | 1,089 | 3,620 | ✔ |
| Central African Republic | - | - | - | - | - | - | - | - | 320 | |
| Chad | - | - | - | - | - | - | - | - | 1,030 | |
| Comoros | - | - | - | - | - | - | - | - | 840 | |
| Congo, Rep. | - | - | 112 | 221 | 110 | - | 354 | 354 | 2,590 | ✔ |
| Congo, Dem. Rep. | - | - | - | - | - | - | - | - | 430 | |
| Côte d'Ivoire | - | 0.2 | - | 2 | - | 750 | 0 | 156 | 1,450 | ✔ |
| Djibouti | - | - | - | - | - | - | - | - | 1,030 3/ | |
| Dominica | - | - | - | - | - | - | - | - | 6,930 | ✔ |
| Eritrea | - | - | - | - | - | - | - | - | 490 | |
| Ethiopia | - | 305 | 473 | 617 | 168 | 1,000 | 791 | 1,296 | 470 | |
| Gambia, The | 1 | 6 | - | 7 | 3 | - | 38 | 36 | 500 | |
| Ghana | 274 | 297 | 503 | 527 | 1,302 | 1,000 | 532 | 665 | 1,770 | ✔ |
| Grenada | - | - | - | - | - | - | - | - | 7,490 | ✔ |
| Guinea | - | - | - | - | - | - | - | - | 460 | |
| Guinea-Bissau | - | - | - | - | - | - | - | - | 590 | |
| Guyana | - | - | - | - | - | - | - | - | 3,750 | ✔ |
| Haiti | - | - | - | - | - | - | - | - | 810 | |
| Honduras | 50 | - | - | 20 | 1,014 | - | 566 | 540 | 2,180 | ✔ |
| Kenya | - | 1 | 14 | 677 | 10 | 2,750 | 175 | 860 | 1,160 | |
| Kiribati | - | - | - | - | - | - | - | - | 2,620 | ✔ |
| Kyrgyz Republic | - | - | - | - | - | - | - | - | 1,210 | |
| Lao PDR | - | - | - | - | 143 | - | 183 | 183 | 1,450 | ✔ |
| Lesotho | - | - | - | - | - | - | - | - | 1,500 | ✔ |
| Liberia | - | - | - | - | - | - | - | - | 410 | |
| Madagascar | 0 | 0 | 0 | 3 | 2 | - | 3 | 3 | 440 | |
| Malawi | - | - | - | - | 3 | - | 3 | 3 | 270 | |
| **Memorandum Item** | | | | | | | | | | |
| Zimbabwe | - | 0 | - | - | - | - | 0 | 0 | 860 | |
| **Key non-eligible countries** | | | | | | | | | | |
| Pakistan | - | - | - | - | - | 3,000 | - | 196 | 1,360 | ✔ |

| | PPG external bonds and commercial loans 1/ (Disbursements in millions of US dollars) | | | | | | | | GNI per capita, Atlas Method 2013 | 2013 GNI per capita - at 100 percent of IDA threshold ($1215) |
|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | Cumulative 2009-2013 (in % of Quota 2013) | Cumulative 2010-2014 (in % of Quota 2013) | | |
| Maldives | 5 | 34 | 33 | 2 | 5 | - | 527 | 495 | 5,600 | ✔ |
| Mali | 3 | 0 | 0 | - | 1 | - | 2 | 0 | 670 | |
| Marshall Islands | - | - | - | - | - | - | - | - | 4,310 | ✔ |
| Mauritania | - | - | - | - | - | - | - | - | 1,060 | |
| Micronesia | - | - | - | - | - | - | - | - | 3,280 | ✔ |
| Moldova | - | - | 4 | 17 | 2 | - | 13 | 13 | 2,470 | ✔ |
| Mongolia | - | - | - | 1,500 | - | - | 1,985 | 1,985 | 3,770 | ✔ |
| Mozambique | - | 51 | 139 | 28 | 970 | - | 707 | 707 | 610 | |
| Myanmar | - | - | - | - | - | - | - | - | n.a. | ✔ |
| Nepal | - | - | - | - | - | - | - | - | 730 | |
| Nicaragua | - | - | - | - | 7 | - | 4 | 4 | 1,790 | ✔ |
| Niger | - | - | - | - | - | - | - | - | 400 | |
| Nigeria | - | - | 500 | - | 1,000 | - | 58 | 58 | 2,710 | ✔ |
| Papua New Guinea | - | - | - | - | - | - | - | - | 2,020 | ✔ |
| Rwanda | - | - | - | - | 400 | - | 338 | 338 | 630 | |
| Samoa | - | - | - | - | - | - | - | - | 3,970 | ✔ |
| São Tomé and Principe | - | - | - | - | - | - | - | - | 1,470 | ✔ |
| Senegal | 200 | 0 | 500 | 2 | 1 | 500 | 294 | 419 | 1,050 | |
| Sierra Leone | - | - | - | - | - | - | - | - | 660 | |
| Solomon Islands | - | - | - | - | - | - | - | - | 1,600 | ✔ |
| Somalia | - | - | - | - | - | - | - | - | n.a. | ✔ |
| South Sudan | - | - | - | - | - | - | - | - | 950 | |
| St. Lucia | 3 | - | - | - | - | - | 15 | - | 7,060 | ✔ |
| St.Vincent and the Grenadin | - | - | - | - | - | - | - | - | 6,460 | ✔ |
| Sudan | - | - | - | - | - | - | - | - | 1,550 | ✔ |
| Tajikistan | - | - | - | - | - | - | - | - | 990 | |
| Tanzania | - | 17 | 304 | 2 | 843 | - | 397 | 397 | 860 | |
| Timor-Leste | - | - | - | - | - | - | - | - | 3,580 3/ | ✔ |
| Togo | - | - | - | - | - | - | - | - | 530 | |
| Tonga | - | 0 | - | - | - | - | 2 | 2 | 4,490 | ✔ |
| Tuvalu | - | - | - | - | - | - | - | - | 5,840 | ✔ |
| Uganda | - | - | - | - | - | - | - | - | 600 | |
| Uzbekistan | 1 | 15 | 75 | 10 | 10 | - | 27 | 27 | 1,880 | ✔ |
| Vanuatu | - | - | - | - | - | - | - | - | 3,130 | ✔ |
| Vietnam | 627 | 1,918 | 750 | 1,247 | 2,312 | 1,000 | 1,006 | 1,060 | 1,740 | ✔ |
| Yemen | - | - | - | - | - | - | - | - | 1,330 | ✔ |
| Zambia 2/ | - | - | - | 750 | - | 1,000 | 104 | 242 | 1,810 | ✔ |

Sources: World Bank, World Development Indicators, accessed on June 22, 2015. International Debt Statistics, accessed in December, 2014. IMF BEL database (sourced from Dealogic).
1/ Data from 2008 to 2013 is using World Bank International Debt Statistics. Data for 2014 is using IMF BEL database (sourced from Dealogic).
2/ Staff checked the accuracy of IDS against additional available information including BEL for bond issuance, country teams, and country authorities and made corrections for data that is obviously incorrect or could not be confirmed.
3/ Data for 2013 are not available. 2005 data given for Djibouti. 2012 data given for Timor-Leste.

# MARKET ACCESS CRITERION

**5. The market access criterion is currently based on a combination of a rules-based assessment of actual durable and substantial market access and a case-by-case assessment of potential access.** The rules-based approach assesses the scale and durability of market access in terms of the amount and frequency of the member's realized access to financing in international financial markets. A country can also meet the market access criterion based on potential market access if there is convincing evidence that the sovereign could have tapped international markets on a durable and substantial basis (but did not actually do so). The assessment of *potential* market access considers a country's sovereign credit rating and the volume and terms of recent actual borrowing reported in databases other than the World Bank's International Debt Statistics (IDS), i.e., Bloomberg, Dealogic, and others.[2]

**6. As more members begin to access market financing, the data used to assess actual market access could be made more timely by making use of a wider range of sources of external financing (Box 2).** The World Bank's IDS database, the main data source that has been used in this assessment, is updated annually with a one year data lag. Consistent with the current PRGT-eligibility framework, which defines market access as access to *international markets*, the assessment of market access does not include non-resident holdings of domestic debt, which have become increasingly important for some countries in recent years.

**7. Staff proposes to make use of the Bonds, Equities, and Loans (BEL) database as a data source for the assessment of actual market access for the most recent period when data are not yet available in the IDS database.[3]** The BEL database provides more timely information on international bond issuances and internationally contracted loans than IDS. The BEL database is updated weekly with a one month lag, and covers countries that have issued international bonds and contracted loans internationally.[4] By contrast, the December 2014 IDS database has annual information until 2013 but has a broader coverage that includes commercial borrowing other than syndicated bank loans. Since the previous review of PRGT eligibility, several PRGT-eligible countries have tapped international bond markets, making it more important to ensure that these

[2] The 2013 review revised the market access criterion. In particular, it differentiated between the entry and graduation thresholds for market access to align the market access criterion with the income criterion and safeguard against reverse graduation due to transitory loss of market access. Previously, the threshold of market access for both entry and graduation was set at 100 percent of the member's quota over three of the past five years. The 2013 review introduced an entry threshold for market access of 50 percent of quota over at least two of the last five years. This implies that re-entry to the PRGT list would require a significant deterioration in a country's market access relative to the period when it graduated.

[3] The IMF's BEL database is based on the information provided by Dealogic Loanware and Bondware, Capital Data, London, England. The discrepancies between the BEL database and the World Bank's IDS database are minor, with the exception of a few cases (see Annex II Table 2).

[4] See Annex II Table 1 for country coverage.

developments are systematically taken into account on a timely basis.[5] The inclusion of BEL data also allows for a robustness check on IDS bond data. In cases of discrepancies between IDS and BEL data on bond issuances or commercial loans, country teams are consulted on data accuracy. With the inclusion of BEL data, the assessment of actual market access will be based on both IDS and BEL databases for the period 2010–14 for countries that have non-zero entries in the BEL database for 2014.[6] For all other countries, the assessment will continue to be based on data from IDS for the period 2009–13 to ensure that the assessment of market access spans data for a five-year period for all countries in line with current policy. For years where IDS data is not available, BEL data will be used. The proposed changes will apply to both the entry and graduation criteria. With the inclusion of the BEL database, Côte d'Ivoire now meets the market access criterion.

**8. Staff considered using non-resident participation in domestic sovereign securities markets as a basis to assess market access, with corresponding modifications to the PRGT-eligibility framework**, which currently defines market access on the basis of access to international markets only. In the absence of standardized published data across countries, staff assessed the extent of non-resident participation in domestic debt markets by means of a questionnaire to country desks (Box 3). This variable was considered as a potential indicator of market access where the sovereign has no significant need for external bonds or loans. In most PRGT-eligible members, foreign participation is mostly not recorded or very limited; in the case of some frontier markets, participation is more significant but in some cases prone to reversals, suggesting it may not be a good indicator of durable and sustainable market access. Accordingly non-resident participation in domestic sovereign securities is not proposed as an indicator of market access for this review. Staff will continue to monitor developments in non-resident holdings of domestic debt to assess the merits of including such holdings in the definition of market access in future revisions to the PRGT eligibility framework.

[5] In previous reviews of PRGT eligibility, recent actual issuance data not covered by the IDS database was included as a factor in assessing potential market access.

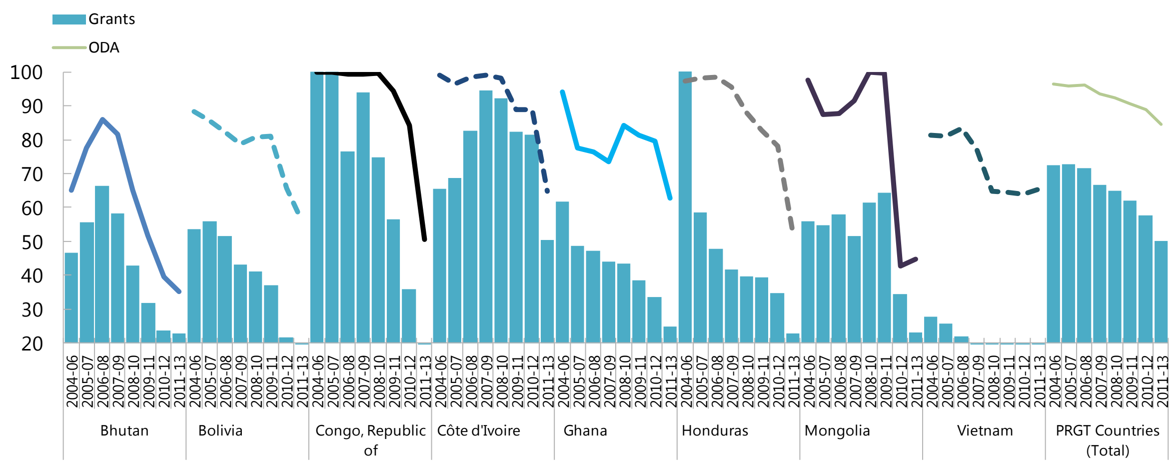
[6] The BEL database contains information on international primary issuance in numerous asset classes, such as equities, loans, loan facilities, bonds, fixed income facilities, and other fixed income instruments.

## Box 2. Concessional Official Financing Trends Among PRGT Members

**Most PRGT-eligible countries continue to rely heavily on official development assistance.** While PRGT-eligible countries' dependence on grants has declined from around 73 percent of external financing over 2004–06 to 50 percent over 2011–13, this cumulative figure masks wide disparity within the group. The median PRGT-eligible member still depends on grants for over 90 percent of its external financing and when it borrows, more than 90 percent of its borrowing is Official Development Assistance (ODA). Maldives is one case where reliance on ODA flows has increased over time in part due to increased awareness of the heightened vulnerability of the country to climate change.

**Over the last decade, several PRGT-eligible countries have grown less dependent on official donor assistance for their financing needs.** The reduced cumulative dependence reflects developments in a number of countries, that have increasingly tapped international markets either through bond issuances or commercial bank loans. The countries illustrated in the chart below have the lowest dependence on ODA flows as a share of their total external financing in the PRGT sample. Five out of the eight countries meet the market access criterion (with Mongolia meeting the amount requirement, but not the frequency). Averaging around 54 percent dependence on ODA flows over 2011–13, the group is near levels similar to recent graduates including Albania and Georgia, and well-below Armenia.

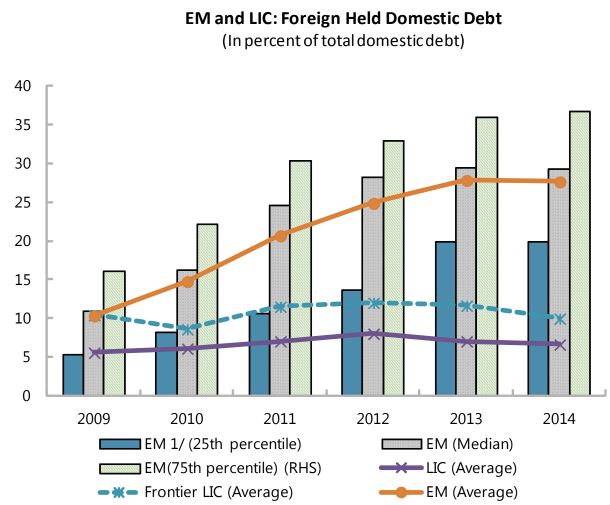
### Official Development Assistance and Grants, 2004–13 1/
(In percent of total public external financing)

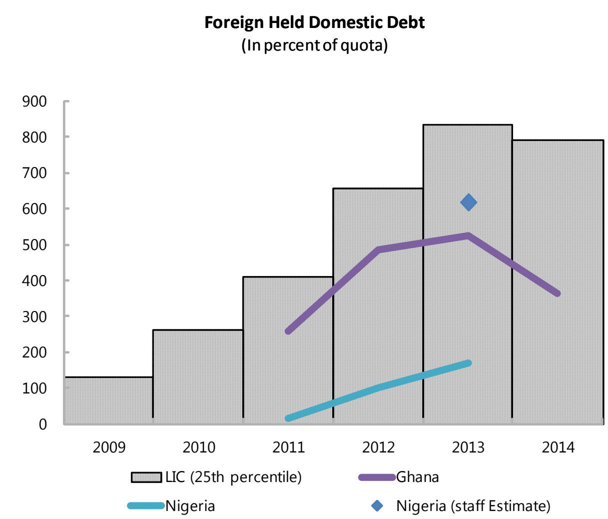



Sources: World Bank, International Debt Statistics, and OECD Aid Statistics.
1/ Concessional borrowing is defined in IDS and under ODA as loans with at least 25 percent grant element at 10 percent discount rate.

## Box 3. Trends in Non-Resident Holdings of Domestic Government Debt

**Portfolio flows into government securities in emerging markets have increased significantly following the global financial crisis, but low-income countries (LICs) did not see a significant rise in such inflows.** As monetary policy eased in advanced economies, capital flows into developing countries, particularly emerging markets, increased with the search for yields. However, most LICs have relatively shallow domestic securities markets with secondary markets limited or absent, which constrains foreign investors. The median PRGT-eligible country either does not receive or record these flows. However, the frontier markets within the sample have relatively larger non-resident holdings. These economies tend to have deeper and faster expanding domestic markets.




Source: Haver, Country desk data, and IMF staff estimates
1/ EMs with available data include: Brazil, China, Hungary,Malaysia. Mexico, Russia, Peru, Poland, Thailand, and Turkey

**Several frontier LICs have attracted non-resident flows into government domestic securities on a scale comparable to some emerging markets.** While some of these non-resident holdings may be attributed to regional financial integration, particularly within the West African Economic and Monetary Union (WAEMU), several countries outside of monetary unions including Nigeria and Ghana have experienced a surge in these holdings as global investors search for yield.

**Non-resident holdings of domestic securities present an opportunity for financing, but also pose significant challenges and risks.** Foreign inflows help reduce crowding out of domestic private credit, and alleviate upward pressures on domestic interest rates. However, these holdings also present risks of reversibility and increased exposure to international financial market volatility. Overall, it is challenging to evaluate the degree of durability of these flows given their strong dependence on market assessment of exchange rate risk and external monetary conditions.

# SERIOUS SHORT-TERM VULNERABILITIES CRITERION

**9. Under the existing policy, countries meeting one or both of the income and market access graduation criteria can graduate from PRGT eligibility provided they do not face serious short-term vulnerabilities.** The assessment of these vulnerabilities requires the absence of risks of a sharp decline in per capita income to a level below the applicable graduation threshold or of a loss of market access (where relevant), and limited debt vulnerabilities as indicated by a low or medium risk of external debt distress based on the latest debt sustainability analysis (DSA), and a confirmation that overall (domestic and external) debt vulnerabilities remain limited.

**10. The presence of such vulnerabilities prevented graduations in previous PRGT eligibility reviews.** For instance, six members (Armenia, Dominica, Georgia, Grenada, Maldives, and Saint Vincent and the Grenadines) met the income criterion in the 2010 and 2012 reviews of the PRGT-eligibility list but were not proposed for graduation due to the presence of serious short-term vulnerabilities. In the 2013 review, two of these countries graduated (Armenia and Georgia), one dropped below the increased income threshold for microstates (St. Vincent and the Grenadines) and the other three were deemed to face serious short-term vulnerabilities.

**11. Retaining the presence of serious short-term vulnerabilities as a factor in assessing PRGT graduation is consistent with maintaining broad alignment with IDA graduation practices.** The latest IDA review concluded that a flexible approach to graduation should be maintained and graduation should continue to rely on a careful case-by-case evaluation of a country's circumstances (Annex I).[7]

**12. Modifications to the assessment of the serious short-term vulnerabilities criterion are proposed to:**

- allow for the graduation of countries that meet the income criterion by a large margin, sufficient to ensure that there would be only a minimal risk that the member's income would fall below the applicable income graduation threshold in the future; and
- broaden the assessment of debt vulnerabilities as a factor in assessing short-term vulnerabilities.

**Large margins against income graduation criterion**

**13. It is proposed to limit the role of the serious short-term vulnerabilities criterion in cases where income level exceeds by 50 percent or more the applicable income graduation threshold.** In such cases, the requirement to assess the possible presence of serious short-term vulnerabilities would be dropped, except where a circumstance, defined below, warranted such an assessment.

[7] See "Follow-up on IDA's Graduation Policy and Proposal for Transitional Support for Graduating Countries," IDA Resource Mobilization Department, Concessional Finance and Global Partnerships, World Bank, March 2013.

- Given the large margin relative to the income graduation threshold, the staff view is that there is a minimal probability that adverse shocks would bring per capita income below the relevant income graduation threshold.[8] (It should be noted that, were the economy hit by adverse shocks, any financing needs could be addressed through access to the Fund's non-concessional resources.)

- There is, however, one circumstance where an assessment of serious short-term vulnerabilities is warranted before making a determination on graduation from PRGT eligibility of such relatively high-income countries. It is proposed that countries classified by the World Bank to be "IDA-only" and sufficiently vulnerable to justify the provision of assistance from IDA in the form of grants, warrant an assessment of such short-term vulnerabilities by the Executive Board and of the resulting merits of retaining the member's eligibility for PRGT concessional financing.[9] In such cases, the member's PRGT eligibility would be retained if, following the Executive Board assessment, it is confirmed that the member has serious short-term vulnerabilities as currently defined (i.e., risks of a sharp decline in income or of a loss of market access, and more than limited debt vulnerabilities).

**14. Tightening the circumstances under which the presence of short-term vulnerabilities prevents the graduation of higher-income countries promotes the efficient use of PRGT resources, equity, and simplicity on the basis of empirical evidence.** In particular, this proposal would help: i) better target scarce PRGT resources—countries that have relatively high per capita income levels would graduate, preserving scarce PRGT resources for remaining poorer eligible countries; and, ii) promote simplicity since it is relatively straightforward to implement.

**15. Two PRGT-eligible members, Maldives and Mongolia, have a 2013 per capita GNI more than 50 percent above the applicable graduation threshold.** Mongolia is viewed by the World Bank as warranting blended support—a mix of IDA (concessional) and IBRD (non-concessional) funds.[10] By contrast, Maldives is assessed by the Bank to be in a sufficiently weak

[8] When GNI per capita is at least 50 percent above applicable income graduation thresholds, the probability of a country's GNI per capita subsequently falling by 33 percent or more to a level below the income graduation threshold is very low (about 0.2 percent probability of such an income decline based on data for 139 developing countries over 2000–13. The proposed income thresholds are: i) at least 3 times the IDA threshold; ii) at least 4.5 times the IDA threshold for small countries (countries with population below 1.5 million but not less than 200,000); or iii) at least 9 times the IDA threshold for microstates (countries with population below 200,000).

[9] The set of countries eligible for access to IDA resources can be divided into three main categories: a) IDA-only non-gap countries, whose economic situation warrants the provision of financial support entirely on concessional terms; b) IDA-only gap countries, whose income level is such that World Bank support takes the form of loans on (harder) blend financing terms but who are not considered creditworthy for IBRD financing; and c) IDA-blend countries, whose creditworthiness is such that World Bank support takes the form of a blend of IDA credits, IDA hard term credits, and regular IBRD loans. IDA-only non-gap countries (i.e., category a) above) can be further subdivided into three groups: i) "grant-only" countries; ii) countries that receive support in the form of a loan-grant mix; and iii) countries that receive support in the form of loans on regular IDA terms. The text language refers to the first two subcategories (i.e., i) and ii)).

[10] As countries advance, blended support of this type is the final stage before graduation from IDA eligibility.

economic position to warrant "IDA-only" status. In addition to being eligible for IDA's highly concessional loan financing (with 53 percent grant element using the Bank-Fund discount rate), the Maldives also receives grant support from the Bank. Given the discussion in the previous paragraphs, an assessment of short-term vulnerabilities by the Executive Board is therefore warranted in determining the case for graduation from PRGT eligibility.[11] The Fund staff assessment of Maldives is that the country faces serious short-term vulnerabilities as defined under the current PRGT-eligibility framework—specifically that Maldives' faces risks of a sharp decline in income and a loss of market access due to elevated debt vulnerabilities. In light of this, Maldives' graduation from PRGT eligibility is not proposed at this time.

**Broaden the assessment of debt vulnerabilities as a factor in assessing short-term vulnerabilities.**

**16. This proposal is a technical update to align the PRGT-eligibility framework with the 2013 debt sustainability framework.**[12] The existing external debt distress classification would be complemented with an assessment of overall debt vulnerabilities in DSAs. In practice, this would mean that countries that have either low or moderate risk of external debt distress, but have a heightened risk of overall debt distress due to domestic and/or private external debt would be considered as facing serious short-term vulnerabilities, except in circumstances where they met the large margin above income graduation criterion. Specifically, consistent with the new debt sustainability framework, *private external debt* is now included in the assessment of debt vulnerabilities.

**17. The proposed changes to the framework are summarized in Table 3 below**. The modification to the framework which strengthens the rules-based approach, also leaves room for judgment on each country's readiness for graduation. Based on the proposed modifications to the framework, eight countries are assessed as meeting one or both graduation criteria, but are not proposed for graduation given the presence of serious short-term vulnerabilities (Annex III).

[11] A decision by the Fund to graduate Maldives from PRGT eligibility would result in a marked misalignment vis-à-vis treatment under IDA, given the provision of assistance from IDA on grant terms.

[12] See "Staff Guidance Note on the Application of the Joint Bank-Fund Debt Sustainability Framework for Low-Income Countries (IMF, 2013b).

**Table 3. Proposed Changes to the PRGT-Eligibility Framework**

| Current Framework | Proposed Framework |
|---|---|
| *Market access criterion (entry and graduation)* | |
| Assessment is based on the World Bank's International Debt Statistics (IDS) database. | The IDS database will be supplemented by data from the Bonds, Equities, and Loans (BEL) database to assess actual market access. |
| *Absence of short-term vulnerabilities criterion (graduation)* | |
| For graduation, a country should not face serious short-term vulnerabilities. The assessment of vulnerabilities will require, in particular, the absence of risks of a sharp decline in income or of a loss of market access where relevant, limited debt vulnerabilities based on the latest DSA, and a confirmation that overall debt vulnerabilities remain limited. | Limit the application of the serious short-term vulnerabilities criterion for countries that exceed by 50 percent or more the applicable income graduation threshold provided, however, that a review of the country's vulnerabilities would still be warranted for "IDA-only" countries receiving assistance on grant terms with incomes exceeding this threshold. |
| A level of domestic debt that does not give rise to serious concerns about the member's debt sustainability based on the latest DSA. | Complement the existing assessment of debt vulnerabilities with consideration of overall debt vulnerabilities due to domestic and/or private external debt based on the latest DSA. |

# APPLICATION OF THE PROPOSED FRAMEWORK FOR PRGT ELIGIBILITY

**18. Based on the proposed modifications of the framework, four countries are proposed for graduation and no new countries qualify for entry.** Countries proposed for graduation are Bolivia, Mongolia, Nigeria, and Vietnam. Bolivia, Mongolia, and Nigeria meet the income graduation criterion, and Vietnam meets the market access graduation criterion (Table 4). Currently, none of these countries face serious short-term vulnerabilities that could lead to a decline in per capita income below the graduation threshold (if meeting the income criterion) nor loss of market access (if meeting the market access criterion) that could lead to reverse graduation. Moreover, these countries' reliance on concessional financing has also declined significantly in recent years.

**19. Eight countries meet either the income or market access graduation criterion under the proposed modified framework, but are not proposed for graduation because they currently face serious short-term vulnerabilities and their incomes do not exceed the income graduation criterion by large margins.**

- **Grenada** is currently in debt distress while **Cabo Verde and Ghana** face significant debt vulnerabilities, and accordingly are not proposed for graduation.

## Table 4. Assessment of Countries that Meet the Income or Market Access Criteria for Graduation

| Country | Income or market access criteria met | Meeting income or market access criteria in the previous round | Risk of debt distress(As of March,2015) | Other Short-term Vulnerabilities | IDA status | Distance from Income graduation threshold( percent) 1/ | Distance from Market access amount threshold (percent) 2/ | Market Access frequency in the last five years 2/ |
|---|---|---|---|---|---|---|---|---|
| Bolivia | Income | No | Low | N | Blend | 4.94 | 294 | 2/5 |
| Cabo Verde | Market | No | Moderate | Y | Blend | -0.69 | 989 | 3/5 |
| Congo, Republic of | Income & market | No | Low | Y | Blend | 6.58 | 254 | 3/5 |
| Cote d'Ivoire | Market | No | Moderate | Y | IDA | -40.33 | 56 | 3/5 |
| Ghana | Market | Yes | High | Y | IDA | -27.16 | 565 | 5/5 |
| Grenada | Income | Yes | In debt distress | Y | Blend | 2.74 | -100 | 0/5 |
| Guyana | Income | No | Moderate | Y | IDA | 2.88 | -100 | 0/5 |
| Maldives | Income & market | Yes | High 3/ | Y | IDA-grants | 53.64 | 395 | 4/5 |
| Moldova | Income | No | Low | Y | Blend | 1.65 | -87 | 3/5 |
| Mongolia | Income | No | High | Y | Blend | 55.14 | 1885 | 1/5 |
| Nigeria | Income | No | Low | N | Blend | 11.52 | -42 | 2/5 |
| Vietnam | Market | Yes | Low | N | Blend | -28.40 | 960 | 5/5 |

Source: Fund staff estimates.

1/ The income criterion is met when the country's annual per capita GNI is currently (a) at least twice the operational IDA cutoff, or (b) at least three times the IDA operational cutoff for small countries; or (c) at least six times the IDA operational cutoff for microstates.

2/ The market access criterion is met when the public sector issues or guarantees external bonds or disbursements take place under public- and publicly-guaranteed external commercial loans in international markets during at least three of the last five years (for which data are available), in a cumulative amount over that period equivalent to at least 100 percent of the country's quota at the Fund at the time of the assessment.

3/ Risk of external debt distress is moderate, but overall debt distress is assessed to be high.

- **Guyana, and Moldova** meet the income criterion by a small margin, while **Republic of Congo** meets both the income and market access criteria but all three face serious short-term vulnerabilities that could reduce per capita incomes below the income graduation criterion. In particular, Moldova is vulnerable to geopolitical tensions that could have a marked adverse effect on Moldovan exports, and an ensuing sizeable decline in GDP. Guyana's vulnerabilities stem from a large current account deficit and a narrow economic base, while Republic of Congo is vulnerable to adverse oil price movements that could push income below the graduation threshold and undermine market access.

- **Côte d'Ivoire** meets the market access criterion but has only recently emerged from a long period of political conflict and economic stagnation, and remains in a fragile situation. Political and economic recovery is not fully entrenched, and given the risks of a loss of its market access it would be premature to propose the country for graduation.

- **The Maldives** meets the income criterion by a large margin but it is an IDA-only country and receives assistance from IDA on grant terms. Additional scrutiny of the Maldives case confirms the presence of serious short-term vulnerabilities, particularly a risk of income decline, and loss of market access from elevated debt. Thus, graduation from PRGT eligibility is not warranted at this time.

# FINANCING IMPLICATIONS

**20. Staff's proposals to refine the PRGT-eligibility framework and the resulting proposed country graduations are consistent with projected demand for the Fund's concessional resources under the self-sustained PRGT.** The impact on expected demand for PRGT resources is broadly in line with the projected trends and patterns of graduation. Staff projections indicate that in the period 2016–25, a further 14 countries could potentially graduate from PRGT eligibility. Staff's updated projections of the demand for the Fund's concessional resources, taking into account the proposed revisions to the PRGT-eligibility framework and proposed graduations, suggest that the overall average demand projections for 2015–37 would be in the range of SDR 1.1–1.9 billion, implying that the PRGT should have the capacity to meet the demand for IMF concessional lending under a range of plausible scenarios (Table 5).[13] Proposals to increase access limits and norms to PRGT facilities by 50 percent and shift the funding mix between PRGT and GRA resources for presumed blenders from 1:1 to 1:2 are designed to be broadly neutral to PRGT loan demand and would not change this assessment.[14]

**Table 5. Projected Demand for PRGT Resources**
(In billions of SDRs)

| | 2015–25 | | 2015–37 | |
|---|---|---|---|---|
| | Low-case scenario | High-case scenario | Low-case scenario | High-case scenario |
| Average annual demand for access to PRGT resources 1/ | | | | |
| Previous baseline (2013 PRGT eligibility review) 2/ 4/ | 1.1 | 1.7 | 1.2 | 2.1 |
| Updated baseline (2015 PRGT eligibility review) 3/ 4/ 5/ | 1.0 | 1.5 | 1.1 | 1.9 |

Source: Fund staff calculations.
1/ The low-case scenario assumes that about 30 percent of PRGT-eligible countries would report to Fund financing in any given year, while the high-case scenario assumes 50 percent of PRGT-eligible countries request some form of Fund financial support in any given year.
2/ See IMF (2013a, March 18, 2013). Estimates covered the years 2013–23 and 2013–35.
3/ Assumes the graduation of Bolivia, Nigeria, Vietnam, and Mongolia in 2015.
4/ Based on 50 percent reduction in access norms and limits (in percent of quota) when the quota increase under the Fourteenth General Review of Quotas goes into effect (assumed to occur in 2013 for the 2013 review and in 2016 for the 2015 review), followed by increase in access nominal SDR terms of 24.2 percent at three-year intervals, starting in 2016. The baseline also incorporates other methodological issues as (i) applying the vulnerability criterion to the graduation and blending options; and (ii) aligning the graduation assumptions with the two-year PRGT-eligibility review cycle.
5/ For PRGT-eligible countries that are presumed to blend, it is assumed that half of access to Fund resources is from the PRGT.

[13] For details on demand projections for the Fund's concessional financing, see *Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries* (IMF, 2015a).

[14] See *Enhancing the Financial Safety Net for Developing Countries* (IMF, 2015b ).

# Proposed Decisions

**Decision I. Eligibility to Use the Fund's Facilities for Concessional Financing**

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

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, adopted March 26, 1986, as amended.

2. Subparagraph B of paragraph 1 of Decision No. 14521-(10/3), adopted January 11, 2010, as amended, shall be revised to read as follows:

"(B) ***Criteria for graduation***: A member will be removed from the PRGT-eligibility list if it meets either or both the income and market access criteria specified in (1) and (2) below, and does not face serious short-term vulnerabilities as specified in (3) below:

(1) *Income Criterion*: the member's annual per capita GNI (i) has been above the IDA operational cut-off for at least the last five years for which qualifying data are available; (ii) has not been on a declining trend over the same period, comparing the first and last relevant annual data; and (iii) based on the latest qualifying annual data, is (a) at least twice the IDA operational cut-off; or (b) at least three times the IDA operational cut-off if the member qualifies as a "small country" under the definition set forth in subparagraph (D); or (c) at least six times the IDA operational cut-off if the member qualifies as a "microstate" under the definition set forth in subparagraph (D).

(2) *Market Access Criterion*: (i) the sovereign has the capacity to access international financial markets on a durable and substantial basis as defined in subparagraph (C); (ii) the member's annual per capita GNI is above 100 percent of the IDA operational cut-off based

on the latest qualifying annual data; and (iii) the member's annual per capital GNI has not been on a declining trend over the last five years for which qualifying data are available, comparing the first and last relevant annual data.

(3) *Absence of serious short-term vulnerabilities*: the member does not face serious short-term vulnerabilities, which shall require in particular (i) the absence of risks of a sharp decline in the member's income, or of a loss of its market access (where relevant); (ii) limited debt vulnerabilities as indicated by the most recent debt sustainability analysis, including, for members whose debt has been assessed under the Debt Sustainability Framework for Low-Income Countries, an external debt distress classification of moderate or less and does not face a heightened overall risk of debt distress reflecting significant vulnerabilities related to domestic debt and/or private external debt; and (iii) confirmation that overall debt vulnerabilities remain limited, taking into account developments and prospects since the most recent debt sustainability analysis. For a member whose annual per capita GNI exceeds the applicable income graduation threshold in (1) above by 50 percent or more, graduation from PRGT-eligibility will not be subject to the assessment of serious short-term vulnerabilities defined in this subparagraph (3). Such an assessment by the Executive Board will however be required if the member has an "IDA-grant only" or "IDA loan-grant mix" status at the World Bank , in which case graduation will depend on an assessment that the member does not have such serious short-term vulnerabilities.

**Decision II. Eligibility to Use the Fund's Facilities for Concessional Financing--List of Eligible Members and Amounts of Assistance**

The following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

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 Bolivia, Mongolia, Nigeria and Vietnam from such list.
2. The removal of Bolivia from the list shall become effective on October 16, 2015 , or on the date of the termination of any arrangement under the PRGT that may be in existence for Bolivia, whichever is later.
3. The removal of Mongolia from the list shall become effective on October 16, 2015, or on the date of the termination of any arrangement under the PRGT that may be in existence for Mongolia, whichever is later.
4. The removal of Nigeria from the list shall become effective on October 16, 2015, or on the date of the termination of any arrangement under the PRGT that may be in existence for Nigeria, whichever is later.
5. The removal of Vietnam from the list shall become effective on October 16, 2015, or on the date of the termination of any arrangement under the PRGT that may be in existence for Vietnam, whichever is later.

# Annex I. IDA Graduation Policy

Two criteria are used to determine which countries can access IDA resources: i) relative poverty defined as GNI per capita below an established threshold and updated annually (in fiscal year 2015: $1,215) and ii) lack of creditworthiness to borrow on market terms and therefore a need for concessional resources to finance the country's development program. As of end-May 205, IDA and PRGT eligibility were aligned in all except five cases. Specifically, there are five countries that were not PRGT-eligible yet had some access to IDA resources Kosovo has access only to IDA resources; Pakistan, Sri Lanka, and Zimbabwe have blended access to IDA and IBRD resources; and India has exceptional transitional support from IDA during the seventeenth Replenishment of IDA resources (IDA17)).

At the Sixteenth Replenishment of IDA resources (IDA16) Mid-Term Review meeting, participants supported IDA's flexible approach to graduation, and expressed a willingness to consider transitional support from IDA for new graduates that meet well-defined criteria. Participants noted that graduation from IDA represents a milestone in a country's development path and should open up development financing options to a broader range of sources and borrowing instruments. However, it was noted that, in some cases, it could adversely impact a country's capacity to maintain development momentum if it leads to a significant lessening of available financing for that country.

The World Bank Management's assessment of the readiness for graduation of IDA countries looks at GNI per capita, the creditworthiness status of candidates, and other relevant factors. Angola, Armenia, Bosnia and Herzegovina, Georgia, and India graduated at the end of the IDA16 period (i.e., at the end of FY14). Vietnam was not proposed for graduation before the end of the IDA17 period,[1] given its still low GNI per capita, vulnerability to shocks, and only recent access to IBRD lending.

The report from the Executive Directors of the IDA to the Board of Governors sets[2] out the rationale and eligibility criteria for transitional support after graduation from IDA. The paper proposes three criteria to govern access to transitional support from IDA: (a) GNI per capita below the historical threshold at the time of graduation; (b) a significant poverty agenda, as measured by poverty levels and other social indicators; and (c) a significant prospective reduction in available financing from the World Bank (WB) after graduation from IDA**.** Such support would thus be made available for new graduates that meet these three criteria and would help smooth the transition of graduating countries where access to WB financing is constrained. India, which graduated from IDA on June 30, 2014, meets these three criteria and accordingly transitional support will be provided to India during IDA17.

[1] IDA17 will run from July 1, 2015 to June 30, 2017.

[2] Based on the Report from the Executive Directors of the IDA to the Board of Governors, Additions to IDA Resources: Seventeenth Replenishment (Approved by the Executive Directors of IDA on March 25, 2014).

# Annex II. Comparing BEL and IDS Databases

## Annex II Table 1. PRGT-Eligible Countries and Key Non-Eligible Countries Coverage by IDS and BEL Database 1/

| | Covered by IDS | Covered by BEL | Covered by neither | | Covered by IDS | Covered by BEL | Covered by neither |
|---|---|---|---|---|---|---|---|
| Afghanistan | ✔ | ✔ | | Maldives | ✔ | | |
| Bangladesh | ✔ | ✔ | | Mali | ✔ | ✔ | |
| Benin | ✔ | ✔ | | Marshall Islands | | ✔ | |
| Bhutan | ✔ | ✔ | | Mauritania | ✔ | ✔ | |
| Bolivia | ✔ | ✔ | | Micronesia | | ✔ | |
| Burkina Faso | ✔ | ✔ | | Moldova | ✔ | ✔ | |
| Burundi | ✔ | ✔ | | Mongolia | ✔ | ✔ | |
| Cambodia | ✔ | | | Mozambique | ✔ | ✔ | |
| Cameroon | ✔ | ✔ | | Myanmar | ✔ | ✔ | |
| Cabo Verde | ✔ | ✔ | | Nepal | ✔ | ✔ | |
| Central African Republic | ✔ | ✔ | | Nicaragua | ✔ | ✔ | |
| Chad | ✔ | ✔ | | Niger | ✔ | ✔ | |
| Comoros | ✔ | | | Nigeria | ✔ | ✔ | |
| Congo, Rep. | ✔ | ✔ | | Papua New Guinea | ✔ | ✔ | |
| Congo, Dem. Rep. | ✔ | | | Rwanda | ✔ | ✔ | |
| Côte d'Ivoire | ✔ | ✔ | | Samoa | ✔ | | |
| Djibouti | ✔ | ✔ | | São Tomé and Principe | ✔ | | |
| Dominica | ✔ | | | Senegal | ✔ | ✔ | |
| Eritrea | ✔ | | | Sierra Leone | ✔ | ✔ | |
| Ethiopia | ✔ | ✔ | | Solomon Islands | ✔ | ✔ | |
| Gambia, The | ✔ | ✔ | | Somalia | ✔ | ✔ | |
| Ghana | ✔ | ✔ | | South Sudan | | | |
| Grenada | ✔ | ✔ | | St. Lucia | ✔ | ✔ | |
| Guinea | ✔ | ✔ | | St.Vincent and the Grenadines | ✔ | | |
| Guinea-Bissau | ✔ | ✔ | | Sudan | ✔ | ✔ | |
| Guyana | ✔ | ✔ | | Tajikistan | ✔ | ✔ | |
| Haiti | ✔ | ✔ | | Tanzania | ✔ | ✔ | |
| Honduras | ✔ | ✔ | | Timor-Leste | | | ✔ |
| Kenya | ✔ | ✔ | | Togo | ✔ | ✔ | |
| Kiribati | | | ✔ | Tonga | ✔ | | |
| Kyrgyz Republic | ✔ | ✔ | | Tuvalu | | | ✔ |
| Lao PDR | ✔ | ✔ | | Uganda | ✔ | ✔ | |
| Lesotho | ✔ | ✔ | | Uzbekistan | ✔ | ✔ | |
| Liberia | ✔ | ✔ | | Vanuatu | ✔ | ✔ | |
| Madagascar | ✔ | ✔ | | Vietnam | ✔ | ✔ | |
| Malawi | ✔ | ✔ | | Yemen | ✔ | ✔ | |
| | | | | Zambia | ✔ | ✔ | |
| **Memorandum Item** | | | | | | | |
| Zimbabwe | ✔ | ✔ | | | | | |
| **Key non-eligible countries** | | | | | | | |
| Antigua and Barbuda | | | ✔ | Palau | | ✔ | |
| Belize | ✔ | ✔ | | Philippines | ✔ | ✔ | |
| Egypt | ✔ | ✔ | | Seychelles | ✔ | ✔ | |
| Fiji | ✔ | ✔ | | Sri Lanka | ✔ | ✔ | |
| India | ✔ | ✔ | | St. Kitts and Nevis | | ✔ | |
| Iraq | | ✔ | | Suriname | | ✔ | |
| Namibia | | ✔ | | Swaziland | ✔ | ✔ | |
| Pakistan | ✔ | ✔ | | | | | |

1/ IDS refers to the World Bank International Debt Statistics, BEL refers to IMF Bonds, Equities and Loans database (sourced from Dealogic).

## Annex II Table 2. Comparing BEL and IDS Data

| | Sovereign and Public Sector's Loans and Sovereign Eurobonds-PPG external bonds and commercial loans 1/ (in millions of US dollars) | | | | | | Sovereign and Public Sector's Loans and Sovereign Eurobons-PPG external bonds and commercial loans (in millions of US dollars) | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2009 | 2010 | 2011 | 2012 | 2013 | | 2009 | 2010 | 2011 | 2012 | 2013 |
| Afghanistan | 0 | 0 | 0 | 0 | 0 | Maldives | n.a. | n.a. | n.a. | n.a. | n.a. |
| Bangladesh | 0 | 0 | 0 | 262 | 0 | Mali | -3 | 0 | 0 | 0 | -1 |
| Benin | 0 | 0 | 0 | 0 | 0 | Marshall Islands | 0 | 0 | 0 | 0 | 0 |
| Bhutan | 0 | 0 | 0 | 0 | 0 | Mauritania | 0 | 0 | 0 | 0 | 0 |
| Bolivia | -7 | 0 | -66 | -66 | -186 | Micronesia | 0 | 0 | 0 | 0 | 0 |
| Burkina Faso | 0 | 0 | 0 | 0 | 0 | Moldova | 0 | 0 | -4 | -17 | -2 |
| Burundi | 0 | 0 | 0 | 0 | 0 | Mongolia | 0 | 0 | 0 | 580 | 20 |
| Cambodia | n.a. | n.a. | n.a. | n.a. | n.a. | Mozambique | 0 | -51 | -139 | -28 | -120 |
| Cameroon | -8 | -6 | -5 | -22 | -36 | Myanmar | 0 | 0 | 0 | 0 | 0 |
| Cabo Verde | 0 | 0 | -10 | -26 | -145 | Nepal | 0 | 0 | 0 | 0 | 0 |
| Central African Republic | 0 | 0 | 0 | 0 | 0 | Nicaragua | 0 | 0 | 0 | 0 | -7 |
| Chad | 0 | 0 | 0 | 0 | 0 | Niger | 0 | 0 | 0 | 0 | 0 |
| Comoros | n.a. | n.a. | n.a. | n.a. | n.a. | Nigeria | 0 | 0 | 0 | 0 | 0 |
| Congo, Rep. | 0 | 0 | -112 | -221 | -110 | Papua New Guinea | 0 | 0 | 0 | 0 | 0 |
| Congo, Dem. Rep. | n.a. | n.a. | n.a. | n.a. | n.a. | Rwanda | 0 | 0 | 0 | 0 | 0 |
| Côte d'Ivoire | 0 | 2332 | 0 | -2 | 0 | Samoa | n.a. | n.a. | n.a. | n.a. | n.a. |
| Djibouti | 0 | 0 | 0 | 0 | 0 | São Tomé and Principe | n.a. | n.a. | n.a. | n.a. | n.a. |
| Dominica | n.a. | n.a. | n.a. | n.a. | n.a. | Senegal | 0 | 0 | 0 | -2 | -1 |
| Eritrea | n.a. | n.a. | n.a. | n.a. | n.a. | Sierra Leone | 0 | 0 | 0 | 0 | 0 |
| Ethiopia | 0 | -305 | -473 | -617 | -168 | Solomon Islands | 0 | 0 | 0 | 0 | 0 |
| Gambia, The | -1 | -6 | 0 | -7 | -3 | Somalia | 0 | 0 | 0 | 0 | 0 |
| Ghana | -274 | -297 | -503 | -527 | -302 | South Sudan | n.a. | n.a. | n.a. | n.a. | n.a. |
| Grenada | 0 | 0 | 0 | 0 | 0 | St. Lucia | -3 | 0 | 0 | 0 | 0 |
| Guinea | 0 | 0 | 0 | 0 | 0 | St.Vincent and the Grenadines | n.a. | n.a. | n.a. | n.a. | n.a. |
| Guinea-Bissau | 0 | 0 | 0 | 0 | 0 | Sudan | 0 | 0 | 0 | 0 | 0 |
| Guyana | 0 | 0 | 0 | 0 | 0 | Tajikistan | 0 | 0 | 0 | 0 | 0 |
| Haiti | 0 | 0 | 0 | 0 | 0 | Tanzania | 0 | -17 | -304 | -2 | -243 |
| Honduras | -50 | 0 | 0 | -20 | -14 | Timor-Leste | n.a. | n.a. | n.a. | n.a. | n.a. |
| Kenya | 0 | -1 | -14 | -677 | -10 | Togo | 0 | 0 | 0 | 0 | 0 |
| Kiribati | n.a. | n.a. | n.a. | n.a. | n.a. | Tonga | n.a. | n.a. | n.a. | n.a. | n.a. |
| Kyrgyz Republic | 0 | 0 | 0 | 0 | 0 | Tuvalu | n.a. | n.a. | n.a. | n.a. | n.a. |
| Lao PDR | 0 | 0 | 0 | 0 | -143 | Uganda | 0 | 0 | 0 | 0 | 0 |
| Lesotho | 0 | 0 | 0 | 0 | 0 | Uzbekistan | -1 | -15 | -75 | -10 | -10 |
| Liberia | 0 | 0 | 0 | 0 | 0 | Vanuatu | 0 | 0 | 0 | 0 | 0 |
| Madagascar | 0 | 0 | 0 | -3 | -2 | Vietnam | -527 | -918 | 9 | -938 | -1685 |
| Malawi | 0 | 0 | 0 | 0 | -3 | Yemen | 0 | 0 | 0 | 0 | 0 |
| | | | | | | Zambia | 0 | 0 | 0 | 16 | -16 |
| **Memorandum Item** | 0 | 0 | 0 | 0 | 0 | | | | | | |
| Zimbabwe | 0 | 0 | 0 | 0 | 0 | | | | | | |

1/ Calculated as the difference between BEL and IDS (e.g., BEL minus IDS). IDS is only updated to 2013; BEL is updated until March 2015.

# Annex III. Assessments of Countries that Meet the Income or Market Access Criteria for Graduation

**Bolivia**

**Background.** Growth is estimated to have moderated in 2014 to 5.2 percent from 6.8 percent in 2013 with inflation declining from 6.5 to 5.5 percent and the current account recording a surplus around 2.6 percent of GDP. After several years of fiscal surpluses supported by hydrocarbon revenues, the fiscal balance is estimated to have turned to a small deficit in 2014 of about 0.4 percent of GDP on account of increased public investment. The near-term outlook on both growth and external balances is favorable driven by rising hydrocarbon exports and related Foreign Direct Investment (FDI). Bolivia has been an IDA blender since 2002 and has a low risk of debt distress. Bolivia's public debt is low, at around 30 percent of GDP as of end-2014. Bolivia's reliance on concessional official borrowing has declined to less than 50 percent of total public external borrowing in 2011–13 from almost 75 percent in 2004–06.[1]

**Assessment:**

*Staff proposes graduating Bolivia from PRGT eligibility.*

**Income Criterion.** Bolivia meets the criteria for graduation. GNI per capita in 2013 has increased to US$2,550, about 5 percent above its graduation threshold (US$2,430). Per capita income has been steadily rising over the last decade and has been above the operational IDA threshold for at least the last five years.

**Market Access Criterion.** Bolivia does not meet the criterion for graduation. External borrowing through commercial markets as measured under the framework amounted to 394 percent of Bolivia's IMF quota over 2010–14 through two international bond issuances.

**Serious Short-Term Vulnerabilities.** There are short-term vulnerabilities primarily linked to a decline in activity in trading partners and weaker hydrocarbon prices. However, these vulnerabilities are manageable given large international reserves (50 percent of GDP as of end-June 2014) and ample government deposits at the central bank. Staff latest projections for Bolivia, which already capture a weak hydrocarbon price outlook, shows GNI per capita remaining above the graduation threshold over the medium term. Thus, the risk of income per capita falling below the graduation threshold is considered very low.

[1] Concessional borrowing typically refers to loans with a grant element of at least 35 percent, consistent with current Bank-Fund usage. However, the data used here is from the World Bank's World Development Indicators (WDI) where concessional debt is defined as having at least 25 percent original grant element, and thus the criteria is less restrictive.

**Cabo Verde**

**Background.** Growth recovered to 2.7 percent in 2014 from a 1 percent growth rate in 2013, on account of strong fisheries, and robust transport and communication services. Lower food and energy prices pulled down consumer prices, recording a 0.2 percent deflation in 2014. While the current account deficit is estimated to have widened to 7.5 percent of GDP in 2014 from 4.9 percent in 2013 reflecting a drop-off in tourist numbers due to ebola concerns and a pickup in capital goods imports, it remains well-financed by capital inflows and remittances, with reserves covering about 4.9 months of prospective imports. Fiscal vulnerabilities are on the rise. The budget deficit stayed high at 8 percent of GDP in 2014 largely due to the public investment scaling-up, which also was the main factor behind the sharp accumulation of public debt to 112 percent of GDP in 2014 from below 80 percent in 2011. More than three quarters of debt is external. Cabo Verde has been an IDA blender since 2005. Cabo Verde's reliance on concessional official borrowing has declined from 92 percent of public external borrowing in 2004–06 to 68 percent in 2011–13.

**Assessment:**

*Staff proposes maintaining Cabo Verde's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.*

**Income Criterion.** Cabo Verde does not meet the criterion. It is a small country with the 2013 GNI per capita at US$3,620—just below three times the IDA operational cutoff.

**Market Access Criterion.** Cabo Verde meets the criterion as it borrowed from the international market three years in a row for a cumulative access of more than 1000 percent of quota over 2010–14.

**Serious Short-Term Vulnerabilities.** Cabo Verde was assessed to be at moderate risk of external debt distress in 2014. However, total public debt is expected to reach considerably higher levels over the medium term than previously projected and is subject to significant vulnerabilities. As a result, staff does not view Cabo Verde's market access as being sufficiently durable to support PRGT graduation given serious short-term vulnerabilities.

**Republic of Congo**

**Background.** Real GDP growth accelerated to 6.8 percent in 2014, up from 3.3 percent in 2013, as rising government spending boosted activity in key sectors. Inflation moderated to 0.5 percent in 2014 on the back of lower global food prices. The current account deficit widened to 5.5 percent of GDP, from 4.5 percent of GDP and was primarily financed by FDI in the oil sector. The overall fiscal deficit amounted to about 8½ percent of GDP in 2014, a near doubling from 2013, given both lower oil revenues and increased expenditures. Public debt is estimated at around 36 percent of GDP. The Republic of Congo is currently an IDA blender with a low risk of debt distress based on the 2014

Article IV discussions. The share of concessional official borrowing as a percent of total public external borrowing has declined from almost 100 percent in 2004–06 to 68 percent in 2011–13.

**Assessment:**

*Staff proposes maintaining the Republic of Congo's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.*

**Income Criterion.** The Republic of Congo meets the criterion for graduation with GNI per capita of US$2,590 in 2013, which is 7 percent above the graduation threshold (US$2,430). Income per capita has been on an upward trend over the last decade and has been over the IDA operational threshold for the last five years.

**Market Access Criterion.** The Republic of Congo meets the criterion for graduation with external borrowing through commercial markets amounting to 354 percent of its IMF quota over 2010–14 through three issuances. The Republic of Congo's strong sovereign rating, which is among the highest in the region, was recently downgraded a notch by one ratings agency, as part of a general reassessment of oil exporting countries.

**Serious Short-Term Vulnerabilities.** Gross oil revenue averaged about 34 percent of GDP over 2011–13, which makes the economy vulnerable to oil shocks. Oil production is projected to peak in 2018, and fall gradually in subsequent years, while non-oil exports may not be able to fully replace oil exports over the long term. Despite substantial international reserves (at about 40 percent of GDP at end 2014, the highest in the CEMAC region), Congo's policy buffers are being depleted rapidly. The economy's heavy reliance on the oil sector renders the country vulnerable to protracted drops in oil prices in the short run and elevates the risk of debt distress. GNI per capita under the Atlas Method used by the World Bank is projected by staff to decline below the graduation threshold by 19 percent by end-2015 due to the sharp decline in oil prices in late 2014. Thus, staff assesses the risk of the Republic of Congo falling below the framework's income threshold for graduation and potentially losing its market access as significant and does not recommend graduation from PRGT eligibility at this time.

**Côte d'Ivoire**

**Background.** Real GDP is estimated to have slightly decelerated in 2014 to 7.9 percent from 8.7 percent in 2013. Inflation was low in 2014 moderating to 0.4 percent from 2.6 percent. The current account deficit is estimated to have narrowed in 2014 to 0.7 percent of GDP from 1.4 percent in 2013, mainly due to strong cocoa exports. The overall fiscal deficit has remained around 2.3 percent of GDP. Gross imputed official reserves remain modest at around 2.6 months of imports. Economic growth is projected to remain strong, with inflation and current account deficit remaining modest. The country is at moderate risk of debt distress, with debt indicators vulnerable to growth and exports shocks. Public debt is around 46.6 percent of GDP. Ebola has so far not been reported in the country, and while a widespread ebola outbreak, similar to its neighbors, could significantly impact economic activity and output, it is currently considered to be very unlikely. Côte d'Ivoire remains an IDA-only country (i.e., without access to IBRD resources from the World Bank). However, its reliance on concessional official borrowing has dropped significantly from 97 percent of public external borrowing in 2004–06 to only 29 percent in 2011–13.

**Assessment:**

*Staff proposes maintaining Côte d'Ivoire's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.*

**Income Criterion.** Côte d'Ivoire does not meet the criterion for graduation. In 2013, its GNI per capita was US$1,450 (40 percent below the income threshold relevant for graduation).

**Market Access Criterion.** Côte d'Ivoire meets the criterion for graduation. Côte d'Ivoire tapped international markets three times over 2010–14, borrowing cumulatively 156 percent of its quota in 2013 and hence meeting both the cumulative market access and frequency of market access criteria for graduation. However, the near-entirety of its access to international markets took place only in 2014.

**Serious Short-Term Vulnerabilities.** Côte d'Ivoire only recently emerged from a long period of political conflict and economic stagnation in the last few years and remains in a fragile situation. Significant market access has been restored only in 2014 and there remains a risk of a loss of Côte d'Ivoire's market access. It is not proposed for PRGT graduation given the extent of serious short-term vulnerabilities.

**Ghana**

Short-term vulnerabilities have risen considerably since the 2013 PRGT-Eligibility assessment. Growth has decelerated sharply to 4.2 percent in 2014, from 7.3 percent in 2013. Persistently high fiscal and external deficits have eroded buffers and gave rise to increased double-digit inflation and rapid exchange rate depreciation. The fiscal deficit has remained elevated in 2014 at 9.4 percent of GDP, down from 10.4 percent of GDP in 2013. Gross public debt, the bulk of which is foreign currency denominated, reached 65 percent of GDP in 2014 with the current account deficit remaining at 9 percent of GDP. Sovereign bond spreads have widened relative to the region, with significantly reduced subscription rates for Eurobond issuances in 2014 relative to previous years. Ghana currently has one of the highest EMBIG sovereign spreads and yields among frontier markets and is currently an IDA-only country (hence not deemed sufficiently creditworthy to warrant access to IBRD resources). Its reliance on concessional official borrowing, while remaining significant, has declined from 84 percent in 2004–06 to 50 percent in 2011–13.

**Assessment:**

*Staff proposes maintaining Ghana's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.*

**Income Criterion**. Ghana does not meet the criterion for graduation. In 2013, its GNI per capita was US$1,770 (27 percent below the relevant income graduation threshold).

**Market Access Criterion.** Ghana meets the criterion for graduation. Market access as measured under the framework amounted to 665 percent of its IMF quota during 2010–14, mainly reflecting Eurobond issuances.

**Serious Short-Term Vulnerabilities.** Serious short-term vulnerabilities have risen considerably. The debt outlook has been adversely impacted by the elevated fiscal and external deficits and as a result, Ghana is now classified as being at high risk of external debt distress. While the authorities are seeking to correct these imbalances under the current ECF arrangement, Ghana remains vulnerable to risks from lower petroleum prices and spillovers from weak growth in the region following the ebola crisis. Given these pronounced short-term vulnerabilities, Ghana is at risk of losing its existing market access and therefore does not warrant graduation from PRGT eligibility at this juncture.

**Grenada**

**Background.** After several years of decline, the economy picked up in 2013, with GDP rising by 2.4 percent. The recovery is assessed to have continued in 2014 with growth at 3 percent. Weak demand and the decline in oil prices contributed to a second year of deflation, with consumer prices estimated to have fallen by 1 percent in 2014. Fiscal consolidation is underway, with the budget deficit estimated to have narrowed to 4.9 percent of GDP in 2014 from 7.3 percent in 2013, but public debt remains elevated at 105 percent of GDP. The country is undertaking a comprehensive restructuring of public debt, needed to put debt on a sustainable path and reach the ECCU regional public debt target. The current account deficit, while remaining highly elevated, narrowed in 2014 to 18 percent of GDP from 23 percent in 2013. Grenada is an IDA blender; its reliance on concessional official borrowing increased from 55 percent in 2004–06 to 93 percent in 2011–13.

**Assessment:**

*Staff proposes maintaining Grenada's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.*

**Income Criterion.** Grenada meets the criterion for graduation. GNI per capita was US$7,490 in 2013, which is about 3 percent above the relevant graduation threshold (US$7,290). Its income per capita has been on an upward trend over the last five years (based on comparison of the first and last relevant annual data) and has been over the IDA operational threshold for the last five years.

**Market Access Criterion.** Grenada does not meet the criterion for graduation. It did not access international markets during 2010–14.

**Serious Short-Term Vulnerabilities.** Grenada is at a high risk of external debt distress, while economic growth recommenced only recently: the risk of GNI per capita falling below the graduation threshold is significant given the very slim margin. As a result, staff considers short-term vulnerabilities to be too elevated to warrant graduation from PRGT eligibility.

**Guyana**

**Background.** The Guyanese economy grew at about 5 percent per year between 2010 and 2013 but growth is estimated to have slowed to 3.7 percent in 2014. The economy exhibits macroeconomic imbalances: the current account deficit (of 12.8 percent of GDP in 2013) is projected to widen in the medium term albeit financed by the ramping up of FDI. The fiscal deficit rose from about 4.4 percent of GDP in 2013 to an estimated 5.8 percent of GDP in 2014. The economy relies to a significant extent on the export of six commodities—gold, sugar, bauxite, rice, shrimp, and timber—which represent nearly 60 percent of the country's GDP and are highly susceptible to adverse weather conditions and/or terms-of-trade shocks. International reserves stand near four months of imports. Guyana is an IDA-only country classified as being at moderate risk of debt distress. Guyana relies heavily on concessional official borrowing, accounting for about 93 percent of public external borrowing in 2011–13.

**Assessment:**

*Staff proposes maintaining Guyana's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.*

**Income Criterion.** Guyana meets the criterion by a slim margin. Its GNI per capita of US$3,750 in 2013 is 3 percent above the graduation threshold for small countries (US$3,645). Its income per capita has been on an upward trend over the last decade and has been above the IDA operational threshold for the last five years.

**Market Access Criterion.** Guyana does not meet the criterion. Guyana has not borrowed in the international market in the last five years.

**Serious Short-Term Vulnerabilities.** Guyana faces elevated short-term vulnerabilities from its reliance on commodity exports. These vulnerabilities, if realized, could easily reverse income gains and force the GNI per capita below its graduation threshold. As a result, staff considers short-term vulnerabilities to be too elevated to merit graduation from PRGT eligibility.

**Maldives**

**Background.** Growth accelerated to 6.1 percent in 2014 from 4.7 percent in 2013, while inflation moderated eased from 4 percent to 2.4 percent. However, tourism arrivals have slowed in the 2015 high season and growth may slow this year. The overall fiscal deficit is estimated to have widened sharply in 2014 to 11.6 percent from 7.8 percent in 2013 following a sharp rise in recurrent expenditure with the current account deficit estimated to have widened from 6.5 percent to 8.4 percent of GDP. The level of public debt is elevated at 75 percent of GDP. Maldives is an IDA-only non-gap country, and hence not deemed sufficiently creditworthy to access IBRD loans. Maldives receives most of its assistance from IDA on grant terms. Its reliance on concessional official borrowing has increased sharply to 87 percent of total public external borrowing in 2011–13 from only 40 percent in 2004–06.

**Assessment:**

*Staff proposes maintaining Maldives' PRGT eligibility given the presence of serious short-term vulnerabilities, notwithstanding that income per capita is more than 50 percent above the relevant income threshold. Graduation would result in a significant divergence from IDA practices. An expectation that it will be reassessed at the time of the next PRGT-eligibility review remains.*

**Income Criterion.** Maldives meets the criterion for graduation for small countries. GNI per capita was US$5,600 in 2013, which is about 54 percent above its graduation threshold (three times the IDA operational threshold). Its income per capita has been on an upward trend over the last five years and has been over the IDA operational threshold for the last five years.

**Market Access Criterion.** Maldives meets the criterion for graduation. It contracted commercial bank loans in international markets in each of the past five years for which comprehensive data are available (2009–13) with cumulative issuance equivalent to 527 percent of quota, well above the 100 percent of quota threshold required for graduation.

**Serious Short-Term Vulnerabilities.** Maldives faces serious short-term vulnerabilities from elevated debt levels and the risk of reduced tourist arrivals. Although Maldives' risk of external debt distress has recently improved to moderate, overall debt distress is assessed to be high—public debt is already very high by international standards and, absent fiscal adjustment, would be on an unsustainable path. The Maldives' GNI per capita exceeds the proposed income threshold beyond which the short-term vulnerabilities would not preclude graduation (US$5,467 for small countries, see footnote 8) by 2.4 percent. However, given its heavy reliance on ODA financing, its IDA-only non-gap recipient status receiving assistance entirely on concessional terms, signaling possible serious vulnerabilities, staff assessed the extent of such vulnerabilities and confirmed that the country faces risks of a sharp decline in income and a loss of market access due to elevated debt vulnerabilities.

**Moldova**

**Background.** While real GDP growth was around 9 percent in 2013, it is estimated to have slowed sharply to 2 percent in 2014, given the economic fallout for Moldova of regional geopolitical tensions. Inflation, fiscal deficit, and the current account deficit were modest in 2013 and are estimated to have remained in 2014. In 2013, inflation was 4½ percent, the current account deficit was 5½ percent of GDP and the fiscal deficit was about 2 percent of GDP.

**Assessment:**

*Staff proposes maintaining Moldova's PRGT eligibility given the presence of serious short-term vulnerabilities, with the expectation that it will be reassessed at the time of the next PRGT-eligibility review.*

**Income criterion.** Moldova meets the income criterion for graduation by a very small margin: GNI per capita was US$2,470 in 2013, which is 2 percent above the relevant graduation threshold (US$2,430). Its income per capita has been on an upward trend over the last decade and has exceeded the IDA operational threshold for the last five years.

**Market access criterion.** Moldova does not meet the market access criterion for graduation. It accessed international markets most recently in 2011 and 2012, with cumulative borrowing equivalent to 12.8 percent of quota during 2010–14.

**Serious Short-Term Vulnerabilities.** The main risks relate to serious vulnerabilities and governance problems in the banking system, a protracted economic slowdown in key trading partners, and further intensification of geopolitical tensions in the region. Given the very slim margin between GNI per capita and the graduation threshold together with limited market access, staff considers short-term vulnerabilities to be too elevated to merit graduation from PRGT eligibility. Moldova is an IDA blender and has low risk of debt distress.

**Mongolia**

**Background.** Growth has slowed to 7.8 percent in 2014 following double digit annual growth over 2011–13. Inflation has remained elevated, at around 11 percent. Rapid consumption growth, alongside an expansionary fiscal stance, coupled with a sudden and sharp decline in FDI is producing severe balance of payments pressures. The fiscal deficit including the activities of the state-owned Development Bank of Mongolia (DBM) has widened from 9 to 11 percent of GDP in 2014. The current account deficit has narrowed to 8.2 percent of GDP due to increased mineral exports and reduced mining-related imports. The current account deficit was mainly financed by external borrowing and a drawdown of reserves. The central bank intervened to defend the currency, and as a result, gross reserves have declined from 6.5 months of imports in 2012 to around 2 months of imports as of March 2015. At the same time, rapid credit growth and poor bank asset quality have given rise to fragilities in the banking system. In addition to domestic policy challenges, Mongolia is vulnerable to external shocks due to a heavy reliance on copper and coal exports. On the upside, Mongolia's sub-soil mineral wealth has been estimated at US$1- 3 trillion and there are also strong linkages to China (the primary export partner), where robust demand may have strong positive spillovers. Mongolia has been an IDA blender since 2012. Its reliance on concessional official borrowing has declined sharply from 94 percent of public external borrowing in 2004–06 to only 28 percent in 2011–13.

**Assessment:**

*Staff proposes the graduation of Mongolia.*

**Income Criterion.** Mongolia meets the criterion for graduation. GNI per capita reached US$3,770 in 2013, 55 percent above the graduation threshold of US$2,430. GNI per capita has also been above the IDA operational threshold for at least the last five years.

**Market Access Criterion.** Mongolia does not meet the criterion for graduation given only one bond issuance over the last five years; that said, the single issuance of US$1.5 billion in sovereign Eurobonds in 2012 was equivalent to almost 2000 percent of quota. Additionally, the state-owned DBM was able to successfully issue debt in international markets under a government guarantee of US$580 million in the same year and US$500 million in 2015.

**Serious Short-Term Vulnerabilities.** The outlook for Mongolia is challenging with elevated near-term vulnerabilities stemming from domestic imbalances and downward pressures on commodity export prices. These developments have led to a worsening of the debt outlook to high risk of external debt distress. However, GNI per capita is very high relative to other PRGT-eligible members and exceeds the proposed income threshold beyond which short-term vulnerabilities would not preclude graduation (see footnote 8). Staff projections, which already capture a weak commodity export price outlook and reduced growth rates, show that GNI per capita is expected to remain significantly higher than the graduation threshold over the medium term. Thus, staff assesses the risk of Mongolia falling below the framework's income threshold for graduation to be very low.

**Nigeria**

**Background.** Real GDP growth is estimated to have accelerated in 2014 to 6.3 percent from 5.4 percent in 2013, driven by the non-oil sector, with inflation easing from 8.5 percent to 8.1 percent. The fiscal deficit remained around 2.5 percent of GDP in 2014, with the current account surplus estimated to have declined to 1.1 percent of GDP from 3.9 percent in 2013 due mainly to declining oil export receipts. In 2014, public debt levels remained low at 13.4 percent of GDP with international reserves at about six months of imports. Nigeria currently is an IDA blender assessed to be at low risk of debt distress. The decline in oil prices in the second half of 2014 has had a significant impact on the exchange rate; the naira depreciated by over 17 percent in Q1 2015 with the central bank allowing more flexibility in the rate and closing the gap between the official and parallel market by ending the retail Dutch Auction System foreign exchange window. The depreciation has increased pressure on banks, which have high foreign currency exposure both on assets and liabilities. Nigeria's reliance on concessional official borrowing has declined from 72 percent of public external borrowing in 2004–06 to 66 percent in 2011–13.

**Assessment:**

*Staff proposes the graduation of Nigeria.*

**Income Criterion.** Nigeria meets the graduation criterion.[2] With the recent rebasing of national accounts, GNI per capita is estimated to have reached US$2,710 in 2013, about 12 percent above its graduation threshold (US$2,430). Moreover, GNI per capita has been on a rising trend over the last decade and well above the IDA operational threshold over the last five years.[3]

**Market Access Criterion.** Nigeria does not meet the criterion for graduation under market access. Nigeria's government makes marginal use of international markets given available domestic resources including proceeds from petroleum; international market issuances are neither frequent nor sizable (only two issuances of debt on international markets over 2010–14 with a cumulative size of 58 percent of quota). Its *potential* access to international markets, as reflected in sovereign rating by credit agencies, is assessed as being similar to low-income countries that meet the market access criterion such as Vietnam.[4] This is evident in the government domestic securities market where non-resident holdings are estimated at around US$16.5 billion as of end-2013 (636 percent of quota).

**Serious Short-Term Vulnerabilities.** Given the available buffers, the risk of income per capita falling below the graduation threshold is considered very low. Potential vulnerabilities from protracted weak petroleum prices and the limited non-oil export base are manageable given the low public debt and sizable reserves. Risks include those from potential decline in petroleum exports from production losses and further price declines; reduced market access if investor risk aversion in capital markets increases or there is financial turbulence in advanced and emerging markets; and spillovers from a slowdown in regional growth. Staff's projections, which already incorporate a weak oil price outlook, show GNI per capita remaining above the graduation threshold over the medium term reaching around 16 percent above the IDA graduation threshold by end-2015.

**Vietnam**

**Background.** Growth was strong at around 6 percent of GDP in 2014, increasing from 5.4 percent of GDP in 2013, and inflation was moderate at around 4 percent. The current account recorded a surplus of around 5.4 percent of GDP. Reserves are around 2½ months of imports of goods and services—below pre-crisis levels as measured against several metrics, and below the minimum

[2] National accounts rebasing completed in 2014 with 2010 as base year.

[3] At the time of this report, the World Bank database did not reflect the national account rebasing in years prior to 2010. The current GNI per capita for 2008–09, reflecting pre-rebasing figures, are below the IDA operational threshold by a very small margin.

[4] Nigeria's credit ratings are comparable to Vietnam, but do not meet the requirement for proving potential access under the market access criterion on its own as they are lower than investment grade (BBB-).

desirable level for countries with a fixed exchange rate, according to the Fund's reserve adequacy metric. Growth is expected to continue recovering over the medium term, but the loose fiscal position has persisted with public and publicly-guaranteed debt estimated to have reached 55 percent of GDP by end-2014, allowing little fiscal space to address critical expenditure needs and potential costs of banking and state-owned enterprise (SOE) reform. The gradual pace of bank reform has heightened vulnerability to adverse shocks that could further undermine growth and add significantly to public debt. The economy is also vulnerable to external shocks that include surges in global financial volatility, slower trading partner growth and regional geopolitical tensions. Vietnam's risk of external debt distress is assessed to be low. Vietnam has been an IDA blender since 2010, and has been identified by the World Bank as potentially graduating from IDA eligibility by 2017 (Annex I). Vietnam's reliance on concessional official borrowing has declined from 74 percent of public external borrowing in 2004–06 to 65 percent in 2011–13.

**Assessment:**

*Staff proposes graduating Vietnam from PRGT eligibility.*

**Income Criterion.** Vietnam does not meet the criterion for graduation. GNI per capita in 2013 at $1,740 is 28 percent below the relevant graduation threshold.

**Market Access Criterion.** Vietnam meets the criterion for graduation. Market access as measured under the framework amounted to 686 percent of its IMF quota cumulatively over 2010–14 through five issuances (relative to a graduation threshold of 100 percent of quota and three issuances). In terms of market access indicators such as sovereign credit ratings, EMBIG spreads, and EMBIG yields, Vietnam has some of the strongest indicators of market access across PRGT members.

**Serious Short-Term Vulnerabilities.** Vietnam has vulnerabilities stemming from limited external buffers and long-standing structural weaknesses in the banking system. Vietnam's market access has been very strong, with the country tapping markets in every year since 2008. Given the durability of market access, the low risk of GNI per capita falling below the IDA operational threshold, and low risk of debt distress, staff considers short-term vulnerabilities as manageable for the purpose of assessing PRGT eligibility.

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