EUROPEAN COMMISSION

Brussels, 7.7.2011
SEC(2011) 874 final

COMMISSION STAFF WORKING PAPER

Criteria for determining the Use of Loans and Grants in EU Macro-Financial Assistance

Accompanying the document

Report from the Commission to the Council and to the European Parliament on the implementation of macro-financial assistance to third

{COM(2011) 408 final}
{SEC(2011) 873 final}

TABLE OF CONTENTS

1. INTRODUCTION

Macro-financial Assistance (MFA) from the EU can take the form of loans or grants, or a combination of both. While eligibility for MFA has been informally based on the "Genval criteria" (last stated in the conclusions of the ECOFIN Council of 8 October 2002), these do not precisely define the criteria on which to base the decision whether to provide MFA in the form of a loan, a grant or a combination of the two. An accompanying letter from the President of the Council to the President of the Commission[1] simply notes that "the concessionary element shall be reserved to low income countries established according to the country's per capita income and creditworthiness and be adapted to the debt repayment capacity of the beneficiary country concerned."

The present note explains the methodology that the European Commission has developed over time to guide the decisions on the use of loans or grants in MFA operations. This methodology was further formalised and updated in a note that was endorsed by the Economic and Financial Committee (EFC) in January 2011. Its main principles are also expected to be reflected in the proposal of a Framework Regulation on MFA under preparation.

The note sets out with a brief historical overview of the use of loans and grants in MFA, followed by a review of practices employed by other international donors, notably the IFIs. Starting from the premise that MFA – as an instrument of support in short-term and transitory balance-of-payments difficulties – should by default take the form of a loan, the methodology uses various criteria in order to determine possible eligibility for MFA grants. A selection of indicators deemed best-suited to guide decisions on whether to opt for a loan, a grant or a blend is used. The results are then cross-checked against the treatment granted by the IMF and the World Bank to the country in question, notably with regard to its access to the concessional facilities of these institutions.

For simplicity and completeness, the tables and charts in this note include analysis on all candidate and potential candidate countries and all ENP countries. In addition, Tajikistan and the Kyrgyz Republic appear as memorandum items, having either received or requested MFA from the EU in the past.

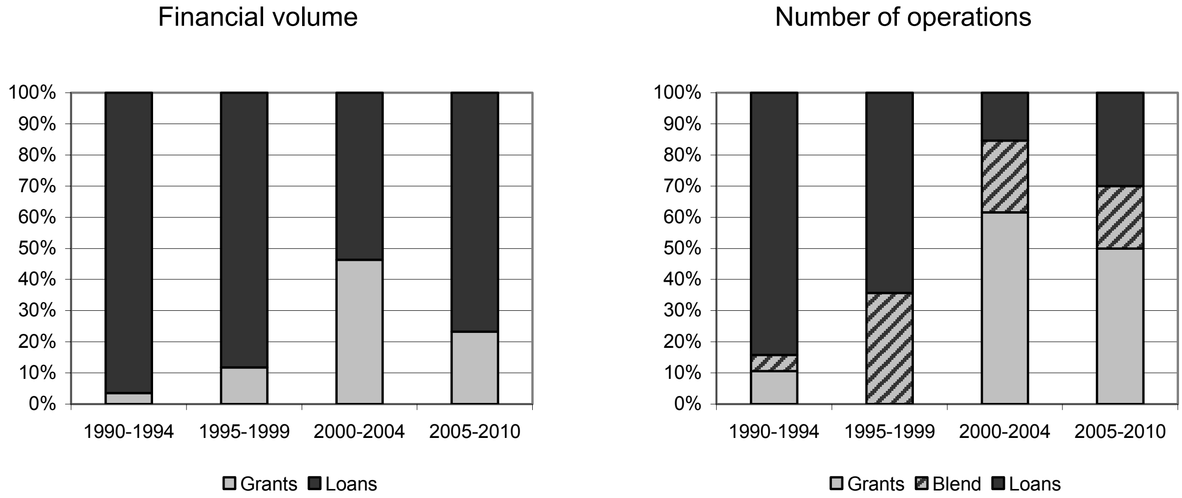
2. HISTORICAL OVERVIEW

Since 1990, 55 MFA decisions have been approved, with total commitments amounting to EUR7.4bn and effective disbursements of EUR5.3bn. Twenty-three countries have benefited from this assistance. The size of individual MFA operations has ranged from EUR15m (Moldova in 1996, 2000 and 2002) to EUR870m (Hungary in 1990).

[1] Regarding geographical eligibility, this letter specifies the following. Two groups of countries are in principle eligible: i) the candidate countries and potential candidate countries; and ii) the European countries of the CIS and the Mediterranean countries concerned by the Barcelona process. The letter further states that "certain other countries which are not covered by the second group above may in very exceptional and duly justified circumstances also become eligible." Indeed, a number of operations have been approved in favour of countries in the Southern Caucasus (which are now part of the European Neighbourhood Policy, ENP) and Central Asia.

The experience with MFA operations over the past 20 years shows that most MFA support (86% in terms of financial volume) has taken the form of loans. However, while during the 1990s, nearly 95% of MFA funding was lent to beneficiary countries, the first five years of the 2000s saw a significant increase in grants: nearly half of all MFA funding took this form (see left-hand side of Chart 1). This shift reflected in part the increased number of operations in the Balkans during this period, combined with the fact that many of them were in a post-conflict situation and had weak repayment capacity. Meanwhile, during the recent resurgence in MFA operations in the wake of the global economic crisis, loan financing has risen again, to roughly three-quarters of total financial volume committed. This includes substantial loans to Balkan countries (Serbia and Bosnia-Herzegovina), whose debt servicing capacity has strengthened significantly since the initial MFA operations in the region, and to Ukraine.

Chart 1: Percentage of loans and grants (on a commitment basis), 1990-2010



Source: European Commission, Annual Reports on Macro-Financial Assistance

The share of grants is generally higher if measured by the number of operations (see right-hand side of Chart 1) than if measured by financial volume committed. This reflects the fact that grant operations have tended to be of relatively small amounts, not least in light of budgetary constraints. Over the entire lifespan of the MFA instrument, 54% of operations (in number) took the form of loans, 27% were grants and blend operations made up the remainder.

3. PRACTICES OF OTHER INTERNATIONAL ORGANISATIONS

Different international organisations have developed methodologies for classifying countries and, on that basis, for determining the eligibility for certain types or terms of assistance. Notably, the **World Bank** first divides recipient countries into those eligible for IDA (the concessional arm of the Bank), IBRD (the arm responsible for non-concessional lending) or "blend" financing.[2] Within the IDA-only group, there is then a "traffic light" system to determine whether a recipient country will receive all of its aid either in grants or concessional loans or whether an (equal) split between the two will be applied. Furthermore, the terms of IDA loans, while always concessional, are also differentiated depending on beneficiary countries' income levels.

[2] World Bank: "How we Classify Countries", available on http://data.worldbank.org/about/country-classifications, accessed on 29 November 2010.

The World Bank's official criteria for IDA eligibility are per capita income[3] and creditworthiness for IBRD lending as assessed by the IBRD's credit risk department.[4] While the two criteria are often related, the creditworthiness criterion is in practice the more important one, as a World Bank beneficiary country can remain IDA-eligible even if it has an average income level above the IDA income cut-off, until it is sufficiently creditworthy to access IBRD loans; this is to avoid a situation in which a country is cut off from World Bank financing altogether.[5] By contrast, if a country is sufficiently creditworthy for IBRD lending, it will not remain an IDA-only country, even if its per capita income is below the threshold. Instead, it will be a "blended" country, with access to both IBRD and IDA (e.g. India, Pakistan and Vietnam).

That said, the category of "blend" countries is not only composed of creditworthy countries with low average income levels. It also comprises countries whose per capita income exceeds the IDA threshold (e.g. Armenia, Bolivia and Georgia). This reflects a phased approach to graduation from IDA, which seeks to ensure that a change in a country's status is permanent and to avoid sudden breaks in funding. Nonetheless, this qualification should not mask the fact that the World Bank also applies a degree of judgement, in addition to looking at objective criteria, in its classification of countries, not least in the assessment of creditworthiness by the IBRD's credit risk department.

The **IMF** uses a system modelled on that of the World Bank to determine eligibility for funding from the Poverty Reduction and Growth Trust (PRGT), its own concessional arm.[6] The proximity in the methodology is intentional, aiming at ensuring broad consistency between the eligibility for the concessional arms of both institutions (see Table 1 for a comparison of categorisation of MFA-eligible countries/territories across institutions). In other words, IDA-eligible countries should normally also be PRGT-eligible. Specifically, a country is PRGT-eligible if its per capita income is below the IDA cut-off level *and* if it is unable to access international capital markets on a durable and substantial basis.

Conversely, this means that a country graduates from PRGT if it meets one of the two preceding criteria. In order to ensure that graduation is permanent, the IMF, akin to the World Bank, stipulates a number of safeguards:

---

[3] The World Bank uses gross national income (GNI), converted into US dollar on the basis of market or official exchange rate through the Atlas method, which seeks to limit the influence of short-term currency volatility inter alia by averaging conversion rates over a period of three years. While recognising that income measures based on purchasing power parity (PPP) are conceptually more suitable for comparing standards of living across countries, the Bank uses the Atlas method because PPP-based income estimates tend to be less reliable and less timely. The current operational cut-off for IDA eligibility is a per capita GNI of USD1,165.

[4] The IBRD's creditworthiness assessment includes a combination of quantitative and qualitative indicators in eight broad categories: political risk; external debt and liquidity; fiscal policy and public debt burden; balance of payments risk; economic structure and growth prospects; monetary and exchange rate policy; financial sector risks; and corporate sector debt and vulnerabilities.

[5] Countries that remain IDA-eligible because they would otherwise lose access to World Bank funding altogether are sometimes referred to as "gap countries"; examples are Angola, Honduras and Moldova. See Annex 1 for the World Bank's latest full country classification.

[6] The IMF upgraded its concessional financial facilities in 2009 in response to the global financial crisis. The PRGT was established as part of this reform, replacing and expanding the previous Poverty Reduction and Growth Facility / Exogenous Shocks Facility (PRGF-ESF) Trust. PRGT eligibility rules are described in "Eligibility to Use the Fund's Facilities for Concessional Financing", IMF working paper 11 January 2010. For the latest PRGT eligibility list, see Annex 2.

- Per capita income must exceed the required threshold for five consecutive years, must not have been on a declining trend over this period and, at the time of presumed graduation, must be at least twice as high as the IDA cut-off level.

- The market access criterion is operationally defined as a sovereign having borrowed on international private capital markets in at least three of the last five years for which data are available, through bonds or commercial loans, cumulatively at least 100% of its IMF quota.[7] As an additional safeguard, a country with market access will only graduate out of PRGT if its per capita income is at least 80% of the IDA cut-off and has not been on a declining trend in the last five years.

- A country must also be free from serious short-term vulnerabilities in order to graduate.

Finally, the list of official development assistance (ODA) recipients compiled by the **OECD**'s Development Assistance Committee (DAC) separates countries into four categories.[8] First, all countries classified as least developed by the United Nations are listed as such.[9] The remaining ODA recipients are categorised as low income, lower middle income and upper middle income.[10] The differentiation between these three categories occurs solely on the basis of World Bank per capita GNI data (Atlas method).

The DAC list is normally updated every three years, with the next revision scheduled for 2011. The most recent revision, of September 2009 (see Annex 3), only added Kosovo[11] to the list, but otherwise reproduced the previous list, published in August 2008, based on the same data (for 2007) and GNI per capita thresholds, in keeping with the three-year rhythm.

As the OECD itself does not provide financial support to third countries (other than in the form of specific technical assistance, on a small scale), the DAC list is conceived as a tool for statistical and reporting purposes, rather than for an ex-ante decision on aid eligibility. That said, it is being used by the EU to define developing countries in the Development Cooperation Instrument.

---

[7] Sovereign guarantees of bonds or commercial loans are also taken into account for this calculation. If a country falls short of the stipulated thresholds of amount or duration, but is judged to have had the capacity to reach them, it is also deemed to have met the market access criterion.

[8] OECD: "DAC List of ODA Recipients used for 2008, 2009 and 2010 flows", available on http://www.oecd.org/dac/stats/daclist, accessed on 29 November 2010.

[9] The criteria used by the UN to classify countries as least developed are: GNI per capita; the Human Asset Index (itself based on indicators of: nutrition; health; education; and adult literacy); and the Economic Vulnerability Index (itself based on the following indicators: population size; remoteness; merchandise export concentration; share of agriculture, forestry and fisheries in gross domestic product; the share of the population displaced by natural disasters; stability of agricultural production; and stability of exports of goods and services).

[10] High income countries are not ODA recipients and therefore not included in the DAC list.

[11] Under UNSCR 1244/1999.

Table 1: Categorisation of MFA-eligible countries/territories by other international organisations

Country	World Bank IDA list (January 2011)	IMF PRGT list (March 2011)	OECD DAC list (September 2009)
Albania	IBRD	Not eligible	Lower Middle Income
Algeria	IBRD	Not eligible	Lower Middle Income
Armenia	Blend	Eligible*	Lower Middle Income
Azerbaijan	Blend	Recently graduated	Lower Middle Income
Belarus	IBRD	Not eligible	Upper Middle Income
Bosnia and Herzegovina	Blend	Not eligible	Lower Middle Income
Croatia	IBRD	Not eligible	Upper Middle Income
Egypt	IBRD	Not eligible	Lower Middle Income
Georgia	Blend	Eligible*	Lower Middle Income
Iceland	Not eligible	Not eligible	High Income OECD
Israel	Not eligible	Not eligible	High Income OECD
Jordan	IBRD	Not eligible	Lower Middle Income
Kosovo (UNSCR 1244)	IDA	Not eligible	Lower Middle Income
Lebanon	IBRD	Not eligible	Upper Middle Income
Libya	IBRD	Not eligible	Upper Middle Income
Macedonia (FYR)	IBRD	Not eligible	Lower Middle Income
Moldova	IDA	Eligible	Lower Middle Income
Montenegro	IBRD	Not eligible	Upper Middle Income
Morocco	IBRD	Not eligible	Lower Middle Income
Palestinian Territories†	Not a World Bank member	Not an IMF member	Lower Middle Income
Serbia	IBRD	Not eligible	Upper Middle Income
Syria	IBRD	Not eligible	Lower Middle Income
Tunisia	IBRD	Not eligible	Lower Middle Income
Turkey	IBRD	Not eligible	Upper Middle Income
Ukraine	IBRD	Not eligible	Lower Middle Income
Memorandum items:			
Kyrgyz Republic	IDA	Eligible	Low Income
Tajikistan	IDA	Eligible	Low Income

* Continued eligibility only due to short-term vulnerabilities; otherwise graduated.

† World Bank funding to the Palestinian Territories is provided primarily by the special-purpose Trust Fund for Gaza and West Bank. IMF activity in the Palestinian Territories is limited to technical assistance.

Sources: World Bank, IMF, OECD

4. CRITERIA

This section introduces various indicators that can be used to decide between loans and grants (or a combination thereof) in MFA operations and discusses their strengths and limitations. Akin to the practice of the IMF and the World Bank, and in line with the general orientations given in the letter from the President of the Council to the President of the Commission accompanying the Genval criteria, they are subdivided into two main areas: the level of development of the recipient country; and its debt sustainability and/or creditworthiness.

4.1. Level of economic and social development

Per capita income

Gross national income (GNI) per capita is the indicator most commonly used to gauge the level of development of a country. An income measure, such as GNI, is more relevant than an output measure, such as GDP, for a comparison of the level of economic development of countries and of their residents' average economic well-being, as it takes into account net income transfers to other countries, such as dividend payments to foreign owners of domestic companies and interest payments to foreign bondholders, thus leaving only that part of economic output that is available to domestic residents for spending or saving.

For cross-border comparisons, each country's GNI per capita has to be converted into one currency. The two principal methods of doing so are purchasing power parity (PPP) and market (or official) exchange rates. Taking differences in price levels between countries into account, PPP is more suitable for comparing standards of living across countries. A PPP-based measure is also less prone to currency fluctuations than an exchange-rate-based measure. However, as real and cross-border transactions (export, import, remittances, interest payments, debt repayments etc) are conducted using (market) exchange rates, an exchange-rate-based GNI per capita measure gives a better picture of the average level of development of an economy as regards its exchanges with the rest of the world. The international benchmark for exchange-rate-based measures is the World Bank's Atlas method, which seeks to limit the influence of short-term currency volatility inter alia by averaging market exchange rates over a period of three years. Another advantage of the Atlas method relative to PPP is that data is consistently available for all countries from a central source (the World Bank), whereas data for per capita GNI on a PPP basis is less timely, more prone to measurement errors and unavailable for some countries/territories. The international standard for country classifications is therefore GNI per capita converted through the Atlas method.

Based on the latest available GNI data and classification thresholds from the World Bank, three countries from the MFA universe (Croatia, Iceland and Israel) are in the high income category, while the other 22 are middle income countries (11 lower and 11 upper middle income). The two Central Asian republics included in this note as memorandum items are low income countries.

Poverty ratios

MFA is not an instrument of poverty reduction, but of response to short-term balance-of-payments emergencies. Poverty ratios should therefore in principle not feature as a criterion for MFA eligibility as such. However, they can be relevant for decisions on the grant element of individual MFA operations – as important indicators for the social and developmental challenges of a country and as a gauge of the income distribution, specifically at the low end of the spectrum. In particular, while poverty is generally correlated with per capita income, the use of poverty indicators alongside income measures ensures that countries for which this correlation does not hold are identified.

Table 2: Income per capita and poverty figures of MFA-eligible countries/territories*

Country	GNI per capita, Atlas method current USD	Extreme poverty % of population	Poverty % of population
Albania	3 950	2.0	7.8
Algeria	4 420		
Armenia	3 100	3.7	21.0
Azerbaijan	4 840	2.0	2.0
Belarus	5 540	2.0	2.0
Bosnia and Herzegovina	4 700	2.0	2.0
Croatia	13 810	2.0	2.0
Egypt	2 070	2.0	18.5
Georgia	2 530	13.4	30.4
Iceland	43 220		
Israel	25 740		
Jordan	3 740	2.0	3.5
Kosovo (UNSCR 1244)	3 240		
Lebanon	7 970		
Libya	12 020		
Macedonia (FYR)	4 400	2.0	5.3
Moldova	1 590	2.4	11.5
Montenegro	6 550	2.0	2.0
Morocco	2 790	2.5	14.0
Palestinian Territories	1 250		
Serbia	5 990	2.0	2.0
Syria	2 410		
Tunisia	3 720		
Turkey	8 730	2.6	8.2
Ukraine	2 800	2.0	2.0
Memorandum items:			
Kyrgyz Republic	870	3.4	27.5
Tajikistan	700	21.5	50.8

* Data for GNI per capita refer to 2009, while the columns on poverty show the latest available World Bank data, which refer to 2005, 2006, 2007 or 2008, depending on the country.

Source: World Bank, World Development Indicators

Measures of absolute poverty set a certain threshold (measured in PPP), which is uniform across countries, while poverty can also be defined in relation to the country's average income. As relative poverty is not comparable across borders, the absolute measure is more relevant as a criterion for determining eligibility across a number of countries. Data on absolute poverty[12] are available from the World Bank, albeit with gaps.

For the MFA universe, the inclusion, alongside per capita GNI, of (absolute) poverty data in the overall tally of countries' levels of development does not change the picture substantially. This reflects the significant degree of correlation between the two indicators. However, two observations can be made. First, many European transition economies boast relatively low poverty ratios compared with countries with similar per capita income levels but different socio-economic legacies, reducing the case for using grants. Second, in Armenia and Georgia, the incidence of poverty is high by regional and per capita income standards (see Table 2),

[12] In the Bank's definition, anyone living on USD2 per day (PPP) or less counts as poor (in absolute terms), while those living on USD1.25 per day (PPP) or less count as extremely poor. These benchmarks are therefore used to calculate the often-cited poverty and extreme poverty (headcount) ratios.

which, ceteris paribus, should lend support to the consideration of a grant element in potential MFA operations with these countries. As these examples illustrate and notwithstanding the general correlation between the two, poverty ratios can play a useful role as secondary indicators alongside GNI per capita to give a fuller picture of a country's level of economic and social development.

4.2. Debt sustainability and repayment capacity

As noted, a country's debt sustainability and repayment capacity is a key concern in a decision on whether to provide MFA as a loan or a grant. Firstly, to extend more credit to a country than it can sustainably service would be counterproductive in terms of the country's long-term external solvency and economic development; thus, the short-term help that MFA is designed to provide would go to the detriment of key long-term goals. Secondly, it would be against the direct self-interest of the EU, as the lender, to extend a loan that runs a high risk of not being repaid.

While no doubt important, debt sustainability is also a complex concept. To analyse it, a solid basis of data on debt stocks and future repayment flows is required, along with medium- to long-term projections of corresponding revenue figures (exports for external debt sustainability; public revenue for public debt sustainability) and a variety of other variables, such as real GDP growth, interest rates, the current account and the primary fiscal balance.

The Bretton Woods institutions have developed a methodology for Debt Sustainability Analysis (DSA) that classifies countries into low, moderate or high risk of debt distress, or identifies them as currently "in debt distress". However, DSA are currently available for only a limited number of MFA-eligible countries/territories.

The IMF also addresses the issue of debt sustainability beyond the group of low income countries, notably in reviews of its Stand-by Arrangements and in reports summarising its Article IV consultations with its members. In its analyses that concern countries with access to capital markets, the Fund follows a slightly different methodological framework than in its DSA for low income countries. Crucially, DSA conducted for market-access countries omit a clear categorisation into risk levels by country, partly for fear of market movements resulting from the publication of these 'ratings'. Overall, owing to their limited availability, IMF/World Bank DSA scores are of little use for determining the grant eligibility within the MFA universe as a whole.

Still, it is clear that debt sustainability (both public and external) is a key consideration when deciding whether it is responsible to extend new credit to a borrower, as is the case when MFA takes the form of a loan. It is therefore essential to include it among the decision-making criteria. Despite the importance of projections for determining whether a debt burden is sustainable, a combination of several objective, backward-looking indicators can serve as a useful approximation of a country's debt situation, while still limiting discretion.

Table 3 lists several indicators and discusses their significance and limitations, including data availability problems. The indicators essentially consist of ratios between a country's debt and debt service and corresponding variables of a country's economic size and revenues so as to show the burden that the debt in question (external or public) imposes on the country.

Table 3: Debt burden indicators

	Significance	Limitations	Data availability
External debt over GDP/GNI	Key variable for external debt sustainability, which sets the external debt stock in relation to the size of the economy	No clear threshold above which external indebtedness should be deemed problematic or unsustainable, as countries with a strong export base, a track record of economic growth and monetary credibility have significantly more leeway to accumulate external debt without facing refinancing problems	Available from the World Bank for 20 out of 25 MFA-eligible countries/ territories; most high income countries do not systematically collect external debt data
External debt over exports	Key variable for external debt sustainability, which sets the external debt stock in relation to the key external revenue generator (exports)	No clear threshold above which external debt over exports should be deemed problematic or unsustainable, as debt stock figures give no indication about the financial terms of the debt (interest rates and maturities)	Available from the World Bank for 18 out of 25 MFA-eligible countries/ territories; most high income countries do not systematically collect external debt data
Net present value of external debt over GNI	Key variable for external debt sustainability, which eliminates the shortcoming of looking at the external debt stock in nominal terms by calculating the payment stream in today's prices	The net present value can vary significantly depending on the interest rate used to discount the payment stream	For the calculation of the net present value of outstanding debt, data on all future debt service payments (principal and interest) is required; such detailed data is unavailable on a broad basis
External debt service ratio (debt service over exports)	Key variable for external debt sustainability, which sets the payments related to debt incurred in relation to the main corresponding revenue generator (exports)	Past debt service payments are not necessarily comparable to future payments	Available from the World Bank for 18 out of 25 MFA-eligible countries/ territories; most high income countries do not systematically collect external debt data
Public debt over GDP	Key variable for public debt sustainability, which sets the public debt stock in relation to the size of the economy	No clear threshold above which public indebtedness should be deemed problematic or unsustainable; high income countries with a developed domestic capital market have significantly more leeway to accumulate public debt without facing refinancing problems	Not available on a comparable basis across countries from a standard international source; EBRD Transition Report contains public debt figures for 11 out of 25 MFA-eligible countries/ territories; IMF country reports contain data for most MFA-eligible countries/territories, albeit without necessarily applying a consistent methodology, but taking country idiosyncrasies into account

	Significance	Limitations	Data availability
Public external debt over GNI	Secondary variable for public and external debt sustainability; indicative where total public debt figures are unavailable, in particular for countries with poorly developed domestic capital markets	Public external indebtedness can be low, even if either total external or total public indebtedness is problematically high	Available from the World Bank for 17 out of 25 MFA-eligible countries/ territories; IMF country reports contain figures for public external indebtedness for some countries
Public debt service to tax revenue	Key variable for public debt sustainability, which sets the payments related to debt incurred in relation to the main corresponding source of revenue (collected taxes)	Past debt service payments are not necessarily comparable to future payments	Data on public debt service, as well as on revenues, is patchy and of poor cross-border comparability

In addition to the indicators discussed in Table 3, a country's export potential is a key factor determining debt sustainability in the long term. It could be approximated by country export forecasts. However, Commission forecasts for third countries' exports normally span only 2-3 years, whereas debt sustainability would require a longer time horizon. Moreover, as a forward-looking indicator, it leaves room for discretion in the same way as noted above for DSA in general, thus in part defeating the purpose for the exercise of defining criteria, which is to reduce discretion.

There are also several widely used external liquidity indicators, including the ratio of official reserves to external debt, the so-called reserve cover ratio (official reserves over external debt falling due within one year) and the share of short-term debt in total external debt. However, as noted, all of these are liquidity, rather than solvency, indicators and, as such, less relevant for an analysis of medium- to long-term external debt sustainability. Indeed, countries are only considered for MFA if they are in an acute balance-of-payments crisis. Liquidity indicators should therefore, by definition, be problematically low for any MFA recipient. Thus, these indicators are central for a decision on making MFA available, but are not used for deciding whether MFA should take the form of a loan or a grant.

5. THE COMMISSION'S APPROACH

As discussed in the previous section, various indicators can add value in deciding on the appropriate form of MFA (loan, grant or blend). However, no individual indicator suffices, on its own, to decide on the form of the assistance. Rather, each indicator has to be read in conjunction with others in order to be meaningful. The Commission's approach uses a selection of the indicators discussed above and synthesises the information that they contain on the country's level of economic and social development and its debt sustainability. The aim is to guide decisions on the form of MFA, while maintaining the necessary flexibility.

Regarding economic and social development criteria, GNI per capita (Atlas method), the most widely used indicator, is used as a basis for a country's positioning. As a general rule, in order to be eligible for MFA grants, countries would in principle have to be in the lower middle income category or below according to the latest available data and classification thresholds from the World Bank. **Poverty ratios** are also taken into consideration, complementing GNI per capita, to the extent that they give a different picture of a country's level of development.

The information provided by the economic and social development indicators is then complemented with that on **the recipient country's debt sustainability**. This second criterion looks in particular at the following **five debt burden indicators: external debt over GNI; external debt over exports; public external debt over GNI; total public debt over GDP; and the external debt service ratio** (debt service over exports). This choice represents a compromise between the significance and limitations of possible indicators, as well as data availability considerations, as discussed in the previous section. In addition, where available, **the results of the DSA conducted by the IMF and the World Bank, as well as other relevant analysis on the long-term debt dynamics of the beneficiary countries**, are taken into account.

The information on development and debt sustainability is then cross-checked against the status that the country in question has in its cooperation with other international donors. In particular, full or partial **IDA eligibility** and **access to PRGT financing** can be considered as arguments to consider a grant element. In the case of countries with access to IDA financing, **IDA terms** and, for "blended" countries, **the share of IDA financing** in the total assistance provided by the World Bank to the country is taken into account, wherever this information is available. Finally, **budgetary constraints**, i.e. the requirement to observe annual appropriations, within the framework provided by the EU's medium-term Financial Perspectives, also needs to be taken into consideration, reflecting the fact that MFA grants are fully financed through the EU budget, whereas loans have only limited and indirect budgetary implications.[13] For example, in a situation of limited availability of funds under the macroeconomic assistance line of the EU budget, it may be appropriate to opt for a blend of MFA loans and grants, or even to consider a loan-only operation, even if the beneficiary's development and debt indicators would in principle argue for a full grant.

For illustrative purposes, Chart 2 plots MFA-eligible countries/territories (plus the Kyrgyz Republic and Tajikistan, as memorandum items) according to their per capita income (horizontal axis) and a combined score of the five debt burden indicators identified above (vertical axis). This "combined debt score", which has been developed to enable the presentation of the data in a chart, is the simple average of a score assigned to each individual debt burden indicator (external debt over GNI; external debt over exports; public external debt over GNI; total public debt over GDP; and the external debt service ratio), depending on the extent to which its level falls into a range that can be presumed to be "safe" (score: 2), "problematic" (score: 0) or "intermediate" (score: 1). The indicative thresholds are defined in Table 4, while Annex 4 contains the underlying data, as well as the resulting individual and combined debt scores, for all MFA-eligible countries/territories.

[13] When MFA takes the form of a loan, the implications for the EU budget are limited to the need to provision the Guarantee Fund the year after the loan has been disbursed at a level of 9% of the amount disbursed. The Guarantee Fund was established in 1994 to cover the risks of default on external loans guaranteed by the EU budget (including MFA loans but also EIB and Euratom loans). In the current Financial Perspective, which runs from 2007 to 2013, an annual amount of up to EUR200m has been foreseen for the provisioning of the Fund, i.e. permitting net growth of the corresponding loan portfolio by around EUR2.2bn each year.

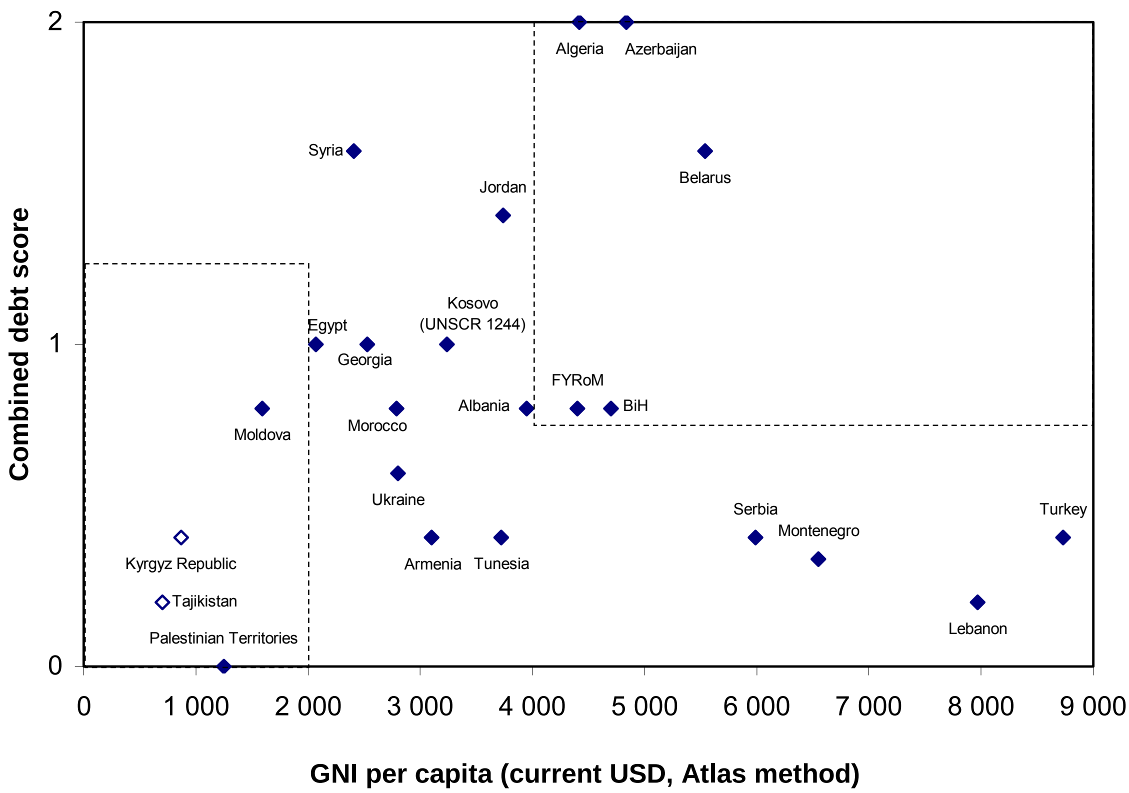
Table 4: Indicative thresholds for five debt burden indicators (for charting purposes)

	Safe (2)	Intermediate (1)	Problematic (0)
External debt over GNI	≤15%	>15% and ≤50%	>50%
External debt over exports	≤25%	>25% and ≤80%	>80%
Public external debt over GNI	≤10%	>10% and ≤25%	>25%
Total public debt over GDP	≤15%	>15% and ≤40%	>40%
External debt service ratio	≤15%	>15% and ≤30%	>30%

While the thresholds are to some extent arbitrary, they have been chosen with due regard to past experience of debt dynamics in countries at comparable stages of development and, where applicable, to thresholds applied in the HIPC exercise of the Bretton Woods institutions.

Chart 2 illustrates in a simplified manner the interplay of the two main criteria proposed here for a case-by-case decision on the form of MFA. It thus gives a rough indication of which countries would currently be candidates for receiving MFA only in the form of a pure loan (countries in the top right-hand shaded area of the chart) and of those countries for which a presumption of a grant should exist (bottom left shaded area of the chart). Countries in the intermediate range may, on a case-by-case basis, be deemed eligible for a grant element.

Chart 2: Illustrative scatter plot of MFA-eligible countries/territories*



* For legibility reasons, countries with a per capita income of more than USD9,000 (Croatia, Iceland, Israel and Libya) have been excluded from this chart. For the Palestinian Territories, a combined debt score of zero has been assumed for charting purposes, reflecting a lack of comparable debt burden data.

Sources: ECFIN calculation based on the World Bank's World Development Indicators, supplemented by IMF data

6. CONCLUSION

This document has explained the methodological approach used for deciding whether a proposed MFA operation should take the form of a loan, a grant or a blend of the two. Defining verifiable eligibility criteria ex-ante increases the transparency of the MFA instrument and reduces discretion and arbitrariness. The approach developed by the Commission is consistent with those applied by the World Bank and the IMF. It is based on objective indicators concerning countries’ level of development and debt sustainability, cross-checked against the judgment of other multilateral donors, notably the Bretton Woods institutions. It provides guidance on which countries could be considered for a grant element in MFA, starting from the premise that MFA should, by default, take the form of loans – in line with the nature of the instrument, namely to help alleviate short-term and transitory balance-of-payments difficulties.

While it is generally good practice to use verifiable criteria to determine eligibility for MFA grants, it is equally necessary to retain a degree of flexibility. Notably, some room for political discretion in the grant-versus-loan decision may in some cases be desirable, strengthening the EU’s capacity to act in line with its wider strategic interests. Last but not least, discretion is also required in the interest of overall financial discipline, notably to ensure that budgetary ceilings for providing MFA grants are respected.

ANNEX 1: WORLD BANK COUNTRY CLASSIFICATION BY INCOME GROUP

World Bank list of economies *(January 2011)*

(Bold indicates a change of classification)

	Economy	*Code*	*Region*	*Income group*	*Lending category*	*Other*
1	Afghanistan	AFG	South Asia	Low income	IDA	HIPC
16	Bangladesh	BGD	South Asia	Low income	IDA	
21	Benin	BEN	Sub-Saharan Africa	Low income	IDA	HIPC
30	Burkina Faso	BFA	Sub-Saharan Africa	Low income	IDA	HIPC
31	Burundi	BDI	Sub-Saharan Africa	Low income	IDA	HIPC
32	Cambodia	KHM	East Asia & Pacific	Low income	IDA	
37	Central African Republic	CAF	Sub-Saharan Africa	Low income	IDA	HIPC
38	Chad	TCD	Sub-Saharan Africa	Low income	IDA	HIPC
43	Comoros	COM	Sub-Saharan Africa	Low income	IDA	HIPC
44	Congo, Dem. Rep.	ZAR	Sub-Saharan Africa	Low income	IDA	HIPC
60	Eritrea	ERI	Sub-Saharan Africa	Low income	IDA	HIPC
62	Ethiopia	ETH	Sub-Saharan Africa	Low income	IDA	HIPC
69	Gambia, The	GMB	Sub-Saharan Africa	Low income	IDA	HIPC
72	Ghana	GHA	Sub-Saharan Africa	Low income	IDA	HIPC
79	Guinea	GIN	Sub-Saharan Africa	Low income	IDA	HIPC
80	Guinea-Bissau	GNB	Sub-Saharan Africa	Low income	IDA	HIPC
82	Haiti	HTI	Latin America & Caribbean	Low income	IDA	HIPC
99	Kenya	KEN	Sub-Saharan Africa	Low income	IDA	
101	Korea, Dem. Rep.	PRK	East Asia & Pacific	Low income	..	
105	Kyrgyz Republic	KGZ	Europe & Central Asia	Low income	IDA	HIPC
106	Lao PDR	LAO	East Asia & Pacific	Low income	IDA	
110	Liberia	LBR	Sub-Saharan Africa	Low income	IDA	HIPC
117	Madagascar	MDG	Sub-Saharan Africa	Low income	IDA	HIPC
118	Malawi	MWI	Sub-Saharan Africa	Low income	IDA	HIPC
121	Mali	MLI	Sub-Saharan Africa	Low income	IDA	HIPC
124	Mauritania	MRT	Sub-Saharan Africa	Low income	IDA	HIPC
134	Mozambique	MOZ	Sub-Saharan Africa	Low income	IDA	HIPC
135	Myanmar	MMR	East Asia & Pacific	Low income	IDA	
137	Nepal	NPL	South Asia	Low income	IDA	
143	Niger	NER	Sub-Saharan Africa	Low income	IDA	HIPC
161	Rwanda	RWA	Sub-Saharan Africa	Low income	IDA	HIPC
169	Sierra Leone	SLE	Sub-Saharan Africa	Low income	IDA	HIPC
173	Solomon Islands	SLB	East Asia & Pacific	**Low income**	IDA	
174	Somalia	SOM	Sub-Saharan Africa	Low income	IDA	HIPC
187	Tajikistan	TJK	Europe & Central Asia	Low income	IDA	
188	Tanzania	TZA	Sub-Saharan Africa	Low income	IDA	HIPC
191	Togo	TGO	Sub-Saharan Africa	Low income	IDA	HIPC
199	Uganda	UGA	Sub-Saharan Africa	Low income	IDA	HIPC
212	Zambia	ZMB	Sub-Saharan Africa	Low income	IDA	HIPC
213	Zimbabwe	ZWE	Sub-Saharan Africa	Low income	Blend	
6	Angola	AGO	Sub-Saharan Africa	Lower middle income	IDA	
9	Armenia	ARM	Europe & Central Asia	Lower middle income	Blend	
20	Belize	BLZ	Latin America & Caribbean	Lower middle income	IBRD	
23	Bhutan	BTN	South Asia	Lower middle income	IDA	
24	Bolivia	BOL	Latin America & Caribbean	Lower middle income	Blend	HIPC
33	Cameroon	CMR	Sub-Saharan Africa	Lower middle income	IDA	HIPC
35	Cape Verde	CPV	Sub-Saharan Africa	Lower middle income	Blend	
41	China	CHN	East Asia & Pacific	Lower middle income	IBRD	
45	Congo, Rep.	COG	Sub-Saharan Africa	Lower middle income	IDA	HIPC
47	Côte d'Ivoire	CIV	Sub-Saharan Africa	Lower middle income	IDA	HIPC
53	Djibouti	DJI	Middle East & North Africa	Lower middle income	IDA	
56	Ecuador	ECU	Latin America & Caribbean	Lower middle income	IBRD	
57	Egypt, Arab Rep.	EGY	Middle East & North Africa	Lower middle income	IBRD	
58	El Salvador	SLV	Latin America & Caribbean	Lower middle income	IBRD	
70	Georgia	GEO	Europe & Central Asia	Lower middle income	Blend	
78	Guatemala	GTM	Latin America & Caribbean	Lower middle income	IBRD	
81	Guyana	GUY	Latin America & Caribbean	Lower middle income	IDA	HIPC
83	Honduras	HND	Latin America & Caribbean	Lower middle income	IDA	HIPC
87	India	IND	South Asia	Lower middle income	Blend	
88	Indonesia	IDN	East Asia & Pacific	Lower middle income	IBRD	
90	Iraq	IRQ	Middle East & North Africa	Lower middle income	IBRD	
97	Jordan	JOR	Middle East & North Africa	Lower middle income	IBRD	
100	Kiribati	KIR	East Asia & Pacific	Lower middle income	IDA	
103	Kosovo	KSV	Europe & Central Asia	Lower middle income	IDA	
109	Lesotho	LSO	Sub-Saharan Africa	Lower middle income	IDA	
120	Maldives	MDV	South Asia	Lower middle income	IDA	
123	Marshall Islands	MHL	East Asia & Pacific	Lower middle income	IBRD	
128	Micronesia, Fed. Sts.	FSM	East Asia & Pacific	Lower middle income	IBRD	
129	Moldova	MDA	Europe & Central Asia	Lower middle income	IDA	
131	Mongolia	MNG	East Asia & Pacific	Lower middle income	IDA	
133	Morocco	MAR	Middle East & North Africa	Lower middle income	IBRD	
142	Nicaragua	NIC	Latin America & Caribbean	Lower middle income	IDA	HIPC
144	Nigeria	NGA	Sub-Saharan Africa	Lower middle income	IDA	
148	Pakistan	PAK	South Asia	Lower middle income	Blend	
151	Papua New Guinea	PNG	East Asia & Pacific	Lower middle income	Blend	

152	Paraguay	PRY	Latin America & Caribbean	Lower middle income	IBRD	
154	Philippines	PHL	East Asia & Pacific	Lower middle income	IBRD	
162	Samoa	WSM	East Asia & Pacific	Lower middle income	IDA	
164	São Tomé and Principe	STP	Sub-Saharan Africa	Lower middle income	IDA	HIPC
166	Senegal	SEN	Sub-Saharan Africa	**Lower middle income**	IDA	HIPC
177	Sri Lanka	LKA	South Asia	Lower middle income	IDA	
181	Sudan	SDN	Sub-Saharan Africa	Lower middle income	IDA	HIPC
183	Swaziland	SWZ	Sub-Saharan Africa	Lower middle income	IBRD	
186	Syrian Arab Republic	SYR	Middle East & North Africa	Lower middle income	IBRD	
189	Thailand	THA	East Asia & Pacific	Lower middle income	IBRD	
190	Timor-Leste	TMP	East Asia & Pacific	Lower middle income	IDA	
192	Tonga	TON	East Asia & Pacific	Lower middle income	IDA	
194	Tunisia	TUN	Middle East & North Africa	Lower middle income	IBRD	
196	Turkmenistan	TKM	Europe & Central Asia	Lower middle income	IBRD	
198	Tuvalu	TUV	**East Asia & Pacific**	**Lower middle income**	..	
200	Ukraine	UKR	Europe & Central Asia	Lower middle income	IBRD	
205	Uzbekistan	UZB	Europe & Central Asia	**Lower middle income**	Blend	
206	Vanuatu	VUT	East Asia & Pacific	Lower middle income	IDA	
208	Vietnam	VNM	East Asia & Pacific	**Lower middle income**	**Blend**	
210	West Bank and Gaza	WBG	Middle East & North Africa	Lower middle income	..	
211	Yemen, Rep.	YEM	Middle East & North Africa	**Lower middle income**	IDA	
2	Albania	ALB	Europe & Central Asia	**Upper middle income**	IBRD	
3	Algeria	DZA	Middle East & North Africa	Upper middle income	IBRD	
4	American Samoa	ASM	East Asia & Pacific	Upper middle income	..	
7	Antigua and Barbuda	ATG	**Latin America & Caribbean**	**Upper middle income**	IBRD	
8	Argentina	ARG	Latin America & Caribbean	Upper middle income	IBRD	
13	Azerbaijan	AZE	Europe & Central Asia	**Upper middle income**	Blend	
18	Belarus	BLR	Europe & Central Asia	Upper middle income	IBRD	
25	Bosnia and Herzegovina	BIH	Europe & Central Asia	Upper middle income	Blend	
26	Botswana	BWA	Sub-Saharan Africa	Upper middle income	IBRD	
27	Brazil	BRA	Latin America & Caribbean	Upper middle income	IBRD	
29	Bulgaria	BGR	Europe & Central Asia	Upper middle income	IBRD	
40	Chile	CHL	Latin America & Caribbean	Upper middle income	IBRD	
42	Colombia	COL	Latin America & Caribbean	Upper middle income	IBRD	
46	Costa Rica	CRI	Latin America & Caribbean	Upper middle income	IBRD	
49	Cuba	CUB	Latin America & Caribbean	Upper middle income	..	
54	Dominica	DMA	Latin America & Caribbean	Upper middle income	Blend	
55	Dominican Republic	DOM	Latin America & Caribbean	Upper middle income	IBRD	
64	Fiji	FJI	East Asia & Pacific	Upper middle income	IBRD	
68	Gabon	GAB	Sub-Saharan Africa	Upper middle income	IBRD	
76	Grenada	GRD	Latin America & Caribbean	Upper middle income	Blend	
89	Iran, Islamic Rep.	IRN	Middle East & North Africa	**Upper middle income**	IBRD	
95	Jamaica	JAM	Latin America & Caribbean	Upper middle income	IBRD	
98	Kazakhstan	KAZ	Europe & Central Asia	Upper middle income	IBRD	
108	Lebanon	LBN	Middle East & North Africa	Upper middle income	IBRD	
111	Libya	LBY	Middle East & North Africa	Upper middle income	IBRD	
113	Lithuania	LTU	Europe & Central Asia	Upper middle income	..	
116	Macedonia, FYR	MKD	Europe & Central Asia	Upper middle income	IBRD	
119	Malaysia	MYS	East Asia & Pacific	Upper middle income	IBRD	
125	Mauritius	MUS	Sub-Saharan Africa	Upper middle income	IBRD	
126	Mayotte	MYT	Sub-Saharan Africa	Upper middle income	..	
127	Mexico	MEX	Latin America & Caribbean	Upper middle income	IBRD	
132	Montenegro	MNE	Europe & Central Asia	Upper middle income	IBRD	
136	Namibia	NAM	Sub-Saharan Africa	Upper middle income	IBRD	
149	Palau	PLW	East Asia & Pacific	Upper middle income	IBRD	
150	Panama	PAN	Latin America & Caribbean	Upper middle income	IBRD	
153	Peru	PER	Latin America & Caribbean	Upper middle income	IBRD	
159	Romania	ROM	Europe & Central Asia	Upper middle income	IBRD	
160	Russian Federation	RUS	Europe & Central Asia	Upper middle income	IBRD	
167	Serbia	SRB	Europe & Central Asia	Upper middle income	IBRD	
168	Seychelles	SYC	Sub-Saharan Africa	Upper middle income	IBRD	
175	South Africa	ZAF	Sub-Saharan Africa	Upper middle income	IBRD	
178	St. Kitts and Nevis	KNA	Latin America & Caribbean	Upper middle income	IBRD	
179	St. Lucia	LCA	Latin America & Caribbean	Upper middle income	Blend	
180	St. Vincent and the Grenadines	VCT	Latin America & Caribbean	Upper middle income	Blend	
182	Suriname	SUR	Latin America & Caribbean	Upper middle income	IBRD	
195	Turkey	TUR	Europe & Central Asia	Upper middle income	IBRD	
204	Uruguay	URY	Latin America & Caribbean	Upper middle income	IBRD	
207	Venezuela, RB	VEN	Latin America & Caribbean	Upper middle income	IBRD	
5	Andorra	ADO	..	High income: nonOECD	..	
10	Aruba	ABW	..	High income: nonOECD	..	
14	Bahamas, The	BHS	..	High income: nonOECD	..	
15	Bahrain	BHR	..	High income: nonOECD	..	
17	Barbados	BRB	..	High income: nonOECD	..	
22	Bermuda	BMU	..	High income: nonOECD	..	
28	Brunei Darussalam	BRN	..	High income: nonOECD	..	
36	Cayman Islands	CYM	..	High income: nonOECD	..	
39	Channel Islands	CHI	..	High income: nonOECD	..	
48	Croatia	HRV	..	High income: nonOECD	IBRD	
50	Cyprus	CYP	..	High income: nonOECD	..	EMU
59	Equatorial Guinea	GNQ	..	High income: nonOECD	IBRD	
63	Faeroe Islands	FRO	..	High income: nonOECD	..	
67	French Polynesia	PYF	..	High income: nonOECD	..	
73	Gibraltar	GIB	..	**High income: nonOECD**	..	
75	Greenland	GRL	..	High income: nonOECD	..	

77	Guam	GUM	..	High income: nonOECD	..	
84	Hong Kong SAR, China	HKG	..	High income: nonOECD	..	
92	Isle of Man	IMY	..	High income: nonOECD	..	
104	Kuwait	KWT	..	High income: nonOECD	..	
107	Latvia	LVA	**..**	**High income: nonOECD**	..	
112	Liechtenstein	LIE	..	High income: nonOECD	..	
115	Macao SAR, China	MAC	..	High income: nonOECD	..	
122	Malta	MLT	..	High income: nonOECD	..	EMU
130	Monaco	MCO	..	High income: nonOECD	..	
139	Netherlands Antilles	ANT	..	High income: nonOECD	..	
140	New Caledonia	NCL	..	High income: nonOECD	..	
145	Northern Mariana Islands	MNP	..	High income: nonOECD	..	
147	Oman	OMN	..	High income: nonOECD	..	
157	Puerto Rico	PRI	..	High income: nonOECD	..	
158	Qatar	QAT	..	High income: nonOECD	..	
163	San Marino	SMR	..	High income: nonOECD	..	
165	Saudi Arabia	SAU	..	High income: nonOECD	..	
170	Singapore	SGP	..	High income: nonOECD	..	
193	Trinidad and Tobago	TTO	..	High income: nonOECD	IBRD	
197	Turks and Caicos Islands	TCA	..	**High income: nonOECD**	..	
201	United Arab Emirates	ARE	..	High income: nonOECD	..	
209	Virgin Islands (U.S.)	VIR	..	High income: nonOECD	..	
11	Australia	AUS	..	High income: OECD	..	
12	Austria	AUT	..	High income: OECD	..	EMU
19	Belgium	BEL	..	High income: OECD	..	EMU
34	Canada	CAN	..	High income: OECD	..	
51	Czech Republic	CZE	..	High income: OECD	..	
52	Denmark	DNK	..	High income: OECD	..	
61	Estonia	EST	..	**High income: OECD**	..	**EMU**
65	Finland	FIN	..	High income: OECD	..	EMU
66	France	FRA	..	High income: OECD	..	EMU
71	Germany	DEU	..	High income: OECD	..	EMU
74	Greece	GRC	..	High income: OECD	..	EMU
85	Hungary	HUN	..	High income: OECD	..	
86	Iceland	ISL	..	High income: OECD	..	
91	Ireland	IRL	..	High income: OECD	..	EMU
93	Israel	ISR	..	**High income: OECD**	..	
94	Italy	ITA	..	High income: OECD	..	EMU
96	Japan	JPN	..	High income: OECD	..	
102	Korea, Rep.	KOR	..	High income: OECD	IBRD	
114	Luxembourg	LUX	..	High income: OECD	..	EMU
138	Netherlands	NLD	..	High income: OECD	..	EMU
141	New Zealand	NZL	..	High income: OECD	..	
146	Norway	NOR	..	High income: OECD	..	
155	Poland	POL	**..**	**High income: OECD**	IBRD	
156	Portugal	PRT	..	High income: OECD	..	EMU
171	Slovak Republic	SVK	..	High income: OECD	..	EMU
172	Slovenia	SVN	..	**High income: OECD**	..	EMU
176	Spain	ESP	..	High income: OECD	..	EMU
184	Sweden	SWE	..	High income: OECD	..	
185	Switzerland	CHE	..	High income: OECD	..	
202	United Kingdom	GBR	..	High income: OECD	..	
203	United States	USA	..	High income: OECD	..	
1	**World**	**WLD**				
2	Low income	LIC				
3	Middle income	MIC				
4	Lower middle income	LMC				
5	Upper middle income	UMC				
6	Low & middle income	LMY				
7	East Asia & Pacific	EAP				
8	Europe & Central Asia	ECA				
9	Latin America & Caribbean	LAC				
10	Middle East & North Africa	MNA				
11	South Asia	SAS				
12	Sub-Saharan Africa	SSA				
13	High income	HIC				
14	Euro area	EMU				
15	High income: OECD	OEC				
16	High income: nonOECD	NOC				
17	Arab World	ARB				
18	East Asia & Pacific (all income levels)	EAS				
19	Europe & Central Asia (all income levels)	ECS				
20	European Union	EUU				
21	Heavily indebted poor countries (HIPC)	HPC				
22	Latin America & the Caribbean (all income levels)	LCN				
23	Least developed countries: UN classification	LDC				
24	Middle East & North Africa (all income levels)	MEA				
25	North America	NAC				
26	OECD members	OED				
27	Sub-Saharan Africa (all income levels)	SSF				

This table classifies all World Bank member economies, and all other economies with populations of more than 30,000. For operational and analytical purposes, economies are divided among income groups according to 2009 gross national income (GNI) per capita, calculated using the World Bank Atlas method. The groups are: low income, $995 or less; lower middle income, $996–3,945; upper middle income, $3,946–12,195; and high income, $12,196 or more. Other analytical groups based on geographic regions are also used.

Geographic classifications and data reported for geographic regions are for low-income and middle-income economies only. Low-income and middle-income economies are sometimes referred to as developing economies. The use of the term is convenient; it is not intended to imply that all economies in the group are experiencing similar development or that other economies have reached a preferred or final stage of development. Classification by income does not necessarily reflect development status.

Lending category: IDA countries are those that had a per capita income in 2009 of less than $1,165 and lack the financial ability to borrow from IBRD. IDA loans are deeply concessional—interest-free loans and grants for programs aimed at boosting economic growth and improving living conditions. IBRD loans are noncessional. Blend countries are eligible for IDA loans because of their low per capita incomes but are also eligible for IBRD loans because they are financially creditworthy.

Note: Income classifications are in effect until 1 July 2011. August 2010 revision: Slovenia added to high income OECD; September 2010 revision: Israel added to high income OEC
January 2011 revision: Estonia added to high income OECD and Euro area.

ANNEX 2: COUNTRIES ELIGIBLE FOR THE IMF'S PRGT

List of LIC DSAs for PRGT-Eligible Countries
As of March 9, 2011

Country	*Per latest DSA publication* Latest publication date	Risk of debt distress 1/	Joint with the World Bank	Latest DSA discussed by the Executive Board but not yet published 2/	Minimum Grant Element
Afghanistan	12-Feb-10	High	Yes	...	*
Armenia 3/ 5/	7-Dec-10	Low	Yes	...	30
Bangladesh	25-Feb-10	Low	Yes	...	*
Benin	7-Jul-10	Moderate	Yes	...	35
Bhutan	30-Dec-09	Moderate	Yes	...	*
Bolivia 3/	27-Jan-10	Low	No	...	*
Burkina Faso	8-Jul-10	High	Yes	...	35
Burundi	13-Oct-10	High	Yes	...	50
Cambodia	7-Feb-11	Moderate	Yes	...	*
Cameroon	4-Aug-10	Low	Yes	...	*
Cape Verde	18-Nov-10	Low	Yes	...	35
Central African Republic	29-Oct-10	Moderate	Yes	...	*
Chad	8-Jul-10	Moderate	Yes	...	*
Comoros	1-Aug-10	In debt distress	Yes	...	50
Congo, Democratic Republic of	14-Dec-10	High	Yes	...	35
Congo, Republic of	24-Mar-10	Moderate	Yes	...	35
Côte d'Ivoire	18-Jun-09	High	Yes	...	35
Djibouti	21-Jul-09	High	Yes	7-Jan-11	35
Dominica 3/	4-Aug-10	Moderate	No	...	*
Eritrea	...	...	...	7-Dec-09	*
Ethiopia	23-Jun-10	Low	Yes	...	*
Gambia, The	9-Mar-10	High	Yes	...	45
Georgia 3/ 6/	16-Jul-10	Moderate	No	...	*
Ghana	23-Jun-10	Moderate	No	...	35
Grenada 3/	20-May-10	High	No	...	35
Guinea	25-Jan-08	In debt distress	Yes	...	*
Guinea-Bissau	22-Dec-10	High	Yes	...	50
Guyana	17-Sep-10	Moderate	Yes	16-Feb-11	*
Haiti	9-Aug-10	High	Yes	...	35
Honduras	22-Oct-10	Low	Yes	...	35
Kenya	10-Feb-11	Low	Yes	...	35
Kiribati	...	...	...	...	*
Kyrgyz Republic	29-Oct-10	Moderate	No	...	*
Lao P.D.R.	7-Feb-11	High	Yes	...	*
Lesotho	21-Jul-10	Moderate	No	...	35
Liberia	8-Jul-10	Low	Yes	...	35
Madagascar	16-Jul-08	Low	Yes	...	*
Malawi	31-Mar-10	Moderate	Yes	...	35
Maldives	28-Jan-10	Moderate	Yes	14-Feb-11	35
Mali	15-Mar-10	Low	Yes	...	35
Mauritania	11-Jun-10	Moderate	Yes	...	35
Moldova	27-Jul-10	Low	No	...	35
Mongolia	10-Jun-10	Low	Yes	...	*
Mozambique	23-Jun-10	Low	Yes	...	35
Myanmar	...	...	...	19-Feb-10	*
Nepal	6-Jul-10	Moderate	Yes	...	*
Nicaragua	16-May-06	Moderate	Yes	9-Jul-10	35
Niger	26-May-10	Low	Yes	...	35
Nigeria	28-Feb-11	Low	Yes	...	*
Papua New Guinea 3/	10-Jun-10	Moderate	No	...	*
Rwanda	8-Jul-10	Moderate	Yes	...	35
Samoa	16-Jul-10	Low	Yes	...	*
São Tomé and Príncipe	26-Apr-10	High	Yes	...	50
Senegal	15-Dec-10	Low	Yes	...	35
Sierra Leone	20-Dec-10	Moderate	Yes	...	35
Solomon Islands	8-Jul-10	Moderate	No	...	35
Somalia	...	...	...	...	*
St. Lucia 3/	8-Apr-10	Moderate	No	12-Jan-11	*
St. Vincent and the Grenadines 3/	8-Jun-09	Moderate	No	26-Jul-10	*
Sudan	2-Aug-10	In debt distress	Yes	...	*
Tajikistan	9-Jul-10	High	No	...	35
Tanzania	22-Jun-10	Low	Yes	...	35
Timor Leste	8-Mar-11	Low	Yes	...	*
Togo	26-Jan-11	Moderate	Yes	...	35
Tonga	12-May-10	High	Yes	...	*
Uganda	17-May-10	Low	Yes	...	35
Uzbekistan 3/ 4/	...	...	...	...	*
Vanuatu	27-May-09	Low	No	...	*
Vietnam	8-Sep-10	Low	Yes	...	*
Yemen, Republic of	29-Sep-10	High	No	...	35
Zambia	27-Dec-10	Low	Yes	...	35
Zimbabwe 3/	6-Jul-10	In debt distress	No	...	*

Note: As of April 10, 2010 the following countries are no longer considered LICs and have therefore been removed from this table: Albania, Angola, Azerbaijan, India, Pakistan, and Sri Lanka.

*/ While there is no binding minimum concessionality requirement in the absence of a Fund-supported program, concessional flows remain the most appropriate source of external finance for LICs, highlighting the need for continued efforts by the international community to improve the availability and predictability of concessional financing (PIN No. 06/136).

na/ Minimum grant element has not been published.

1/ All LIC DSAs are expected to include an explicit rating of the risk of debt distress. However, some DSAs contain a discussion of the risk of debt distress, but no explicit rating. This has been the case for countries for which IDA does not require a rating for operational purposes (IDA-blend countries).

2/ May reflect usual lags in the publication.

3/ PRGT-eligible non-IDA only countries.

4/ A market-access countries (MACs) DSA has been completed and published within the past 24 months.

5/ Concessionality requirement applies on average.

6/ Georgia is no longer subject to concessionality requirements under the current IMF program. Georgia's program includes an indicative ceiling on total public external borrowing.

ANNEX 3: DAC LIST OF ODA RECIPIENTS

Effective for reporting on 2009 and 2010 flows

Least Developed Countries	Other Low Income Countries (per capita GNI < $935 in 2007)	Lower Middle Income Countries and Territories (per capita GNI $936-$3 705 in 2007)	Upper Middle Income Countries and Territories (per capita GNI $3 706-$11 455 in 2007)
Afghanistan	Côte d'Ivoire	Albania	*Anguilla
Angola	Ghana	Algeria	Antigua and Barbuda[1]
Bangladesh	Kenya	Armenia	Argentina
Benin	Korea, Dem. Rep.	Azerbaijan	Barbados[2]
Bhutan	Kyrgyz Rep.	Bolivia	Belarus
Burkina Faso	Nigeria	Bosnia and Herzegovina	Belize
Burundi	Pakistan	Cameroon	Botswana
Cambodia	Papua New Guinea	Cape Verde	Brazil
Central African Rep.	Tajikistan	China	Chile
Chad	Uzbekistan	Colombia	Cook Islands
Comoros	Viet Nam	Congo, Rep.	Costa Rica
Congo, Dem. Rep.	Zimbabwe	Dominican Republic	Croatia
Djibouti		Ecuador	Cuba
Equatorial Guinea		Egypt	Dominica
Eritrea		El Salvador	Fiji
Ethiopia		Former Yugoslav Republic of Macedonia	Gabon
Gambia		Georgia	Grenada
Guinea		Guatemala	Jamaica
Guinea-Bissau		Guyana	Kazakhstan
Haiti		Honduras	Lebanon
Kiribati		India	Libya
Laos		Indonesia	Malaysia
Lesotho		Iran	Mauritius
Liberia		Iraq	*Mayotte
Madagascar		Jordan	Mexico
Malawi		Kosovo[3]	Montenegro
Maldives		Marshall Islands	*Montserrat
Mali		Micronesia, Federated States	Nauru
Mauritania		Moldova	Oman[1]
Mozambique		Mongolia	Palau
Myanmar		Morocco	Panama
Nepal		Namibia	Serbia
Niger		Nicaragua	Seychelles
Rwanda		Niue	South Africa
Samoa		Palestinian Administered Areas	*St. Helena
São Tomé and Príncipe		Paraguay	St. Kitts-Nevis
Senegal		Peru	St. Lucia
Sierra Leone		Philippines	St. Vincent and Grenadines
Solomon Islands		Sri Lanka	Suriname
Somalia		Swaziland	Trinidad and Tobago[2]
Sudan		Syria	Turkey
Tanzania		Thailand	Uruguay
Timor-Leste		*Tokelau	Venezuela
Togo		Tonga	
Tuvalu		Tunisia	
Uganda		Turkmenistan	
Vanuatu		Ukraine	
Yemen		*Wallis and Futuna	
Zambia			

*Territory.

(1) Antigua & Barbuda and Oman exceeded the high income country threshold in 2007. In accordance with the DAC rules for revision of this List, both will graduate from the List in 2011 if they remain high income countries until 2010.

(2) Barbados and Trinidad & Tobago exceeded the high income country threshold in 2006 and 2007. In accordance with the DAC rules for revision of this List, both will graduate from the List in 2011 if they remain high income countries until 2010.

(3) This does not imply any legal position of the OECD regarding Kosovo's status.

ANNEX 4: SELECTED DEBT INDICATORS OF MFA-ELIGIBLE COUNTRIES/TERRITORIES

Country	External debt over GNI		External debt over exports		Public external debt over GNI		Total public debt over GDP		External debt service ratio		Combined debt score
	% of GNI	Score	% of exports	Score	% of GNI	Score	% of GDP	Score	% of exports	Score	(for charting purposes)
Albania	40.3	1	123.0	0	23.8	1	55.9	0	6.9	2	0.80
Algeria	3.8	2	6.7	2	2.1	2	7.4	2	1.4	2	2.00
Armenia	55.3	0	240.0	0	26.6	0	20.0	1	20.9	1	0.40
Azerbaijan	12.1	2	20.8	2	8.5	2	12.1	2	1.7	2	2.00
Belarus	35.6	1	68.4	1	9.9	2	13.0	2	5.0	2	1.60
Bosnia and Herzegovina	54.6	0	156.5	0	20.5	1	19.6	1	10.5	2	0.80
Croatia	97.7	0	176.6	0			33.6	1	33.0	0	0.25
Egypt	17.6	1	72.9	1	16.2	1	76.2	0	6.5	2	1.00
Georgia	40.0	1	116.8	0	24.5	1	22.9	1	7.3	2	1.00
Iceland	300.7	0			38.9	0	99.9	0			0.00
Israel	42.6	1			16.1	1	76.8	0			0.67
Jordan	28.3	1	54.7	1	21.2	1	9.7	2	4.8	2	1.40
Kosovo (UNSCR 1244)	22.6	1	144.8	0	17.8	1	17.8	1	3.3	2	1.00
Lebanon	70.7	0	105.3	0	59.3	0	157.0	0	18.0	1	0.20
Libya											
Macedonia (FYR)	62.2	0	150.0	0	20.8	1	21.3	1	14.8	2	0.80
Moldova	59.7	0	133.2	0	13.7	1	21.4	1	14.9	2	0.80
Montenegro	56.4	0			26.3	0	29.0	1			0.33
Morocco	26.4	1	86.9	0	21.5	1	47.3	0	12.5	2	0.80
Palestinian Territories											
Serbia	79.7	0	266.1	0	20.6	1	33.4	1	37.1	0	0.40
Syria	10.3	2	26.7	1	8.8	2	21.8	1	3.5	2	1.60
Tunisia	58.2	0	104.4	0	25.0	0	42.8	0	10.1	2	0.40
Turkey	41.2	1	169.8	0	14.0	1	40.7	0	41.6	0	0.40
Ukraine	83.8	0	158.2	0	9.4	2	19.9	1	36.2	0	0.60
Memorandum items:											
Kyrgyz Republic	65.8	0	112.3	0	52.6	0	48.6	0	14.0	2	0.40
Tajikistan	51.2	0	205.2	0	32.6	0	30.1	1	38.4	0	0.20

Sources: Where available, data from the World Bank's World Development Indicators have been used. Most of these data refer to 2009. Any gaps in the World Bank data have been filled, where possible, with latest available data from IMF country reports. The scores are based on ECFIN calculations.