

**EXECUTIVE  
BOARD  
MEETING**

SM/21/120  
Supplement 1

July 1, 2021

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Fund Concessional Financial Support for Low-Income Countries—  
Responding to the Pandemic—Supplementary Information on the Proposed  
Subsidy Reserve Account and Deposit and Investment Account**

Board Action: Executive Directors' **consideration** (Formal)

Tentative Board Date: **Wednesday, July 14, 2021**

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Questions: Ms. Gust, FIN (ext. 36573)  
Mr. Sobrinho, FIN (ext. 34532)  
Ms. Rutkowska, FIN (ext. 37451)





July 1, 2021

## FUND CONCESSIONAL FINANCIAL SUPPORT FOR LOW INCOME COUNTRIES—RESPONDING TO THE PANDEMIC— SUPPLEMENTARY INFORMATION ON THE PROPOSED SUBSIDY RESERVE ACCOUNT AND DEPOSIT AND INVESTMENT ACCOUNT

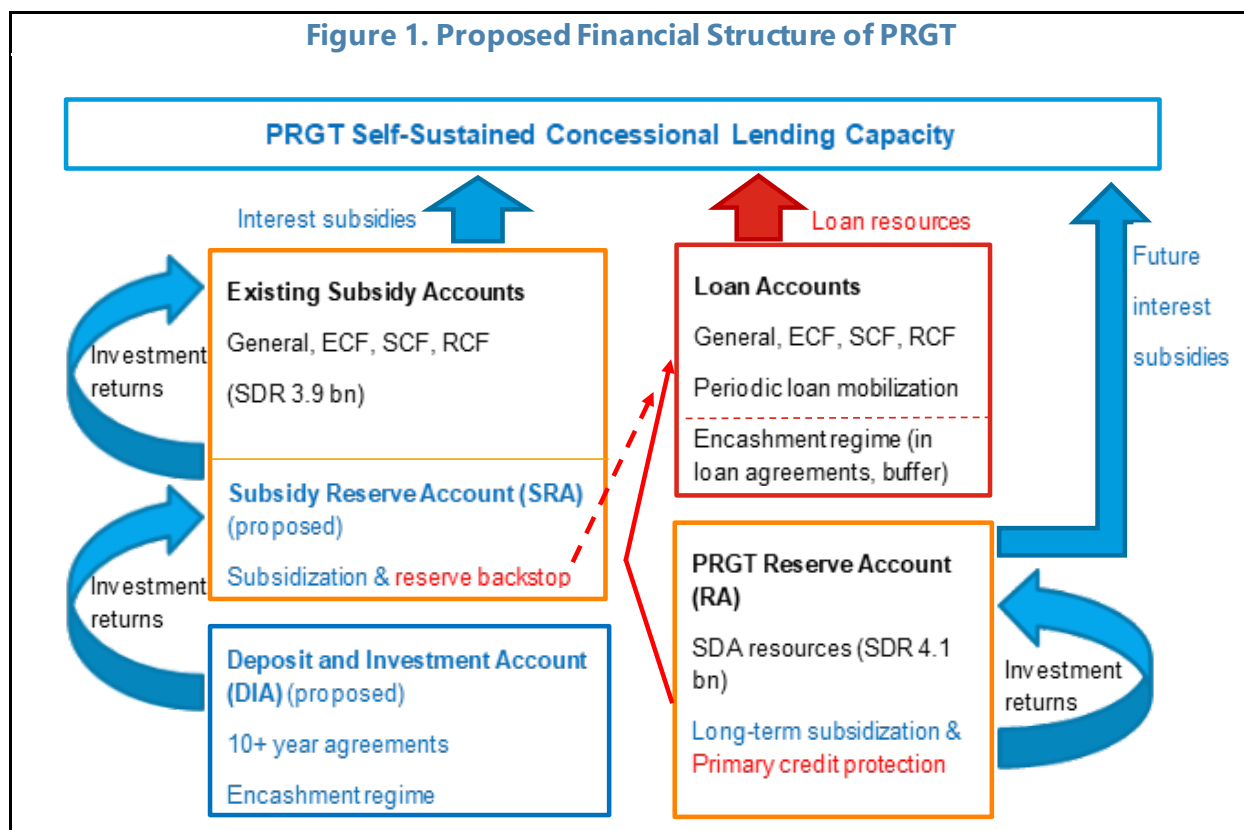
Approved By  
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Prepared by the Strategy, Policy and Review Department, and  
Finance Department.

**To facilitate bilateral subsidy contributions and reinforce reserve coverage, staff proposes the creation of two new PRGT accounts that can receive member contributions—a “Subsidy Reserve Account” (SRA) and a “Deposit and Investment Account” (DIA).** As discussed in paragraphs 61-63 of SM/21/120:

- The SRA would have the dual purpose of holding and investing PRGT subsidy resources while also providing an additional backstop to the PRGT Reserve Account (RA) to help manage credit risk. The proposed SRA would complement existing subsidy accounts and could receive bilateral grants or investment returns contributed by members to finance PRGT subsidization. The main purpose of the SRA would be to provide an additional flexible vehicle for subsidizing PRGT lending while also enhancing reserve coverage by serving as a second-line backstop for the RA in the event of arrears, providing a medium-term funding bridge toward the longer-term self-sustained PRGT endowment model.
- The proposed DIA would become the main vehicle for borrowing SDRs or currency from members with the objective of generating investment returns for PRGT subsidization. Members wishing to contribute subsidy resources via a long-term investment in the PRGT can already enter into deposit or investment agreements. The purpose of the DIA would be to centralize any such new resources in a separate account, which could support larger-scale investments by facilitating liquidity management and an encashment regime.

The diagram below provides a stylized illustration for the revised financial structure of the PRGT.



- The PRGT’s endowment-based model relies on a combination of loan resources, other borrowed resources (for deposits and investments), subsidy resources, and reserves.
- Trust assets in the Subsidy Accounts and the Reserve Account (RA), together amounting to about SDR 8 billion at end-April 2021 (see boxes in orange), are invested to generate returns that can be used for subsidization of lending, underpinning the PRGT’s self-sustained lending capacity. Currently, subsidization of lending relies entirely on existing assets in the Subsidy Accounts. The resources in the Subsidy Accounts would be gradually drawn down to zero, while balances in the RA would grow over time by the amount of investment returns. In the steady state, returns on RA assets would subsidize the entire PRGT lending in perpetuity. The RA has the dual purpose of generating subsidy resources and protecting PRGT lenders in the event of arrears.<sup>1</sup>
- Loan resources (see box in red) are mobilized periodically from bilateral lenders as needed, depending on demand for PRGT loans. The ongoing fast-track loan mobilization round, covering lending commitments through 2024, has raised about SDR 17 billion in new resources. Lenders participating in the encashment regime can request early repayment of their claims on the PRGT in case they experience a balance of payments need.

<sup>1</sup> The reimbursement of GRA for the PRGT’s administrative expenses is also financed from the Reserve Account.

- The proposed SRA would complement existing Subsidy Accounts, and be used for subsidization once resources in these accounts are insufficient, and before subsidization would be covered by RA investment earnings in the long run. The SRA's would thus hold, invest, and eventually provide subsidy resources, while also serving as a backstop, in addition to the RA, to cover residual credit risk to lenders.
- The proposed DIA (blue box) would centralize long-term borrowing from members provided for the purpose of generating deposit and investment returns that would be transferred to the SRA for PRGT subsidization. Contributors' claims would be remunerated at an agreed rate below the expected rate of return on the investment. Members would be able to encash their claims on the DIA in the event they experience a balance of payments needs.