

The contents of this document are preliminary and subject to change.

GRAY/23/4389

April 3, 2023

**Statement by Mr. Kim, Ms. Doss, and Mr. Yoo on 2023 Review of Resource Adequacy of the Poverty Reduction and Growth Trust, Resilience and Sustainability Trust, and Debt Relief Trusts
(Preliminary)
Executive Board Meeting
April 6, 2023**

We thank staff for the comprehensive review of resource adequacy of the PRGT, RST and debt relief trusts, which help to provide a holistic perspective regarding Fund's fundraising for its trust funds. In particular, we are pleased to have the opportunity to review funding and implementation of the RST for the first time within one year of its launch. We broadly agree with the staff's assessment and recommendations with some caveats and offer the following comments for further consideration.

While the very difficult economic circumstances combined with the lack of funding make the PRGT resource situation very concerning, we see a scope for improvement in the strategy proposed by staff to address the strains on PRGT finance. Despite a possibility of funding shortage under the updated High Case scenario, considering the uncertainty of the estimation, loan resources appear to be sufficient to meet demand for the PRGT through 2024 and so we question the urgent need for additional round of fundraising. However, on the back of higher demand and rising interest rates, subsidy resources are likely to fall significantly short of the level needed to ensure PRGT's lending capacity and the PRGT reserve ratio is expected to fall below the 20 percent indicative benchmark in coming years.

We welcome commitments from staff and Management to step up fundraising efforts, including more active engagement with potential donors during the Spring and Annual Meetings. However, a more targeted and feasible strategy is required along with a more candid and sober evaluation of the results of the first stage fundraising. Although mobilizing broadly burden-shared subsidy contributions should be encouraged, it is necessary to reconsider whether it is appropriate to continue to pursue the existing fundraising target for each potential donor country at the current juncture. *Given that only five emerging market countries pledged subsidy contributions, how much contribution do staff expect from emerging market countries in the first stage? Given that most countries that have pending pledges under previous fundraising rounds are EMDEs and LICs, how much progress do staff expect*

on pending pledges? What method of burden-sharing or country allocation will be used to mobilize the SDR 2.3 billion of additional subsidy needs?

Given the difficulty in bilateral fundraising, we see merit in better understanding options for using internal resources, including gold sales and gold pledges. In this vein, we welcome the staff's proposal to bring forward technical work on the use of internal resources as soon as possible.

Notwithstanding the difficult economic circumstances facing PRGT-eligible countries, it may be necessary to consider potential corrective measures when it becomes apparent that the PRGT cannot maintain the self-sustainable lending capacity. While we agree that there is still some time until 2025 to address the expected decline in reserve coverage and enhanced fundraising and exploring the use of internal resources should be prioritized, we caution against overly negative nuance over corrective measures. Since PRGT lending can be implemented only within PRGT resources, it is natural to recalibrate access limits and to consider the use of greater blending with GRA when necessary.

We do not support staff's proposal to postpone the next PRGT interest rate review given significant subsidy funding shortage and difficulty in additional bilateral fundraising. A rigorous analysis, timely discussion and rules-based decision is required in the context of high uncertainty around inflation outlook and elevated interest rates. We ask that this work be completed as currently scheduled for July 2023.

We assess that RST funding is going smoothly and the resources of the RST will remain largely adequate over the medium term given expected demand. Appreciation should be given to the 17 donors who have pledged contributions to the RST. While the initial progress and strong pipeline of RST lending is welcome, the fact that all five initial RSF arrangements have been granted maximum access levels is somewhat concerning. *Could staff share the outlook of the level of access requested by the countries currently in the pipeline?* Given the strong demand for the RSF arrangement, we concur with the need to accelerate finalizing existing pledges and in this regard, we are pleased to confirm that in our constituency, Australia disbursed its contributions last year and Korea disbursed its contributions to the RA and DA in March 2023. We welcome continued RST fundraising efforts to reach the SDR 33 billion target, including ongoing discussions with additional potential contributors. Nonetheless, a more holistic approach to fundraising should be considered, given donor fatigue and the more urgent need for funding for the PRGT and CCRT. We can go along with the proposal to introduce an interest rate cap at 2¹/₄ percent for Group A countries provided that the adequacy of reserves is maintained and periodic or ad-hoc reviews are warranted in the face of potential risks.

We strongly urge a comprehensive review of the CCRT as soon as possible. It is regrettable that the CCRT remains underfunded and no new pledges have been made. This review will provide an opportunity to re-evaluate the CCRT policy framework and estimate the adequate size of the CCRT needed to ensure it can fulfill its mandate, while renewing the momentum for fundraising for the CCRT. This review was initially planned for FY 2023 and was delayed to FY 2024 as a contingent item in the Board Work Program. *Can staff provide a more specific schedule for the comprehensive review of the CCRT instrument?*