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**Statement by Mr. Mizuguchi, Ms. Kashima, Mr. Naka, Ms. Kikuchi, and Mr. Watanabe
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 informative and comprehensive report. We welcome that resource adequacy of the Poverty Reduction and Growth Trust (PRGT) and Resilience and Sustainability Trust (RST) is discussed in the same board meeting, given the importance of well-coordinated and strategic fundraising efforts across all concessional financing schemes.

PRGT

We support the proposed multi-pronged strategy to address the significant resource gap from the targets set in July 2021 that focuses on a concerted effort to mobilize broad-based contributions in the near term, while starting technical work on the possible use of internal resources towards a comprehensive PRGT review in 2024/25.

To accelerate broad-based contributions, fundraising efforts should be expedited. In addition to USD 80 million contribution in 2022, Japan made an additional contribution of USD 50 million to the Subsidy Reserve Account (SRA), and will continue to make every effort for additional contributions to support PRGT eligible countries. We encourage other members with strong financial positions to do so as well. Given the importance for the Board to capture the financing status accurately, we appreciate staff for presenting the detailed tables on subsidy contributions as we requested at the informal Board meeting on PRGT resources in January, and support the proposal to update the Board on PRGT resources ahead of the Annual Meetings in addition to annual PRGT reviews in the Spring.

As staff noted, early technical work on every possible option including the use of internal resources is needed towards a comprehensive PRGT review in 2024/25. Given

the increasing subsidy gap, gold sales should be a central part of consideration, in addition to the extension of suspension of GRA reimbursement after FY2026.

As one of the main contributors to the PRGT, we are of the view that the review of PRGT interest rates should be conducted this July in accordance with the rules, to ensure long-term sustainability of PRGT resources under the global environment with rising interest rates.

We are concerned that the reserve coverage ratio has declined to well below historical norms and is projected to fall below the indicative benchmark of 20 percent in 2024. We can support the possible corrective measures to reallocate resources from the Subsidy Account to the SRA in the future.

RST

Priority should be placed in finalizing the process of the already pledged contributions and facilitating new pledges to meet the first target range of 15-20% of the 2021 SDR allocation. We welcome the progress made in the past year to raise 30.5 billion SDR contributions in total from 17 countries. At the same time, we strongly encourage countries with strong external positions which have not yet pledged or have only pledged below 15% to swiftly provide their contributions. Engagement with those candidates should be prioritized.

While we agree that the recent international interest rate increase calls for exploring the possibility to activate the interest rate cap mechanism for Group A countries, we are concerned about the potential adverse impact to the RST's financial base, especially at this very early stage. We acknowledge that this mechanism was already anticipated when the RST was established in order to ensure a similar level of concessionality between RSF loans and PRGT loans. However, we are concerned that significant deviations from the current projection such as the proportion of recipient countries categorized in Group A and unexpected interest rate developments could potentially reduce net interest income and thus could impair reserve adequacy. In this regard, it would be important to develop a mechanism and specific criteria to timely analyze and discuss necessary interest rate adjustments for each Group in order to maintain adequate reserves and to protect the financial base of the trust when adverse scenarios materialize. We strongly encourage staff to consider this point before drawing a final decision for the application of the interest rate cap for Group A countries. Moreover, we believe that other RST implementation issues such as access levels and program designs also need to be taken into account in considering the implications of activating this mechanism. Therefore, we look forward to the upcoming Board discussion on the early lessons of the RST implementation, tentatively scheduled for May 9th.

It remains essential to keep the access norm of 75% at this juncture. Given the surging frontloaded demand for RSF and the still weak financial base of the trust, we do not see any

clear reason to abolish the current access norm, as this would likely put further pressure on the limited lending resources. Further, we note that the maximum access level was granted in all previous cases based on the huge potential climate-related costs. However, as the RST's role is to catalyze other official- and private- climate finance and not to cover all climate-related financing needs, clearer criteria that justify the appropriateness of the higher access is needed.