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**Joint Statement by Mr. Bijani, Mr. Mohieldin, Mr. Nakunyada, Mr. Sylla, Ms. Choueiri,
Ms. Nainda, Ms. Nkusu, and Mr. Sassanpour 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 well-written and informative report. This comprehensive assessment, the first on an annual review that combines the discussion of the adequacy of the resources of the Fund's Poverty Reduction and Growth Trust (PRGT) and debt relief trusts, including the Catastrophe Containment and Relief Trust (CCRT), with that of the Resilience and Sustainability Trust (RST), provides a helpful integrated perspective across these Trusts. Ensuring the long-term sustainability of concessional resources has become even more important to meet eligible members' growing frontloaded demand for financing from the PRGT, RST, and CCRT. Against this backdrop, we strongly support urgent calls to raise funds to cover identified resource gaps, including with the use of internal resources if deemed appropriate.

On the PRGT

We support staff's proposed multi-pronged strategy to address constraints to concessional resources and ensure the self-sustainability of the PRGT. We note the shortfall in resources notably reflecting fewer pledges than expected under the first stage of the funding strategy. For subsidy resources, the shortfall in the current round amounts to about SDR 1.2 billion. To this should be added SDR 2.3 billion in subsidy needs arising from higher near-term lending and the increase in the SDR interest rate (SDRi), bringing the total subsidy gap to about SDR 3.5 billion. For the longer-term, as there is likely to be a need for a higher self-sustained PRGT lending envelope than the SDR 1.65 billion floor originally envisaged, subsidy needs would be commensurately greater. Given that both higher lending and subsidy shortfalls also drive the decline in the reserve coverage ratio, filling the subsidy gap would also help address the reserve coverage concerns. We concur with staff's call for enhanced fundraising efforts, together with the ongoing technical preparations for the

2024/25 comprehensive review of the PRGT. The review should consider appropriate measures, including use of internal resources, to entrench the self-sustainability of the PRGT.

We do not endorse the immediate implementation of measures proposed to slowdown PRGT lending or raise PRGT interest rates as these would adversely affect access to PRGT resources at a time when LICs are most in need of concessional support. The LICs face high financing needs in an environment of elevated uncertainty and still unfolding multiple global crises. Against this background, as staff notes, reducing access or concessionality of lending to these countries would exacerbate their financing constraints without necessarily addressing the strains on the PRGT finances. It would also entail reputational risks to the Fund, and worsen debt dynamics for the LICs, at a time when debt vulnerabilities are already elevated. In addition, with the recent increase in the GRA access level to 200/600, such an approach would further widen the gap between LICs that only have access to the PRGT and the rest of the membership. We thus, welcome staff's enhanced focus on fundraising efforts combined with laying early groundwork for the 2024/25 comprehensive PRGT review. Relatedly, we support staff's proposal to defer the review of the PRGT interest rate from July 2023 to the 2024/25 comprehensive review of concessional financing and policies. We agree that contingency measures such as a reallocation of resources from the Subsidy Accounts to the Subsidy Reserve Account could be considered in the future to buttress reserve coverage if necessary.

Efforts to close the PRGT resource gap in the near term should focus on stepping-up fundraising with the aim of mobilizing broad burden-shared subsidy contributions. At the March 6 Board discussion of the temporary increase in GRA access limits, Directors recognized the need to expedite efforts to fill the PRGT resource gap. We reiterate the call most Directors made for members in strong economic positions to accelerate their support for PRGT fundraising efforts. We agree with staff's plan to hold a series of fundraising events at the 2023 Spring and Annual Meetings and to offer flexible approaches for contributors to disburse pledged funds. *Could staff elaborate on the nature and scope of the planned events?* Beyond this, we maintain our longstanding call for a timely and proportional response to the unprecedented funding crises facing the Fund's poorest members. Clear timelines for the fundraising efforts would also be important to ensure sufficient progress to trigger an interim review of PRGT access limits with a view to aligning them with the recently approved higher access limits for the GRA. *In this regard, we would welcome staff's comments on the possibility for the Fund to use a modest gold sale as part of internal resources to finance the PRGT shortfall, including indications on the time needed to complete the transaction.*

Ensuring that contributors deliver on their pledges in a timely manner is important for the PRGT as well as the RST and CCRT. We note that unfulfilled pledges to the Subsidy Resources from previous fundraising rounds remain sizeable, at SDR 223 million. We urge contributors with outstanding pledges to honor their commitments. *Staff's views on how to accelerate materialization of the pledges would be welcome. As there are competing fundraising needs among the PRGT, RST and CCRT, is staff envisaging some sequencing or prioritization when approaching donors to make sure financing is made available for all three windows?*

Related to the RST

While we welcome the early signs of progress on the RST fundraising campaign, demand for RST resources is expected to significantly ramp up in 2023-24. Since the RST became operational in October 2022, five RSF arrangements have been approved, each at the maximum level of access. We note from the paper that more than 30 additional eligible countries across different regions and income groups have expressed interest in an RSF arrangement in the near term, with perhaps over half of them to be discussed by the Board in 2023, and the remainder in 2024. The demand could increase further as staff gains experience and country authorities become more familiar with the facility and its benefits. *We wonder if resource limitations could incentivize members to request RST financing more rapidly than they would otherwise (a risk highlighted in the paper), and what would be the implications for the remaining demand for assistance under the instrument? Relatedly, staff may wish to comment on selection criteria and the way they would prioritize requests for RSF financing given the funding constraints.*

We note that despite the expected increase in RSF requests, an updated assessment suggests that the April 2022 estimates remain appropriate. Under the April 2022 projections, the medium-term RSF demand from eligible countries was estimated at SDR 22 billion out of a total of SDR 33 billion fundraising target including the resources needed for initial reserves (paragraph 43). Staff's latest update does not suggest a clear need to update this estimate (paragraph 54). We encourage staff to regularly review this estimate as warranted going forward. Regarding reserves, an update of reserve adequacy that considers new developments, including a higher SDRi, shows that reserves remain adequate in the baseline and under several risk scenarios if pledged resources are provided as planned. Continued shortfall in pledges would be of great concern.

We agree that pledged resources to the RST should be made effective promptly and support stronger fundraising efforts to seek additional pledges to cover the estimated loan resource gap. We take note of staff's assessment that the current commitment capacity of the RST falls short of the estimated additional demand of SDR 7–9 billion in 2023; it therefore is important that the pledged resources be available to the RST to ensure that it can meet expected strong demand in the initial year. Staff estimates show further that even after pledged resources become effective, there will still be little or no resource buffers by the end of 2024. Accordingly, we urge potential contributors to make early pledges and make all efforts to fulfill them during 2023–24 to maintain borrowers' confidence in the Trust's resource adequacy, and to avoid the provision of RSF financing on a first-come first-served basis, which would entail hardship for LICs that would be excluded and damaging reputational risks to the Fund.

We favor measures that do not undermine the provision of adequate and affordable long-term financing to low-income and vulnerable countries in need. Accordingly, we support the introduction of a cap on the interest rate at 2.25 percent for Group A PRGT-eligible countries to ensure RSF loan concessionality is no less than that of PRGT loans. We note that the reserve coverage would remain adequate when the interest rate cap is introduced in the baseline and in most scenarios. *That said, we would welcome staff's views on the sustainability of the cap in the event of persistent interest rate increases, including the implications for the pace of RST reserves accumulation.* Also, as we support addressing the RST resource gap by ensuring that existing pledges materialize and by securing new pledges, we do not favor a reduction in established maximum access under the RSF considering the

large resource needs to meaningfully address the climate and other longer-term structural challenges facing the LICs.

On the CCRT

We are deeply concerned that the CCRT, the Fund's main instrument for delivering debt relief to its poorest members in challenging times, remains severely underfunded.

The relief under the CCRT unlocked critical support to eligible members and fiscal policy space to address the concerned countries' immediate needs during the COVID-19 pandemic. To ensure the Fund's continued support to vulnerable member countries, we support staff's efforts to mobilize additional resources for the CCRT. Given the scale of the current shocks, coupled with the current underfunding for future shocks, we stress the urgency of stronger fundraising efforts. We, therefore, continue to appeal for adequate contributions from economically strong members in support of low-income and vulnerable countries. *We would welcome staff's comments on the specific nature of CCRT fundraising initiatives planned for the 2023 Spring Meetings and beyond.*