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April 3, 2023

**Statement by Mr. Guerra, Mr. Betancur Mora, Mr. De Ramon-Laca Clausen, and Ms. Moral Betere 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 Poverty Reduction and Growth Trust (PRGT), Resilience and Sustainability Trust (RST), and the Debt Relief Trusts and their outreach to our office. We welcome that all the reviews are in the same document, which allows for an integrated overview as requested. Our constituency has always been of the view that the Fund should play a larger role in supporting low and middle-income countries to help achieve sustainable and inclusive growth, in that spirit, we would like to make the following comments:

Preserving the PRGT sustainability without undermining LICs support is paramount.

- **We note with concern that the PRGT subsidy resource gap has experienced a significant increase in recent months.** The COVID-19 pandemic, followed by the food and energy crises rooted in Russia's war against Ukraine, had led to a surge in demand for PRGT resources, leading to historically high levels of PRGT credit outstanding. Far from improving, these multiple shocks will likely have a more enduring effect on vulnerable countries, which could lead to a higher demand for PRGT resources in the longer-term, as shown in staff's projections. In addition, the lack of pledges from donor countries and the faster than expected rise in interest rates had led to a substantial widening in the subsidy reserve account.
- **Against this background, we agree with staff that the large subsidy gap warrants contingency measures.** However, we rule out the implementation of measures that could be detrimental to the borrowing countries or that distort the concessional nature of the loans, such as slowing down credits, increasing blending, or raising interest rates, as these measures would exacerbate existing challenges faced by LICs. On the contrary, we support the proposal to defer the review of the

PRGT interest rate structure from July 2023 to the 2024/25 comprehensive review, even if this would only have a modest impact on the existing subsidy gap.

- **We support the multi-pronged strategy proposed by staff to mobilize burden-shared subsidy resources.** We support increased fundraising efforts by Management in the coming months, with a special focus on the subsidy account. We strongly encourage all countries, and especially those that have not contributed, to do so, and those who have made pledges to make them effective. We note that budget constraints and donor fatigue are behind the slow increase in contributions. We therefore especially welcome the second pillar of the approach, bringing forward the technical work on the 2024/25 comprehensive review, to explore all options, including the use of internal resources, and ensure the longer-term sustainability of the PRGT. Finally, we also support enhanced board monitoring of progress on subsidies and reserves to take additional measures if needed. *Would these updates to the board include potential progress on the advanced technical work?* We also note that an interim review of access levels will be launched as soon as substantial progress is made in addressing the funding gap. *Could staff comment on the level of subsidies that would trigger this review?*
- **Mitigating risks to the PRGT financing framework remains key.** The decline in the reserve coverage ratio of the PRGT is a source of concern as it is one of the main pillars of the multi-layered risk management framework. Against this background, we see merit in the proposal to reallocate resources from the Subsidy Accounts to the Subsidy Reserve Account to ensure an adequate reserve coverage ratio. *However, given that an agreement will require unanimity, how does staff assess the feasibility of this measure and the timeline within which it could be achieved?* We welcome the ongoing shift from emergency financing to UCT-quality arrangements, but we note that enhanced monitoring is needed given elevated country level exposures.

Strong demand for RSF arrangements proves the success of this new pillar of the lending toolkit, while also showing the need for further resources.

- **We welcome the good progress made on the RST fundraising campaign, with total pledges reaching 76 percent of the target.** However, we note that some of these pledges have not been disbursed, and we strongly encourage all countries that have made pledges to turn them into actual transfers. In addition, we look forward to the completion of most contribution agreements for the remaining pledges during the first half of the year, as projected by the staff.
- **Given the strong demand for RSF arrangements expected in the medium term, we support further fundraising efforts to seek additional pledges.** We also support that these resources would be available to the RST as soon as possible, as this would avoid ‘first-come, first-served’ incentives and ensure even-handedness amongst potential recipient countries.
- **We believe that access levels should be guided by country-specific considerations, including the strength of the RSF-supported reforms.** We note that the first five countries received maximum access under their RSF-arrangements, given the very strong and encompassing climate

reform agenda. We believe that access should continue to be guided by country specific – considerations, including the strength of RSF reforms as well as the usual safeguards related to debt composition and sustainability. *Given the lack of pandemic-related programs, is staff considering broadening the purpose of the RST as envisaged in its creation?*

- **We would support a temporary cap on the interest rate for Group A countries, to ensure similar levels of concessionality compared to the PRGT facilities.** We note that if the cap is introduced, the reserve coverage would remain adequate under most scenarios, in part due to the standalone pledges to the reserves and deposit accounts. Going forward, the continued adequacy of reserves should be ensured given the elevated risks.

We agree that further resources are needed to ensure the IMF’s debt service support for the poorest and most vulnerable countries under the Catastrophe Containment and Relief Trust (CCRT). In a context of donor fatigue and the proliferation of concessional financing instruments, fundraising efforts will not be an easy task. *Is staff studying alternatives to tapping additional resources for the CCRT? Is staff studying potential alternatives to help countries cope with natural disasters and health shocks?*