



KRISTALINA GEORGIEVA
Managing Director

April 21, 2022

Honorable Gediminas Šimkus
Governor of the IMF for Lithuania

Dear Governor: *dear Gediminas —*

I am writing to seek your support for the newly established Resilience and Sustainability Trust (RST) that was approved by the IMF Executive Board on April 13, 2022. The RST complements the IMF's lending toolkit by providing affordable, long-term financing to low-income and vulnerable middle-income member countries as they tackle structural challenges—such as climate change and pandemic preparedness—which threaten their prospective balance of payments and macroeconomic stability.

The RST was established to address the membership's call to amplify the effect of the 2021 SDR allocation of \$650 billion by channeling SDRs from countries with strong external positions to countries where the needs are the greatest. Nearly three-quarters of the 190 IMF member countries, including all PRGT-eligible countries as well as vulnerable small states and middle-income countries, are eligible to borrow from the RST. We aim to mobilize at least SDR 33 billion (some US\$45 billion) in total resources to meet expected demand and provide adequate financial buffers for the RST.

The membership has called for the RST to be made operational by the IMF-World Bank Annual Meetings this Fall. This requires contributions sufficient to meet initial loan demand and from a broad pool of contributors to underpin encashability and thereby ensure the reserve asset quality of its loan and deposit accounts. Accordingly, I am calling on 35 countries with strong external positions to provide resources to the RST as soon as feasible under their domestic procedures. These contributions would generally be allocated across the loan, deposit, and reserve accounts of the RST in fixed proportions as outlined in the attached factsheet, but there is also the possibility for standalone contributions to the deposit and/or reserve accounts. Although the RST is primarily a mechanism for SDR channeling, there is flexibility for contributions to be made in freely usable currencies where that is preferred by the contributor.

In view of the overall resources required for the RST, I am requesting that all contributors provide at least 15–20 percent of their 2021 SDR allocation, which would support fair burden-sharing in relation to quota. I recognize that some countries have already made generous SDR channeling pledges to the G20, and call on these countries to provide as much as possible to the RST after meeting their welcome commitments to the PRGT.

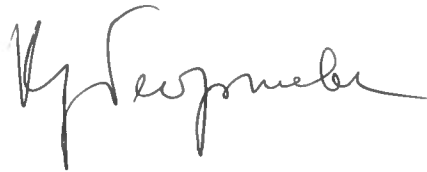
In order to be in a position to start RST operations around the 2022 Annual Meetings, I would kindly request your early consideration of contributing to the RST and to initiating the preparation of a contribution agreement. To facilitate the process, Fund staff is ready to start working with you and your relevant institutions immediately on the contribution agreements, together with contribution amounts, modalities, and timing. Please also refer to the attached RST factsheet for additional details.

While our entire membership faces enormous short-term challenges emerging from the pandemic and the ongoing war in Ukraine, it is vital not to overlook the longer-term ambitions of transforming economies to become more resilient to shocks and achieve sustainable and inclusive growth. The RST presents a new opportunity for the IMF to help member countries tackle such longer-term structural challenges. I am counting on Lithuania's support on this important global effort and would appreciate your response at your earliest convenience. For technical discussions, please contact Mr. Beaumont and Ms. Kaltani in the Finance Department.

Let me also take this opportunity to sincerely thank you for Lithuania's generous financial support of other IMF initiatives.

With my best regards —

Sincerely yours,



Attachment

cc: Honorable Gintarė Skaistė, Alternate Governor, IMF
Mr. Mika Pösö, Executive Director, IMF



FACTSHEET: CONTRIBUTIONS TO THE RESILIENCE AND SUSTAINABILITY TRUST

The IMF Executive Board approved the establishment of the Resilience and Sustainability Trust (RST) on April 13, 2022 as a third pillar of the IMF's lending toolkit that will provide affordable, long-term financing to low income and vulnerable middle-income member countries as they tackle structural challenges—such as climate change and pandemic preparedness.¹ To operationalize the RST by the 2022 Annual Meetings, the Fund is seeking SDR 33 billion in contributions in a broad burden-shared funding effort from 35 economically strong member countries. Members are encouraged to make their pledges and finalize their contribution agreements so as to deliver their contribution by October 2022 or as soon as possible thereafter. This note summarizes the possible methods of contribution and provides a description of the key features of the RST's financial architecture.²

- **A contributor is expected to sign a *Contribution Package with three parts*** – the loan account (LA) contribution (borrowing agreement); a Reserve Account (RA) contribution; and a Deposit Account contribution (deposit agreement). The key terms of a Contribution Package would be uniform across contributors with limited room for tailoring of individual agreements. Contributions to the RA and DA would be a minimum of 2 percent and 20 percent, respectively, of a contributor's commitment to the LA. Upfront contributions are urgently requested given the need to operationalize the RST as quickly as possible. However, where necessary, contributors could provide their pledged LA/RA/DA contributions in tranches over 2-3 years depending on domestic budgetary procedures.
- **All RST transactions and claims are denominated in SDRs.** It is anticipated that the resources of the LA and DA would primarily come from *channeled SDRs*, but contributions could be provided in freely usable currencies.
- **Under the approved financial architecture of the RST, claims by contributors on the LA and DA would have all the necessary characteristics of reserve assets.** The asset quality of loan claims on the LA would be ensured by a multi-layered credit risk management framework and their liquidity would be ensured by an encashment regime stipulated in the RST Instrument. The asset quality and liquidity of DA claims would rely on an appropriate investment strategy (further described below), with financial assets invested in high-quality, investment grade fixed-income instruments with sufficient liquidity that limit the probability and extent of investment losses over the medium-term while also allowing for encashment of individual contributors' claims when they experience a BoP/reserve need.
- **Contributors would enter into *borrowing agreements with the Trust and commit resources to the LA in the form of loans or notes*.** Committed resources would be used for RST lending while 20 percent of commitments would be set aside to support the encashment regime. Such lending would be subject to uniform key financial terms: in particular, all claims would be remunerated at the SDR interest rate (SDRi), or lower with the agreement of the contributor. The maturity schedule of claims under LA borrowing agreements would mirror the scheduled maturity of RST loans, which will have a maximum 20-year maturity, with repayment of each disbursement in 20 semiannual

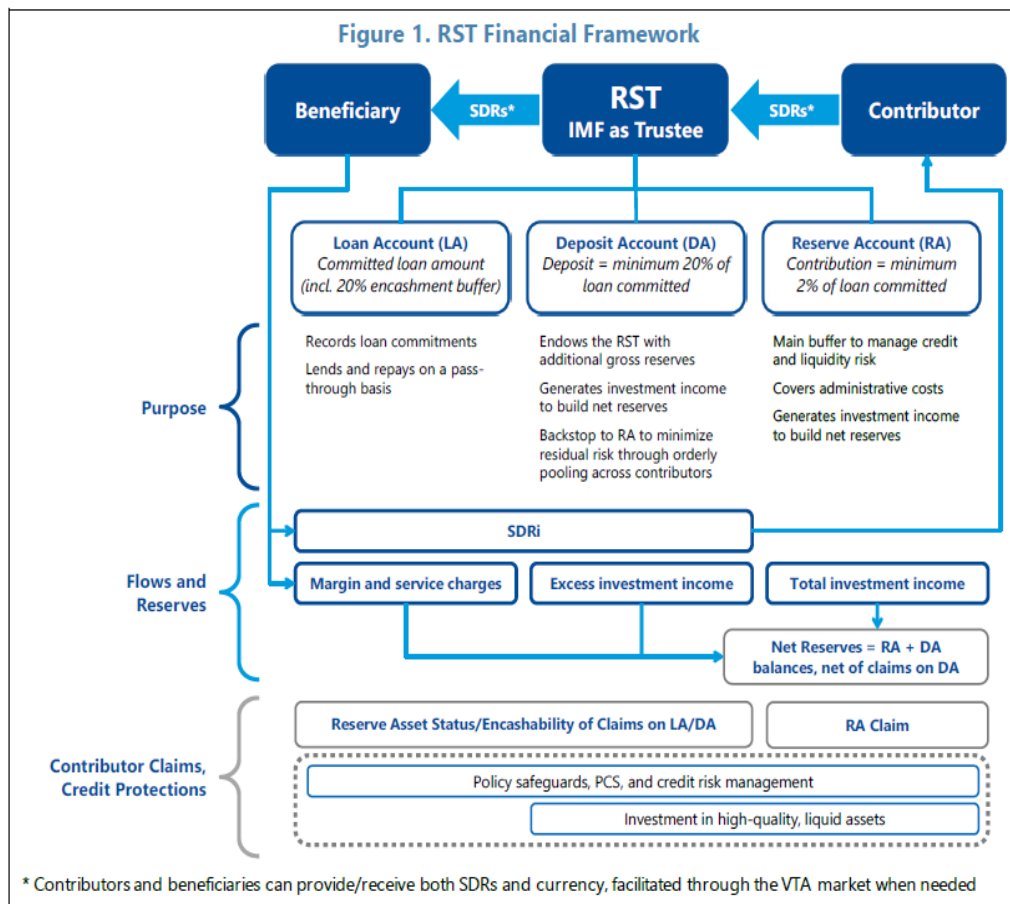
¹ Proposal to Establish a Resilience and Sustainability Trust.

² Additional details on the financial architecture are available in the Attachment A (Instrument to Establish the Resilience and Sustainability Trust) and Annex IV of the Board paper referenced in footnote 1 above.

instalments starting 10 ½ years after disbursement. Contributions can be provided in SDRs or in freely usable currencies; however, commitments under the agreement and contributors' claims would be denominated in SDRs. The borrowing agreements would provide for a pre-specified uniform drawdown period through November 30, 2030. All contribution agreements would provide for drawings for encashment purposes for as long as RST loan claims remain outstanding.

- **Contributions to the DA can also be in SDRs or freely usable currencies and are intended to generate investment returns to contribute to additional reserves for the RST and to minimize any residual risks to contributors' claims on the RST.** The terms would be specified in a bilateral deposit agreement. Members' investments would be remunerated at the SDRi (or lower if so agreed between the contributor and the Trust) with interest paid following the end of each quarter. At the time of maturity of the agreement, the value of the principal amount of the original deposit is to be returned to the creditor. The maturity of DA contributions would be based on the maximum final maturity of loans funded under the RST resource mobilization round, i.e., November 30, 2050. At maturity, any investment returns attributed to the deposit would be transferred to the contributor's share in the RA. As indicated above, contributors' claims on the DA would be encashable and would have the qualities of a reserve asset. The DA's resources will be invested based on a strategy that ensures adequate quality and liquidity of the asset pool.
- **The RA will provide the RST's principal financial buffer to manage financial risks and protect contributors' claims on the RST and to cover its administrative costs.** RA contributions will be unremunerated, would not be encashable, and would not be expected to have reserve asset status. Budgetary grants are the most straightforward method of contribution. Each contributor will be entitled to a calculated share of RA resources at the time of liquidation of the Trust, or earlier if deemed appropriate by the Trustee. Contributors would have flexibility to direct their share in the terminal distribution of the RA, including by making it available to other IMF-administered Trusts.
- **A contributor may also make a "standalone" contribution to the RA and/or the DA unrelated to LA contributions.** Such contributions could come from contributors that are not able to make LA contributions but who would want to contribute to the RA and/or the DA. Such standalone contributions to either or both accounts would be in the interest of the Trust, as they would bolster reserves at the outset and raise Trust income from investments.³ Standalone contributions to the RA and DA would have a fixed maturity, where such contributions should normally have a maturity of 10 years. Standalone RA and DA contributions have the same broad features and bear the same risks within the RST as RA/DA contributions from a Contribution Package.
- **Smooth functioning of the SDR trading market based on Voluntary Trading Arrangements (VTAs) will be critical.** An increase in SDR channeling will likely lead to an increased volume of SDR transactions through the VTA market. There is a strong expectation that SDR contributors to the RST would have VTAs that could support the conversion of channeled SDRs into currencies in order to ensure the broad distribution of SDR transactions among VTA participants.

³ In contrast, standalone contributions to the LA (without RA and DA contributions) would increase the risk exposure of reserves and deposits from other contributors, making it difficult to gain broad-based contributions.



- **Investment of resources from DA and RA contributions will be guided by the investment strategy outlined in the RST Board Paper.** The main component of the investment assets is to be invested in short-duration fixed-income (SDFI) assets, while a relatively small liquidity component will be set aside in deposits to cover short-term operational cash requirements. The objective of the investment strategy for the SDFI component is to produce returns in excess of the three-month SDR interest rate (SDRi) by an average of around 50 basis points, while minimizing the frequency and extent of negative returns and underperformance over an investment horizon of three to four years. Eligible investments include a range of high-quality investment grade fixed-income instruments such as government and government agency obligations as well as credit instruments such as corporate bonds and asset backed securities. This investment strategy is identical to the one for the SDFI component of the PRGT. Pooling of assets with those of the PRGT for investment purposes is envisaged to facilitate timely investment of the RST assets and achieve scale economies.⁴
- For technical discussions, please contact Mr. Beaumont (CBeaumont@imf.org) and Ms. Kaltani (LKaltani@imf.org) in the Finance Department.

⁴ Under a pooling arrangement across trusts, the current record keeping arrangements of detailed attribution of the share of each account in the investments would be applied. An amendment to the PRGT Instrument to enable the investment asset pooling is approved by the IMF Executive Board, and currently PRGT subsidy contributors are being contacted to express their consent to the proposed amendment.



KRISTALINA GEORGIEVA
Managing Director

September 26, 2022

Honorable Gediminas Šimkus
Governor of the IMF for the Republic of Lithuania

Dear Governor:

I am writing to follow up on my letter of April 21, 2022, to urgently seek your formal pledge to help finance the Resilience and Sustainability Trust (RST). The RST presents a historic opportunity for the Fund to help member countries tackle longer-term structural challenges and complements well our ongoing work to assist members in addressing their more immediate needs related to the pandemic and the food and fuel crisis stemming from Russia's invasion of Ukraine. As the demand for RST resources from the 143 eligible member countries is expected to be frontloaded, it is critical for the credibility of the RST to have sufficient resources to be well prepared to meet such demand.

There has already been strong support from the membership for the RST, with pledges from 11 of the 35 countries that I contacted in April amounting to SDR 29.2 billion. Collectively, these pledges are equivalent to some 73 percent of our lending resource objective, which is welcome and substantial progress. Nonetheless, we will need additional pledges if we are to ensure that the RST is fully funded for the entire drawdown period until 2030.

I am therefore continuing to request that members with strong economies make pledges to the RST of at least 15-20 percent of their 2021 SDR allocation, which would support fair burden sharing in relation to quotas. Indeed, given the scale of the structural challenges faced by low-income and middle-income vulnerable countries, including the increased frequency and intensity of devastating climate events, I strongly encourage advanced economies to pledge even more (up to 30 percent of their 2021 SDR allocation) to the RST and the PRGT or other channeling modalities. Most contributors would make a pledge to the RST that will be allocated across the loan, deposit, and reserve accounts in fixed proportions, but standalone contributions to the deposit and/or reserve accounts are also welcome. Given that the RST is primarily a mechanism for SDR channeling, the loan and deposit contributions would typically be made in SDRs, but there is flexibility for contributions to be made in freely usable currencies where that is preferred by the contributor.

I would be extremely grateful if you could respond formally to this request by October 12, 2022, and would also very much welcome your announcement of a pledge at the upcoming Annual Meetings. To discuss any technical issues, please contact Mr. Beaumont (CBeaumont@imf.org) and Ms. Kaltani (LKaltani@imf.org) in the IMF's Finance Department. Fund staff stands ready to start working with you and your relevant institutions immediately on the contribution agreements, together with contribution amounts, modalities, and timing.

I would like also to take this opportunity to sincerely thank you for Lithuania's generous financial support of other IMF initiatives.

Sincerely yours,

A handwritten signature in black ink, appearing to read "Mr. Fegomebe". The signature is fluid and cursive, with a large initial "F" and a long, sweeping underline.

cc: Honorable Gintarė Skaistė, Alternate Governor, IMF
Mr. Mika Pösö, Executive Director, IMF