

**FOR
AGENDA**

EBS/05/158

November 16, 2005

To: Members of the Executive Board

From: The Secretary

Subject: **Multilateral Debt Relief Initiative and Exogenous Shocks Facility—
Proposed Decisions**

Attached for consideration by the Executive Directors is a paper which puts forward a package of proposed decisions to implement the Multilateral Debt Relief Initiative (MDRI) and establish the Exogenous Shocks Facility (ESF) within the PRGF Trust. Draft decisions appear on pages 10–36. An informal briefing on the MDRI and ESF is scheduled for **Friday, November 18, 2005**, and the Board meeting for the adoption of the decisions is tentatively scheduled on **Wednesday, November 23, 2005**.

The staff does not propose the publication of this paper.

Questions may be referred to Mr. Hagan (ext. 37715) and Mr. Elizalde (ext. 37796) in LEG; Ms. Guerguil (ext. 37694) and Mr. Joly (ext. 34674) in PDR; and Mr. Ordoobadi, FIN (ext. 36935).

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INTERNATIONAL MONETARY FUND

Multilateral Debt Relief Initiative and Exogenous Shocks Facility—Proposed Decisions

Prepared by the Finance, Policy Development and Review and Legal Departments

Approved by Michael G. Kuhn, Mark Allen, and Hector Elizalde

November 16, 2005

This paper puts forward a package of proposed decisions to implement the Multilateral Debt Relief Initiative (“MDRI”) and establish the Exogenous Shocks Facility within the PRGF Trust; it also provides a Commentary on key aspects of the decisions. The proposed decisions generally reflect the overall structure and modalities that have been identified by the staff and endorsed by Executive Directors in the several meetings held to date concerning the G-8 debt relief proposal/MDRI and ESF. Section I of this paper discusses key aspects of the MDRI and its related proposed decisions, while Section II reviews the draft decisions related to establishment of the ESF. Section III provides the actual text of the proposed decisions, with ancillary documents linked to the decisions contained in Attachments I through III.

I. MDRI Decisions and Related Matters

A. Overview

The Fund expects to receive a request that the Fund take certain actions to implement the MDRI in the Fund. This will be circulated in due course. Consistent with this request and the earlier Executive Board discussions, the overall structure of the MDRI would involve:

- (i) the establishment of an MDRI-I Trust, which would use SDA and anticipated new third party contributions to provide MDRI relief to all qualifying PRGF-eligible members (HIPCs and non-HIPCs alike) that have annual per capita incomes of US\$380 or less;
- (ii) the establishment of an MDRI-II Trust, which would use third party contributions transferred from the Subsidy Account of the PRGF Trust, along with anticipated additional third party contributions made directly to the MDRI-II Trust, to provide MDRI relief to qualifying members on a pre-specified list of HIPCs with annual per capita incomes of more than US\$380;
- (iii) an amendment of the PRGF Trust Instrument to allow the reallocation of bilateral contributors’ resources from the current Subsidy Account of the PRGF Trust to the MDRI-II Trust;

- (iv) a transfer of Special Disbursement Account (SDA) resources for use in HIPC Initiative relief, and transfer of remaining SDA resources to the MDRI-I Trust and the Subsidy Account of the PRGF Trust; and
- (v) the adoption of certain related amendments to the PRGF-HIPC Trust Instrument, which are mainly intended to allow the delivery of HIPC Initiative assistance as debt stock relief (rather than only as debt flow relief as is currently the case).

B. Key Aspects of the MDRI-Related Decisions

This section explains the implications of key provisions in Decisions I.A and I.B:

1. Decision I.A, paragraph 3(b)

This subparagraph would amend the PRGF Trust Subsidy Account termination provisions (Section IV, paragraph 6 of the PRGF Trust Instrument) to allow the pre-termination transfer of bilateral contributor resources from the Subsidy Account of the PRGF Trust to the MDRI-II Trust. As drafted, this provision gives each consenting contributor the option of either (i) consenting to the amendment, and to the transfer of up to the full amount of subsidy resources attributable to the contributor, or (ii) consenting to the amendment, but retaining its full contribution in the Subsidy Account. (Issues related to dissenting contributors are discussed under Decision I.A, paragraph 8, below.) A contributor's consent to the proposed amendment would constitute notification to transfer up to the full amount of resources attributable to it, unless the contributor indicates otherwise. As drafted, the decision would not become effective unless (a) all contributors consent to the amendment and (b) sufficient contributors (i.e., contributors accounting for at least SDR 1.12 billion in Subsidy Account contributions) both consent and provide notification that up to the full amount of their contributions may be transferred to the MDRI-II Trust. The residual rights of contributors in the PRGF Trust Subsidy Account would be determinable after all the relevant consents and notifications had been received.¹

¹ Current Section IV, paragraph 6 of the PRGF Trust Instrument provides that the distribution provided for in that section shall take into account, inter alia, "donations" that have been made by contributors. This term is not a reference to historical donations, but rather a net concept that takes into account transfers made from the Subsidy Account that impact contributors' residual rights.

2. **Decision I.A, paragraphs 4 and 5**

These two paragraphs govern the use of SDA resources. Paragraph 4 provides for repeal of the relevant portions of the two decisions that currently govern the use, for HIPC debt relief purposes, of investment income from profits of the 1999/2000 off-market gold transactions. Paragraph 5 would allocate SDA resources to provide (i) debt relief under the HIPC Initiative for all qualifying countries (paragraph 5(a)), and (ii) beyond-HIPC MDRI relief to qualifying PRGF-eligible members with per capita incomes at or below US\$380 (paragraph 5(b)).^{2 3} Paragraph 5(c) provides for transfer to the Subsidy Account of the PRGF Trust of the residual resources remaining in the SDA after the first two transfers (estimated at SDR 0.47 billion), for use in supporting PRGF lending (and future ESF lending, upon effectiveness of the requisite ESF decisions) during the interim PRGF period.⁴ The three transfers provided for in paragraph 5 would effectively deplete the SDA of all available resources.

3. **Decision I.A, paragraph 6**

In connection with paragraph 5(b)'s transfer of SDA resources to the new MDRI-I Trust, this paragraph reflects the requirement of Article V, Section 12(i) that the General Resources Account be reimbursed from time to time in respect of the expenses of administration of the SDA that are paid from the GRA, on the basis of a reasonable estimate of such expenses. As there would be no resources remaining in the SDA after the transfers under paragraph 5, this paragraph provides for reimbursement out of the SDA resources transferred to the MDRI-I Trust.⁵ As is the case under the HIPC Initiative, it is proposed that

² Nominal amounts expressed in the proposed decisions and in this Commentary are converted from staff's end-2005 NPV estimates, as set out in Supplement I of SM/05/353 (Table 1). As the decisions are expected to be taken near the end of the year, the nominal amounts indicated are the same as the NPV estimates.

³ The respective amounts are: (i) SDR 0.53 billion, comprising the estimated cost of HIPC assistance at completion point for the 17 pre-completion point countries (SDR 0.44 billion) plus estimated interim assistance for the same countries (SDR 0.09 billion); and (ii) SDR 1.5 billion, comprising the estimated cost of the beyond-HIPC MDRI relief to qualifying members (including SDR 0.11 billion, which represents the estimated cost of MDRI relief at end-2006 for Cambodia and Tajikistan).

⁴ As noted in previous papers, the G-8 has also committed to provide certain additional resources to the PRGF Trust Subsidy Account, including SDR 100 million to support continued lending during the interim PRGF period.

⁵ SDA resources retain their character as such even after they have been transferred to other accounts; they thus remain subject to all of the requirements and obligations applicable to SDA resources, including the reimbursement requirement of Article V, Section 12(i).

no reimbursement be paid in cases of non-incremental costs (i.e., where the SDA-related expenses pertain to activities that are already being carried out and paid for by the Fund from the GRA in other contexts such as a UFR program relationship or an Article IV consultation). The additional administrative costs arising from implementation of the MDRI have been estimated at US\$2.6 million (SM/05/353, Supplement 1). They largely represent one-off costs associated with the preparatory work for implementing the initiative. The level of incremental costs associated with the MDRI and the modalities of their reimbursement would be determined in the light of actual experience.

4. **Decision I.A, paragraph 7**

This amendment would enable the use of HIPC completion-point resources (plus interim assistance still unused at the completion point) to effect the early repayment of qualifying debt (stock basis). Interim assistance, however, would continue to be delivered on a flow basis (i.e., to meet all or a portion of obligations as they fall due in accordance with the governing maturity schedule). The amendment with respect to completion-point assistance would apply to members that reach the completion point in the future; it would also apply to those that have already reached the completion point and had completion-point relief disbursed into their Umbrella Account subaccounts, once agreement is reached between the Fund and the member on a new schedule for using the HIPC assistance to effect early repayment to the Fund.⁶ Although post-completion point HIPC Initiative relief would be delivered on a stock rather than flow basis, the current approach of using schedules for the delivery of HIPC assistance would be retained.⁷

⁶ The application of the amendment in paragraph 7 to already disbursed assistance is an exception to the general rule in Section III, paragraph 6 of the PRGF-HIPC Trust Instrument that such an amendment only affect HIPC assistance provided after the effective date of the amendment. A similar exception to Section III paragraph 6 of the PRGF-HIPC Trust Instrument (in a similar case where the exception was to the benefit of the member) was created to allow members to qualify for increased HIPC Initiative assistance after the enhancement of the HIPC Initiative in 1999. (See Section III, paragraph 2(b) of the PRGF-HIPC Trust Instrument.) In any event, as noted above, the proposed amendment here would apply to already disbursed HIPC assistance only if there is agreement with the member on the related schedule for delivery of that assistance.

⁷ Post-amendment HIPC schedules would provide for use of completion point assistance to effect early repayment of the qualifying debt stock, but would continue to reflect the flow approach for interim assistance (and could also indirectly address issues regarding the allocation of post-completion point relief in cases where HIPC “topping-up” assistance is committed at the completion point but remains undisbursed pending the receipt of satisfactory assurances from other creditors).

5. Decision I.A, paragraph 8

Reflecting the fact that the amendment in paragraph 3 of Decision I.A. is to a “protected provision” relating to the Subsidy Account of the PRGF Trust, this paragraph provides that Decision I.A can only become effective when all third party contributors to the Subsidy Account of the PRGF Trust have consented to the amendments set forth in paragraph 3. As noted in earlier papers, however, while the requirement for consent of all contributors implies that each contributor has a veto over the decision, such a veto scenario could in principle be avoided if the resources attributable to a dissenting contributor were returned in full to that contributor (i.e., the requirement for consent would cease to apply for any particular party that ceases to be a “contributor”). Accordingly, once sufficient consents and notifications have been received to enable transfer to the MDRI-II Trust of the SDR 1.12 billion provided for in paragraph 3, a veto of the initiative by a dissenting “contributor(s)” (i.e., a contributor that not only objects to the transfer of the contribution attributable to it but also objects to an amendment that would allow other contributors to transfer the resources attributable to them) could be avoided by returning their remaining contributions in full, subject to the consent of other contributors.⁸

6. Decision I.B

This decision would amend the decision governing Umbrella Account subaccounts to effect a conforming amendment related to the HIPC Initiative amendment described under paragraph 7 of Decision I.A.

An important aspect that needs to be addressed is the publication of documents issued to the Executive Board in connection with the assessment and delivery of MDRI relief for specific countries. These publication issues will be addressed in a supplementary paper to be issued shortly.

7. Attachments I and II

a. Overview. The overall structure and general administrative provisions proposed for the MDRI-I and MDRI-II Trusts are substantially similar to those of the PRGF-HIPC Trust. The following explains the implications of some of the key provisions of both

⁸ The letter to be sent by the Fund seeking the consent of contributors to the amendment would also seek their consent to return remaining contributions attributable to a dissenting contributor in the event that action needs to be taken to avoid a veto of the initiative. In principle, some contributors may wish not to consent but would also not wish to remove their funds from the Subsidy Account. The “buyout” option discussed above would not preclude this, as such a contribution would be deemed in effect a new contribution to the Subsidy Account.

Trusts. (As the numbering of the two trusts are similar, parenthetical references are to sections of both Trusts, unless otherwise is indicated.)

b. Trust Resources (Section I, paragraph 3(b)). Like the PRGF-HIPC Trust, both MDRI Trusts would have the ability to receive third party contributions. In practice, the most significant contributions for the MDRI-I Trust are likely to be those for the costs associated with MDRI debt relief to the sunset and protracted arrears cases with incomes below the \$380 threshold.⁹ For the MDRI-II Trust, this provision would allow for bilateral contributions beyond those to be transferred from the PRGF Trust Subsidy Account pursuant to Decision I.A, paragraph 3. In particular, if the MDRI-II Trust eligibility list is expanded in the future to include sunset and protracted arrears cases with incomes above the US\$ 380 threshold, such contributions could be made in respect of the costs associated with beyond-HIPC debt relief for those cases.

c. Qualification Requirements (Section III, paragraph 2). This provision sets out the conditions under which eligible countries will qualify for MDRI debt relief. For pre-completion-point HIPCs, the decision provides that they will qualify for MDRI relief at the time of the completion point (paragraph 2(a)).

For post-completion-point HIPCs, qualification will require that performance in three key areas not have deteriorated substantially since the time the completion point was reached: macroeconomic performance, implementation of a poverty reduction strategy, and public expenditure management (PEM). The current track record of policies in the three areas mentioned above will therefore need to be compared with that prevailing at the time of completion point. This implies that a weakening of performance following completion point would not affect the assessment if it has been followed by a sustained improvement to date. In particular, a minimum track record of six months of satisfactory macroeconomic performance and implementation of a poverty reduction strategy (or a similar framework) would be needed to qualify for debt relief. An assessment that the quality of PEM systems has not deteriorated substantially since completion point would also be required to qualify for MDRI relief (paragraph 2(b)).

To guarantee a consistent treatment of eligible members, the performance of non-HIPCs eligible for MDRI debt relief from the Fund will be assessed in the same three areas. During the Board discussion of SM/05/353, the view was held that the qualification requirements for non-HIPCs proposed by staff did not go far enough to ensure consistency of treatment with HIPCs, and that non-HIPCs should be required to demonstrate the same track record of strong policy actions meeting the standard of upper credit tranche conditionality as is required of HIPCs to receive debt relief. Staff considered this position. The difficulty in assessing non-HIPCs is the absence of a benchmark against which to assess their current

⁹ Contributions for the costs associated with HIPC assistance to these countries could be provided to the PRGF-HIPC Trust using existing contribution modalities under that Trust.

performance. Specific requirements to meet the completion point under the HIPC Initiative, and the time period needed to reach it, vary largely from country to country, reflecting their different starting point. More importantly, as discussed in SM/05/353, the specific actions required from pre-completion-point HIPCs may not be relevant for non-HIPCs. Thus, staff concluded that an acceptable degree of consistency would be achieved if the qualification of eligible non-HIPCs for MDRI relief is made conditional on satisfactory performance in the three key areas. Specifically, in their cases qualification for MDRI relief would require: (i) a track record of at least six months of sound macroeconomic policies in the period immediately prior to the assessment; (ii) a track record of at least six months of satisfactory implementation of a poverty reduction strategy (or a similar framework) in the same period; and (iii) an assessment that the quality of their PEM systems would allow resources freed by debt relief to help meet the MDGs.

As discussed in previous staff papers, the Executive Board would adopt country-specific decisions to deliver relief from the MDRI-I and MDRI-II Trusts. Such decisions could be adopted for each of the 18 post-completion point HIPCs and two non-HIPCs that are determined to qualify for such relief shortly after effectiveness of Decision I.A. If any of these members are initially determined not to qualify for relief, the Executive Board would adopt a decision for these countries indicating the measures they need to take to qualify. Thereafter, a reassessment of their qualification could be made at any time it appeared that the remedial measures had been taken.

d. MDRI-Eligible Debt (Section III, Paragraph 3). Upon a determination of qualification, the Fund would use resources from the applicable MDRI Trust to repay, on behalf of the qualifying member, its “eligible debt” to the Fund. “Eligible debt” is defined as that portion of a member’s debt to the Fund that was outstanding as of December 31, 2004 and that, as of the date of the determination that the member qualifies for MDRI assistance, (i) has not been repaid by the member or with assistance disbursed to it under the HIPC Initiative, and (ii) is not scheduled to be repaid by assistance committed or disbursed to the member under the HIPC Initiative. For a member that has both pre- and post-MDRI cutoff date debt that is to be covered by HIPC Initiative assistance, HIPC debt relief disbursed at the completion point (plus unused interim assistance disbursed earlier) would be allocated in proportion to the ratio between pre- and post-cutoff date debt. The current policy of providing HIPC topping up assistance at the completion point would be continued, based on the debt stock prior to the delivery of MDRI relief. A member’s debt to be covered by topping up assistance that is committed but not disbursed at the completion point (because of the lack of satisfactory assurances regarding the participation of other creditors) would remain outstanding pending the disbursement of such assistance.

e. Liquidation provisions (Section V, paragraph 2). The provisions governing the distribution of resources of the MDRI-I Trust provide that any amounts outstanding post-termination are to be distributed between the Fund and contributors, in proportion to their contributions. For the MDRI-II Trust, however, it is proposed that any outstanding post-termination amounts be transferred for current or future subsidy operations of the PRGF Trust, unless a contributor requests that its residual pro rata share be returned to it. This

arrangement seems reasonable, as it is likely that the bulk of resources in the MDRI-II Trust will continue to be those transferred from the PRGF Trust Subsidy Account pursuant to paragraph 3 of Decision I.A.¹⁰ The ability of contributors to request that their residual contributions be returned provides a safeguard in the event that there are contributors that do not want their resources transferred to the PRGF Trust.)

f. Members in arrears to the Fund. Consistent with current practice, members in arrears to the Fund in the GRA or the Fund as Trustee, will not be eligible for debt relief under the MDRI until arrears are cleared.

B. Key Aspects of the ESF-Related Decisions

8. The ESF-related decisions set forth in Decisions II.A, II.B and II.C and the amended PRGF Trust Instrument in Attachment III would take effect only after the MDRI general decision (Decision I.A) becomes effective.¹¹ These decisions are substantially the same, and provide for the same operational modalities, as the ESF decisions proposed in SM/05/365, Supplement 1. The Commentary set forth in SM/05/365, Supplement 1 therefore remains relevant and is not repeated here. Rather, this section addresses key areas in which substantive revisions have been made from the proposals set forth in EBS/05/365, particularly as regards modalities for the subsidization of ESF loans. (Parenthetical references below are to sections of Attachment III, unless otherwise is indicated.)

More specifically, under Decision II.A. and the related PRGF Trust amendment set forth in Attachment III, the current Subsidy Account of the PRGF Trust would become the “PRGF-ESF Subsidy Account” (of the PRGF-ESF Trust), and would be available for both PRGF and ESF subsidy purposes. In addition, two new Subsidy Accounts would be established: one (the PRGF Subsidy Account) to receive earmarked contributions and provide subsidies for PRGF loans only; and the other (the ESF Subsidy Account) to receive earmarked contributions and provide subsidies for ESF loans only (Section IV, paragraph 1).

The PRGF-ESF Subsidy Account would serve as a second line of disbursement of subsidy resources, as resources in that account are to be used only if there are no resources in the PRGF Subsidy Account or the ESF Subsidy Account, as applicable (Section IV, paragraph 4(a)). Subsidy resources in the PRGF-HIPC Trust would provide a third line of

¹⁰ The MDRI-II Trust clause authorizing the post-termination transfer of resources for current *or future* subsidy operations authorized for the PRGF Trust would also avoid the need for a further substantive amendment of this provision in the context of the ESF decisions (as noted above, the ESF decisions will be adopted only after effectiveness of the MDRI decisions); in turn, this avoids the need for consent of MDRI-II Trust contributors to the ESF amendment.

¹¹ For convenience, a redlined version of the proposed amendments to the PRGF Trust Instrument is set forth in Attachment IV.

disbursement for PRGF-only subsidies, as these resources would be transferable to the PRGF Subsidy Account only if no resources are available in both the PRGF and PRGF-ESF Subsidy Accounts (Decision I.B, paragraphs 4(a) and 4(b)).¹²

The amendments to the PRGF Trust Subsidy Account provisions are subject to the consent of all contributors to the Subsidy Account of the PRGF Trust.¹³ Even after consenting to the proposed amendment, however, contributors would have a two-month period within which they could transfer resources from the PRGF-ESF Subsidy Account to either the PRGF Subsidy Account or the ESF Subsidy Account (Section IV, paragraphs 1(a)(i) and (ii)). Separately, the same considerations and possibility for a “buyout” of dissenting creditors would apply to this amendment as apply to the general MDRI decision, as set forth in the commentary to Decision I.A, paragraph 8.

Beyond these issues of ESF subsidy financing and related matters, a further substantive revision from the proposed decisions in EBS/05/365, Supplement 1 is that, as proposed by Directors during the last ESF discussion, the ESF decision now includes a clause calling for review of the ESF decision at three-year intervals.

C. Proposed Decisions

As mentioned above, the first two of the proposed decisions below (I.A and I.B) along with Attachments I and II, would establish the structure and operational modalities of the MDRI and implement conforming amendments to the PRGF-HIPC Trust Instrument. The remaining three decisions (II.A, II.B and II.C) and Attachment III relate to the establishment and operational modalities of the ESF. Decisions I.A and II.A may be adopted by an 85 percent majority of the total voting power; Decisions I.B, II.B and II.C may be adopted by a majority of the votes cast.

As noted in the text of the relevant decisions: (i) Decision I.A shall become effective when all contributors to the Subsidy Account of the PRGF Trust have consented to the amendments set forth in paragraph 3 of that decision and the Trustee has received

¹² An amendment to the PRGF-HIPC Trust Instrument to allow use of the subsidy resources of that Trust for both ESF and PRGF subsidy purposes would require the consent of 82 PRGF-HIPC Trust contributors that have not earmarked resources specifically for HIPC Initiative debt relief. Given the small amount of subsidy resources currently available in that Trust (SDR 70 million), and the potential for delays implied by the need for consent of 82 contributors, it is proposed that subsidy transfers from the PRGF-HIPC Trust continue be available only for PRGF subsidies as is currently the case.

¹³ As discussed in SM/05/365, Supplement 1, all lenders to the Loan Account of the PRGF Trust must also consent to Decision II.A, given the proposed use of Loan Account resources for both PRGF and ESF arrangements.

notifications of consent from contributors for transfers to the MDRI-II Trust for the equivalent of SR 1.12 billion; (ii) Decision II.A shall become effective when all lenders to the Loan Account of the PRGF Trust and all contributors to the Subsidy Account of the PRGF Trust have consented to the amendments set forth in that decision, but shall not become effective until Decision I.A is effective; (iii) Decision I.B, a HIPC Initiative-related consequential amendment of the MDRI, shall become effective once Decision I.A becomes effective; and (iv) Decisions II.B and II.C, ESF-related consequential amendments, shall become effective once Decision II.A becomes effective.

Accordingly, the following draft decisions are proposed for adoption by the Executive Board:

PROPOSED DECISIONS

I. Multilateral Debt Relief Initiative (MDRI) and Related HIPC Initiative Amendments

A. Implementation of the MDRI

(85 percent majority of the total voting power)

1. Pursuant to Article V, Section 2(b), the Fund adopts the Instrument to Establish the Multilateral Debt Relief Initiative-I Trust (“MDRI-I Trust”) that is annexed as Attachment I to this decision. The Fund shall conduct semi-annual reviews of the financing of the MDRI-I Trust.
2. Pursuant to Article V, Section 2(b), the Fund adopts the Instrument to Establish the Multilateral Debt Relief Initiative-II Trust (“MDRI-II Trust”) that is annexed as Attachment II to this decision. The Fund shall conduct semi-annual reviews of the financing of the MDRI-II Trust.
3. Section IV, paragraph 6 of the Poverty Reduction and Growth Facility Trust (“PRGF Trust”) Instrument annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, shall be amended as follows:

(a) the current text shall become paragraph “(a)”; and

(b) a new paragraph (b) shall be added to read as follows:

“(b) Prior to the termination of the Subsidy Account in accordance with (a) above, the equivalent of SDR 1.12 billion of the resources in that Account that are not derived from the Special Disbursement Account shall be transferred to the Multilateral Debt Relief Initiative-II Trust established pursuant to paragraph 2 of Decision No. ----- [this decision], upon the notification by sufficient contributors that up to the full amount of their outstanding contributions may be used for such a transfer.”

4. The following decisions relating to the use of the proceeds of the 1999/2000 off-market gold sales are hereby rescinded: (a) paragraph 2 of Decision No. 12063-(99/130), adopted December 8, 1999, other than the first sentence of such paragraph, and (b) Decision No. 12330-(00/118), adopted November 30, 2000.

5. Of the resources held in the Special Disbursement Account (SDA) as of ----- [the effective date of this decision]:

(a) the equivalent of SDR 530 million, which shall include all the proceeds from investment of the profits of the 1999/2000 gold sales held in the SDA as of ----- [the effective date of this decision], shall be transferred to the HIPC subaccount of the PRGF-HIPC Trust Account and shall be used exclusively to provide debt relief from the Fund under the HIPC Initiative to members that qualify for such relief or, if not needed for such purpose, shall be used to replenish resources from other sources that have been used for such relief;

(b) the equivalent of SDR 1.5 billion shall be transferred to the MDRI-I Trust established pursuant to paragraph 1 of this decision, and shall be used exclusively to provide

debt relief from the Fund in accordance with the provisions of the Instrument establishing that Trust; and

(c) the remaining balance shall be transferred to the Subsidy Account of the PRGF Trust.

6. In accordance with Article V, Section 12(i), the General Resources Account of the Fund shall be reimbursed annually by the MDRI-I Trust, from resources transferred to the MDRI-I Trust from the SDA, in respect of the expenses of administering SDA resources in the MDRI-I Trust, other than expenses already attributed to other accounts or trusts administered by the Fund or to the General Resources Account.

7. Section III, paragraph 4(b) of the Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (“PRGF-HIPC Trust”) annexed to Decision No. 11436-(97/10), adopted February 4, 1997, shall be amended to read as follows:

“(b) Trust grants and Trust loans (including any income from investment of their proceeds) advanced to a member as interim assistance shall be used to meet the member’s debt service payments on its existing debt to the Fund as they fall due, in accordance with the schedule for using the proceeds of such grants and loans as determined under the provisions of (a) above. Trust grants and Trust loans (including any income from investment of their proceeds) disbursed to a member at the completion point, along with any amounts previously advanced to the member as interim assistance that remain unused at the completion point, shall be used to effect the early repayment of the member’s qualifying debt to the Fund, in accordance with the schedule for using the proceeds of such grants and loans as determined under the

provisions of (a) above. Notwithstanding paragraph 6 below, the preceding sentence shall also apply to Trust grants and Trust loans (including any income from investment of their proceeds) that, prior to ----- [the effective date of this decision], had been disbursed to a member at the completion point or had been advanced to the member as interim assistance and remained unused at the completion point, once agreement is reached between the Trustee and the member on a modified schedule for using the proceeds of the Trust grant or Trust loan as provided for in (a) above.”

8. This decision shall become effective when all third party contributors to the Subsidy Account of the PRGF Trust have consented to the amendments set forth in paragraph 3 above, and the Trustee has received notifications of consent from contributors for transfers to the MDRI-II Trust for the equivalent of SDR 1.12 billion.

B. Amendment of HIPC Umbrella Account Decision

(Majority of the votes cast)

1. The Fund as Trustee of the PRGF-HIPC Trust decides that the first sentence of paragraph 3 of Decision No. 11698-(98/38) ESAF, adopted April 1, 1998, shall be amended to read as follows:

“Following the establishment of a sub-account, the Fund, as Trustee, shall be authorized to use the resources of the sub-account (including any net income from the investment of such resources) to repay the member’s existing debt to the Fund, in accordance with the Schedule for using the proceeds of grants

and loans as determined under the provisions of Section III, Paragraphs 4(a) and 4(b) of the Instrument to Establish the PRGF-HIPC Trust.”

2. This decision shall become effective when Decision No. ----- [Decision I.A above] becomes effective.

II. The Exogenous Shocks Facility

A. Establishment of the Exogenous Shocks Facility

(85 percent majority of the total voting power)

1. Paragraph 1 of Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, shall be amended by replacing “Poverty Reduction and Growth Facility Trust” with “Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust”.
2. The Poverty Reduction and Growth Facility Trust (“PRGF Trust”) Instrument annexed to Decision No. 8759-(87/176) ESAF, along with its Appendices, shall be amended to read as set forth in Attachment III annexed to this decision.
3. References in other Fund decisions, instruments, agreements or documents to Poverty Reduction and Growth Facility, Poverty Reduction and Growth Facility Trust, Subsidy Account, PRGF, or PRGF Trust shall be understood to be, respectively, references to Poverty Reduction and Growth Facility and Exogenous Shocks Facility, Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust, PRGF-ESF Subsidy Account, PRGF-ESF and PRGF-ESF Trust.
4. With respect to the PRGF-HIPC Trust Instrument that is annexed to Decision No. 11436-(97/10), adopted February 4, 1997:

(a) notwithstanding paragraph 3 above, the following provisions shall remain unchanged:

(i) the references to “Interim PRGF Subsidy Operations” in the title and Introductory Section;

(ii) the references to “interim PRGF subsidy operations” in Section I, paragraph 1(vii) and Section III bis, and to “PRGF” in the definition of this term in Section I, paragraph 1(vii);

(iii) the references to “self-sustained PRGF operations” in Section I, paragraph 1(viii) and Section V, paragraph 2;

(iv) the reference to “PRGF-type operations” in Section I paragraph 1(viii);
and

(v) the reference to “interim PRGF operations” and “PRGF-eligible members” in Section I, paragraph 2(b); and

(b) Section III bis, as amended by paragraphs 3 and 4(a) above, shall be further amended by adding “and PRGF-ESF Subsidy Account” immediately after the first reference to “PRGF Subsidy Account”.

5. This decision shall become effective when all lenders to the Loan Account of the PRGF Trust and all third party contributors to the Subsidy Account of the PRGF Trust have consented to the amendments set forth above; provided, however, that this decision shall not become effective until [Decision I.A above] is effective.

6. The Fund shall review the application of this decision at intervals of three years and at such other times as consideration of it is placed on the agenda of the Executive Board.

B. Access Limits Under the ESF

(Majority of the votes cast)

1. The Fund as Trustee of the PRGF-ESF Trust, decides that Decision No. 8845-(88/61) ESAF, adopted April 20, 1988, shall be amended as follows:

(a) In paragraph 1, the phrase “under the Poverty Reduction and Growth Facility” shall be added after “a three-year commitment”;

(b) A new paragraph 3 shall be inserted to read as follows:

“3. In accordance with Section II, paragraph 2(b) of the Instrument to Establish the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust, the maximum limit on total outstanding access for each eligible member under the ESF shall be 50 percent of a member’s quota in the Fund, provided that this limit may be exceeded in exceptional circumstances.”; and

(c) The existing paragraph 3 shall be deleted and a new paragraph 4 shall be inserted to read as follows: “The Fund shall review the maximum access limit and the exceptional maximum limit under the PRGF, and the maximum access limit under the ESF”.

2. This decision shall become effective when Decision No. ----- [Decision II.B above] becomes effective.

C. Consequences of Failure to Meet ESF Repayment Expectations

(majority of the votes cast)

1. Paragraph 4 of Decision No. 11832-(98/119)ESAF, adopted November 20, 1998 shall be revised to add “Section II, paragraph 3(c) of the PRGF-ESF Trust Instrument or” before “the provisions of Appendix I to the PRGF-ESF Trust Instrument.”
2. This decision shall become effective when Decision No. ----- [Decision II.B above] becomes effective.

Instrument to Establish the Multilateral Debt Relief Initiative-I Trust

Introductory Section

To help fulfill its purposes, the International Monetary Fund (“the Fund”) has adopted this Instrument to Establish the Multilateral Debt Relief Initiative-I Trust (“the Trust”), which shall be administered by the Fund as Trustee (“the Trustee”). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

Section I. General Provisions

Paragraph 1. Definitions

Wherever used in this Instrument, unless the context otherwise requires:

(a) “decision point” and “completion point” shall have the meaning given to each of them in Section I, Paragraph 1 of the PRGF-HIPC Trust Instrument that is annexed to Decision No. 11436-(97/10), adopted February 4, 1997 (“the PRGF-HIPC Trust Instrument”); and

(b) “eligible or potentially eligible for HIPC Initiative assistance” means the relevant member either (i) meets the eligibility criterion set forth in Section III, paragraph 1(d) of the PRGF-HIPC Trust Instrument, or (ii) had reached a decision point under the HIPC Initiative as of December 31, 2004.

Paragraph 2. *Purposes*

The Trust shall assist in fulfilling the purposes of the Fund by providing balance of payments assistance to low-income developing members by making grants (“Trust grants”) to eligible members that qualify for assistance under the terms of this Instrument.

Paragraph 3. *Trust Account and resources*

(a) The operations and transactions of the Trust shall be conducted through an account (“the Account”). Within the Account, the Trustee may establish such sub-accounts as it deems necessary for the administration of the resources in the Account.

(b) The resources held in the Account shall consist of:

(i) transfers from the Special Disbursement Account in accordance with paragraph 5(b) of Decision No. ----- [Decision I.A above];

(ii) grant contributions made to the Trust for the purposes set forth in paragraph 2;

(iii) loans, deposits and other types of investments made by contributors with the Trust to generate income to be used for the purposes set forth in paragraph 2; and

(iv) net earnings from investment of resources held in the Account.

Paragraph 4. *Unit of account*

The SDR shall be the unit of account for commitments and all other operations and transactions of the Trust, provided that commitments for contributions may also be made in currency.

Paragraph 5. *Media of payment of contributions and exchange of resources*

(a) Resources provided to the Trust may be received in any currency.

(b) Payments by the Trust shall be made in U.S. dollars or such other media as may be agreed between the Trustee and the payee.

(c) Contributions to the Trust may also be made in or exchanged for SDRs in accordance with such arrangements as may be made by the Trust for the holding and use of SDRs.

(d) The Trustee may exchange any of the resources of the Trust, provided that any balance of a currency held in the Trust may be exchanged only with the consent of the issuer of such currency.

Section II. *Contributions to the Trust*

The Trustee may accept contributions of resources for the Account on such terms and conditions as may be agreed between the Trustee and the respective contributors, subject to the provisions of this Instrument. For this purpose, the Managing Director of the Trustee is authorized to accept grants and enter into loan, deposit or other types of investment agreements with the contributors to the Trust.

Section III. *Trust Grants*

Paragraph 1. *Eligibility for assistance*

In order to be eligible for assistance from the Trust under Section I, paragraph 2 of this Instrument, a member shall meet the following requirements:

(a) the member is PRGF-eligible (i.e., it is included in the list of members annexed to Decision No. 8240-(86/56) SAF), adopted March 26, 1986;

(b) the member had an annual per capita income of US\$380 or less on the basis of the 2004 gross national income (Atlas method) from the World Bank's Operational Manual as updated on July 21, 2005;

(c) the member had debt outstanding to the Fund, including to the Fund as Trustee, as of December 31, 2004; and

(d) in the case of a member that is eligible or potentially eligible for HIPC Initiative assistance, the member has reached the completion point under the HIPC Initiative.

Paragraph 2. *Qualification for assistance*

The Trustee shall determine whether an eligible member qualifies for assistance under this Instrument in accordance with the criteria set out below:

(a) Each member eligible for assistance from the Trust that is also eligible or potentially eligible for HIPC Initiative assistance and that reaches the completion point on or after -----

---- [effective date of decision adopting this Instrument], shall qualify for assistance under this Instrument when it reaches the completion point.

(b) Each member eligible for assistance from the Trust that is also eligible or potentially eligible for HIPC Initiative assistance and that reached the completion point prior to ----- [effective date of decision adopting this Instrument] shall qualify for assistance under this Instrument when the Trustee determines that, since the member reached the completion point, its performance has not deteriorated substantially with respect to: (i) macroeconomic performance, (ii) implementation of a poverty reduction strategy or similar framework, and (iii) the state of its public expenditure management systems. A member will be deemed to have met the requirement set forth in (i) and (ii) of the preceding sentence if the member has a track record of satisfactory macroeconomic performance and satisfactory implementation of a poverty reduction strategy for the six month-period immediately preceding the determination of qualification.

(c) Each member eligible for assistance from the Trust that is not eligible or potentially eligible for HIPC Initiative assistance shall qualify for assistance under this Instrument when the Trustee determines that the member's performance is satisfactory with respect to: (i) macroeconomic performance, (ii) implementation of a poverty reduction strategy or similar framework, and (iii) the state of its public expenditure management systems. A member will be deemed to have met the requirement set forth in (i) and (ii) of the preceding sentence if the member has a track record of satisfactory macroeconomic performance and satisfactory implementation of a poverty reduction strategy for the six month-period immediately preceding the determination of qualification.

Paragraph 3. *Amount and delivery of assistance*

(a) Upon a determination that a member qualifies for assistance pursuant to paragraph 2 above, the Trustee shall repay to the Fund, on behalf of the member, an amount equivalent to the member's eligible debt.

(b) For purposes of this paragraph 3, eligible debt is defined as that portion of a member's debt to the Fund (including to the Fund as Trustee) that was outstanding as of December 31, 2004 and that, as of the date of the Trustee's determination that the member qualifies for assistance pursuant to paragraph 2 above, (i) has not been repaid by the member or with assistance disbursed to the member under the HIPC Initiative, and (ii) is not scheduled to be repaid by assistance committed or disbursed to the member under the HIPC Initiative.

Paragraph 4. *Terms of assistance*

(a) The assistance to be provided by the Trust to a qualifying member shall be in the form of a Trust grant.

Paragraph 5. *Disbursements*

(a) Any disbursement of Trust grants shall be subject to the availability of resources to the Trust.

Paragraph 6. *Modifications*

Any modification of these provisions will affect only Trust grants made after the effective date of the modification.

Section IV. *Administration of the Trust*

Paragraph 1. *Trustee*

(a) The Trust shall be administered by the Fund as Trustee. Decisions and other actions taken by the Fund as Trustee shall be identified as taken in that capacity.

(b) Subject to the provisions of this Instrument, the Fund in administering the Trust shall apply the same rules as apply to the operation of the General Resources Account of the Fund.

(c) The Trustee, acting through its Managing Director, is authorized:

- (i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, which shall be accounts of the Fund as Trustee, with such depositories of the Fund as the Trustee deems necessary; and
- (ii) to take all other administrative measures that the Trustee deems necessary to implement the provisions of this Instrument.

Paragraph 2. *Separation of assets and accounts, audits and reports*

(a) The resources of the Trust shall be kept separate from the property and assets of all other accounts of the Fund, including other administered accounts, and shall be used only for the purposes of the Trust in accordance with this Instrument.

(b) The property and assets held in the other accounts of the Fund shall not be used to discharge liabilities or to meet losses arising out of the administration of the Trust. The resources of the Trust shall not be used to discharge liabilities or to meet losses arising out of the administration of the other accounts of the Fund.

(c) The Fund shall maintain separate financial records and prepare separate financial statements for the Trust.

(d) The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the financial transactions and records of the Trust. The audit shall relate to the financial year of the Fund.

(e) The Fund shall report on the resources and operations of the Trust in the Annual Report of the Executive Board to the Board of Governors and shall include in the Annual Report the report of the external audit firm on the Trust.

Paragraph 3. *Investment of resources*

(a) Any balance held by the Trust and not immediately needed in operations shall be invested.

(b) Investments may be made in any of the following: (i) marketable obligations issued by international financial organizations and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used, or, when an exchange of currency is involved, with the consent of the issuers of such currencies.

Section V. *Period of Operation and Liquidation*

Paragraph 1. *Period of operation*

The Trust established by this Instrument shall remain in effect for as long as is necessary, in the judgment of the Fund, to conduct and to wind up the business of the Trust.

Paragraph 2. *Liquidation of the Trust*

If the Trustee decides to wind up the operations of the Trust, the resources in the Account shall be used first to discharge all the liabilities of the Trust. Any amount remaining in the Account after the discharge of all the liabilities of the Trust shall be distributed to the Fund and contributors that have provided resources to the Trust, in proportion to their contributions. The resources representing the Fund's share in such distribution shall be transferred to the SDA.

Section VI. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except that any amendment of Section I, paragraph 2, Section IV, Section V and this Section shall require the consent of all contributors to the Trust.

Instrument to Establish the Multilateral Debt Relief Initiative-II Trust

Introductory Section

To help fulfill its purposes, the International Monetary Fund (“the Fund”) has adopted this Instrument to Establish the Multilateral Debt Relief Initiative-II Trust (“the Trust”), which shall be administered by the Fund as Trustee (“the Trustee”). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

Section I. *General Provisions*

Paragraph 1. *Definitions*

Wherever used in this Instrument, unless the context otherwise requires:

(a) “decision point” and “completion point” shall have the meaning given to each of them in Section I, Paragraph 1 of the PRGF-HIPC Trust Instrument that is annexed to Decision No. 11436-(97/10), adopted February 4, 1997 (“the PRGF-HIPC Trust Instrument”); and

(b) “eligible or potentially eligible for HIPC Initiative assistance” means the relevant member either (i) meets the eligibility criterion set forth in Section III, paragraph 1(d) of the PRGF-HIPC Trust Instrument, or (ii) had reached a decision point under the HIPC Initiative as of December 31, 2004.

Paragraph 2. *Purposes*

The Trust shall assist in fulfilling the purposes of the Fund by providing balance of payments assistance to the low-income developing members on the list annexed to this decision by making grants (“Trust grants”) to eligible members that qualify for assistance under the terms of this Instrument.

Paragraph 3. *Trust Account and resources*

(a) The operations and transactions of the Trust shall be conducted through an account (“the Account”). Within the Account, the Trustee may establish such sub-accounts as it deems necessary for the administration of the resources in the Account.

(b) The resources held in the Account shall consist of:

(i) transfers from the Subsidy Account of the PRGF Trust in accordance with paragraph 3 of Decision No. ----- [Decision I.A above];

(ii) grant contributions made to the Trust for the purposes set forth in paragraph 2;

(iii) loans, deposits and other types of investments made by contributors with the Trust to generate income to be used for the purposes set forth in paragraph 2; and

(iv) net earnings from investment of resources held in the Account.

Paragraph 4. *Unit of account*

The SDR shall be the unit of account for commitments and all other operations and transactions of the Trust, provided that commitments for contributions may also be made in currency.

Paragraph 5. *Media of payment of contributions and exchange of resources*

(a) Resources provided to the Trust may be received in any currency.

(b) Payments by the Trust shall be made in U.S. dollars or such other media as may be agreed between the Trustee and the payee.

(c) Contributions to the Trust may also be made in or exchanged for SDRs in accordance with such arrangements as may be made by the Trust for the holding and use of SDRs.

(d) The Trustee may exchange any of the resources of the Trust, provided that any balance of a currency held in the Trust may be exchanged only with the consent of the issuer of such currency.

Section II. *Contributions to the Trust*

The Trustee may accept contributions of resources for the Account on such terms and conditions as may be agreed between the Trustee and the respective contributors, subject to the provisions of this Instrument. For this purpose, the Managing Director of the Trustee is authorized to accept grants and enter into loan, deposit or other types of investment agreements with the contributors to the Trust.

Section III. *Trust Grants*

Paragraph 1. *Eligibility for assistance*

In order to be eligible for assistance from the Trust under Section I, paragraph 2 of this Instrument, a member shall meet the following requirements:

- (a) the member is on the list of members annexed to this decision; and
- (b) the member has reached the completion point under the HIPC Initiative.

Paragraph 2. *Qualification for assistance*

The Trustee shall determine whether an eligible member qualifies for assistance under this Instrument in accordance with the criteria set out below:

(a) Each member eligible for assistance from the Trust that reaches the completion point on or after ----- [effective date of decision adopting this Instrument], shall qualify for assistance under this Instrument when it reaches the completion point.

(b) Each member eligible for assistance from the Trust that reached the completion point prior to ----- [effective date of decision adopting this Instrument] shall qualify for assistance under this Instrument when the Trustee determines that, since the member reached the completion point, its performance has not deteriorated substantially with respect to: (i) macroeconomic performance, (ii) implementation of a poverty reduction strategy or similar framework, and (iii) the state of its public expenditure management systems. A member will be deemed to have met the requirement set forth in (i) and (ii) of the preceding sentence if the

member has a track record of satisfactory macroeconomic performance and satisfactory implementation of a poverty reduction strategy for the six month-period immediately preceding the determination of qualification.

Paragraph 3. *Amount and delivery of assistance*

(a) Upon a determination that a member qualifies for assistance pursuant to paragraph 2 above, the Trustee shall repay to the Fund, on behalf of the member, an amount equivalent to the member's eligible debt.

(b) For purposes of this paragraph 3, eligible debt is defined as that portion of a member's debt to the Fund (including to the Fund as Trustee) that was outstanding as of December 31, 2004 and that, as of the date of the Trustee's determination that the member qualifies for assistance pursuant to paragraph 2 above, (i) has not been repaid by the member or with assistance disbursed to the member under the HIPC Initiative, and (ii) is not scheduled to be repaid by assistance committed or disbursed to the member under the HIPC Initiative.

Paragraph 4. *Terms of assistance*

(a) The assistance to be provided by the Trust to a qualifying member shall be in the form of a Trust grant.

Paragraph 5. *Disbursements*

(a) Any disbursement of Trust grants shall be subject to the availability of resources to the Trust.

Paragraph 6. *Modifications*

Any modification of these provisions will affect only Trust grants made after the effective date of the modification.

Section IV. *Administration of the Trust*

Paragraph 1. *Trustee*

(a) The Trust shall be administered by the Fund as Trustee. Decisions and other actions taken by the Fund as Trustee shall be identified as taken in that capacity.

(b) Subject to the provisions of this Instrument, the Fund in administering the Trust shall apply the same rules as apply to the operation of the General Resources Account of the Fund.

(c) The Trustee, acting through its Managing Director, is authorized:

- (i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, which shall be accounts of the Fund as Trustee, with such depositories of the Fund as the Trustee deems necessary; and
- (ii) to take all other administrative measures that the Trustee deems necessary to implement the provisions of this Instrument.

Paragraph 2. *Separation of assets and accounts, audits and reports*

(a) The resources of the Trust shall be kept separate from the property and assets of all other accounts of the Fund, including other administered accounts, and shall be used only for the purposes of the Trust in accordance with this Instrument.

(b) The property and assets held in the other accounts of the Fund shall not be used to discharge liabilities or to meet losses arising out of the administration of the Trust. The resources of the Trust shall not be used to discharge liabilities or to meet losses arising out of the administration of the other accounts of the Fund.

(c) The Fund shall maintain separate financial records and prepare separate financial statements for the Trust.

(d) The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the financial transactions and records of the Trust. The audit shall relate to the financial year of the Fund.

(e) The Fund shall report on the resources and operations of the Trust in the Annual Report of the Executive Board to the Board of Governors and shall include in the Annual Report the report of the external audit firm on the Trust.

Paragraph 3. *Investment of resources*

(a) Any balance held by the Trust and not immediately needed in operations shall be invested.

(b) Investments may be made in any of the following: (i) marketable obligations issued by international financial organizations and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used, or, when an exchange of currency is involved, with the consent of the issuers of such currencies.

Section V. *Period of Operation and Liquidation*

Paragraph 1. *Period of operation*

The Trust established by this Instrument shall remain in effect for as long as is necessary, in the judgment of the Fund, to conduct and to wind up the business of the Trust.

Paragraph 2. *Liquidation of the Trust*

If the Trustee decides to wind up the operations of the Trust, the resources in the Account shall be used first to discharge all the liabilities of the Trust. Any amount remaining in the Account after the discharge of all the liabilities of the Trust shall be transferred to the PRGF Trust for use in any current or future subsidy operations authorized for that Trust, except that at the request of a contributor, its pro rata share in any unused resources shall be distributed to the contributor.

Section VI. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except that any amendment of Section I, paragraph 2, Section IV, Section V and this Section shall require the consent of all contributors to the Trust.

ANNEX

Benin

Bolivia

Cameroon

Comoros

Congo (Republic of)

Côte d'Ivoire

Guinea

Guyana

Honduras

Lao PDR

Mauritania

Nicaragua

Senegal

Zambia

ANNEX

Instrument to Establish the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust

Introductory Section

To help fulfill its purposes, the International Monetary Fund (hereinafter called the “Fund”) has adopted this Instrument establishing the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust (hereinafter called the “Trust”), which shall be administered by the Fund as Trustee (hereinafter called the “Trustee”). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

Section I. *General Provisions*

Paragraph 1. *Purposes*

The Trust shall assist in fulfilling the purposes of the Fund by providing loans on concessional terms (hereinafter called “Trust loans”) to low-income developing members that qualify for assistance under this Instrument in order to:

(a) support programs under the Poverty Reduction and Growth Facility (hereinafter called the “PRGF”) to strengthen substantially and in a sustainable manner their balance of payments position and to foster durable growth, leading to higher living standards and a reduction in poverty; and

(b) support programs under the Exogenous Shocks Facility (hereinafter called the “ESF”) to facilitate an adjustment to a sudden and exogenous shock.

Paragraph 2. *Accounts of the Trust*

The operations and transactions of the Trust shall be conducted through a Loan Account, a Reserve Account, a PRGF Subsidy Account, an ESF Subsidy Account and a PRGF-ESF Subsidy Account (the latter three accounts collectively referred to herein as “Subsidy Accounts”). The resources of the Trust shall be held separately in each Account.

Paragraph 3. *Unit of Account*

The SDR shall be the unit of account for commitments, loans, and all other operations and transactions of the Trust, provided that commitments of resources to the Subsidy Accounts may be made in currency.

Paragraph 4. *Media of payment of contributions and exchange of resources*

(a) Resources loaned or donated to the Trust shall be received in a freely usable currency, subject to the provisions of (c) below, and provided that resources may be received by the Subsidy Accounts in other currency.

(b) Payments by the Trust to lenders or donors shall be made in U.S. dollars or such other media as may be agreed between the Trustee and such lenders or donors.

(c) Loans or donations to the Trust may also be made in or exchanged for SDRs in accordance with such arrangements as may be made by the Trust for the holding and use of SDRs.

(d) The Trustee may exchange any of the resources of the Trust, provided that any balance of a currency held in the Trust may be exchanged only with the consent of the issuers of such currencies.

Section II. *Trust Loans*

Paragraph 1. *Eligibility and Conditions for Assistance*

(a) The members on the list annexed to Decision No. 8240-(86/56) SAF, as amended, shall be eligible for assistance from the Trust.

(b) Assistance under the PRGF

(1) Assistance under the PRGF shall be committed and made available to a qualifying member under a single three-year arrangement (hereinafter called a "PRGF arrangement") in support of a three-year macroeconomic and structural adjustment program presented by the member. The member shall also present a detailed statement of the policies and measures it intends to pursue for the first twelve months of the arrangement, in line with the objectives and policies of the three-year program. The PRGF arrangement will prescribe the total amount of resources committed to the member, the amount to be made available during the first year of the arrangement, the phasing of disbursements during that year, and the overall amounts to be made available during the second and third years of the arrangement. In principle, disbursements shall be phased at semiannual intervals (one upon approval and at approximately six-monthly intervals thereafter) with semiannual performance criteria and appropriate monitoring of key financial variables in the form of quarterly quantitative benchmarks and structural benchmarks for important structural reforms. The PRGF arrangement shall also provide for reviews by the Trustee of the member's program to evaluate the macroeconomic and structural reform policies of the member and the implementation of its program and reach new understandings if necessary. In cases where closer monitoring is needed, the PRGF arrangement may provide for quarterly performance criteria and reviews and quarterly disbursements. The determination of the phasing of, and the conditions applying to, disbursements during the second and third years of the PRGF arrangement will be made by the Trustee in the context of a review of the program with the member, and of a detailed statement presented by the member describing progress made under the program, and the policies it will follow during the subsequent year of the arrangement to further the realization of the objectives of the three-year program, with such modifications as may be necessary to assist it to achieve its objectives in changing circumstances. After the expiration of a PRGF arrangement for an eligible member, or the cancellation of the PRGF arrangement by the member, the Trustee may approve additional PRGF arrangements for that member in accordance with the Instrument.

(2) Before approving a PRGF arrangement, the Trustee shall be satisfied that the member has a protracted balance of payments problem and is making an effort to strengthen substantially and in a sustainable manner its balance of payments position.

(3) The Trustee shall not approve a new PRGF arrangement or complete a review under a PRGF arrangement unless it finds that (i) the member concerned has a poverty reduction strategy set out in an I-PRSP, PRSP preparation status report, PRSP, or APR, that has been issued to the Executive Board normally within the previous 12 months but in any case within the previous 18

months, (ii) the I-PRSP, PRSP preparation status report, PRSP, or APR has been the subject of an analysis in a Joint Staff Advisory Note also issued to the Executive Board, provided, however, that no Joint Staff Advisory Note will be required in connection with a PRSP preparation status report, in which case the analysis of the PRSP preparation status report will be included in the staff report on a new PRGF arrangement or a review under a PRGF arrangement, and (iii) if there are any weaknesses in the member's poverty reduction strategy, such as those identified in the Joint Staff Advisory Note, and they are critical to Fund support under a PRGF arrangement, they have been addressed. For purposes of this Instrument, the terms I-PRSP, PRSP preparation status report, PRSP, APR and Joint Staff Advisory Note shall have the meaning given to each of them in Section I, Paragraph 1 of the PRGF-HIPC Trust Instrument (Annex to Decision No. 11436-(97/10), adopted February 4, 1997).

(c) Assistance under the ESF

(1) Assistance under the ESF shall be committed and made available to a qualifying member under an arrangement (hereinafter called an "ESF arrangement") in support of a macroeconomic and structural adjustment program presented by the member. The period for an ESF arrangement shall range from one to two years. In cases where the period of an ESF arrangement exceeds one year, the member shall present a detailed statement of the policies and measures it intends to pursue for at least the first twelve months of the arrangement, in line with the objectives and policies of the overall program. The ESF arrangement will prescribe the total amount of resources committed to the member and the phasing of disbursements during the period of the arrangement; provided that in cases where the period of an ESF arrangement exceeds one year, the arrangement may prescribe the amount to be made available only during the first year of the arrangement and the phasing of disbursements during that year. Disbursements may be phased (i) at semiannual intervals (one upon approval and at approximately six-monthly intervals thereafter) with semiannual performance criteria and with appropriate monitoring of key financial variables in the form of quarterly quantitative benchmarks and structural benchmarks for important structural reforms, or (ii) at quarterly intervals (one upon approval and at approximately three-monthly intervals thereafter) with quarterly performance criteria. The phasing of disbursements in any particular case shall be determined on the basis of an assessment by the Trustee taking into account factors such as the duration of the arrangement, the balance of payments need of the member, the volatility of its economic situation and its administrative capacity constraints. The ESF arrangement shall also provide for reviews by the Trustee of the member's program to evaluate the macroeconomic and structural reform policies of the member and the implementation of its program and reach new understandings if necessary. In cases where the period of an ESF arrangement exceeds one year, the determination of the phasing of, and the conditions applying to, disbursements during the period of the arrangement following the first year may be made by the Trustee in the context of a review of the program with the member, and of a detailed statement presented by the member describing progress made under the program, and the policies it will follow during the remaining period of the arrangement to further the realization of the objectives of the program, with such modifications as may be necessary to assist it to achieve its objectives in changing circumstances. After the expiration of an ESF arrangement for an eligible member, or the cancellation of the ESF arrangement by the member, the Trustee may approve additional ESF arrangements for that member in accordance with the Instrument, provided that a member may not have more than one ESF arrangement for the same shock.

(2) Before approving an ESF arrangement, the Trustee shall be satisfied that the member has a balance of payments need whose primary source is a sudden and exogenous shock. ESF arrangements will normally be approved only where the Trustee determines that, in order to adjust to

the shock, the member does not need to implement structural reforms of the type that would normally be supported by a PRGF arrangement.

(3) The Trustee shall not approve a new ESF arrangement or complete a review under an ESF arrangement unless it finds that (i) the member concerned has a poverty reduction strategy set out in an I-PRSP, PRSP preparation status report, PRSP or APR, that has been issued to the Executive Board normally within the previous 12 months but in any case within the previous 18 months, and (ii) the I-PRSP, PRSP preparation status report, PRSP, or APR has been the subject of an analysis in a Joint Staff Advisory Note also issued to the Executive Board, provided, however, that no Joint Staff Advisory Note will be required in connection with a PRSP preparation status report, in which case the analysis of the PRSP preparation status report will be included in the staff report on a new ESF arrangement or a review under an ESF arrangement. In exceptional circumstances, the Trustee may approve a new ESF arrangement for a member where the conditions set forth in (i) and (ii) above are not met at the time of approval of the arrangement, if the Trustee is assured of the member's commitment regarding its poverty reduction strategy during the period of the arrangement; provided that in these circumstances, issuance of an I-PRSP, PRSP preparation status report, PRSP, or APR to the Executive Board, together with an analysis in a Joint Staff Advisory Note or in the staff report as the case may be, shall be a condition for completion of the first review under the arrangement. The Trustee will assess, on a case-specific basis, the extent to which any weaknesses in the member's poverty reduction strategy, such as those identified in the Joint Staff Advisory Note, that are critical to Fund support under an ESF arrangement need to be addressed prior to approval of the arrangement or completion of a review under the arrangement as the case may be.

(4) No commitments shall be made under ESF arrangements until the Managing Director of the Trustee notifies the Executive Board of the Trustee of his determination that sufficient contributions have been provided or firmly committed to the ESF Subsidy Account, the PRGF-ESF Subsidy Account, or both, to initiate ESF operations.

(d) General Provisions

(1) A member may not obtain assistance from the Trust under the PRGF and the ESF at the same time.

(2) Commitments under arrangements under this Instrument may be made for the period through December 31, 2006.

(3) The Managing Director shall not recommend for approval, and the Trustee shall not approve, a request for an arrangement under this Instrument whenever the member has an overdue financial obligation to the Fund in the General Resources Account, the Special Disbursement Account, or the SDR Department, or to the Fund as Trustee, or while the member is failing to meet a repurchase expectation to the Fund pursuant to Decision No.7842-(84/165) on the Guidelines on Corrective Action, or pursuant to paragraphs 17 or 31 of Decision No. 8955-(88/125) on the Compensatory Financing Facility, or a purchase pursuant to Decision No. 11627-(97/123) on the Supplemental Reserve Facility, or is failing to meet a repayment expectation pursuant to Section II, paragraph 3(c) or the provisions of Appendix I to this Instrument, or is failing to meet a repurchase expectation pursuant to paragraph 1(b) of Decision No 5703-(78/39) or paragraph 10(a) of Decision No. 4377-(74/114).

(4) The Trustee shall not complete a review under an arrangement under this Instrument unless and until all other conditions for the disbursement of the corresponding loan have been met or waived.

Paragraph 2. Amount of Assistance

(a) An initial maximum limit on access to resources under the PRGF shall be established by the Trustee, as a proportion of members' quotas in the Fund, and provisions shall be made for a limit up to which that maximum limit may be exceeded in exceptional circumstances. A maximum limit on access to resources under the ESF shall be established by the Trustee, as a proportion of members' quotas in the Fund, and provisions shall be made allowing that maximum limit to be exceeded in exceptional circumstances. These access limits shall be subject to review from time to time by the Trustee in the light of actual utilization of resources available to the Loan Account.

(b) To the extent that a member has notified the Trustee that it does not intend to make use of the resources available from the Trust under the PRGF and ESF, the member shall not be included in the calculations of the access limits on Trust loans.

(c) The access for each member that qualifies for assistance from the Trust under the PRGF or ESF shall be determined on the basis of an assessment by the Trustee of the balance of payments need of the member, the strength of its adjustment program, the amount of the member's outstanding use of credit extended by the Fund, and its record in using Fund credit in the past. The access for each member that qualifies for assistance under the ESF shall also take into account the size and likely persistence of the shock.

(d) The amount of resources committed to a qualifying member under a PRGF or ESF arrangement may be increased at the time of any review contemplated under the arrangement, to help meet a larger balance of payments need or in the case of a PRGF arrangement, to support a strengthening of the program. The amount committed to a member under a PRGF arrangement shall not be reduced because of developments in its balance of payments, unless such developments are substantially more favorable than envisaged at the time of approval of the arrangement and the improvement for the member derives in particular from improvements in the external environment.

(f) Any commitment shall be subject to the availability of resources to the Trust.

Paragraph 3. Disbursements

(a) Any disbursement shall be subject to the availability of the resources to the Trust.

(b) Disbursements under an arrangement under this Instrument must precede the expiration of the arrangement period. If phased amounts under an arrangement do not become available as scheduled due to delays in program implementation, nonobservance of conditions attached to such disbursements or delays in reaching new understandings when necessary, the Trustee may rephase those amounts over the remaining period of the arrangement. The Trustee may also extend the period of (i) a PRGF arrangement for up to one year to allow for the disbursement of rephased amounts or to provide additional resources, subject to appropriate conditions consistent with the terms of assistance under the PRGF and (ii) an ESF arrangement for up to the overall maximum two-year period referred to in Section II, paragraph (c)(1) to allow for the disbursement of rephased amounts or to provide

additional resources subject to appropriate conditions consistent with the terms of assistance under the ESF.

(c) When requesting a disbursement under an ESF arrangement, the member shall represent that it has a need because of its balance of payments or its reserve position or developments in its reserves. The Trustee shall not challenge this representation of need prior to providing the member with the requested disbursement. If, after a disbursement is made, the Trustee determines that the disbursement took place in the absence of a need, the Trustee may decide that the member shall be expected to repay an amount equivalent to the disbursement, together with any interest accrued thereon, normally within a period of 30 days from the date of the Executive Board decision establishing that the member is expected to make an early repayment. If the member fails to meet a repayment expectation within the period established by the Trustee, (i) the Managing Director shall promptly submit a report to the Executive Board together with a proposal on how to deal with the matter, and (ii) interest shall be charged on the amount subject to the repayment expectation at the rate applicable to overdue amounts under paragraph 4 of this Section.

(d) Disbursements shall normally be made on the fifteenth and the last day of the month, provided that if these days are not business days of the Trustee, the disbursement shall be made on the preceding business day. Following a member's qualification for a disbursement, the disbursement shall be made on the first of these value dates for which the necessary notifications and payment instructions can be issued by the Trustee.

(e) No disbursement under any commitment to a member shall be made after the expiration of the period referred to in Section III, paragraph 3.

(f) In cases of misreporting and noncomplying disbursements of Trust loans, the provisions of Appendix I, which is incorporated at the end of this Instrument, shall apply.

(g) Disbursements under an arrangement to a qualifying member shall be suspended in all the cases specified in Paragraph 1(d)(3) of this Section.

Paragraph 4. *Terms of loans*

(a) Interest on the outstanding balance of a loan under the PRGF and the ESF shall be charged at the rate of one half of one percent per annum subject to the provisions of Section IV, paragraph 5, and provided that interest at a rate equal to the rate of interest on the SDR shall be charged on the amounts of any overdue interest on or overdue repayments of Trust loans.

(b) Trust loans shall be disbursed in a freely usable currency as decided by the Trustee. They shall be repaid, and interest paid, in U.S. dollars or other freely usable currency as decided by the Trustee. The Managing Director is authorized to make arrangements under which, at the request of a member, SDRs may be used for disbursements to the member or for payment of interest or repayments of loans by the member to the Trust.

(c) The Trustee may not reschedule the repayment of loans from the Trust.

(d) Trust loans shall be repaid in ten equal semi-annual installments beginning not later than five and a half years from the date of each disbursement and completed at the end of the tenth year after that date.

Paragraph 5. *Modifications*

Any modification of these provisions will affect only loans made after the effective date of the modification, provided that modification of the interest rate shall apply to interest accruing after the effective date of the modification.

Section III. *Borrowing for the Loan Account*

Paragraph 1. *Resources*

The resources held in the Loan Account shall consist of:

- (a) the proceeds of loans made to the Trust for that Account; and
- (b) payments of principal and interest on Trust loans, subject to the provisions of Section V, paragraph 3.

Paragraph 2. *Borrowing authority*

The Trustee may borrow resources for the Loan Account on such terms and conditions as may be agreed between the Trustee and the respective lenders subject to the provisions of this Instrument.

Paragraph 3. *Commitments*

Commitments for drawings under loan agreements to the Loan Account of the ESAF Trust that were entered into before November 30, 1993 shall extend through December 31, 1997, and under loan agreements that are entered into after November 30, 1993 shall extend through December 31, 1999. The drawdown period under loan agreements to the Loan Account of the PRGF-ESF Trust for Interim PRGF-ESF financing shall extend through December 31, 2009. The drawdown period may be extended by mutual agreement between the Trustee and the lender. The Managing Director is authorized to conclude such agreements on behalf of the Trustee.

Paragraph 4. *Drawings on loan commitments*

(a) Drawings on the commitments of individual lenders over time shall be made so as to maintain broad proportionality of these drawings relative to commitments, provided that the Trustee will aim to draw fully all loans entered into prior to August 31, 2001 before calling on loans entered into after that date.

(b) Calls on a lender's commitment shall be suspended temporarily if, at any time prior to June 30, 1997, in case of a commitment under a loan agreement entered into before November 30, 1993, or prior to June 30, 1999, in case of a commitment under a loan agreement entered into after November 30, 1993, or prior to June 30, 2009, in case of a commitment under a loan agreement entered into after August 31, 2001, the lender represents to the Trustee that it has a liquidity need for such suspension and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. The suspension shall not exceed three months, provided that it may be extended for further periods of three months by agreement between the lender and the Trustee. No extension shall be agreed which, in the judgment of the Trustee, would prevent drawing of the full amount of the lender's commitment.

(c) Following any suspension of calls with respect to the commitment of a lender, calls will be made on that commitment thereafter so as to restore proportionality of calls on all lenders as soon as practicable.

Paragraph 5. *Payments to lenders*

(a) The Trust shall make payments of principal and interest on its borrowing for the Loan Account from the payments into that account of principal and interest made by borrowers under Trust loans. Payments of the authorized subsidy shall be made from the Subsidy Accounts in accordance with Section IV of this Instrument, and, as required, payments shall be made from the Reserve Account in accordance with Section V of this Instrument.

(b) The Trust shall pay interest on outstanding borrowing for Trust loans promptly after June 30 and December 31 of each year, unless the particular modalities of a loan to the Trust make it necessary for the Trustee to agree with the lender on interest payments at other times.

Section IV. *Subsidy Accounts*

Paragraph 1. *Resources*

(a) The resources held in the PRGF-ESF Subsidy Account shall consist of:

(i) the proceeds of donations made to the Trust for the Subsidy Account of the PRGF Trust prior to _____ [EFFECTIVE DATE OF DECISION ESTABLISHING THE ESF], unless a donor notifies the Trustee that it wishes to transfer the proceeds of its outstanding donation to another Subsidy Account by _____ [DATE TWO MONTHS AFTER EFFECTIVE DATE OF DECISION ESTABLISHING THE ESF];

(ii) the proceeds of loans made to the Trust for the Subsidy Account of the PRGF Trust prior to _____ [EFFECTIVE DATE OF DECISION ESTABLISHING THE ESF], unless a lender notifies the Trustee that it wishes to transfer the proceeds of its outstanding loan to another Subsidy Account by _____ [DATE TWO MONTHS AFTER EFFECTIVE DATE OF DECISION ESTABLISHING THE ESF];

(iii) the proceeds of donations made to the Trust for the PRGF-ESF Subsidy Account;

(iv) the proceeds of loans made to the Trust for the PRGF-ESF Subsidy Account;

(v) transfers from the Special Disbursement Account in accordance with Decision No. 10531-(93/170);

(vi) transfers from the Special Disbursement Account in accordance with paragraph 5(c) of Decision No. _____ [DECISION I.A]; and

(vii) net earnings from investment of resources held in that Account.

(b) The resources held in the ESF Subsidy Account shall consist of:

(i) the proceeds of donations made to the Trust for that Account;

- (ii) the proceeds of loans made to the Trust for that Account; and
 - (iii) net earnings from investment of resources held in that Account.
- (c) The resources held in the PRGF Subsidy Account shall consist of:
- (i) the proceeds of donations made to the Trust for that Account;
 - (ii) the proceeds of loans made to the Trust for that Account;
 - (iii) transfers from the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (PRGF-HIPC Trust) in accordance with Section III bis of the Instrument establishing that Trust; and
 - (iv) net earnings from investment of resources held in that Account.

Paragraph 2. *Donations*

The Trustee may accept donations of resources for any of the Subsidy Accounts on such terms and conditions as may be agreed between the Trustee and the respective donors, subject to the provisions of this Instrument. To the extent possible, annual contributions should be made before May 30 of each year.

Paragraph 3. *Borrowing*

The Trustee may, in exceptional circumstances, borrow resources for any of the Subsidy Accounts from official lenders on such terms and conditions as may be agreed between the Trustee and the lenders; in order:

- (a) to prefinance an amount that is firmly committed to be donated to the Trust for the relevant Subsidy Account; repayment of principal and any payments of interest on such borrowing shall be contingent upon the receipt by the relevant Subsidy Account of the donation that has been prefunded; and
- (b) that the relevant Subsidy Account may benefit from net investment earnings on the proceeds of a loan extended at a concessional interest rate; repayment of principal and any payment of interest on such borrowing shall be made exclusively from the proceeds of liquidation of the investment and the earnings thereon.

Paragraph 4. *Authorized subsidy*

(a) The Trustee shall draw upon the resources available in the PRGF-ESF Subsidy Account to pay the difference, with respect to each interest period, between the interest due by the borrowers and the interest due on resources borrowed for loans under the PRGF or the ESF, provided that resources available in the PRGF-ESF Subsidy Account shall be drawn upon for these purposes only if there are no other resources immediately available in the PRGF Subsidy Account or the ESF Subsidy Account, as the case may be, for these purposes. For purposes of the preceding sentence, resources in the PRGF-HIPC Trust that are transferable to the PRGF Subsidy Account shall not be considered resources immediately available in the PRGF Subsidy Account.

(b) The Trustee shall draw upon the resources available in the ESF Subsidy Account to pay the difference, with respect to each interest period, between the interest due by the borrowers and the interest due on resources borrowed for loans under the ESF.

(c) The Trustee shall draw upon the resources available in the PRGF Subsidy Account to pay the difference, with respect to each interest period, between the interest due by the borrowers and the interest due on resources borrowed for loans under the PRGF.

Paragraph 5. *Calculation of subsidy*

(a) The amount of the subsidy shall be determined by the Trustee in the light of (i) the objective of ensuring that the PRGF and ESF are highly concessional facilities and, to the extent possible, of reducing the rate of interest charged on Trust loans to 0.5 percent, (ii) the rate of interest on resources available to the Loan Account, and (iii) the availability and prospective availability of resources to the Subsidy Accounts.

(b) The Trustee shall keep the operation of the Subsidy Accounts under review. If at any time it determines that resources available or committed are likely to be insufficient to reduce the rate of interest on either PRGF or ESF loans to 0.5 percent throughout the operation of the Trust, the Trustee shall seek such additional resources as may be necessary to achieve this objective.

(c) Should adequate additional resources not be forthcoming to reduce the rate on either PRGF or ESF loans to 0.5 percent, the Trustee shall recalculate the subsidy with a view to reducing that interest rate to the lowest feasible rate that could be applied throughout the remaining life of the Trust. The rate of interest charged on all outstanding loans by the Trust under the relevant facility shall be adjusted accordingly in the succeeding interest periods. Borrowers shall be notified promptly of such adjustments. Further recalculations and adjustments shall be made in subsequent interest periods, as necessary in light of developments with respect to the rate of interest on resources available to the Loan Account and the availability of resources to the Subsidy Accounts.

(d) If the interest due to lenders under the PRGF or ESF for an interest period has exceeded the interest due by borrowers under the relevant facility, together with the authorized subsidy under paragraph 4 of this Section for that period, and payment to lenders of that difference has been made from the Reserve Account in accordance with Section V, paragraph 2, then an amount equivalent to that difference shall be added to the interest due by the relevant borrowers for the succeeding interest period. Payment of that amount shall be made to the Reserve Account in accordance with Section V, paragraph 3. The additional interest due shall not be taken into account in the calculation of the authorized subsidy for that same interest period.

Paragraph 6. *Termination arrangements*

(a) Upon completion of the subsidy operations authorized by this Instrument, the Fund shall wind up the affairs of the Subsidy Accounts.

(i) Any resources remaining in the PRGF-ESF Subsidy Account shall be used in a manner consistent with paragraph 4(a) of this Section to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers on PRGF and ESF loans, by means of payments to such borrowers. Any resources remaining after that subsidization shall be distributed to the Fund, donors, and lenders that have contributed to the PRGF-ESF subsidy

operation, in proportion to their contributions. The resources representing the Fund's share in such distribution shall be transferred to the Special Disbursement Account.

(ii) Any resources remaining in the ESF Subsidy Account shall be used to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers on ESF loans, by means of payments to such borrowers. Any resources remaining after that subsidization shall be distributed to donors and lenders that have contributed to the ESF subsidy operation, in proportion to their contributions.

(iii) Any resources remaining in the PRGF Subsidy Account shall be used to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers on PRGF loans, by means of payments to borrowers. Any resources remaining after that subsidization shall be distributed to donors and lenders that have contributed to the PRGF subsidy operation, in proportion to their contributions.

(iv) For the purposes of the distributions provided for in this paragraph 6, account will be taken of donations, the net earnings from investment of the proceeds of concessional loans extended to the Subsidy Accounts under paragraph 3(b) above, and the subsidy element of concessional loans extended to the Trust under Section III; the subsidy element associated with such loans shall be calculated as the difference, if positive, between the SDR rate of interest and the interest on such loans, applied to the amount of the loans during the period they were outstanding.

(b) Prior to the termination of the PRGF-ESF Subsidy Account in accordance with (a)(i) above, the equivalent of SDR 1.12 billion of the resources in that Account that are not derived from the Special Disbursement Account shall be transferred from the Subsidy Account to the Multilateral Debt Relief Initiative-II Trust established pursuant to paragraph 2 of Decision No. ____ [DECISION I.A], upon the notification by sufficient contributors that up to the full amount of their outstanding contributions may be used for such a transfer.

Section V. *Reserve Account*

Paragraph 1. *Resources*

The resources held in the Reserve Account shall consist of:

(a) transfers by the Fund from the Special Disbursement Account in accordance with Decision No. 8760-(87/176), adopted December 18, 1987, as amended by Decision No. 10531-(93/170), adopted December 15, 1993;

(b) net earnings from investment of resources held in the Reserve Account;

(c) net earnings from investment of any resources held in the Loan Account pending the use of these resources in operations;

(d) payments of overdue principal or interest or interest thereon under Trust loans, and payments of interest under Trust loans to the extent that payment has been made to a lender from the Reserve Account;

(e) transfers by the Fund from the Special Disbursement Account in accordance with Decision No. 10286-(93/23) ESAF, adopted February 22, 1993; and

(f) repayments of the principal under Trust loans, to the extent that resources in the Reserve Account have been used to make payments to a lender due to a difference in timing between scheduled principal repayments to the lender and principal repayments under Trust loans.

Paragraph 2. *Use of resources*

The resources held in the Reserve Account shall be used by the Trustee to make payments of principal and interest on its borrowing for Trust loans, to the extent that the amounts available from receipts of repayments and interest from borrowers under Trust loans, together with the authorized subsidy under Section IV, paragraph 4, are insufficient to cover the payments to lenders as they become due and payable.

Paragraph 3. *Payments to the Reserve Account*

Any repayment of principal under Trust loans, to the extent that repayment to a lender has been made from the Reserve Account due to differences in timing between scheduled principal repayments to the lender and principal repayments under Trust loans, any payments of overdue principal or interest or interest thereon under Trust loans, and any payments of interest under Trust loans to the extent that payment has been made to a lender from the Reserve Account, shall be made to the Reserve Account.

Paragraph 4. *Review of resources*

If resources in the Reserve Account are, or are determined by the Trustee likely to become, insufficient to meet the obligations of the Trust that may be discharged from the Reserve Account as they become due and payable, the Trustee shall review the situation in a timely manner.

Paragraph 5. *Reduction of resources and liquidation*

(a) Whenever the Trustee determines that amounts in the Reserve Account of the Trust exceed the amount that may be needed to cover the total liabilities of the Trust to lenders that are authorized to be discharged by the Reserve Account, the Trustee shall retransfer such excess amount to the Fund's Special Disbursement Account.

(b) Notwithstanding (a) above, the equivalent of up to SDR 250 million may be transferred from the Reserve Account to the Special Disbursement Account to be used to provide Trust grants or Trust loans, as defined in the Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations. Transfers will be made only when and to the extent that the Trustee of the Trust established by that Instrument determines that there are no other resources immediately available for this purpose.

(c) Upon liquidation of the Trust, all amounts in the Reserve Account remaining after discharge of liabilities authorized to be discharged by the Reserve Account shall be transferred to the Special Disbursement Account.

Section VI. *Transfer of Claims*

Paragraph 1. *Transfers by lenders*

(a) Any lender shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 ("other fiscal agency"), or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(b) The transferee shall, as a condition of the transfer, notify the Trustee prior to the transfer that it accepts all the obligations of the transferor relating to the transferred claim with respect to renewal and new drawings, and shall acquire all the rights of the transferor with respect to repayment of and interest on the transferred claim.

Paragraph 2. *Transfers among electing lenders*

(a) Any lender to the Loan Account ("electing lenders") may inform the Trustee that it stands ready, upon request by the Trustee, to purchase claims on the Trust from any other electing lender, provided that the holdings of claims so acquired shall at no time exceed the amount communicated to the Trustee and subject to the other provisions of this section. A list of electing lenders and the amounts communicated by them shall be established separately by the Trustee. This list may be extended and the amounts therein increased in accordance with communications received subsequently.

(b) An electing lender shall have the right to transfer temporarily to other electing lenders part or all of any claim arising from its loans to the Trust under Section III, if the electing lender represents to the Trustee that it has a liquidity need to make such transfer and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees.

(c) The Trustee shall allocate each transfer by an electing lender under this provision to all other electing lenders in proportion to the amounts by which the respective maximum holdings listed in the attachment exceed actual holdings of claims acquired under this provision; provided, however, that no allocation shall be made to an electing lender if it represents to the Trustee that it has a liquidity need for exclusion from an allocation and the Trustee agrees, in which case allocations to the remaining electing lenders shall be adjusted accordingly.

(d) The purchaser of any claim transferred under this provision shall assume, as a condition of the transfer, any obligation of the transferor, relating to the transferred claim, with respect to the renewal of drawing on loans to the Trust and to new drawings on loans in the event a renewal, having been requested, is not agreed by the transferor.

(e) Transfers of claims under this provision shall be made in exchange for freely usable currency and shall be reversed in the same media within three months, provided that such transfers may be renewed, by agreement between the transferor and the Trustee, for further periods of three months up to a total of one year. Notwithstanding the above, the transferor shall reverse a transfer under this provision not later than the date on which the transferred claim is due to be repaid by the Trust.

(f) Interest on claims transferred under this Section shall be paid by the Trust to the transferor in accordance with the provisions of the transferor's lending agreement with the Trust. The transferor

shall pay interest to the transferee(s) on the amount transferred, so long as the transfer remains outstanding, at a daily rate equal to that set out in Rule T-1 of the Fund's Rules and Regulations; such interest shall be payable three months after the date of a transfer or of its renewal, or on the date the transfer is reversed, whichever is earlier.

Section VII. *Administration of the Trust*

Paragraph 1. *Trustee*

(a) The Trust shall be administered by the Fund as Trustee. Decisions and other actions taken by the Fund as Trustee shall be identified as taken in that capacity.

(b) Subject to the provisions of this Instrument, the Fund in administering the Trust shall apply the same rules as apply to the operation of the General Resources Account of the Fund.

(c) The Trustee, acting through its Managing Director, is authorized:

(i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, which shall be accounts of the Fund as Trustee, with such depositories of the Fund as the Trustee deems necessary; and

(ii) to take all other administrative measures that the Trustee deems necessary to implement the provisions of this Instrument.

Paragraph 2. *Separation of assets and accounts, audit and reports*

(a) The Resources of the Trust shall be kept separate from the property and assets of all other accounts of the Fund, including other administered accounts, and shall be used only for the purposes of the Trust in accordance with this Instrument.

(b) The property and assets held in the other accounts of the Fund shall not be used to discharge liabilities or to meet losses arising out of the administration of the Trust. The resources of the Trust shall not be used to discharge liabilities or to meet losses arising out of the administration of the other accounts of the Fund.

(c) The Fund shall maintain separate financial records and prepare separate financial statements for the Trust.

(d) The audit committee selected under Section 20 of the Fund's By-Laws shall audit the financial transactions and records of the Trust. The audit shall relate to the financial year of the Fund.

(e) The Fund shall report on the resources and operations of the Trust in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the audit committee on the Trust.

Paragraph 3. *Investment of resources*

(a) Any balances held by the Trust and not immediately needed in operations shall be invested.

(b) Investments may be made in any of the following: (i) marketable obligations issued by an international financial organization and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used, or, when an exchange of currencies is involved, with the consent of the issuers of such currencies.

Section VIII. *Period of Operation and Liquidation*

Paragraph 1. *Period of operation*

The Trust established by this Instrument shall remain in effect for as long as is necessary, in the judgment of the Fund, to conduct and to wind up the business of the Trust.

Paragraph 2. *Liquidation of the Trust*

(a) Termination and liquidation of the Subsidy Accounts shall be made in accordance with the provisions of Section IV, paragraph 6.

(b) All other resources, if any, shall be used to discharge any liabilities of the Trust, other than those incurred under Section IV, and any remainder shall be transferred to the Special Disbursement Account of the Fund.

Section IX. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except this Section and Section I, paragraphs 1 and 2; Section III, paragraphs 4 and 5; Section IV, paragraphs 4 and 6; Section V; Section VI; Section VII, paragraph 2(a) and (b); Section VIII, paragraph 2(b).

APPENDIX I

Misreporting and Noncomplying Disbursements in Arrangements Under the Poverty Reduction and Growth Facility and the Exogenous Shocks Facility—Provisions on Corrective Action

a. A noncomplying disbursement occurs when (i) the Trustee makes a disbursement to a member under an arrangement approved in accordance with the Instrument on the basis of a finding by the Trustee or the Managing Director that all applicable conditions established for that disbursement under the terms of the decisions on the arrangement have been observed, and (ii) that finding later proves to be incorrect. For the purposes of these provisions, a condition established under the terms of a decision on an arrangement means a condition specified in the arrangement, or in a decision approving the arrangement, completing a review, or granting a waiver of applicability or for the nonobservance of a performance criterion under the arrangement.

b. Whenever evidence comes to the attention of the staff of the Trustee indicating that a member may have received a noncomplying disbursement, the Managing Director shall promptly inform the member concerned.

c. If, after consultation with the member, the Managing Director determines that the member did receive a noncomplying disbursement, the Managing Director shall promptly notify the member and submit a report to the Executive Board together with recommendations.

d. In any case where the noncomplying disbursement was made no more than four years prior to the date on which the Managing Director informed the member, as provided for in paragraph (b), the Executive Board may decide either (i) that the member will be called upon to make an early repayment, or (ii) that the nonobservance will be waived.

e. If the decision of the Executive Board is to call upon the member to make an early repayment as provided for in paragraph (d)(i), the member will be expected to repay an amount equivalent to the noncomplying disbursement, together with any interest accrued thereon, normally within a period of 30 days from the date of the Executive Board decision.

f. A waiver under paragraph (d)(ii) will normally be granted only if the deviation from the relevant performance criterion or other condition was minor or temporary, or if, subsequent to the disbursement, the member had adopted additional measures appropriate to achieve the objectives of the program supported by the arrangement under which the disbursement was made.

g. If a member fails to meet a repayment expectation under these guidelines within the period established by the Executive Board, (i) the Managing Director shall promptly submit a report to the Executive Board together with a proposal on how to deal with the matter, and (ii) interest shall be charged on the amount subject to the repayment expectation at the rate applicable to overdue amounts under Section II, Paragraph 4 of the Instrument.

APPENDIX II

Procedures for Addressing Overdue Financial Obligations to the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust

The following procedures aim at preventing the emergence or accumulation of overdue financial obligations to the Poverty Reduction and Growth Facility (“PRGF”) and Exogenous Shocks Facility (“ESF”) Trust (the “Trust”) and at eliminating existing overdue obligations. These procedures will be implemented whenever a member has failed to make a repayment of principal or payment of interest to the Trust (“financial obligation”).

1. Whenever a member fails to settle a financial obligation on time, the staff will immediately send a cable urging the member to make the payment promptly; this communication will be followed up through the office of the Executive Director concerned. At this stage, the member’s access to the Fund’s resources, including PRGF, ESF and HIPC resources, will have been suspended.

2. When a financial obligation has been outstanding for two weeks, management will send a communication to the Governor for that member stressing the seriousness of the failure to meet obligations to the Trust and urging full and prompt settlement.

3. The Managing Director will notify the Executive Board normally one month after a financial obligation has become overdue, and will inform the Executive Board of the nature and level of the arrears and the steps being taken to secure payment.

4. When a member's longest overdue financial obligation has been outstanding for six weeks, the Managing Director will inform the member concerned that, unless all overdue obligations are settled, a report concerning the arrears to the Trust will be issued to the Executive Board within two weeks. The Managing Director will in each case recommend to the Executive Board whether a written communication should be sent to a selected set of Fund Governors, or to all Fund Governors. If it were considered that it should be sent to a selected set of Fund Governors, an informal meeting of Executive Directors will be held to consider the thrust of the communication. Alternatively, if it were considered that the communication should be sent to all Fund Governors, a formal Board.

5. A report by the Managing Director to the Executive Board will be issued two months after a financial obligation has become overdue, and will be given substantive consideration by the Executive Board one month later. The report will request that the Executive Board limit the member's use of Trust resources. A brief factual statement noting the existence and amount of arrears outstanding for more than three months will be posted on the member's country-specific page on the Fund's external website. This statement will also indicate that the member's access to the Fund's resources, including PRGF, ESF and HIPC resources, has been and will remain suspended for as long as such arrears remain outstanding. A press release will be issued following the Executive Board decision to limit the member's use of the Trust resources. A similar press release will be issued following a decision to lift such limitation. Periods between subsequent reviews of reports on the member's arrears by the Executive Board will normally not exceed six months. The Managing Director may recommend advancing the Executive Board's consideration of the reports regarding overdue obligations.

6. The Annual Report and the financial statements will identify those members with overdue obligations to the Trust outstanding for more than six months.

Removal from the list of PRGF-ESF-eligible countries

7. When a member's longest overdue financial obligation has been outstanding for six months, the Executive Board will review the situation of the member and may remove the member from the list of PRGF-ESF-eligible countries. Any reinstatement of the member on the list of PRGF-ESF-eligible countries will require a new decision of the Executive Board.

The Fund shall issue a press release upon the decision to remove a member from the list of PRGF-ESF-eligible countries. A similar press release shall be issued upon reinstatement of the member on the list. The information contained in such press releases, where pertinent, shall be included in the Annual Report for the year concerned.

Declaration of noncooperation with the Trust

8. A declaration of noncooperation with the Trust may be issued by the Executive Board whenever a member's longest overdue financial obligation has been outstanding for twelve months. The decision as to whether to issue such a declaration would be based on an assessment of the member's performance in the settlement of its arrears to the Trust and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Three related tests would be germane to this decision regarding (i) the member's performance in meeting its financial obligations to the Trust taking account of exogenous factors that may have affected the member's performance; (ii) whether the member had made payments to creditors other than the Fund while continuing to be in arrears to the Trust; and (iii) the preparedness of the member to adopt

comprehensive adjustment policies. The Executive Board may at any time terminate the declaration of noncooperation in view of the member's progress in the implementation of adjustment policies and its cooperation with the Fund in the discharge of its financial obligations.

Upon a declaration of noncooperation, the Fund could also decide to suspend the provision of technical assistance. The Managing Director may also limit technical assistance provided to a member, if in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdues to the Trust.

The Fund shall issue a press release upon the declaration of noncooperation and upon the termination of the declaration. The information contained in such press releases shall be included in the Annual Report(s) for the year(s) concerned.

ANNEX

Instrument to Establish the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust

Introductory Section

To help fulfill its purposes, the International Monetary Fund (hereinafter called the “Fund”) has adopted this Instrument establishing the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust (hereinafter called the “Trust”), which shall be administered by the Fund as Trustee (hereinafter called the “Trustee”). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

Section I. *General Provisions*

Paragraph 1. *Purposes*

The Trust shall assist in fulfilling the purposes of the Fund by providing loans on concessional terms (hereinafter called “Trust loans”) to low-income developing members that qualify for assistance under this Instrument in order to:

(a) support programs under the Poverty Reduction and Growth Facility (hereinafter called the “PRGF”) to strengthen substantially and in a sustainable manner their balance of payments position and to foster durable growth, leading to higher living standards and a reduction in poverty; and

(b) support programs under the Exogenous Shocks Facility (hereinafter called the “ESF”) to facilitate an adjustment to a sudden and exogenous shock.

Paragraph 2. *Accounts of the Trust*

The operations and transactions of the Trust shall be conducted through a Loan Account, a Reserve Account, a PRGF Subsidy Account, an ESF Subsidy Account and a PRGF-ESF Subsidy Account (the latter three accounts collectively referred to herein as “Subsidy Accounts”). The resources of the Trust shall be held separately in each Account.

Paragraph 3. *Unit of Account*

The SDR shall be the unit of account for commitments, loans, and all other operations and transactions of the Trust, provided that commitments of resources to the Subsidy Accounts may be made in currency.

Paragraph 4. *Media of payment of contributions and exchange of resources*

(a) Resources loaned or donated to the Trust shall be received in a freely usable currency, subject to the provisions of (c) below, and provided that resources may be received by the Subsidy Accounts in other currency.

(b) Payments by the Trust to lenders or donors shall be made in U.S. dollars or such other media as may be agreed between the Trustee and such lenders or donors.

(c) Loans or donations to the Trust may also be made in or exchanged for SDRs in accordance with such arrangements as may be made by the Trust for the holding and use of SDRs.

(d) The Trustee may exchange any of the resources of the Trust, provided that any balance of a currency held in the Trust may be exchanged only with the consent of the issuers of such currencies.

Section II. *Trust Loans*

Paragraph 1. *Eligibility and Conditions for Assistance*

(a) The members on the list annexed to Decision No. 8240-(86/56) SAF, as amended, shall be eligible for assistance from the Trust.

(b) Assistance under the PRGF

(1) Assistance under the PRGF shall be committed and made available to a qualifying member under a single three-year arrangement (hereinafter called a "PRGF arrangement") in support of a three-year macroeconomic and structural adjustment program presented by the member. The member shall also present a detailed statement of the policies and measures it intends to pursue for the first twelve months of the arrangement, in line with the objectives and policies of the three-year program. The PRGF arrangement will prescribe the total amount of resources committed to the member, the amount to be made available during the first year of the arrangement, the phasing of disbursements during that year, and the overall amounts to be made available during the second and third years of the arrangement. In principle, disbursements shall be phased at semiannual intervals (one upon approval and at approximately six-monthly intervals thereafter) with semiannual performance criteria and appropriate monitoring of key financial variables in the form of quarterly quantitative benchmarks and structural benchmarks for important structural reforms. The PRGF arrangement shall also provide for reviews by the Trustee of the member's program to evaluate the macroeconomic and structural reform policies of the member and the implementation of its program and reach new understandings if necessary. In cases where closer monitoring is needed, the PRGF arrangement may provide for quarterly performance criteria and reviews and quarterly disbursements. The determination of the phasing of, and the conditions applying to, disbursements during the second and third years of the PRGF arrangement will be made by the Trustee in the context of a review of the program with the member, and of a detailed statement presented by the member describing progress made under the program, and the policies it will follow during the subsequent year of the arrangement to further the realization of the objectives of the three-year program, with such modifications as may be necessary to assist it to achieve its objectives in changing circumstances. After the expiration of a PRGF arrangement for an eligible member, or the cancellation of the PRGF arrangement by the member, the Trustee may approve additional PRGF arrangements for that member in accordance with the Instrument.

(2) Before approving a PRGF arrangement, the Trustee shall be satisfied that the member has a protracted balance of payments problem and is making an effort to strengthen substantially and in a sustainable manner its balance of payments position.

(3) The Trustee shall not approve a new PRGF arrangement or complete a review under a PRGF arrangement unless it finds that (i) the member concerned has a poverty reduction strategy set out in an I-PRSP, PRSP preparation status report, PRSP, or APR, that has been issued to the Executive Board normally within the previous 12 months but in any case within the previous 18

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months, (ii) the I-PRSP, PRSP preparation status report, PRSP, or APR has been the subject of an analysis in a Joint Staff Advisory Note also issued to the Executive Board, provided, however, that no Joint Staff Advisory Note will be required in connection with a PRSP preparation status report, in which case the analysis of the PRSP preparation status report will be included in the staff report on a new PRGF arrangement or a review under a PRGF arrangement, and (iii) if there are any weaknesses in the member's poverty reduction strategy, such as those identified in the Joint Staff Advisory Note, and they are critical to Fund support under a PRGF arrangement, they have been addressed. For purposes of this Instrument, the terms I-PRSP, PRSP preparation status report, PRSP, APR and Joint Staff Advisory Note shall have the meaning given to each of them in Section I, Paragraph 1 of the PRGF-HIPC Trust Instrument (Annex to Decision No. 11436-(97/10), adopted February 4, 1997).

Comment [y1]: Moved from Section II, paragraph 1(g) of the PRGF Trust Instrument.

(c) Assistance under the ESF

(1) Assistance under the ESF shall be committed and made available to a qualifying member under an arrangement (hereinafter called an "ESF arrangement") in support of a macroeconomic and structural adjustment program presented by the member. The period for an ESF arrangement shall range from one to two years. In cases where the period of an ESF arrangement exceeds one year, the member shall present a detailed statement of the policies and measures it intends to pursue for at least the first twelve months of the arrangement, in line with the objectives and policies of the overall program. The ESF arrangement will prescribe the total amount of resources committed to the member and the phasing of disbursements during the period of the arrangement; provided that in cases where the period of an ESF arrangement exceeds one year, the arrangement may prescribe the amount to be made available only during the first year of the arrangement and the phasing of disbursements during that year. Disbursements may be phased (i) at semiannual intervals (one upon approval and at approximately six-monthly intervals thereafter) with semiannual performance criteria and with appropriate monitoring of key financial variables in the form of quarterly quantitative benchmarks and structural benchmarks for important structural reforms, or (ii) at quarterly intervals (one upon approval and at approximately three-monthly intervals thereafter) with quarterly performance criteria. The phasing of disbursements in any particular case shall be determined on the basis of an assessment by the Trustee taking into account factors such as the duration of the arrangement, the balance of payments need of the member, the volatility of its economic situation and its administrative capacity constraints. The ESF arrangement shall also provide for reviews by the Trustee of the member's program to evaluate the macroeconomic and structural reform policies of the member and the implementation of its program and reach new understandings if necessary. In cases where the period of an ESF arrangement exceeds one year, the determination of the phasing of, and the conditions applying to, disbursements during the period of the arrangement following the first year may be made by the Trustee in the context of a review of the program with the member, and of a detailed statement presented by the member describing progress made under the program, and the policies it will follow during the remaining period of the arrangement to further the realization of the objectives of the program, with such modifications as may be necessary to assist it to achieve its objectives in changing circumstances. After the expiration of an ESF arrangement for an eligible member, or the cancellation of the ESF arrangement by the member, the Trustee may approve additional ESF arrangements for that member in accordance with the Instrument, provided that a member may not have more than one ESF arrangement for the same shock.

(2) Before approving an ESF arrangement, the Trustee shall be satisfied that the member has a balance of payments need whose primary source is a sudden and exogenous shock. ESF arrangements will normally be approved only where the Trustee determines that, in order to adjust to

the shock, the member does not need to implement structural reforms of the type that would normally be supported by a PRGF arrangement.

(3) The Trustee shall not approve a new ESF arrangement or complete a review under an ESF arrangement unless it finds that (i) the member concerned has a poverty reduction strategy set out in an I-PRSP, PRSP preparation status report, PRSP or APR, that has been issued to the Executive Board normally within the previous 12 months but in any case within the previous 18 months, and (ii) the I-PRSP, PRSP preparation status report, PRSP, or APR has been the subject of an analysis in a Joint Staff Advisory Note also issued to the Executive Board, provided, however, that no Joint Staff Advisory Note will be required in connection with a PRSP preparation status report, in which case the analysis of the PRSP preparation status report will be included in the staff report on a new ESF arrangement or a review under an ESF arrangement. In exceptional circumstances, the Trustee may approve a new ESF arrangement for a member where the conditions set forth in (i) and (ii) above are not met at the time of approval of the arrangement, if the Trustee is assured of the member's commitment regarding its poverty reduction strategy during the period of the arrangement; provided that in these circumstances, issuance of an I-PRSP, PRSP preparation status report, PRSP, or APR to the Executive Board, together with an analysis in a Joint Staff Advisory Note or in the staff report as the case may be, shall be a condition for completion of the first review under the arrangement. The Trustee will assess, on a case-specific basis, the extent to which any weaknesses in the member's poverty reduction strategy, such as those identified in the Joint Staff Advisory Note, that are critical to Fund support under an ESF arrangement need to be addressed prior to approval of the arrangement or completion of a review under the arrangement as the case may be.

(4) No commitments shall be made under ESF arrangements until the Managing Director of the Trustee notifies the Executive Board of the Trustee of his determination that sufficient contributions have been provided or firmly committed to the ESF Subsidy Account, the PRGF-ESF Subsidy Account, or both, to initiate ESF operations.

(d) General Provisions

(1) A member may not obtain assistance from the Trust under the PRGF and the ESF at the same time.

(2) Commitments under arrangements under this Instrument may be made for the period through December 31, 2006.

(3) The Managing Director shall not recommend for approval, and the Trustee shall not approve, a request for an arrangement under this Instrument whenever the member has an overdue financial obligation to the Fund in the General Resources Account, the Special Disbursement Account, or the SDR Department, or to the Fund as Trustee, or while the member is failing to meet a repurchase expectation to the Fund pursuant to Decision No.7842-(84/165) on the Guidelines on Corrective Action, or pursuant to paragraphs 17 or 31 of Decision No. 8955-(88/125) on the Compensatory Financing Facility, or a purchase pursuant to Decision No. 11627-(97/123) on the Supplemental Reserve Facility, or is failing to meet a repayment expectation pursuant to Section II, paragraph 3(c) or the provisions of Appendix I to this Instrument, or is failing to meet a repurchase expectation pursuant to paragraph 1(b) of Decision No 5703-(78/39) or paragraph 10(a) of Decision No. 4377-(74/114).

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(4) The Trustee shall not complete a review under an arrangement under this Instrument unless and until all other conditions for the disbursement of the corresponding loan have been met or waived.

Paragraph 2. Amount of Assistance

(a) An initial maximum limit on access to resources under the PRGF shall be established by the Trustee, as a proportion of members' quotas in the Fund, and provisions shall be made for a limit up to which that maximum limit may be exceeded in exceptional circumstances. A maximum limit on access to resources under the ESF shall be established by the Trustee, as a proportion of members' quotas in the Fund, and provisions shall be made allowing that maximum limit to be exceeded in exceptional circumstances. These access limits shall be subject to review from time to time by the Trustee in the light of actual utilization of resources available to the Loan Account.

(b) To the extent that a member has notified the Trustee that it does not intend to make use of the resources available from the Trust under the PRGF and ESF, the member shall not be included in the calculations of the access limits on Trust loans.

(c) The access for each member that qualifies for assistance from the Trust under the PRGF or ESF shall be determined on the basis of an assessment by the Trustee of the balance of payments need of the member, the strength of its adjustment program, the amount of the member's outstanding use of credit extended by the Fund, and its record in using Fund credit in the past. The access for each member that qualifies for assistance under the ESF shall also take into account the size and likely persistence of the shock.

(d) The amount of resources committed to a qualifying member under a PRGF or ESF arrangement may be increased at the time of any review contemplated under the arrangement, to help meet a larger balance of payments need or in the case of a PRGF arrangement, to support a strengthening of the program. The amount committed to a member under a PRGF arrangement shall not be reduced because of developments in its balance of payments, unless such developments are substantially more favorable than envisaged at the time of approval of the arrangement and the improvement for the member derives in particular from improvements in the external environment.

(e) Any commitment shall be subject to the availability of resources to the Trust.

Paragraph 3. Disbursements

(a) Any disbursement shall be subject to the availability of the resources to the Trust.

(b) Disbursements under an arrangement under this Instrument must precede the expiration of the arrangement period. If phased amounts under an arrangement do not become available as scheduled due to delays in program implementation, nonobservance of conditions attached to such disbursements or delays in reaching new understandings when necessary, the Trustee may rephase those amounts over the remaining period of the arrangement. The Trustee may also extend the period of (i) a PRGF arrangement for up to one year to allow for the disbursement of rephased amounts or to provide additional resources, subject to appropriate conditions consistent with the terms of assistance under the PRGF, and (ii) an ESF arrangement for up to the overall maximum two-year period referred to in Section II, paragraph (c)(1) to allow for the disbursement of rephased amounts or to provide

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additional resources subject to appropriate conditions consistent with the terms of assistance under the ESF.

(c) When requesting a disbursement under an ESF arrangement, the member shall represent that it has a need because of its balance of payments or its reserve position or developments in its reserves. The Trustee shall not challenge this representation of need prior to providing the member with the requested disbursement. If, after a disbursement is made, the Trustee determines that the disbursement took place in the absence of a need, the Trustee may decide that the member shall be expected to repay an amount equivalent to the disbursement, together with any interest accrued thereon, normally within a period of 30 days from the date of the Executive Board decision establishing that the member is expected to make an early repayment. If the member fails to meet a repayment expectation within the period established by the Trustee, (i) the Managing Director shall promptly submit a report to the Executive Board together with a proposal on how to deal with the matter, and (ii) interest shall be charged on the amount subject to the repayment expectation at the rate applicable to overdue amounts under paragraph 4 of this Section.

(d) Disbursements shall normally be made on the fifteenth and the last day of the month, provided that if these days are not business days of the Trustee, the disbursement shall be made on the preceding business day. Following a member's qualification for a disbursement, the disbursement shall be made on the first of these value dates for which the necessary notifications and payment instructions can be issued by the Trustee.

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(e) No disbursement under any commitment to a member shall be made after the expiration of the period referred to in Section III, paragraph 3.

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(f) In cases of misreporting and noncomplying disbursements of Trust loans, the provisions of Appendix I, which is incorporated at the end of this Instrument, shall apply.

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(g) Disbursements under an arrangement to a qualifying member shall be suspended in all the cases specified in Paragraph 1 (d) (3) of this Section.

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Paragraph 4. *Terms of loans*

(a) Interest on the outstanding balance of a loan under the PRGF and the ESF shall be charged at the rate of one half of one percent per annum subject to the provisions of Section IV, paragraph 5, and provided that interest at a rate equal to the rate of interest on the SDR shall be charged on the amounts of any overdue interest on or overdue repayments of Trust loans.

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(b) Trust loans shall be disbursed in a freely usable currency as decided by the Trustee. They shall be repaid, and interest paid, in U.S. dollars or other freely usable currency as decided by the Trustee. The Managing Director is authorized to make arrangements under which, at the request of a member, SDRs may be used for disbursements to the member or for payment of interest or repayments of loans by the member to the Trust.

(c) The Trustee may not reschedule the repayment of loans from the Trust.

(d) Trust loans shall be repaid in ten equal semi-annual installments beginning not later than five and a half years from the date of each disbursement and completed at the end of the tenth year after that date.

Paragraph 5. *Modifications*

Any modification of these provisions will affect only loans made after the effective date of the modification, provided that modification of the interest rate shall apply to interest accruing after the effective date of the modification.

Section III. *Borrowing for the Loan Account*

Paragraph 1. *Resources*

The resources held in the Loan Account shall consist of:

- (a) the proceeds of loans made to the Trust for that Account; and
- (b) payments of principal and interest on Trust loans, subject to the provisions of Section V, paragraph 3.

Paragraph 2. *Borrowing authority*

The Trustee may borrow resources for the Loan Account on such terms and conditions as may be agreed between the Trustee and the respective lenders subject to the provisions of this Instrument.

Paragraph 3. *Commitments*

Commitments for drawings under loan agreements to the Loan Account of the ESAF Trust that were entered into before November 30, 1993 shall extend through December 31, 1997, and under loan agreements that are entered into after November 30, 1993 shall extend through December 31, 1999. The drawdown period under loan agreements to the Loan Account of the PRGF-~~ESF~~ Trust for Interim PRGF-~~ESF~~ financing shall extend through December 31, 2009. The drawdown period may be extended by mutual agreement between the Trustee and the lender. The Managing Director is authorized to conclude such agreements on behalf of the Trustee.

Paragraph 4. *Drawings on loan commitments*

(a) Drawings on the commitments of individual lenders over time shall be made so as to maintain broad proportionality of these drawings relative to commitments, provided that the Trustee will aim to draw fully all loans entered into prior to August 31, 2001 before calling on loans entered into after that date.

(b) Calls on a lender's commitment shall be suspended temporarily if, at any time prior to June 30, 1997, in case of a commitment under a loan agreement entered into before November 30, 1993, or prior to June 30, 1999, in case of a commitment under a loan agreement entered into after November 30, 1993, or prior to June 30, 2009, in case of a commitment under a loan agreement entered into after August 31, 2001, the lender represents to the Trustee that it has a liquidity need for such suspension and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. The suspension shall not exceed three months, provided that it may be extended for further periods of three months by agreement between the lender and the Trustee. No extension shall be agreed which, in the judgment of the Trustee, would prevent drawing of the full amount of the lender's commitment.

(c) Following any suspension of calls with respect to the commitment of a lender, calls will be made on that commitment thereafter so as to restore proportionality of calls on all lenders as soon as practicable.

Paragraph 5. *Payments to lenders*

(a) The Trust shall make payments of principal and interest on its borrowing for the Loan Account from the payments into that account of principal and interest made by borrowers under Trust loans. Payments of the authorized subsidy shall be made from the Subsidy Accounts in accordance with Section IV of this Instrument, and, as required, payments shall be made from the Reserve Account in accordance with Section V of this Instrument.

(b) The Trust shall pay interest on outstanding borrowing for Trust loans promptly after June 30 and December 31 of each year, unless the particular modalities of a loan to the Trust make it necessary for the Trustee to agree with the lender on interest payments at other times.

Section IV. *Subsidy Accounts*

Paragraph 1. *Resources*

(a) The resources held in the PRGF-ESF Subsidy Account shall consist of:

(i) the proceeds of donations made to the Trust for the Subsidy Account of the PRGF Trust prior to [EFFECTIVE DATE OF DECISION ESTABLISHING THE ESF], unless a donor notifies the Trustee that it wishes to transfer the proceeds of its outstanding donation to another Subsidy Account by [DATE TWO MONTHS AFTER EFFECTIVE DATE OF DECISION ESTABLISHING THE ESF];

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(ii) the proceeds of loans made to the Trust for the Subsidy Account of the PRGF Trust prior to [EFFECTIVE DATE OF DECISION ESTABLISHING THE ESF], unless a lender notifies the Trustee that it wishes to transfer the proceeds of its outstanding loan to another Subsidy Account by [DATE TWO MONTHS AFTER EFFECTIVE DATE OF DECISION ESTABLISHING THE ESF];

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(iii) the proceeds of donations made to the Trust for the PRGF-ESF Subsidy Account;

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(iv) the proceeds of loans made to the Trust for the PRGF-ESF Subsidy Account;

(v) transfers from the Special Disbursement Account in accordance with Decision No. 10531-(93/170);

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(vi) transfers from the Special Disbursement Account in accordance with paragraph 5(c) of Decision No. [DECISION I.A]; and

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(vii) net earnings from investment of resources held in that Account.

(b) The resources held in the ESF Subsidy Account shall consist of:

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(i) the proceeds of donations made to the Trust for that Account;

(ii) the proceeds of loans made to the Trust for that Account; and

(iii) net earnings from investment of resources held in that Account.

(c) The resources held in the PRGF Subsidy Account shall consist of:

(i) the proceeds of donations made to the Trust for that Account;

(ii) the proceeds of loans made to the Trust for that Account;

(iii) transfers from the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (PRGF-HIPC Trust) in accordance with Section III bis of the Instrument establishing that Trust; and

(iv) net earnings from investment of resources held in that Account.

Paragraph 2. *Donations*

The Trustee may accept donations of resources for any of the Subsidy Accounts on such terms and conditions as may be agreed between the Trustee and the respective donors, subject to the provisions of this Instrument. To the extent possible, annual contributions should be made before May 30 of each year.

Paragraph 3. *Borrowing*

The Trustee may, in exceptional circumstances, borrow resources for any of the Subsidy Accounts from official lenders on such terms and conditions as may be agreed between the Trustee and the lenders; in order:

(a) to prefinance an amount that is firmly committed to be donated to the Trust for the relevant Subsidy Account; repayment of principal and any payments of interest on such borrowing shall be contingent upon the receipt by the relevant Subsidy Account of the donation that has been prefunded; and

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(b) that the relevant Subsidy Account may benefit from net investment earnings on the proceeds of a loan extended at a concessional interest rate; repayment of principal and any payment of interest on such borrowing shall be made exclusively from the proceeds of liquidation of the investment and the earnings thereon.

Paragraph 4. *Authorized subsidy*

(a) The Trustee shall draw upon the resources available in the PRGF-ESF Subsidy Account to pay the difference, with respect to each interest period, between the interest due by the borrowers and the interest due on resources borrowed for loans under the PRGF or the ESF, provided that resources available in the PRGF-ESF Subsidy Account shall be drawn upon for these purposes only if there are no other resources immediately available in the PRGF Subsidy Account or the ESF Subsidy Account, as the case may be, for these purposes. For purposes of the preceding sentence, resources in the PRGF-HIPC Trust that are transferable to the PRGF Subsidy Account shall not be considered resources immediately available in the PRGF Subsidy Account.

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(b) The Trustee shall draw upon the resources available in the ESF Subsidy Account to pay the difference, with respect to each interest period, between the interest due by the borrowers and the interest due on resources borrowed for loans under the ESF.

(c) The Trustee shall draw upon the resources available in the PRGF Subsidy Account to pay the difference, with respect to each interest period, between the interest due by the borrowers and the interest due on resources borrowed for loans under the PRGF.

Paragraph 5. *Calculation of subsidy*

(a) The amount of the subsidy shall be determined by the Trustee in the light of (i) the objective of ensuring that the PRGF and ESF are highly concessional facilities and, to the extent possible, of reducing the rate of interest charged on Trust loans to 0.5 percent, (ii) the rate of interest on resources available to the Loan Account, and (iii) the availability and prospective availability of resources to the Subsidy Accounts.

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(b) The Trustee shall keep the operation of the Subsidy Accounts under review. If at any time it determines that resources available or committed are likely to be insufficient to reduce the rate of interest on either PRGF or ESF loans to 0.5 percent throughout the operation of the Trust, the Trustee shall seek such additional resources as may be necessary to achieve this objective.

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(c) Should adequate additional resources not be forthcoming to reduce the rate on either PRGF or ESF loans to 0.5 percent, the Trustee shall recalculate the subsidy with a view to reducing that interest rate to the lowest feasible rate that could be applied throughout the remaining life of the Trust. The rate of interest charged on all outstanding loans by the Trust under the relevant facility shall be adjusted accordingly in the succeeding interest periods. Borrowers shall be notified promptly of such adjustments. Further recalculations and adjustments shall be made in subsequent interest periods, as necessary in light of developments with respect to the rate of interest on resources available to the Loan Account and the availability of resources to the Subsidy Accounts.

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(d) If the interest due to lenders under the PRGF or ESF for an interest period has exceeded the interest due by borrowers under the relevant facility, together with the authorized subsidy under paragraph 4 of this Section for that period, and payment to lenders of that difference has been made from the Reserve Account in accordance with Section V, paragraph 2, then an amount equivalent to that difference shall be added to the interest due by the relevant borrowers for the succeeding interest period. Payment of that amount shall be made to the Reserve Account in accordance with Section V, paragraph 3. The additional interest due shall not be taken into account in the calculation of the authorized subsidy for that same interest period.

Paragraph 6. *Termination arrangements*

(a) Upon completion of the subsidy operations authorized by this Instrument, the Fund shall wind up the affairs of the Subsidy Accounts.

(i) Any resources remaining in the PRGF-ESF Subsidy Account shall be used in a manner consistent with paragraph 4(a) of this Section to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers on PRGF and ESF loans, by means of payments to such borrowers. Any resources remaining after that subsidization shall be distributed to the Fund, donors, and lenders that have contributed to the PRGF-ESF subsidy

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operation, in proportion to their contributions. The resources representing the Fund's share in such distribution shall be transferred to the Special Disbursement Account.

(ii) Any resources remaining in the ESF Subsidy Account shall be used to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers on ESF loans, by means of payments to such borrowers. Any resources remaining after that subsidization shall be distributed to donors and lenders that have contributed to the ESF subsidy operation, in proportion to their contributions.

(iii) Any resources remaining in the PRGF Subsidy Account shall be used to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers on PRGF loans, by means of payments to borrowers. Any resources remaining after that subsidization shall be distributed to donors and lenders that have contributed to the PRGF subsidy operation, in proportion to their contributions.

(iv) For the purposes of the distributions provided for in this paragraph 6, account will be taken of donations, the net earnings from investment of the proceeds of concessional loans extended to the Subsidy Accounts under paragraph 3(b) above, and the subsidy element of concessional loans extended to the Trust under Section III; the subsidy element associated with such loans shall be calculated as the difference, if positive, between the SDR rate of interest and the interest on such loans, applied to the amount of the loans during the period they were outstanding.

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(b) Prior to the termination of the PRGF-ESF Subsidy Account in accordance with (a)(i) above, the equivalent of SDR 1.12 billion of the resources in that Account that are not derived from the Special Disbursement Account shall be transferred from the Subsidy Account to the Multilateral Debt Relief Initiative-II Trust established pursuant to paragraph 2 of Decision No. [DECISION I.A], upon the notification by sufficient contributors that up to the full amount of their outstanding contributions may be used for such a transfer

Comment [y2]: The Subsidy Account of the PRGF Trust referred in paragraph 3(b) of Decision I.A would be renamed "PRGF-ESF Subsidy Account" under paragraph 2 of Decision II.A (ESF).

Section V. *Reserve Account*

Paragraph 1. *Resources*

The resources held in the Reserve Account shall consist of:

(a) transfers by the Fund from the Special Disbursement Account in accordance with Decision No. 8760-(87/176), adopted December 18, 1987, as amended by Decision No. 10531-(93/170), adopted December 15, 1993;

(b) net earnings from investment of resources held in the Reserve Account;

(c) net earnings from investment of any resources held in the Loan Account pending the use of these resources in operations;

(d) payments of overdue principal or interest or interest thereon under Trust loans, and payments of interest under Trust loans to the extent that payment has been made to a lender from the Reserve Account;

(e) transfers by the Fund from the Special Disbursement Account in accordance with Decision No. 10286-(93/23) ESAF, adopted February 22, 1993; and

(f) repayments of the principal under Trust loans, to the extent that resources in the Reserve Account have been used to make payments to a lender due to a difference in timing between scheduled principal repayments to the lender and principal repayments under Trust loans.

Paragraph 2. *Use of resources*

The resources held in the Reserve Account shall be used by the Trustee to make payments of principal and interest on its borrowing for Trust loans, to the extent that the amounts available from receipts of repayments and interest from borrowers under Trust loans, together with the authorized subsidy under Section IV, paragraph 4, are insufficient to cover the payments to lenders as they become due and payable.

Paragraph 3. *Payments to the Reserve Account*

Any repayment of principal under Trust loans, to the extent that repayment to a lender has been made from the Reserve Account due to differences in timing between scheduled principal repayments to the lender and principal repayments under Trust loans, any payments of overdue principal or interest or interest thereon under Trust loans, and any payments of interest under Trust loans to the extent that payment has been made to a lender from the Reserve Account, shall be made to the Reserve Account.

Paragraph 4. *Review of resources*

If resources in the Reserve Account are, or are determined by the Trustee likely to become, insufficient to meet the obligations of the Trust that may be discharged from the Reserve Account as they become due and payable, the Trustee shall review the situation in a timely manner.

Paragraph 5. *Reduction of resources and liquidation*

(a) Whenever the Trustee determines that amounts in the Reserve Account of the Trust exceed the amount that may be needed to cover the total liabilities of the Trust to lenders that are authorized to be discharged by the Reserve Account, the Trustee shall retransfer such excess amount to the Fund's Special Disbursement Account.

(b) Notwithstanding (a) above, the equivalent of up to SDR 250 million may be transferred from the Reserve Account to the Special Disbursement Account to be used to provide Trust grants or Trust loans, as defined in the Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations. Transfers will be made only when and to the extent that the Trustee of the Trust established by that Instrument determines that there are no other resources immediately available for this purpose.

(c) Upon liquidation of the Trust, all amounts in the Reserve Account remaining after discharge of liabilities authorized to be discharged by the Reserve Account shall be transferred to the Special Disbursement Account.

Section VI. *Transfer of Claims*

Paragraph 1. *Transfers by lenders*

(a) Any lender shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 ("other fiscal agency"), or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(b) The transferee shall, as a condition of the transfer, notify the Trustee prior to the transfer that it accepts all the obligations of the transferor relating to the transferred claim with respect to renewal and new drawings, and shall acquire all the rights of the transferor with respect to repayment of and interest on the transferred claim.

Paragraph 2. *Transfers among electing lenders*

(a) Any lender to the Loan Account ("electing lenders") may inform the Trustee that it stands ready, upon request by the Trustee, to purchase claims on the Trust from any other electing lender, provided that the holdings of claims so acquired shall at no time exceed the amount communicated to the Trustee and subject to the other provisions of this section. A list of electing lenders and the amounts communicated by them shall be established separately by the Trustee. This list may be extended and the amounts therein increased in accordance with communications received subsequently.

(b) An electing lender shall have the right to transfer temporarily to other electing lenders part or all of any claim arising from its loans to the Trust under Section III, if the electing lender represents to the Trustee that it has a liquidity need to make such transfer and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees.

(c) The Trustee shall allocate each transfer by an electing lender under this provision to all other electing lenders in proportion to the amounts by which the respective maximum holdings listed in the attachment exceed actual holdings of claims acquired under this provision; provided, however, that no allocation shall be made to an electing lender if it represents to the Trustee that it has a liquidity need for exclusion from an allocation and the Trustee agrees, in which case allocations to the remaining electing lenders shall be adjusted accordingly.

(d) The purchaser of any claim transferred under this provision shall assume, as a condition of the transfer, any obligation of the transferor, relating to the transferred claim, with respect to the renewal of drawing on loans to the Trust and to new drawings on loans in the event a renewal, having been requested, is not agreed by the transferor.

(e) Transfers of claims under this provision shall be made in exchange for freely usable currency and shall be reversed in the same media within three months, provided that such transfers may be renewed, by agreement between the transferor and the Trustee, for further periods of three months up to a total of one year. Notwithstanding the above, the transferor shall reverse a transfer under this provision not later than the date on which the transferred claim is due to be repaid by the Trust.

(f) Interest on claims transferred under this Section shall be paid by the Trust to the transferor in accordance with the provisions of the transferor's lending agreement with the Trust. The transferor

shall pay interest to the transferee(s) on the amount transferred, so long as the transfer remains outstanding, at a daily rate equal to that set out in Rule T-1 of the Fund's Rules and Regulations; such interest shall be payable three months after the date of a transfer or of its renewal, or on the date the transfer is reversed, whichever is earlier.

Section VII. *Administration of the Trust*

Paragraph 1. *Trustee*

(a) The Trust shall be administered by the Fund as Trustee. Decisions and other actions taken by the Fund as Trustee shall be identified as taken in that capacity.

(b) Subject to the provisions of this Instrument, the Fund in administering the Trust shall apply the same rules as apply to the operation of the General Resources Account of the Fund.

(c) The Trustee, acting through its Managing Director, is authorized:

(i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, which shall be accounts of the Fund as Trustee, with such depositories of the Fund as the Trustee deems necessary; and

(ii) to take all other administrative measures that the Trustee deems necessary to implement the provisions of this Instrument.

Paragraph 2. *Separation of assets and accounts, audit and reports*

(a) The Resources of the Trust shall be kept separate from the property and assets of all other accounts of the Fund, including other administered accounts, and shall be used only for the purposes of the Trust in accordance with this Instrument.

(b) The property and assets held in the other accounts of the Fund shall not be used to discharge liabilities or to meet losses arising out of the administration of the Trust. The resources of the Trust shall not be used to discharge liabilities or to meet losses arising out of the administration of the other accounts of the Fund.

(c) The Fund shall maintain separate financial records and prepare separate financial statements for the Trust.

(d) The audit committee selected under Section 20 of the Fund's By-Laws shall audit the financial transactions and records of the Trust. The audit shall relate to the financial year of the Fund.

(e) The Fund shall report on the resources and operations of the Trust in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the audit committee on the Trust.

Paragraph 3. *Investment of resources*

(a) Any balances held by the Trust and not immediately needed in operations shall be invested.

(b) Investments may be made in any of the following: (i) marketable obligations issued by an international financial organization and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used, or, when an exchange of currencies is involved, with the consent of the issuers of such currencies.

Section VIII. *Period of Operation and Liquidation*

Paragraph 1. *Period of operation*

The Trust established by this Instrument shall remain in effect for as long as is necessary, in the judgment of the Fund, to conduct and to wind up the business of the Trust.

Paragraph 2. *Liquidation of the Trust*

(a) Termination and liquidation of the Subsidy Accounts shall be made in accordance with the provisions of Section IV, paragraph 6.

(b) All other resources, if any, shall be used to discharge any liabilities of the Trust, other than those incurred under Section IV, and any remainder shall be transferred to the Special Disbursement Account of the Fund.

Section IX. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except this Section and Section I, paragraphs 1 and 2; Section III, paragraphs 4 and 5; Section IV, paragraphs 4 and 6; Section V; Section VI; Section VII, paragraph 2(a) and (b); Section VIII, paragraph 2(b).

APPENDIX I

Misreporting and Noncomplying Disbursements in Arrangements Under the Poverty Reduction and Growth Facility ~~and the Exogenous Shocks Facility~~—Provisions on Corrective Action

a. A noncomplying disbursement occurs when (i) the Trustee makes a disbursement to a member under an arrangement approved in accordance with the Instrument on the basis of a finding by the Trustee or the Managing Director that all applicable conditions established for that disbursement under the terms of the decisions on the arrangement have been observed, and (ii) that finding later proves to be incorrect. For the purposes of these provisions, a condition established under the terms of a decision on an arrangement means a condition specified in the arrangement, or in a decision approving the arrangement, completing a review, or granting a waiver of applicability or for the nonobservance of a performance criterion under the arrangement.

b. Whenever evidence comes to the attention of the staff of the Trustee indicating that a member may have received a noncomplying disbursement, the Managing Director shall promptly inform the member concerned.

c. If, after consultation with the member, the Managing Director determines that the member did receive a noncomplying disbursement, the Managing Director shall promptly notify the member and submit a report to the Executive Board together with recommendations.

d. In any case where the noncomplying disbursement was made no more than four years prior to the date on which the Managing Director informed the member, as provided for in paragraph (b), the Executive Board may decide either (i) that the member will be called upon to make an early repayment, or (ii) that the nonobservance will be waived.

e. If the decision of the Executive Board is to call upon the member to make an early repayment as provided for in paragraph (d)(i), the member will be expected to repay an amount equivalent to the noncomplying disbursement, together with any interest accrued thereon, normally within a period of 30 days from the date of the Executive Board decision.

f. A waiver under paragraph (d)(ii) will normally be granted only if the deviation from the relevant performance criterion or other condition was minor or temporary, or if, subsequent to the disbursement, the member had adopted additional measures appropriate to achieve the objectives of the program supported by the arrangement under which the disbursement was made.

g. If a member fails to meet a repayment expectation under these guidelines within the period established by the Executive Board, (i) the Managing Director shall promptly submit a report to the Executive Board together with a proposal on how to deal with the matter, and (ii) interest shall be charged on the amount subject to the repayment expectation at the rate applicable to overdue amounts under Section II, Paragraph 4 of the Instrument.

APPENDIX II

Procedures for Addressing Overdue Financial Obligations to the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust

The following procedures aim at preventing the emergence or accumulation of overdue financial obligations to the Poverty Reduction and Growth Facility (“PRGF”) and Exogenous Shocks Facility (“ESF”) Trust (the “Trust”) and at eliminating existing overdue obligations. These procedures will be implemented whenever a member has failed to make a repayment of principal or payment of interest to the Trust (“financial obligation”).

1. Whenever a member fails to settle a financial obligation on time, the staff will immediately send a cable urging the member to make the payment promptly; this communication will be followed up through the office of the Executive Director concerned. At this stage, the member’s access to the Fund’s resources, including PRGF, ESF and HIPC resources, will have been suspended.

2. When a financial obligation has been outstanding for two weeks, management will send a communication to the Governor for that member stressing the seriousness of the failure to meet obligations to the Trust and urging full and prompt settlement.

3. The Managing Director will notify the Executive Board normally one month after a financial obligation has become overdue, and will inform the Executive Board of the nature and level of the arrears and the steps being taken to secure payment.

4. When a member's longest overdue financial obligation has been outstanding for six weeks, the Managing Director will inform the member concerned that, unless all overdue obligations are settled, a report concerning the arrears to the Trust will be issued to the Executive Board within two weeks. The Managing Director will in each case recommend to the Executive Board whether a written communication should be sent to a selected set of Fund Governors, or to all Fund Governors. If it were considered that it should be sent to a selected set of Fund Governors, an informal meeting of Executive Directors will be held to consider the thrust of the communication. Alternatively, if it were considered that the communication should be sent to all Fund Governors, a formal Board.

5. A report by the Managing Director to the Executive Board will be issued two months after a financial obligation has become overdue, and will be given substantive consideration by the Executive Board one month later. The report will request that the Executive Board limit the member's use of Trust resources. A brief factual statement noting the existence and amount of arrears outstanding for more than three months will be posted on the member's country-specific page on the Fund's external website. This statement will also indicate that the member's access to the Fund's resources, including PRGF, ESF and HIPC resources, has been and will remain suspended for as long as such arrears remain outstanding. A press release will be issued following the Executive Board decision to limit the member's use of the Trust resources. A similar press release will be issued following a decision to lift such limitation. Periods between subsequent reviews of reports on the member's arrears by the Executive Board will normally not exceed six months. The Managing Director may recommend advancing the Executive Board's consideration of the reports regarding overdue obligations.

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6. The Annual Report and the financial statements will identify those members with overdue obligations to the Trust outstanding for more than six months.

Removal from the list of PRGF-ESF-eligible countries

7. When a member's longest overdue financial obligation has been outstanding for six months, the Executive Board will review the situation of the member and may remove the member from the list of PRGF-ESF-eligible countries. Any reinstatement of the member on the list of PRGF-ESF-eligible countries will require a new decision of the Executive Board.

The Fund shall issue a press release upon the decision to remove a member from the list of PRGF-ESF-eligible countries. A similar press release shall be issued upon reinstatement of the member on the list. The information contained in such press releases, where pertinent, shall be included in the Annual Report for the year concerned.

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Declaration of noncooperation with the Trust

8. A declaration of noncooperation with the Trust may be issued by the Executive Board whenever a member's longest overdue financial obligation has been outstanding for twelve months. The decision as to whether to issue such a declaration would be based on an assessment of the member's performance in the settlement of its arrears to the Trust and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Three related tests

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would be germane to this decision regarding (i) the member's performance in meeting its financial obligations to the Trust taking account of exogenous factors that may have affected the member's performance; (ii) whether the member had made payments to creditors other than the Fund while

continuing to be in arrears to the Trust; and (iii) the preparedness of the member to adopt comprehensive adjustment policies. The Executive Board may at any time terminate the declaration of noncooperation in view of the member's progress in the implementation of adjustment policies and its cooperation with the Fund in the discharge of its financial obligations.

Upon a declaration of noncooperation, the Fund could also decide to suspend the provision of technical assistance. The Managing Director may also limit technical assistance provided to a member, if in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdues to the Trust.

The Fund shall issue a press release upon the declaration of noncooperation and upon the termination of the declaration. The information contained in such press releases shall be included in the Annual Report(s) for the year(s) concerned.