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April 7, 2000

To:      Members of the Executive Board

From:    The Secretary

Subject: **Financing the Fund's Participation in the HIPC Initiative and the  
Continuation of the Poverty Reduction and Growth Facility—Report by the  
Acting Managing Director to the International Monetary and Financial  
Committee**

Attached for the information of the Executive Directors is the report by the Acting Managing Director to the International Monetary and Financial Committee on financing the Fund's participation in the HIPC initiative and the continuation of the Poverty Reduction and Growth Facility.

Ms. McGuirk (ext. 38363) and Ms. Happe (ext. 38675) are available to answer technical or factual questions relating to this paper.

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Department Heads



**Report by the Acting Managing Director to the International Monetary and Financial  
Committee—Financing the Fund's Participation in the HIPC Initiative and the  
Continuation of the Poverty Reduction and Growth Facility**

April 7, 2000

1. This note provides an update on the status of contributions to the PRGF-HIPC Trust, which was reviewed by the Executive Board on March 27, 2000.<sup>1</sup>
2. The total cost to the Fund of participation in the HIPC Initiative and the continuation of the PRGF is estimated at SDR 3.9 billion on an “as needed” basis,<sup>2</sup> with the HIPC Initiative accounting for about two-thirds of the total. These financing requirements are to be met by a combination of bilateral contributions amounting to SDR 1.5 billion and contributions by the Fund amounting to SDR 2.4 billion.
3. On December 8, 1999, the Executive Board took the decisions necessary to enable many bilateral contributors and the Fund to make their contributions to the PRGF-HIPC Trust, including the termination of the Second Special Contingent Account (SCA-2) and the decision to undertake off-market gold transactions of up to 14 million ounces. Since then, considerable progress has been made in securing the necessary financing. About 60 percent of pledged contributions have either been received or are being contributed on the basis of an agreed schedule. As to the Fund, the bulk of its contribution, SDR 1.8 billion, will come from the investment income on the profits generated from off-market sales of 12.9 million ounces of gold, which were completed in early April. The Fund will also provide SDR 0.6 billion from other sources, of which about 40 percent has already been contributed to the PRGF-HIPC Trust.
4. So far, the Executive Board has authorized the transfer of nine-fourteenths of the investment income on profits from gold sales to be used for the benefit of the HIPC Initiative. The transfer of the remaining five-fourteenths requires a decision by the Executive Board with an 85 percent majority. Further legislation by the United States Congress is necessary for the Executive Director of the United States to support such a decision. Without this investment income, there would be a shortfall in resources available for debt relief under

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<sup>1</sup> See *Financing the Fund's Participation in the HIPC Initiative and the Continuation of the PRGF: Update of Status of Contributions* (EBS/00/49, 3/17/00) for further background.

<sup>2</sup> Unless otherwise indicated, all figures are presented in “as needed” terms. The term “as needed” refers to the nominal undiscounted sum of the assumed time profile of resources required by the PRGF-HIPC Trust for the delivery of HIPC assistance and subsidies related to interim PRGF lending. The value of a contribution in “as needed” terms is estimated taking into account the timing of its availability in relation to the timing of resource requirements of the PRGF-HIPC Trust. These estimates do not include possible use of PRGF resources or HIPC assistance by Liberia, Somalia, and Sudan.

the *HIPC* Initiative of about SDR 600 million, assuming that all pledged bilateral contributions are made available.