

**FOR  
AGENDA**

EBS/05/158  
Supplement 1

November 22, 2005

To: Members of the Executive Board

From: The Secretary

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

The attached supplement to the paper on Multilateral Debt Relief Initiative and Exogenous Shocks Facility—proposed decisions has been prepared on the basis of additional information that has become available since the issuance of EBS/05/158 on November 16, 2005, and is scheduled for discussion **tomorrow, 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).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

Other Distribution:  
Department Heads



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 Sean Hagan

November 22, 2005

In view of recent developments and the public announcement of pledges of subsidy contributions for the Exogenous Shocks Facility (ESF) by several member governments, staff propose to delete, from the proposed PRGF-ESF Trust Instrument, the provision restricting commitments under the ESF until the Managing Director has notified the Executive Board that sufficient contributions or commitments to the subsidy account have been secured.

Accordingly, Section II, paragraph 1(c)(4) of the Instrument to Establish the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust in Attachment III of EBS/05/158 is deleted in its entirety.



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).