

**FOR
AGENDA**

EBS/05/158
Correction 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 corrections to EBS/05/158 (11/16/05) have been provided by the staff:

Page 9, second para.: for “two-month” read “sixty-day”

Page 10, first para.: for “SR 1.12 billion” read “SDR 1.12 billion”

Page 16, para. 2: for “II.B” read “II.A”

Page 17, para. 2: for “II.B” read “II.A”

Page 41, para. 2(f): for “(f)” read “(e)”

Page 44, Attachment III, Section IV, para. 1(a)(i) and para. 1(a)(ii):
for “TWO MONTHS” read “SIXTY DAYS”.

The changes to Attachment III are also being made to the redlined version (Attachment IV, pages 59 and 62).

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: (8)

Other Distribution:
Department Heads

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 sixty-day 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 SDR 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

(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.A 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.A 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.

(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

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 SIXTY DAYS 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 SIXTY DAYS 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;

(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

Deleted: f

Deleted: (g) The Trustee shall not approve a new arrangement or complete a review under an arrangement unless it find 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 arrangement or a review under an 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 ... [1]

Deleted: the

Deleted: of the Trust

Deleted: maximum

Deleted: and the exceptional maximum limit

Deleted: b

Deleted: c

Deleted: d

Deleted: The amount of resources committed to a qualifying member under a three-year arrangement may be ... [2]

Deleted: three-year

Deleted: three-year

Deleted: f

Deleted: e

Deleted: Disbursements must precede the expiration of the three-year commitment period. If an annual ... [3]

Deleted: three-year

Deleted: the

Deleted: Instrument

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.

Deleted: c

(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.

Deleted: d

(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.

Deleted: e

Deleted: shall be

(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.

Deleted: f

Deleted: e

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.

Deleted: Trust

(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, SIXTY DAYS AFTER EFFECTIVE DATE OF DECISION ESTABLISHING THE ESF];

Deleted: a

Deleted: that

Deleted: TWO MONTHS

(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, SIXTY DAYS AFTER EFFECTIVE DATE OF DECISION ESTABLISHING THE ESF];

Deleted: b

Deleted: that

Deleted: TWO MONTHS

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

Deleted: c

(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);

Deleted: to that Account

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

Deleted: d

Deleted: 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 that Trust Instrument

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

Deleted: e

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

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