

**FOR  
AGENDA**

EBS/06/24  
Supplement 1

March 9, 2006

To: Members of the Executive Board

From: The Secretary

Subject: **Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust—Proposed Amendment to the Instrument to Authorize the Managing Director to Enter into Borrowing Agreements on Behalf of the Trust and Accept Donations for the Subsidy Accounts—Supplementary Information**

The attached paper provides supplementary information related to the paper on Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust—proposed amendment to the instrument to authorize the Managing Director to enter into borrowing agreements on behalf of the trust and accept donations for the subsidy accounts (EBS/06/24, 2/22/06 – originally issued for lapse of time consideration), which is now scheduled for discussion **tomorrow, Friday, March 10, 2006**. The staff does not propose publication of this paper after the Board completes its discussion.

Questions may be referred to Mr. Kpodar, PDR (ext. 34437), Mr. Steinki, LEG (ext. 38222), and Mr. J. Lin, FIN (ext. 37299).

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

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INTERNATIONAL MONETARY FUND

**Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust—  
Proposed Amendment to the Instrument to Authorize the Managing Director to Enter  
into Borrowing Agreements on Behalf of the Trust and Accept Donations for the  
Subsidy Accounts—Supplementary Information**

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

Approved by Mark Allen, Hector Elizalde, and Andrew Tweedie

March 8, 2006

1. In EBS/06/24 (02/22/06), an amendment to the PRGF-ESF Trust Instrument is proposed in order to authorize the Managing Director to accept loan and grant contributions to the Trust and also enter into related borrowing agreements. The relevant decision was submitted for adoption on a lapse-of-time basis. An Executive Director (Mr. Misra) has requested that the matter be brought to the Executive Board agenda to consider changes to the decision proposed in EBS/06/24 in order to preclude PRGF-eligible countries from contributing to the loan and subsidy accounts of the Trust, by restricting the Managing Director “from calling for loans and accepting subsidy contributions to the PRGF-ESF Trust from PRGF-eligible countries, inter alia, restricting the Fund as Trustee in calling for contributions from PRGF countries who are the likely beneficiaries from the PRGF-ESF Facility” (see Mr. Misra’s memorandum to the Secretary dated March 1, 2006, Attachment).
2. In Mr. Misra’s view, it constituted an anomaly under the PRGF Trust Instrument in the past that members who were eligible for financial assistance from the PRGF Trust and had outstanding credit to the Fund could also contribute to the Trust, that the anomaly was deepened when subsidy resources contributed by PRGF-eligible members were transferred to the MDRI-II Trust for debt relief to members with higher per capita incomes, and that the anomaly “will be redressed only if the PRGF-eligible countries are precluded from contributing to the loan and subsidy accounts”.
3. First, it should be noted that the provision of loans or subsidies to any Trust established or administered by the Fund is purely voluntary. While it is unlikely that PRGF-eligible members will contribute substantially to the financing of the PRGF-ESF Trust, it cannot be excluded that, as in the past, PRGF-eligible members would be willing to make contributions, in particular, if their balance of payments position has improved. In these circumstances, it would not seem appropriate for the Fund to preclude contributions by members only because they may benefit from the resources of the Trust in question. The staff is reluctant to make assumptions as to the members’ future policy choices in this area. Thus, in the staff’s view, the authority of the Fund as Trustee of the PRGF-ESF Trust to accept

loan and grant contributions to the Trust, and the authority of the Managing Director—under the proposed amendment—to act on behalf of the Trustee in concluding the related agreements, should not be limited to non-PRGF-eligible members.

4. Second, if the Executive Board were to agree with the policy objective of Mr. Misra's proposal, namely to preclude PRGF-eligible members from contributing to the Loan Account or the subsidy accounts of the PRGF-ESF Trust, it would seem appropriate to restrict not only the authority of the Managing Director to the acceptance of loan and grant contributions from non-PRGF eligible members, but also the authority of the Trustee (i.e., the Executive Board) to receive such contributions.

5. For the reasons given in this supplement, it is proposed that the amendment of the PRGF-ESF Trust Instrument be adopted as set out in EBS/06/24.

Attachment



# Office Memorandum

To: The Secretary

March 1, 2006

From: B.P.Misra 

**Subject: Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust - Proposed Amendment to the Instrument to Authorize the Managing Director to Enter into Borrowing Agreements on Behalf of the Trust and Accept Donations for the Subsidy Accounts (EBS/06/24 dated February 22, 2006)**

The PRGF – ESF Trust Instrument authorizes the Fund as the Trustee to borrow resources for the loan account and accept donations to the subsidy account. The proposed decision seeks an amendment to the PRGF – ESF Trust Instrument to authorize the Managing Director to accept loan and grant contributions to the Trust and also accept related borrowing agreements. This decision would bring the PRGF – ESF Trust Instrument in line with the PRGF – HIPC Trust Instrument.

The PRGF – ESF Trust Instrument was borne by an amendment to the PRGF Trust Instrument following operationalization of the MDRI and the Shocks Facility. The PRGF Trust Instrument did not preclude contributions from any class of countries and promoted a universal membership. This had the effect of creating anomalies such as, LICs contributing to the PRGF Subsidy account, when the country itself was eligible for PRGF funds and had outstanding credit to the Fund.

With the operationalization of the MDRI and the ESF, this also had the effect of a portion of Bangladesh's contribution in the PRGF subsidy account being transferred to the MDRI II account. This has deepened the anomaly in that Bangladesh's contribution has been used to finance the debt write off of a subset of countries, who have an annual per capita income greater than Bangladesh.

Table 1. Per Capita Income of Bangladesh and MDRI II Countries

		Per Capita Income (2004) (in US Dollars)
1	Lao PDR	390
2	Mauritania	420
3	Bangladesh	440
4	Zambia	450
5	Guinea	460
6	Benin	530
7	Comoros	530
8	Cote d'Ivoire	770
9	Republic of Congo	770

10	Nicaragua	790
11	Cameroon	950
12	Bolivia	960
13	Guyana	990
14	Honduras	1030

This anomaly continues to exist under the PRGF – ESF Trust Instrument, and will be redressed only if the PRGF eligible countries are precluded from contributing to the loan and subsidy accounts. In proposing an amendment to the Proposed Decision, I seek to restrict the Managing Director from calling for loan and accepting subsidy contributions to the PRGF – ESF Trust from PRGF eligible countries and also from entering into borrowing agreements with PRGF eligible countries, inter alia, restricting the Fund as the Trustee in calling for contributions from PRGF eligible countries who are the likely beneficiaries from the PRGF – ESF Facility.

#### AMENDMENT TO THE PROPOSED DECISION

The following amendments are proposed in the proposed decision:

Para (a) Introduce after .....with lenders ... “other than PRGF eligible countries” for the sentence to read

“For this purpose the Managing Director of the Trustee is authorized to enter into borrowing agreements and agree to their terms and conditions with lenders other than PRGF eligible countries to the Loan Account of the Trust.

Para (b) Introduce after .....with donors.. “other than PRGF eligible countries” for the sentence to read

“For this purpose the Managing Director of the Trustee is authorized to accept donations of resources and agree to their terms and conditions with donors other than PRGF eligible countries to the Subsidy accounts of the Trust.

Para (c) Introduce after ....with lenders ... “other than PRGF eligible countries” for the sentence to read

“For this purpose the Managing Director of the Trustee is authorized to enter into borrowing agreements and agree to their terms and conditions with lenders other than PRGF eligible countries to the Subsidy account of the Trust.

CC:  
The Managing Director,  
All Deputy Managing Directors,  
All Executive Directors,  
Mr. Allen,  
Mr. Hagan,  
Mr. Kuhn