

**IMMEDIATE  
ATTENTION**

SM/10/46  
Supplement 1

April 15, 2010

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Facilitating Mobilization of Loan Resources for Concessional Lending to Low-Income Countries—Proposed Decision**

Attached for consideration by the Executive Directors is a proposed decision relating to the paper on facilitating mobilization of loan resources for concessional lending to low-income countries (SM/10/46, 2/26/10), which was discussed on Wednesday, March 17, 2010. A redlined version of the PRGT Instrument is attached for the convenience of Executive Directors.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Wednesday, April 21, 2010**. In the absence of such a request, the draft decision that appears on pages 4 and 5 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting thereafter.

The staff does not propose the publication of this paper after the Executive Board completes its discussion.

Questions may be referred to Mr. Powell (ext. 36932) and Mr. Ralyea (ext. 38055) in FIN, and Ms. Weeks-Brown (ext. 36896) and Mr. Steinki (ext. 38222) in LEG.

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

## **Facilitating Mobilization of Loan Resources for Concessional Lending to Low-Income Countries—Proposed Decision**

Prepared by the Legal and Finance Departments

Approved by Sean Hagan and Andrew Tweedie

April 14, 2010

1. **On March 17, 2010, Executive Directors discussed and endorsed modifications to the framework for borrowing under the Poverty Reduction and Growth Trust (“PRGT” or “Trust”).**<sup>1</sup> These modifications seek to facilitate the mobilization of resources for the Loan Accounts of the PRGT by addressing a number of issues raised in discussions with potential lenders during the current fund-raising effort. Relevant issues include the treatment of claims on the PRGT as reserve assets, the preference of some lenders to purchase notes from the PRGT instead of providing traditional loans, the conversion of SDRs disbursed to and loaned by the PRGT, the availability of shorter notional maturities for PRGT borrowing, and interest rate differentiation depending on whether SDRs or currencies are provided under the relevant borrowing agreement. Most Directors supported the proposals laid out in the staff paper.

2. **This paper proposes adoption of the decision needed to implement these modifications, including in particular the necessary amendments of the PRGT Instrument.** It also summarizes key features of the decision and related PRGT amendments. The Appendix shows in redline the proposed revisions of the PRGT Instrument for the convenience of Executive Directors. Following Executive Board adoption of the proposed decision, staff will encourage existing PRGT lenders to provide as expeditiously as possible the consents to the proposed PRGT amendments that are needed for effectiveness of the new framework.

3. **Consistent with the proposals endorsed by the Executive Board, the key features reflected in the proposed decision and related PRGT amendments include the following:**

- **To allow for the reserve asset status of claims on the PRGT, a voluntary “encashment” regime would be established to enable PRGT borrowing to be**

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<sup>1</sup> *Facilitating Mobilization of Loan Resources for Concessional Lending to Low-Income Countries*, (SM/10/46, 2/26/10); *Summing up by the Acting Chairman on Facilitating Mobilization of Loan Resources for Concessional Lending to Low-Income Countries* (BUFF/10/29, 3/19/10).

**readily repayable to creditors in case of balance of payments need.**<sup>2</sup> Specifically, the PRGT Instrument would be amended to authorize drawings to be made under borrowing agreements of participating PRGT creditors to fund the early repayment of PRGT claims of other participating creditors in the event of a balance of payment need of such other creditors (Section III, paragraph 4(b), proposed revised PRGT Instrument). Individual borrowing agreements with participating creditors would (i) include the right to seek early repayment of outstanding claims on the Trust in case of balance of payments need, and (ii) authorize drawings by the Trustee to fund the early repayment requests of other participating creditors to any of the Loan Accounts of the Trust.<sup>3</sup> Early repayment would in all cases be subject to the availability of resources under borrowing agreements of other participating creditors, and would have other modalities as described in the original staff proposals. To date, six creditors with total commitments of SDR 6.1 billion have expressed interest in participation in the encashment regime, which, assuming the effectiveness of these agreements, would be a sufficient initial basis to enable the PRGT claims of participating creditors to qualify for reserve asset treatment.

- **The amendment would authorize Trust borrowing through the issuance of notes, in addition to the borrowing via traditional loan agreements that is currently specified in the PRGT** (Section III, proposed revised PRGT Instrument). Notes would be issued under PRGT Note Purchase Agreements (NPA) and would be subject to General Terms and Conditions for PRGT Notes (GTC) that, together, would provide for the same key financial and operational terms as are applicable to loans under PRGT loan agreements. Consistent with the original staff proposals, it is proposed that the Executive Board endorse a form NPA and form GTC. The Managing Director would then be authorized to conclude NPAs with individual purchasers on the basis of the Managing Director's authority to enter into borrowing agreements for the Loan Accounts of the PRGT (Section III, paragraph 2, proposed revised PRGT Instrument). Individual NPAs and the GTCs for notes issued to a specific purchaser could have small variations from the forms endorsed by the Board, including in particular as regards terms such as the media of drawings, maturity preferences, and participation in the encashment regime.<sup>4</sup>

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<sup>2</sup> For a more detailed discussion, see SM/10/46 (2/26/10), pages 9–11.

<sup>3</sup> Consistent with the encashment regime for GRA borrowing, the right to early repayment would only transfer if, at the time of transfer, the balance of payments position of the transferee (the balance of payments position of the relevant member if the transferee is an official institution of a member) was considered sufficiently strong in the opinion of the Fund for its currency to be usable in transfers under the Financial Transactions Plan (see paragraph 6 of model GTC, Attachment III).

<sup>4</sup> This aspect of the approach for PRGT NPAs would be similar to that applicable to NPAs for GRA borrowing, although GRA notes all have the same general terms and conditions. See *A Framework for the Fund's Issuance*

(continued)

- **The amendment would authorize quarterly interest payments to creditors whose borrowing agreements provide for disbursements in SDRs.** An amendment of PRGT Instrument Section III, paragraph 5(b) is required to give effect to these Board-endorsed quarterly interest payments, as that provision currently establishes what is effectively a normal rule of semi-annual interest payments.
- **The PRGT Instrument amendments include other consequential and technical revisions.** Most of these are needed to reflect the fact that the PRGT is now authorized to borrow under NPAs in addition to loan agreements, and that there will now be Trust creditors comprising both lenders and note purchasers, rather than only Trust lenders.

4. **No formal Board decisions are required to implement the two other modifications of the PRGT borrowing framework that were endorsed by Executive Directors.** The inclusion in PRGT borrowing agreements of clauses providing for shorter notional maturities that may be extended by the Fund up to the final maturity of the corresponding PRGT loans has been a feature of previous borrowing agreements and can be implemented by the Managing Director on the basis of his authority to enter into PRGT borrowing agreements and agree their terms and conditions with creditors. Similarly, the differentiated approach to interest rates, with PRGT borrowing in currencies paying the derived 6-month SDR interest rate while borrowing in SDRs pays the official (3-month) SDR interest rate, can also be implemented as part of the Managing Director's authority concerning PRGT borrowing agreements.<sup>5</sup>

5. **The consent of contributors to the Loan Accounts of the PRGT would be required for effectiveness of the proposed PRGT amendments.** The necessary amendments include modifications of PRGT Instrument Section III, paragraphs 4 and 5,

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*of Notes to the Official Sector, (EBS/09/96, 6/17/09) and A Framework for the Fund's Issuance of Notes to the Official Sector-Decision, (EBS/09/96 Sup. 2, 7/6/09).*

<sup>5</sup> Consistent with past practice for PRGT borrowing agreements, it is understood that these interest rate standards would not preclude the Managing Director from entering into borrowing agreements that call for a higher interest rate, if the PRGT would receive, as part of an overall package involving the creditor, subsidy resources in an amount that, taking into account relevant interest rate assumptions for the period of the outstanding loans, would cover the expected difference between the borrowing agreement's interest rate and the rate normally applicable to that type of PRGT borrowing (e.g., derived 6-month SDR interest rate). For example, in the context of the approval of the 1988 loan agreement with KfW, the estimated additional cost from use of a different interest rate (i.e., six-month euro-market rates for U.S. dollars and Yen and interbank rates in London, Frankfurt and Paris for the other SDR basket currencies at the time) and related administrative fees was considered covered by attributing a part of Germany's subsidy contribution to the Trust to these costs, which made the effective cost of the KfW borrowing comparable to that of other lenders (see *Enhanced Structural Adjustment Facility (ESAF) – Proposed Borrowing Agreement with Kreditanstalt fuer Wiederaufbau (KfW) of Germany*, EBS/88/259, (12/19/88)).

Section V, and Section VI, which are among the “protected provision” that can only be amended with consent of the relevant contributors whose interests are affected by the amendment.<sup>6</sup> Accordingly, the aspects of the new borrowing framework covered by the decision can only become effective when all current lenders to the PRGT have consented.

### **Proposed Decision**

Accordingly, the following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. In the Instrument to establish the Poverty Reduction and Growth Trust (PRGT Instrument) that is annexed to Decision No. 8759-(87/176) PRGT, adopted December 18, 1987, as amended, Section I, paragraph 4, Section III, Section IV, paragraphs 5(d) and 6(b)(i), Section V, and Section VI shall be amended to read as set forth in Attachment I of SM/10/46, Supplement 1 (4/15/10).
2. The Executive Board notes the form Note Purchase Agreement (NPA) set forth in Attachment II of this decision, and endorses it as the basis for NPAs that may be entered into by the Managing Director pursuant to the authority set forth in Section III, paragraph 2 of the PRGT Instrument following the effectiveness of the amendments set forth in paragraph 1 of this decision. The notes issued pursuant to such NPAs shall have terms and conditions that are substantially in the form of those included in the form General Terms and Conditions for PRGT Notes set forth in Attachment III of this decision.

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<sup>6</sup> For a more extensive discussion of protected provisions and consent requirements, see *The Multilateral Debt Relief Initiative (G-8 Proposal) and Its Implications for the Fund—Further Considerations—Supplemental Information* (SM/05/353, Sup. 1, 11/1/05, pages 11-14).

3. The amendments of the PRGT Instrument set forth in paragraph 1 of this decision shall become effective when all current lenders to the Loan Accounts of the PRGT have consented to these amendments.

## 1. Section I, Paragraph 4

“Paragraph 4. *Media of Payment of Contributions and Exchange of Resources*

(a) Resources provided under borrowing agreements 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 currencies.

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

(c) Resources provided under borrowing agreements or donated to the Trust may also be made available 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.”

## 2. Section III

“Section III. *Borrowing for the Loan Accounts*

Paragraph 1. *Resources*

(a) For purposes of this Section III, the term “borrowing agreements” shall comprise loan and note purchase agreements, and the term “Trust borrowing” shall comprise loans made to the Trust and notes issued by the Trust, including loans made and notes issued for the purposes set forth in Section III, paragraph 4(b) of this Instrument.

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

(i) the proceeds of Trust borrowing for the General Loan Account; and

(ii) payments of principal and interest on Trust loans funded with drawings under borrowing agreements to the General Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.

(c) The resources held in the ECF Loan Account shall consist of:

(i) the proceeds of loans made to the Trust for the Loan Account of the Trust as of January 7, 2010, unless a lender notifies the Trustee by January 22, 2010, that it wishes to transfer the proceeds of its share in the amounts not yet committed under PRGF and ESF arrangements to another Loan Account.

(ii) the proceeds of Trust borrowing for the ECF Loan Account; and

(iii) payments of principal and interest on Trust loans funded with drawings under borrowing agreements to the ECF Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.

(d) The resources held in the SCF Loan Account shall consist of:

(i) the proceeds of Trust borrowing for the SCF Loan Account; and

(ii) payments of principal and interest on Trust loans funded with drawings under borrowing agreements to the SCF Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.

(e) The resources held in the RCF Loan Account shall consist of:

(i) the proceeds of Trust borrowing for the RCF Loan Account; and

(ii) payments of principal and interest on Trust loans funded with drawings under borrowing agreements to the RCF Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.

#### Paragraph 2. *Borrowing Authority*

The Trustee may borrow resources for the Loan Accounts on such terms and conditions as may be agreed between the Trustee and the respective creditors, subject to the provisions of this Instrument. For this purpose the Managing Director of the Trustee is authorized to enter into borrowing agreements and agree to their terms and conditions with creditors to the Loan Accounts of the Trust.

#### Paragraph 3. *Commitments*

Commitments for drawings under borrowing agreements to the Loan Accounts of the Trust that were entered into before November 30, 1993, shall extend through December 31, 1997, and under borrowing agreements that are entered into after November 30, 1993, shall extend through December 31, 1999. The drawdown period under borrowing agreements to the Loan Accounts of the Trust entered into or amended after September 19, 2001, shall normally extend through December 31, 2018. The drawdown period may be extended by mutual agreement between the Trustee and the creditor. The Managing Director is authorized to conclude such agreements on behalf of the Trustee.

#### Paragraph 4. *Drawings under Borrowing Agreements*

(a) The Trustee may draw under borrowing agreements to the General Loan Account for purposes of loan disbursements under any of the facilities of the Trust, provided that it shall draw first (i) under borrowing agreements to the ECF Loan Account for purposes of ECF and ESF loan disbursements, (ii) under borrowing agreements to the SCF Loan Account for purposes of SCF loan disbursements, and (iii) under borrowing agreements to the RCF Loan Account for purposes of RCF loan disbursements. Drawings on the commitments of

individual creditors over time shall be made so as to maintain broad proportionality of these drawings relative to commitments to each Loan Account, provided that the Trustee will aim to draw fully all borrowing agreements to a Loan Account entered into prior to August 31, 2001, before calling on borrowing agreements to that Loan Account entered into after that date, and provided further that drawings under paragraph 4(b) below will not be taken into account for purposes of the proportionality requirement set forth in this paragraph 4(a).

(b) Notwithstanding subparagraph (a) above, the Trustee may draw under one or more borrowing agreements to any Loan Account of the Trust to fund the early repayment of outstanding Trust borrowing under another borrowing agreement to any Loan Account of the Trust (“encashment”), where (i) the terms of all such borrowing agreements permit the Trustee to make drawings to fund such early repayments, and (ii) the creditor requesting early repayment represents that its balance of payments and reserve position (the balance of payments and reserve position of the relevant member if the creditor is the central bank or other official institution of a member) justify the early repayment, and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. As from the effective date of such early repayment, the creditor or creditors whose borrowing agreements have been drawn to fund the early repayment shall have the same rights to repayment as the creditor receiving the early repayment had with respect to the encashed claim, including all rights to payments of principal and interest pursuant to paragraph 5 of this Section III. For purposes of Section IV of this Instrument, drawings under this paragraph 4(b) shall be considered resources borrowed for the Trust loans for which the disbursements related to the encashed claims were made. Borrowing agreements allowing for encashment shall provide for the same effective maturity dates for drawings under this paragraph 4(b) as apply to encashed claims. Drawings on the commitments of individual creditors under this paragraph 4(b) shall be made with the aim of maintaining broad proportionality of these drawings relative to the commitments of these creditors.

(c) Calls on commitments under borrowing agreements shall be suspended temporarily if, at any time prior to June 30, 1997, in case of a commitment under a borrowing agreement entered into before November 30, 1993, or prior to June 30, 1999, in case of a commitment under a borrowing agreement entered into after November 30, 1993, or prior to June 30, 2018, in case of a commitment under a borrowing agreement entered into after August 31, 2001, the creditor 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 creditor and the Trustee. No extension shall be agreed which, in the judgment of the Trustee, would prevent drawing of the full amount of the commitment.

(d) Following any suspension of calls with respect to the commitment of a creditor, calls will be made on that commitment thereafter so as to restore as soon as practicable the proportionality of drawings contemplated pursuant to this paragraph 4.

*Paragraph 5. Payments of Principal and Interest*

(a) The Trust shall make payments of principal and interest on its borrowing for the Loan Accounts from the payments into these accounts 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 borrowing agreement make it necessary for the Trustee to agree with the creditor on interest payments at other times; provided however that interest on outstanding drawings under borrowing agreements that provide for disbursements in SDRs will normally be paid promptly after April 30, July 31, October 31, and January 31 of each year.”

**3. Section IV, Paragraphs 5(d) and 6(b)(i)**

*Paragraph 5(d)*

“(d) If the interest due to creditors 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 creditors 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(b)(i)*

“(b) Upon completion of the subsidy operations authorized by this Instrument, the Fund shall wind up the affairs of the Subsidy Accounts. The Fund may also wind up the affairs of any Subsidy Account other than the General Subsidy Account prior to the completion of the overall subsidy operations authorized by this Instrument, if the Fund deems this to be appropriate. In case of termination of a Subsidy Account in accordance with this subparagraph, the remaining resources shall be used as follows:

(i) Any resources remaining in the General Subsidy Account shall be used in a manner consistent with paragraph 4(a) of this Section (i) to reduce to the fullest extent possible the interest rate paid by borrowers in accordance with Section II, paragraphs 4(a), (b), and (c) on loans from the PRGT, by means of payments to such borrowers, and (ii) to fund transfers to the ENDA/EPCA Subsidy Account needed to subsidize the rate of charge on any remaining outstanding GRA purchases in accordance with the terms of the ENDA/EPCA Subsidy Account. Any resources remaining after that subsidization and transfer shall be distributed to the Fund, donors, and creditors that have contributed to the General Subsidy Account, in proportion to their contributions, including donors and creditors of resources transferred from other Subsidy Accounts upon their termination. The resources representing the Fund's share in such distribution shall be transferred to the Special Disbursement Account."

#### 4. Section V

##### “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 Accounts 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 creditor 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 creditor due to a difference in timing between scheduled principal repayments to the creditor 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 creditors 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 creditor has been made from the Reserve Account due to differences in timing between scheduled principal repayments to the creditor 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 creditor 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 creditors 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, (i) 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 PRG Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations; and (ii) the equivalent SDR 620 million (end-2008 NPV terms) may be transferred from the Reserve Account to the General Subsidy Account to be used in accordance with Section IV, paragraph 4(a). Transfers under (i) above 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.”

**5. Section VI**

“Section VI. *Transfer of Claims*

Paragraph 1. *Transfers by creditors*

(a) Any creditor 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, except that any right to encashment pursuant to Section III, paragraph 4(b) of this Instrument shall be acquired only if the transferee is a member or the central bank or other fiscal agency of a member and, at the time of transfer, the balance of payments and reserve position of the member is considered sufficiently strong in the opinion of the Fund for its currency to be usable in transfers under the Fund's Financial Transactions Plan.

Paragraph 2. *Transfers among electing creditors*

(a) Any creditor to one of the Loan Accounts (“electing creditors”) may inform the Trustee that it stands ready, upon request by the Trustee, to purchase claims on the Trust from any other electing creditor, 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 creditors 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 creditor shall have the right to transfer temporarily to other electing creditors part or all of any claim arising from its loans to the Trust or note purchases under Section III, if the electing creditor 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 creditor under this provision to all other electing creditors 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 creditor 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 creditors 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 Trust borrowing and to new drawings 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 borrowing 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.”

**Note Purchase Agreement**  
**Between Purchaser and International Monetary Fund as Trustee of the**  
**Poverty Reduction and Growth Trust**

This Note Purchase Agreement (this “Agreement”) is entered into between \_\_\_\_\_ (“Purchaser”) and the International Monetary Fund (the “Fund”) as Trustee (the “Trustee”) of the Poverty Reduction and Growth Trust (the “Trust”).

1. For the purpose of providing resources to the Trust established pursuant to the Instrument to Establish the Poverty Reduction and Growth Trust (the “PRGT Instrument”) adopted by the Executive Board of the Fund by Decision No. 8759-(87/176) PRGT, December 18, 1987, as amended, Purchaser agrees to purchase from the Trustee promissory notes, which shall be issued in accordance with the PRGT Instrument, the terms of this Agreement and the General Terms and Conditions for Poverty Reduction and Growth Trust Notes attached as Annex I to this Agreement (the “Notes”). This Agreement is based on Section III, Paragraph 2 of the PRGT Instrument, which authorizes the Managing Director to enter into borrowing agreements for the Loan Accounts of the Trust.

2. (a) Notes in a total principal amount of up to the equivalent of SDR [ ] million may be issued under this Agreement.

(b) The Trustee may issue and Purchaser shall purchase Notes at any time from the date this Agreement becomes effective in accordance with paragraph 9(b) through December 31, 2018. Unless otherwise agreed between Purchaser and the Trustee, the Trustee shall give Purchaser at least five business days’ ([location of Purchaser]) notice of the Trustee’s intention to issue Notes for purchase under this Agreement, including the amount of the Notes to be purchased.

(c) If principal or interest under a Note is not paid fully within ten days after its due date, the Trustee shall not issue further Notes under this Agreement pending consultations with Purchaser on the matter. However, the Trustee may resume issuances of notes under this Agreement once all arrears to the note holder have been discharged.

3. The Trustee may issue Notes for purchase under this Agreement in order to finance (i) loan disbursements by the Trustee under [the General Loan Account] [a Special Loan Account] [and (ii) the early repayment pursuant to Section III, paragraph 4(b) of the PRGT Instrument of the Trustee’s outstanding indebtedness under other borrowing agreements to any of the Loan Accounts of the Trust.].

4. Notes shall be denominated in the special drawing right (SDR). Notes shall be issued in multiples of SDR 1,000 and the minimum amount of each issue of Notes shall be SDR 1 million. The purchase price for each Note shall be 100 percent of the principal amount thereof.
5. (a) Unless otherwise agreed between the Trustee and Purchaser, the purchase price of each Note shall be paid by Purchaser on the value date specified in the Trustee's notice under paragraph 2(a) by transfer of [SDRs] [freely usable currency] to an account specified by the Trustee.
- (b) Unless otherwise agreed between the Trustee and Purchaser, all purchases of Notes and exchanges of currency pursuant to this Agreement shall be made at the exchange rate for the relevant currency in terms of the SDR established pursuant to Article XIX, Section 7(a) and the rules and regulations of the Fund thereunder for the second business day of the Fund before the value date of the purchase or exchange. If this exchange rate determination date is not a business day in [location of Purchaser], then such date shall be the last preceding business day of the Fund that is also a business day in [location of Purchaser].
- (c) If the Fund changes the method of valuing the SDR, all purchases and exchanges of currency made two or more business days of the Fund after the effective date of the change shall be made on the basis of the new method of valuation.
6. At the request of Purchaser, the issuance of Notes under this Agreement may be suspended temporarily at any time prior to June 30, 2018, in accordance with Section III, paragraphs 4(b) and (c) of the Instrument.
7. Purchaser shall have the right to transfer all or part of the Notes held by it in accordance with Section VI of the PRGT Instrument and the General Terms and Conditions for Poverty Reduction and Growth Trust Notes attached as Annex I to this Agreement.
8. Any question arising under this Agreement shall be settled by mutual agreement between Purchaser and the Trustee.
9. (a) This Agreement may be executed in duplicate counterparts, each of which shall be deemed an original and both of which together shall constitute but one and the same instrument.
- (b) The agreement shall become effective on the last date written below.

IN WITNESS WHEREOF, Purchaser and the Trustee have executed this Agreement.

For PURCHASER:

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[NAME]  
[TITLE]

Date

For the INTERNATIONAL MONETARY FUND, as TRUSTEE OF THE POVERTY  
REDUCTION AND GROWTH TRUST:

\_\_\_\_\_  
Dominique Strauss-Kahn  
Managing Director

\_\_\_\_\_  
Date

**Annex I. General Terms and Conditions  
for Poverty Reduction and Growth Trust Notes**

These General Terms and Conditions for Poverty Reduction and Growth Trust (PRGT) Notes are issued in accordance with the Instrument to Establish the Poverty Reduction and Growth Trust (the "Trust"), adopted by Executive Board Decision No. 8759-(87/176) PRGT, December 18, 1987, as amended, and the Note Purchase Agreement between the International Monetary Fund (the "Fund") as Trustee (the "Trustee") of the Trust and \_\_\_\_\_ ("Purchaser"), to which they are attached.

1. Definitions. The following definitions apply for purposes of these General Terms and Conditions:

(a) "Permitted Holder" means (i) Purchaser, (ii) a member of the Fund, (iii) the central bank or other fiscal agency designated by a member of the Fund for purposes of Article V, Section 1 of the Fund's Articles of Agreement ("fiscal agency of a member"), and (iv) an official entity that has been prescribed as a holder of special drawing rights (SDRs) pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement ("prescribed SDR holder"). Permitted Holders shall be the only authorized holders of Notes.

(b) "Notes" mean the promissory notes that are subject to these General Terms and Conditions.

(c) "Relevant Member" means, in the case of a Permitted Holder that is the central bank, fiscal agency or other official institution of a member of the Fund, that member of the Fund.

2. Form, Delivery and Custody of Notes.

(a) Notes will only be issued in book entry form. The Trustee will establish and maintain in its records a book entry account in the name of each Permitted Holder recording pertinent details of all Notes issued, including the number, issue date, principal amount, and maturity date. As of the value date of each purchase or transfer of a Note, the Trustee will make an appropriate entry in its records regarding details of the Note purchased or transferred. The making of such an entry in the records of the Trustee shall constitute a taking of delivery of the Note by the purchaser or transferee.

(b) Upon the request of a Permitted Holder, the Trust will issue to the Permitted Holder a registered Note substantially in the form set out in Annex II, including without limitation the legend regarding restrictions on transfer of Notes. Each such registered Note will bear as its issue date the value date of the purchase of the Note and shall be issued in the

name of the relevant Permitted Holder. Unless otherwise agreed between a Permitted Holder and the Trustee, the Trustee will keep registered Notes in custody for the Permitted Holder, and acceptance of custody by the Trustee shall constitute delivery of Notes to the Permitted Holder.

3. Maturity

(a) Except as otherwise provided in this paragraph 3 and in subparagraph 6(b) below, each Note shall [be repaid in accordance with the repayment schedule for loan disbursements under the facility of the Trust for which it was issued] [have a maturity date that is [six-months] from its issue date. The Trustee may in its sole discretion elect to extend the maturity date of any Note or of any portion thereof by additional periods of up to [six-months] after the initial maturity date, which extension the Trustee shall automatically be deemed to have elected with respect to the maturity dates then in effect for all Notes unless, at least five business days (Washington) before a maturity date, the Trustee notifies a Permitted Holder in writing that the Trustee does not elect to extend the maturity date of the particular Note or portion thereof; provided however that, in no event, shall the maturity date of any Note be extended to a date that is later than the maturity dates for the loan disbursement under the facility of the Trust for which it was issued]. [For purposes of the preceding sentence, Notes issued in connection with the early repayment of other Trust borrowing pursuant to Section III, paragraph 4(b) of the PRGT Instrument, shall have the [maximum maturity dates] [repayment schedule] associated with such other borrowing.]

At the time of issuance of a note, the Trustee shall provide information on the specific repayment schedule for the note issued.

(b) The Trustee shall pay the principal amount of each Note on the maturity date that is applicable to that Note in accordance with subparagraph (a). If a maturity date for a Note is not a business day in the place where payment is to be made, then the payment date for such principal amount will be the next business day in that place.

(c) The Trustee may at its option make an early repayment in part or in full of the principal amount of any Note prior to its maturity date, after consultation with the relevant Permitted Holder.

(d) The Trustee will cancel a Note upon repayment of the principal amount of the Note and all accrued interest. If the Trustee makes early repayment of less than the principal amount of a Note, the Trustee will cancel the Note and issue a new Note for the remainder of the amount, with the same maturity date as the cancelled Note. If the maturity date of a Note is extended with respect to less than the principal amount of the Note, the Trustee will cancel the Note and issue a new Note for the remainder of the amount, with the extended maturity date.

(e) Any Note to be cancelled by the Trustee that is not already in the custody of the Trustee shall be surrendered by the Permitted Holder to the Trustee for cancellation.

4. Rate of Interest.

(a) Interest on each Note shall be computed [at the SDR interest rate established by the Fund pursuant to Article XX, Section 3] [at an annual rate determined by the Trustee at the time each Note is issued and at intervals of six calendar months thereafter, from the product of:

(i) The interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, two LIBOR business days prior to the commencement of the interest rate period to which such computation applies—provided that if this date is not a business day of the Fund, such date shall be the first preceding business day of the Fund that is also a LIBOR business day—as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month euro interbank offered rate (Euribor),
- the bond equivalent yield on six-month Japanese treasury bills,
- the six-month interbank rate in the United Kingdom, and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day.

The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places.]

(b) The amount of interest payable on each Note shall be calculated on an actual day basis and shall be paid [on a quarterly basis promptly after July 31, October 31, January 31, and April 30] [on a semiannual basis promptly after June 30 and December 31] of each year.

5. Transferability of Notes.

(a) A Permitted Holder has the right to transfer at any time all or part of any Note to any member of the Fund, to the central bank or other fiscal agency of a member, or to a prescribed SDR holder.

(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 with respect to extensions of the maturity of the Note pursuant to paragraph 3(a) and shall acquire all the rights of the transferor with respect to the transferred Note.

(c) The price of a Note transferred pursuant to this paragraph 5 will be as agreed between the transferor and the transferee.

(d) The transferor of a Note shall inform the Trustee promptly of the Note that is being transferred, the name of the transferee, the agreed price for transfer of the Note, and the value date of the transfer. The transfer shall be registered by the Trustee and the transferee shall become the holder of the Note only if such transfer is in accordance with this paragraph 5. Subject to the foregoing, upon registration, the transfer shall be effective as of the value date agreed between the transferee and the transferor.

(e) For all transfers under this paragraph 5, the Trustee will cancel the Note that has been transferred in whole or in part and, if the Note is a registered Note, the transferor shall, as a condition for the transfer, surrender for cancellation any such registered Note that is not already in the custody of the Trustee. Upon cancellation of the relevant Note, the Trustee will issue a new Note in the name of the transferee for the principal amount transferred and, where appropriate, a new Note in the name of the transferor for any part of the principal amount retained by it. The issue date of each new Note will be the issue date of the cancelled Note, and the new Notes will have the same maturity date (including any maturity date resulting from extensions of a previous maturity date) that is applicable to the cancelled Note pursuant to paragraph 3. The form and delivery of each new Note will be as specified in paragraph 2 of these General Terms and Conditions.

(f) If all or part of a Note is transferred during a [semiannual] [quarterly] period as described in paragraph 4(b), the Trustee will pay interest to the transferee on the principal amount of the Note for the whole of that period.

6. [Early Payment by the Trust at Request of Certain Permitted Holders].

(a) The rights provided in subparagraph (b) shall apply only to a Permitted Holder that is: (A) the Purchaser or (B) a member of the Fund, the central bank or other fiscal agency of a member of the Fund that has acquired the Notes by transfer, if at the time of such transfer the balance of payments and reserve position of the member or Relevant Member, as the case may be, was considered sufficiently strong in the opinion of the Fund for its currency to be usable in transfers under the Financial Transactions Plan.

(b) If a Permitted Holder described in subparagraph (a) represents that its balance of payments and reserve position (the balance of payments and reserve position of the Relevant Member if the Permitted Holder is the central bank, other fiscal agency of a

member or other official institution of a member) justifies early payment of all or part of the principal amount of Notes as described in subparagraph (a) that are held by such Permitted Holder, and if the Trustee, having given this representation the overwhelming benefit of any doubt, agrees, then the Trust shall pursuant to Section III, paragraph 4(b) of the PRGT Instrument pay the principal amount of the Permitted Holder's Notes covered by subparagraph (a) that is then outstanding, up to the amount for which early payment has been requested, and subject to the availability or resources under borrowing agreements to the Loan Accounts of the PRGT that authorize drawings for such early repayments.]

7. Media and Modalities of Payments on the Notes.

(a) Payments by the Trustee of the principal amount of Notes and interest on the Notes shall be made in [SDR][Currency] or such [other] currency [or SDR] as agreed upon between the Permitted Holder and the Trustee.

(b) All payments made by the Trustee to a Permitted Holder in currency will be made by crediting the amount due to an account specified in advance by the Permitted Holder for purposes of receiving such payments. [Payments in SDRs will be made by crediting the SDR Department account of the Permitted Holder or of the Relevant Member as the case may be.]

8. Effective Exchange Rate for Payments.

Unless otherwise agreed between a Permitted Holder and the Trustee, all payments in currency of principal and interest under these General Terms and Conditions will be made at the exchange rates for the relevant currencies in terms of the SDR established pursuant to Article XIX, Section 7(a) and the rules and regulations of the Fund thereunder for the second business day of the Fund before the value date of the payment. If this exchange rate determination date is not a business day in the Permitted Holder's principal location, then such date will be the last preceding business day of the Fund that is also a business day in the Permitted Holder's principal location.

9. Changes in Method of Valuation of SDR.

If the Fund changes the method of valuing the SDR, all payments of principal and interest on the Notes made two or more business days of the Fund after the effective date of the change will be made on the basis of the new method of valuation.

10. Settlement of Questions.

Any question arising under any Note shall be settled by mutual agreement between the relevant Permitted Holder and the Trustee.

**ANNEX II. Form of Registered Note**

Number \_\_\_\_\_ SDR \_\_\_\_\_

## POVERTY REDUCTION AND GROWTH TRUST

## REGISTERED NOTE

Issue Date: \_\_\_\_\_

Maturity Date: [to include description of automatic extensions of maturity/loan repayment schedule]

The POVERTY REDUCTION AND GROWTH TRUST (“the Trust”), for value received, hereby promises to pay to

\_\_\_\_\_, being the registered holder of this note, [an amount equivalent to]

\_\_\_\_\_ Special Drawing Rights (SDR)

on the maturity date specified above and to pay interest thereon as set forth below.

This Note is issued in accordance with the General Terms and Conditions for Poverty Reduction and Growth Trust Notes (the “General Terms and Conditions”) under the Note Purchase Agreement between the Fund, as Trustee of the Poverty Reduction and Growth Trust and [Purchaser] dated mm/dd/yy. Each holder of this Note is deemed to have agreed to the General Terms and Conditions and relevant terms of the Note Purchase Agreement, including without limitation the maturity date [(including the terms on which it may be extended at the sole option of the International Monetary Fund (the “Fund”) as Trustee (“Trustee”) from time to time)], the interest rate, [the terms and conditions for early payment at the request of the Trustee or the holder hereof,] and the terms and conditions for transfer of this Note or any part thereof.

THIS NOTE HAS NOT BEEN REGISTERED UNDER THE SECURITIES LAWS OF ANY JURISDICTION.

IN NO EVENT SHALL ANY HOLDER OF THIS NOTE SELL, ASSIGN, DISPOSE OF OR OTHERWISE TRANSFER THIS NOTE, DIRECTLY OR INDIRECTLY, TO ANY ENTITY THAT IS NOT (I) A MEMBER OF THE FUND OR THE CENTRAL BANK OF A MEMBER OF THE FUND, (II) A FISCAL AGENCY DESIGNATED BY A MEMBER

OF THE FUND FOR PURPOSES OF ARTICLE V, SECTION 1 OF THE FUND'S ARTICLES OF AGREEMENT, OR (III) AN OFFICIAL ENTITY THAT HAS BEEN PRESCRIBED AS A HOLDER OF SPECIAL DRAWING RIGHTS PURSUANT TO ARTICLE XVII, SECTION 3 OF THE FUND'S ARTICLES OF AGREEMENT.

ANY DERIVATIVE TRANSACTIONS IN RESPECT OF THIS NOTE, AND TRANSFERS OF PARTICIPATION INTERESTS IN THIS NOTE, ARE PROHIBITED.

Interest shall accrue daily on the principal amount of this Note [at the SDR interest rate established by the Fund pursuant to Article XX, Section 3 of the Fund's Articles of Agreement;] [at an annual rate of \_\_percent for the first six month from the date of first issuance and as determined by the Trustee at intervals of six calendar months thereafter, from the product of:

(i) The interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, two LIBOR business days prior to the commencement of the interest rate period to which such computation applies—provided that if this date is not a business day of the Fund, such date shall be the first preceding business day of the Fund that is also a LIBOR business day—as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month euro interbank offered rate (Euribor),
- the bond equivalent yield on six-month Japanese treasury bills,
- the six-month interbank rate in the United Kingdom, and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day.

The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places. Interest shall be paid [on a quarterly basis promptly after each [July 31, October 31, January 31, and April 30] [on a semi-annual basis promptly after June 30 and December 31] of each year. Payments of interest shall be made in [SDRs][Currency], or such [other] currency [or SDR] as agreed upon between the Permitted Holder and the Trustee. [Payments in SDRs shall be made by crediting the SDR Department account of the registered holder, or of the member for which the registered holder serves as central bank, fiscal agency or institution in the case of registered holders that are the central bank, fiscal agency or other institution of a member of the Fund.]

[Signatures]

## 1. Section I, Paragraph 4

“Paragraph 4. *Media of Payment of Contributions and Exchange of Resources*

(a) Resources ~~loaned~~ provided under borrowing agreements 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 currencies.

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

(c) ~~Loans or donations~~ Resources provided under borrowing agreements or donated to the Trust may also be made available 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.”

## 2. Section III

“Section III. *Borrowing for the Loan Accounts*

Paragraph 1. *Resources*

(a) For purposes of this Section III, the term “borrowing agreements” shall comprise loan and note purchase agreements, and the term “Trust borrowing” shall comprise loans made to the Trust and notes issued by the Trust, including loans made and notes issued for the purposes set forth in Section III, paragraph 4(b) of this Instrument.

(~~a~~) The resources held in the General Loan Account shall consist of:

(i) the proceeds of Trust borrowing ~~loans made to the Trust~~ for the General Loan Account; and

(ii) payments of principal and interest on Trust loans funded with drawings under borrowing ~~loan~~ agreements to the General Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.

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

(i) the proceeds of loans made to the Trust for the Loan Account of the Trust as of January 7, 2010, unless a lender notifies the Trustee by January 22, 2010, that it wishes to transfer the proceeds of its share in the amounts not yet committed under PRGF and ESF arrangements to another Loan Account.

(ii) the proceeds of ~~loans made to the Trust~~ borrowing for the ECF Loan Account; and

(iii) payments of principal and interest on Trust loans funded with drawings under ~~loan~~ borrowing agreements to the ECF Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.

(~~e~~) The resources held in the SCF Loan Account shall consist of:

(i) the proceeds of ~~loans made to the Trust~~ borrowing for the SCF Loan Account; and

(ii) payments of principal and interest on Trust loans funded with drawings under borrowing ~~loan~~ agreements to the SCF Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.

(~~e~~) The resources held in the RCF Loan Account shall consist of:

(i) the proceeds of ~~loans made to the Trust~~ borrowing for the RCF Loan Account; and

(ii) payments of principal and interest on Trust loans funded with drawings under ~~loan~~ borrowing agreements to the RCF Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.

#### Paragraph 2. *Borrowing Authority*

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

#### Paragraph 3. *Commitments*

Commitments for drawings under borrowing ~~loan~~ agreements to the Loan Accounts of the Trust that were entered into before November 30, 1993, shall extend through December 31, 1997, and under ~~loan~~ borrowing agreements that are entered into after November 30, 1993, shall extend through December 31, 1999. The drawdown period under borrowing ~~loan~~ agreements to the Loan Accounts of the Trust for ~~loans~~ entered into or amended after September 19, 2001, shall normally extend through December 31, 2018. The drawdown period may be extended by mutual agreement between the Trustee and the ~~lender~~ creditor. The Managing Director is authorized to conclude such agreements on behalf of the Trustee.

Paragraph 4. *Drawings under Borrowing Agreements ~~on Loan Commitments~~*

(a) The Trustee may draw under ~~loan~~ borrowing agreements to the General Loan Account for purposes of loan disbursements under any of the facilities of the Trust, provided that it shall draw first (i) under ~~loan~~ borrowing agreements to the ECF Loan Account for purposes of ECF and ESF loan disbursements, (ii) under ~~loan~~ borrowing agreements to the SCF Loan Account for purposes of SCF loan disbursements, and (iii) under ~~loan~~ borrowing agreements to the RCF Loan Account for purposes of RCF loans disbursements. Drawings on the commitments of individual ~~creditors~~ lenders over time shall be made so as to maintain broad proportionality of these drawings relative to commitments to each Loan Account, provided that the Trustee will aim to draw fully all borrowing agreements to a Loan Account ~~loans~~ entered into prior to August 31, 2001, before calling on ~~loans~~ borrowing agreements to that Loan Account entered into after that date, and provided further that drawings under paragraph 4(b) below will not be taken into account for purposes of the proportionality requirement set forth in this paragraph 4(a).

(b) Notwithstanding subparagraph (a) above, the Trustee may draw under one or more- borrowing agreements to any Loan Account of the Trust to fund the early repayment of outstanding Trust borrowing under another borrowing agreement to any Loan Account of the Trust (“encashment”), where (i) the terms of all such borrowing agreements permit the Trustee to make drawings to fund such early repayments, and (ii) the creditor requesting early repayment represents that its balance of payments and reserve position (the balance of payments and reserve position of the relevant member if the creditor is the central bank or other official institution of a member) justify the early repayment, and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. As from the effective date of such early repayment, the creditor or creditors whose borrowing agreements have been drawn to fund the early repayment shall have the same rights to repayment as the creditor receiving the early repayment had with respect to the encashed claim, including all rights to payments of principal and interest pursuant to paragraph 5 of this Section III. For purposes of Section IV of this Instrument, drawings under this paragraph 4(b) shall be considered resources borrowed for the Trust loans for which the disbursements related to the encashed claims were made. Borrowing agreements allowing for encashment shall provide for the same effective maturity dates for drawings under this paragraph 4(b) as apply to encashed claims. Drawings on the commitments of individual creditors under this paragraph 4(b) shall be made with the aim of maintaining broad proportionality of these drawings relative to the commitments of these creditors.

~~(b)~~ (c) Calls on a lender’s commitments under borrowing agreements shall be suspended temporarily if, at any time prior to June 30, 1997, in case of a commitment under a borrowing loan agreement entered into before November 30, 1993, or prior to June 30, 1999, in case of a commitment under a loan-borrowing agreement entered into after November 30, 1993, or prior to June 30, 2018, in case of a commitment under a loan-borrowing agreement entered into after August 31, 2001, the creditor 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 creditor 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.

(ed) Following any suspension of calls with respect to the commitment of a creditor lender, calls will be made on that commitment thereafter so as to restore ~~proportionality of calls on all lenders~~ as soon as practicable the proportionality of drawings contemplated pursuant to this paragraph 4.

Paragraph 5. *Payments of Principal and Interest ~~to Lenders~~*

(a) The Trust shall make payments of principal and interest on its borrowing for the Loan Accounts from the payments into these accounts 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 borrowing agreement ~~loan to the Trust~~ make it necessary for the Trustee to agree with the creditor lender on interest payments at other times; provided however that interest on outstanding drawings under borrowing agreements that provide for disbursements in SDRs will normally be paid promptly after April 30, July 31, October 31, and January 31 of each year."

**3. Section IV, Paragraphs 5(d) and 6(b)(i)**

*Paragraph 5(d)*

"(d) If the interest due to creditors ~~lenders~~ 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 creditors ~~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(b)(i)*

"(b) Upon completion of the subsidy operations authorized by this Instrument, the Fund shall wind up the affairs of the Subsidy Accounts. The Fund may also wind up the

affairs of any Subsidy Account other than the General Subsidy Account prior to the completion of the overall subsidy operations authorized by this Instrument, if the Fund deems this to be appropriate. In case of termination of a Subsidy Account in accordance with this subparagraph, the remaining resources shall be used as follows:

(i) Any resources remaining in the- General Subsidy Account shall be used in a manner consistent with paragraph 4(a) of this Section (i) to reduce to the fullest extent possible the interest rate paid by borrowers in accordance with Section II, paragraphs 4(a), (b) and (c) on- loans- from the- PRGT, by means of payments to such borrowers, and (ii) to fund transfers to the ENDA/EPCA Subsidy Account needed to subsidize the rate of charge on any remaining outstanding GRA purchases in accordance with the terms of the ENDA/EPCA Subsidy Account. Any resources remaining after that subsidization and transfer shall be distributed to the Fund, donors, and creditors ~~lenders~~ that have contributed to the General- Subsidy Account, -in proportion to their contributions, including donors and ~~lenders~~ creditors of resources transferred from other Subsidy Accounts upon their termination. The resources representing- the Fund's share in such distribution shall be transferred to the Special Disbursement Account.”

#### 4. Section V

“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 Accounts 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 creditor ~~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~~ creditor due to a difference in timing between scheduled principal repayments to the creditor ~~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~~ creditors 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~~ creditor has been made from the Reserve Account due to differences in timing between scheduled principal repayments to the ~~lender~~ creditor 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~~ creditor 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~~ creditors 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, (i) 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 PRG Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations; and (ii) the equivalent SDR 620 million (end-2008 NPV terms) may be transferred from the Reserve Account to the General Subsidy Account to be used in accordance with Section IV, paragraph 4(a). Transfers under (i) above 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.”

## 5. Section VI

“Section VI. *Transfer of Claims*

Paragraph 1. *Transfers by ~~lenders~~ creditors*

(a) Any ~~creditor 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, except that any right to encashment pursuant to Section III, paragraph 4(b) of this Instrument shall be acquired only if the transferee is a member or the central bank or other fiscal agency of a member and, at the time of transfer, the balance of payments and reserve position of the member is considered sufficiently strong in the opinion of the Fund for its currency to be usable in transfers under the Fund's Financial Transactions Plan.

Paragraph 2. *Transfers among electing ~~lenders~~ creditors*

(a) Any ~~lender-creditor~~ to one of the the Loan Accounts ("electing ~~lenders~~ creditors") may inform the Trustee that it stands ready, upon request by the Trustee, to purchase claims on the Trust from any other electing ~~creditor 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 ~~creditors~~ 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 ~~creditor lender~~ shall have the right to transfer temporarily to other electing ~~creditors~~ lenders part or all of any claim arising from its loans to the Trust or note purchases under Section III, if the electing ~~creditor 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 ~~creditor lender~~ under this provision to all other electing ~~creditors~~ 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 ~~creditor 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 ~~creditors~~ 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~~ borrowing 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 ~~borrowing~~<sup>lending</sup> 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."