

EBS/10/142

July 9, 2010

To: Members of the Executive Board

From: The Secretary

Subject: **Poverty Reduction and Growth Trust—Borrowing Agreement with the Norwegian Ministry of Finance Representing the Kingdom of Norway**

Attached for the **information** of Executive Directors is a paper on the Poverty Reduction and Growth Trust—Borrowing Agreement with the Norwegian Ministry of Finance representing the Kingdom of Norway.

It is not intended that this paper will be published on the Fund's external website.

Questions may be referred to Mr. Powell (ext. 36932) and Ms. Marcelino (ext. 37651) in FIN, and Mr. Steinki, LEG (ext. 38222).

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

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Department Heads

INTERNATIONAL MONETARY FUND

**Poverty Reduction and Growth Trust—
Borrowing Agreement with the Norwegian Ministry of Finance
Representing the Kingdom of Norway**

Prepared by the Finance and Legal Departments

(In consultation with the Strategy, Policy, and Review Department)

Approved by Andrew Tweedie and Sean Hagan

July 7, 2010

I. INTRODUCTION

1. On June 25, 2010, the Fund, as Trustee of the Poverty Reduction and Growth Trust (PRGT), entered into a borrowing agreement with the Norwegian Ministry of Finance, on behalf of the Kingdom of Norway, by which Norway will provide new loan resources of up to SDR 300 million (see attachment). This is the fourth borrowing agreement¹ concluded in the context of the current fund-raising effort in support of the reform of the Fund's lending facilities for low-income countries, which became effective on January 7, 2010.²
2. Pursuant to Section III, paragraph 2 of the Instrument to establish the PRGT, the Managing Director is authorized to enter into borrowing agreements and agree to their terms and conditions with lenders to the Loan Accounts of the Trust.³ This paper presents the borrowing agreement to the Executive Board for information.
3. This is the third borrowing agreement between Norway and the Fund as Trustee of the PRGT.⁴ The terms and conditions of this agreement are consistent with the traditional

¹ The first agreement was with the Bank of Spain (EBS/09/213, 12/29/09), the second was with Danmarks Nationalbank (EBS/10/26, 2/12/10), and the third was with the Government of Canada (EBS/10/41, 3/12/10).

² See *A New Architecture of Facilities for Low-Income Countries—Notification of Effectiveness of Executive Board Decision* (EBS/10/5, 1/8/10).

³ See *Decision No. 13689-(06/24) ESF*, adopted March 10, 2006 and *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).

⁴ The previous borrowing agreements were with the Bank of Norway (Norges Bank), and were presented to the Board at the time of their approval (see EBS/88/72, 3/29/88 and EBS/94/120, 6/3/94).

terms of the Trust's borrowing and previous agreements with Norway. Norges Bank shall act as agent for the Norwegian Ministry of Finance as regards the implementation of this agreement.

II. PRINCIPAL ELEMENTS OF THE BORROWING AGREEMENT

4. **Account designation.** The borrowing agreement is for the benefit of the Standby Credit Facility (SCF) and the Rapid Credit Facility (RCF) Loan Accounts of the PRGT, with loan resources of up to SDR 150 million each being available to finance those two facilities of the Trust, respectively.

5. **Drawings on commitments.** Drawings can be made through December 31, 2018 (paragraph 2(a)).

6. **Denomination and media.** Loan commitments and operations are denominated in SDRs. Disbursements are to be made by the transfer of the equivalent amount of U.S. dollars to an account specified by the Trustee, unless otherwise agreed between the Trustee and Norges Bank (paragraph 3(a)). Payments of principal and interest by the Trust are to be made in U.S. dollars or in other currencies or SDRs as may be agreed between the Trustee and Norges Bank (paragraph 6(a)).

7. **Maturity.** Paragraph 4(a) provides for each drawing to be repaid in accordance with the repayment schedule for loan disbursements under the SCF or the RCF for which it was drawn.

8. **Interest.** The borrowing agreement provides for outstanding drawings to earn interest at the six-month SDR rate (paragraph 5). Interest will be payable on a semi-annual basis promptly after June 30 and December 31 of each year (paragraph 5(b)).

9. **Suspension of drawings in event of nonpayment by the Trust.** In the event that any installment of principal or interest is not paid under the agreement within a period of ten days after its due date, the proposed agreement provides for the suspension of further drawings pending consultations on this matter with Norges Bank (paragraph 2(b)).

10. **Transfer of claims.** Provision is made in the agreement for the voluntary transfer of claims on the Trust (paragraph 7) and for temporary suspension of disbursements at any time prior to June 30, 2018, in the event of a liquidity need by the lender (paragraph 8).

III. CONCLUSION

11. Norway's contribution of loan resources to the PRGT through the new borrowing agreement is very timely as current available loan resources are being depleted rapidly in light of strong demand by LICs. The agreement also ensures that the Fund has dedicated loan resources for the SCF and RCF.

**Borrowing Agreement
Between
the Norwegian Ministry of Finance representing the Kingdom of Norway
and the International Monetary Fund as Trustee of
the Poverty Reduction and Growth Trust**

The Norwegian Ministry of Finance, on behalf of the Kingdom of Norway (“Norway”), agrees to lend to the International Monetary Fund (the “Fund”) as Trustee (the “Trustee”) of the Poverty Reduction and Growth Trust, including as the name of such Trust may be changed from time to time (the “Trust”), for the purposes of providing loan resources to the Trust. Such loan resources shall be provided in accordance with the terms of the Instrument establishing the Trust (the “Instrument”) adopted by the Executive Board of the Fund by Decision No. 8759-(87/176) ESAF on December 18, 1987, as amended, and on the terms and conditions set out below. This agreement is based on Section III, Paragraph 2 of the Instrument, which authorizes the Managing Director to enter into borrowing agreements with lenders to the Loan Accounts of the Trust.

Norges Bank (the Central Bank of Norway) shall act as agent for the Norwegian Ministry of Finance as regards the implementation of this Agreement.

1. The amount of the loan shall be up to the equivalent of SDR 300 million, of which up to SDR 150 million shall be for the Stand-By Credit Facility (SCF) Loan Account and up to SDR 150 million for the Rapid Credit Facility (RCF) Loan Account of the Trust.
2. (a) The Trustee may make drawings under this agreement at any time during the period from the effective date of this agreement through December 31, 2018, upon giving Norges Bank at least five business days (Oslo) notice by SWIFT message.

(b) If any installment of principal or interest is not paid to Norway within a period of ten days after its due date, the Trustee shall not be authorized to make further drawings under this agreement pending consultations with Norges Bank on the matter. However, the Trustee may resume drawings under this agreement once arrears to Norway have been discharged and this has been confirmed by Norges Bank in writing.
3. (a) The amount of each drawing shall be denominated in SDRs. Unless otherwise agreed between the Trustee and Norges Bank, the amount shall be paid by Norway on the value date specified in the Trustee’s notice by transfer of the equivalent amount of U.S. dollars to an account specified by the Trustee.

(b) At the request of Norges Bank, the Trustee shall issue to Norway a non-negotiable certificate evidencing its claim on the Trust resulting from a drawing outstanding under this agreement.

(c) Upon repayment of the amount of any certificate issued under subparagraph (b) and all accrued interest, the certificate shall be returned to the Trustee for cancellation. If less than the full amount of such a certificate is repaid, Norges Bank shall return the certificate to the Trustee upon receiving a new certificate for the remainder of the amount with the same maturity date as the old certificate.

4. (a) Each drawing shall be repaid in accordance with the respective repayment schedule for loan disbursements under the SCF or RCF. At the time of each drawing, the Trustee will indicate in the notice requesting the drawing the specific repayment schedule for the amount drawn. Repayments by the Trust shall be made on the relevant maturity dates.

(b) By agreement between Norges Bank and the Trustee, any drawing or part thereof may be repaid by the Trustee at any time in advance of maturity.

(c) If the relevant maturity date is not a business day of the Fund, the repayment date shall be on the preceding business day.

5. (a) Interest on the amount outstanding in respect of each drawing shall be computed at an annual rate determined by the Trustee at the time each drawing is made 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 date 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 in respect of each drawing shall be calculated on an actual day basis and shall be paid on all outstanding drawings under this agreement promptly after June 30 and December 31 of each year.

6. (a) Payments of principal and interest shall be made in U.S. dollars or in other currencies or SDRs as may be agreed between the Trustee and Norges Bank.

(b) Payments in U.S. dollars shall be made by crediting the amount due to the account of the Norges Bank at the Federal Reserve Bank of New York in New York City (account no 0210-8513-0). Payments in SDRs shall be made by crediting Norway's holdings account in the Special Drawing Rights Department. Payments in other currencies shall be made to an account specified by Norges Bank.

7. (a) Norway 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, 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 acquire all the rights of Norway under this agreement with respect to repayment of and interest on the transferred claim.

8. At the request of Norges Bank, calls on Norway's commitment to meet drawings may be suspended temporarily at any time prior to June 30, 2018, subject to the provisions of Section III, Paragraph 4(b) and (c) of the Instrument.

9. Unless otherwise agreed between the Trustee and Norges Bank, all transfers, exchanges, and payments of principal and interest shall be made at the exchange rates for the relevant currencies in terms of the SDR established by the Fund for the second business day of the Fund before the value date of the transfer, exchange or payment.

10. If the Fund changes the method of valuing the SDR, all transfers, exchanges, and payments of principal and interest 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.

11. Any question arising hereunder shall be settled by mutual agreement between Norway and the Trustee.

12. (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) This agreement shall become effective on the last date written below.

IN WITNESS WHEREOF, the Ministry of Finance, on behalf of the Kingdom of Norway, and the Trustee have executed this Agreement.

For the MINISTRY OF FINANCE, on behalf of the Kingdom of Norway:

/s/

June 17, 2010

Sigbjørn Johnsen
Minister of Finance

Date

For the INTERNATIONAL MONETARY FUND as Trustee:

/s/

June 25, 2010

Dominique Strauss-Kahn
Managing Director

Date