FOR AGENDA

SM/12/244
Correction 1

September 27, 2012

To: Members of the Executive Board

From: The Secretary

Subject: **Proposal to Distribute Remaining Windfall Gold Sales Profits and Strategy to Make the Poverty Reduction and Growth Trust Sustainable**

The attached corrections to SM/12/244 (9/17/12) have been provided by the staff:

Evident Ambiguity

Page 2, Executive Summary, 3rd bullet, line 5:
for "only after the receipt of satisfactory assurances that members will provide new PRGT subsidy contributions equivalent to at least 90 percent of the amount distributed (SDR 1.575 billion)."
read "only after members have provided satisfactory assurances that new amounts equivalent to at least 90 percent of the amount distributed—i.e., SDR 1.575 billion—will be transferred, or otherwise provided, to the PRGT."

Page 8, 3rd bullet, line 4, footnote 15:
"Specifically, any modifications to access, financing terms, blending, eligibility and other relevant policies would be expected to be designed in a way that average demand in normal periods could be covered through the resources available under the first pillar, and that periods of high financing needs, e.g. as a result of significant shocks, could be covered through the contingent mechanisms" added
Subsequent footnotes renumbered.

Pages 9 and 10: included due to overflow text.

Page 12, line 1 (previously on Page 11, line 10):
for "transfer these resources (or broadly equivalent amounts)"
read "direct the Fund to transfer these resources (or would provide broadly equivalent amounts)"

Page 12, footnote 21 (old footnote 20), line 4:
for "the time of the distribution"
read "the date of effectiveness of the decision on the distribution"

Page 13, para. 26, line 3:
for "are being made"
read "are being made available"

Page 14, para. 27, line 4:
for "facilitate members' contributions of PRGT subsidy resources equivalent to their share in the distribution"
read "facilitate the transfer or other contribution of PRGT subsidy resources equivalent to members' shares in the distribution."

Pages 15 and 16: included due to overflow text.

Page 24, Table 2, footnote 2, line 1:
for "as of the time of the distribution"
read "as of the date of effectiveness of the decision on the distribution"

Typographical Error

Page 3, para. 2, line 8:
for "gold sales windfall profits"
read "gold sales profits"

Questions may be referred to Mr. Andrews (ext. 38318) and Mr. Powell (ext. 36932) in FIN, Mr. Mumssen, SPR (ext. 35623), and Ms. Weeks-Brown (ext. 36896) and Ms. Rosenberg (ext. 37790) in LEG.

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

Att: (7)

Other Distribution:
Department Heads

INTERNATIONAL MONETARY FUND

Proposal to Distribute Remaining Windfall Gold Sales Profits and Strategy to Make the Poverty Reduction and Growth Trust Sustainable

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

Approved by Andrew Tweedie, Sean Hagan and Siddharth Tiwari

September 17, 2012

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EXECUTIVE SUMMARY

- This paper revisits the use of the remaining gold sales windfall profits (SDR 1.75 billion). Directors previously considered three main options: using them as part of a strategy to boost the capacity of the PRGT; counting them towards precautionary balances; or investing them in the Investment Account's endowment. In past discussions, Directors expressed a wide range of views on these options, and the resources have continued to be held in the Investment Account pending a decision by the Executive Board.

- During the discussion of the Review of LIC facilities on September 6, most Directors supported, or were open to, using resources linked to the remaining gold sales windfall profits as part of a strategy to make the PRGT self-sustainable over the longer term, possibly supplemented by contingent measures, including suspension of the reimbursement of the GRA for the cost of administering the PRGT and/or bilateral fundraising.

- In light of Directors' views, this paper proposes a decision that the remaining gold sales windfall profits be distributed to the membership as part of a strategy to facilitate subsidy resources to ensure the longer-term sustainability of the PRGT. This would involve the same indirect approach that has been used for the partial distribution of SDR 0.7 billion, approved in February 2012. The distribution proposed in this paper will be effected only after members have provided satisfactory assurances that new amounts equivalent to at least 90 percent of the amount distributed—i.e., SDR 1.575 billion—will be transferred, or otherwise provided, to the PRGT.

- Distribution of the remaining gold sales windfall profits would reduce the Fund's general reserve, but not the current level of precautionary balances. The paper recognizes that arguments made in favor of the other options, such as adding the resources to precautionary balances, remain valid, and thus the distribution entails some risks.

- The addition of SDR 1.575 billion to PRGT resources would increase the estimated self-sustaining capacity of the Trust to about SDR 1.1 billion annually from 2015, close to the lower end of the range for projected longer-term demand. Taking account of the remaining capacity under the 2009 LIC financing package, the self-sustaining capacity would be about SDR 1¼ billion from 2013.

- The proposed strategy to make the PRGT sustainable would rest on three pillars: (i) a base envelope of about SDR 1¼ billion in annual lending capacity; (ii) contingent measures—including bilateral fundraising efforts and suspension of reimbursement of the GRA for PRGT administrative expenses—which can be activated when average financing needs exceed the base envelope by a substantial margin for an extended period; and (iii) the expectation that all modifications to LIC facilities would be designed in a manner that is consistent with maintaining self-sustainability. This strategy is expected to be robust under a wide range of demand scenarios for the short, medium and longer term.

I. Introduction and Background

1. **This paper proposes the distribution of the remaining SDR 1.75 billion "windfall" profits from gold sales with the objective of facilitating subsidy contributions to boost the long-term sustainability of the Fund's concessional lending capacity.** The proposal follows the broad support for such an approach expressed by Directors at the recent Review of the Facilities for Low-Income Countries on September 6, 2012.[1] In this context, the paper also seeks to address the concerns of those Directors who had preferred one of the other two options for the use of the windfall gold sales profits.

2. **The 2009-10 gold sales resulted in total profits of SDR 6.85 billion.**[2] As required under the amended Articles, currency amounts equivalent to the total gold profits were transferred in March 2011 from the General Resources Account (GRA) to the Investment Account (IA) where they are being invested pending establishment of the gold endowment and the adoption of decisions on their disposition. In the context of the FY 2010 and FY 2011 income decisions, and consistent with the purposes and originally assumed size of the gold endowment under the new income model, the Board decided to place a total of SDR 4.4 billion of the gold sales profits in the special reserve, which is not available for future distribution to the membership.[3] The Executive Board also decided to place the remaining amount of SDR 2.45 billion, corresponding to the windfall gold sales profits (reflecting profits above the price of US$850 per ounce assumed when the key elements of the new income model were endorsed by the Board), in the general reserve, pending further Board discussions. However, for policy and analytical purposes, reserves that directly reflect profits earned from the limited gold sales have not been included in the Fund's precautionary balances.

3. **In February 2012, the Executive Board approved the partial distribution of the Fund's general reserve in an amount equivalent to SDR 0.7 billion attributed to part of the windfall gold sales profits.**[4] This decision was adopted in implementing the strategy to use resources linked to gold sales profits to facilitate contributions of SDR 0.5-0.6 billion (in end-2008 NPV terms) for the PRGT, as endorsed under the 2009 LIC financing package. Consistent with the Board decision, this distribution will be effected once the Managing

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[1] *The Chairman's Summing Up—Review of Facilities for Low-Income Countries* (BUFF/12/104, 9/10/12).

[2] *Report on the Fund's 2009-2010 Gold Sales* (SM/11/25, 2/7/11).

[3] *Review of the Fund's Income Position for FY 2010 and FY 2011* (EBS/10/63, 4/14/10) and *Review of the Fund's Income Position for FY 2011 and FY 2012* (EBS/11/53, 4/7/11).

[4] Executive Board Decision No. 15092-(12/19) and *Partial Distribution of the General Reserve Attributed to Windfall Gold Sale Profits* (SM/12/23, February 3, 2012, and Corr. 1).

Director notifies the Executive Board that, in her assessment, satisfactory financing assurances exist regarding the availability of at least SDR 0.630 billion for new subsidy contributions to the PRGT. Good progress has been made in securing pledges of new subsidy contributions to the PRGT in the context of the approved distribution of SDR 0.7 billion. As of September 14, 2012, 123 members (representing 86.62 percent of the approved distribution) have confirmed their intention to contribute their share in the distribution or an equivalent amount as subsidy resources to the PRGT.[5] Reaching the agreed threshold of 90 percent remains an urgent key priority to help complete the 2009 package.

4. **The Board has discussed the use of the remaining SDR 1.75 billion in windfall profits on several occasions.**[6] In April and September 2011, the Board considered three main options, including their use to facilitate additional contributions towards concessional lending to LICs, to boost the Fund's precautionary balances, and to add to the gold endowment. Views were divided, and many Directors saw merit in more than one of the options.

5. **More recently, at the September 6 review of LIC facilities, most Directors supported, or were open to, using resources linked to the remaining windfall profits from gold sales as part of a strategy to make the PRGT sustainable.** Directors noted that the central challenge ahead will be to preserve the Fund's ability to provide financial support to LICs in the face of the sharp prospective drop in the Fund's concessional lending capacity after 2014.

6. **In light of that discussion, this paper includes a proposed decision that would provide for the distribution to the membership of SDR 1.75 billion in resources linked to remaining gold sales windfall profits as part of a strategy to facilitate contributions that would make the PRGT sustainable.** Such an approach would mean that all of the windfall profits earned from the gold sales would have been proposed for indirect use in boosting the Fund's ability to support low income countries. In line with the approach followed for the distribution of SDR 0.7 billion, it is proposed that the distribution be

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[5] Of the 123 members that have confirmed their intention to contribute their share in the distribution, 92, representing 64.0 percent of the distribution, have confirmed that their share in the distribution can be transferred directly to the PRGT subsidy accounts. Of the remaining members, 17, representing 9.6 percent, have requested that their shares be transferred to the Interim Administered Account pending the resolution of domestic processes to allow a contribution to the PRGT, while 11, representing 17.7 percent, have requested transfer to their SDR accounts of their shares in the distribution, pledging to make a PRGT subsidy contribution in an equivalent amount.

[6] *Use of Gold Sale Profits—Initial Considerations* (SM/11/53, 3/16/11), and *The Chairman's Summing Up—Use of Gold Sale Profits—Initial Considerations and Options* (BUFF/11/57, 4/8/11); and *Use of Windfall Gold Sale Profits—Further Considerations* (SM/11/206, 8/5/11); and *The Acting Chair's Summing Up—Use of Windfall Gold Sale Profits—Further Considerations* (BUFF/11/129, 9/15/11).

sustained capacity of SDR 0.7 billion.[10] In the first decade, demand is projected to be in the range of SDR 1.0–1.7 billion annually. Large reductions in access to PRGT resources after 2014 would therefore be unavoidable unless new concessional resources can be identified.

10. **Using the remaining gold sales windfall profits as part of a strategy to facilitate contributions to the PRGT would raise the self-sustaining lending capacity of the PRGT to SDR 1¼ billion.** If new commitments were to average SDR 2.2 billion annually in 2013-14 (the maximum capacity available under the 2009 financing package), and using resources linked to the remaining windfall profits, the self-sustaining capacity of the PRGT from 2015 onwards would be SDR 1.1 billion.[11] However, based on current staff projections, demand is expected to be significantly lower than this maximum capacity in the next two years. If the principle of self-sustainability was applied starting now, incorporating the remaining capacity under the 2009 LIC financing package as well as resources linked to the remaining windfall profits, the self-sustaining capacity would increase to about SDR 1¼ billion (Table 1), which could be considered as the base envelope for the self-sustained PRGT.

Table 1. Projected Annual Lending Capacity, Various Scenarios 1/
(SDR billions)

2009 LIC reform				Self-sustained PRGT operations			
				Baseline		Enhanced 3/	
Original projections, 2009-12 average 2/	Actual outcome, 2009-12 average	Original projections, 2013-14 average 2/	Remaining capacity, 2013-14 average	Starting 2015	Starting 2013	Starting 2015	Starting 2013
2.08	1.71	1.50	2.24	0.73	0.91	1.11	1.25

1/ Projections assume the resumption of reimbursement of the GRA for the cost of adminstering the PRGT.
2/ Original projections at the time of approval of the 2009 LIC financing package.
3/ The enhanced scenario assumes transfer to the PRGT of SDR 1.575 billion in the second half of 2013.

11. **The staff proposes that the decision to distribute the remaining windfall profits be considered as part of a strategy to make the PRGT sustainable.** The strategy is aimed at ensuring that the Fund has the resources to meet the projected demand for IMF concessional lending over the longer term, and would rest on three pillars:

[10] The methodology underlying these projections is described in footnote 17 and Appendix VI of *Review of Facilities for Low-Income Countries* (SM/12/203, 7/26/12).

[11] This capacity is based on the assumption that 90 percent of the remaining gold sale windfall profits are pledged to the PRGT as subsidy resources.

- ***A base envelope*** of about SDR 1¼ billion in annual PRGT lending capacity that is expected to cover concessional financing needs over normal periods.[12] While financing commitments can vary substantially from year to year, the self-sustaining PRGT can build up capacity in years with low levels of new lending commitments and draw down capacity in years with higher demand. This implies that the base envelope could cover periods where demand in individual years could be much higher as long as the fluctuations average out over a number of years.[13]

- ***Contingent measures*** that can be put in place when average financing needs exceed the base envelope by a substantial margin for an extended period. The semi-annual PRGT financing update papers and future reviews of LIC facilities will provide updates on the recent use of resources, projected needs, and the resulting current self-sustaining capacity. If based on these reviews, the Board considers that the self-sustaining capacity would decline substantially below SDR 1¼ billion, it could decide to activate a range of contingent measures including (i) reaching additional understandings on bilateral fundraising efforts to be supported by a broad range of the membership, with contributions from traditional and non-traditional donors to the PRGT; (ii) the suspension for a limited period of time of the reimbursement of the GRA for PRGT administrative expenses, pursuant to the current decision governing such reimbursements;[14] and (iii) modifications of access, blending, and interest rate and eligibility policies to reduce the need for subsidy resources.

- ***A principle of self-sustainability*** under which future modifications to LIC facilities would be expected to ensure that the demand for IMF concessional lending can be met with the resources available under the first and second pillar under a plausible range of scenarios.[15] For example, the upcoming review of PRGT eligibility and the second stage of the review of facilities should ensure that all modifications, taken together, would, over the longer term, keep demand consistent with available resources.

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[12] Under this framework, the available resources in the PRGT subsidy accounts would be gradually drawn down to a zero balance, while balances in the Reserve Account would be allowed to grow, and be used to subsidize concessional lending after the period in which available balances in the PRGT subsidy accounts have fallen to zero.

[13] This approach would not limit the lending capacity for 2013-14 that was envisaged under the 2009 financing package, as fluctuations in demand can be accommodated under the base envelope.

[14] Executive Board Decision No. 14093-(08/32), adopted April 7, 2008. As discussed in SM/12/203, this decision specifies that the Fund should temporarily suspend reimbursement if it determines that the resources of the PRGT are likely to be insufficient to support anticipated demand and the Fund has been unable to obtain additional subsidy resources. The decision also provides that upon suspension, the Fund will engage donors with a view to restoring the sustainability of the PRGT.

[15] Specifically, any modifications to access, financing terms, blending, eligibility and other relevant policies would be expected to be designed in a way that average demand in normal periods could be covered through the resources available under the first pillar, and that periods of high financing needs, e.g. as a result of significant shocks, could be covered through the contingent mechanisms.

12. **This strategy is expected to make the PRGT sustainable under a wide range of demand scenarios for the short, medium, and longer term.** If total financing needs remained at the average level seen since the peak of the crisis in 2009 and absent a systemic shock or exceptional needs of individual members, the base envelope is likely to cover the needs in 2013-14, as well as in 2015-24, where demand is projected to be in the range of SDR1.0-1.7 billion.[16] In the event that demand has substantially exceeded the base envelope for an extended period, e.g., as a result of global or regional crises, contingent mechanisms would be used with a view to maintain self-sustaining capacity at the base level of SDR 1¼ billion—these could include a combination of bilateral fundraising efforts and suspension of reimbursements to the GRA. If financing needs turn out to be even higher, access, blending, and interest rate policies could be reviewed alongside PRGT eligibility with a view to reducing the need for subsidy resources and ensuring that the existing resources are targeted at where the needs are greatest.

13. **In addition to supporting a sustainable framework for PRGT financing, this proposed approach would also provide for wider burden sharing of the subsidy costs of the PRGT.** Following the receipt of the necessary assurances, the increased resources that would be facilitated by the proposed distribution of the remaining windfall gold sales profits would provide for a large injection of subsidy resources into the PRGT. The nature of this operation, as described below, would ensure very broad burden sharing based on members' quotas in the Fund. The envisaged shift to self-sustaining operations would be expected to result in limited, temporary, recourse for future bilateral fund-raising as described above. Should such fund-raising be required, contributions would be sought from a wide range of the membership.

B. Financial implications for the Fund

14. **In addition to the current proposal, the Board has considered two other primary options for the use of the SDR 1.75 billion in remaining windfall gold sales profits.** In the discussions held in April and September 2011, in which no consensus emerged, there was also support for counting these resources towards precautionary balances, or investing them as part of the Investment Account's endowment.

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[16] New concessional commitments during 2010-12 were SDR 1.5 billion on an annual average basis, and SDR 1.3 billion not counting the large request from Bangladesh, which exceeded by a considerable margin the absolute level of access that is provided in most cases. Looking ahead, total financing needs are expected to be broadly stable in nominal terms over the next decade, as the effect of graduation from PRGT eligibility would be roughly offset by rising indicators of demand such as GDP and openness from the countries that would remain PRGT eligible. Nominal financing needs are expected to be somewhat higher in 2025-34, although uncertainty around this projection is considerably higher as it depends significantly on the timing of graduation.

15. **In April this year, the Board increased the indicative medium-term target for precautionary balances from SDR 15 billion to SDR 20 billion.**[17] Directors noted at the time that credit risks had continued to rise, reflecting a further sharp increase in demand for Fund resources, mainly from Europe. The new medium-term indicative target of SDR 20 billion is expected to be reached in FY 2018, reflecting the further projected increase in Fund credit, much of which is subject to surcharges on top of the margin for the rate of charge.

16. **A decision to distribute a portion of the general reserve attributed to the remaining windfall profits as part of a strategy to make the PRGT sustainable would not reduce the current level of precautionary balances.** This is because the portion of the general reserve attributed to these profits does not count towards precautionary balances. A decision to count the remaining gold sales windfall profits in precautionary balances would have allowed the targeted level of precautionary balances to be reached one year earlier, i.e. FY 2017. However, during the April discussion, most Directors considered the pace of accumulation towards the new target of SDR 20 billion—which did not assume that windfall profits from gold sales now held in the general reserve would count towards precautionary balances—to be adequate, but that it should be kept under close review.

17. **The proposed distribution would reduce the Fund's general reserve, which is available in the event of financial losses.** Even though the windfall gold sales profits are not currently counted as part of precautionary balances, they are part of the Fund's reserves, which provide an important buffer to handle financial losses as part of the Fund's risk mitigation framework. The proposed distribution would reduce the size of that buffer and could have broader consequences in the event that financial risks materialize. For example, the Fund's lending has significantly increased in recent years, and if some of the associated risks were to materialize and the Board saw a need to accumulate additional reserves, this could require an increase in the rate of charge and/or the surcharges applied to borrowing members.[18]

18. **The other option of adding remaining windfall profits to the endowment would significantly boost its size.** The endowment has been set at SDR 4.4 billion, a size which corresponds to the profits from gold sales at the $850 per ounce assumed when the key elements of the new income model were endorsed by the Board. Adding the remaining

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[17] *Review of the Adequacy of the Fund's Precautionary Balances* (SM/12/63, 3/23/12), and *The Acting Chairman's Summing Up—Review of the Adequacy of the Fund's Precautionary Balances* (BUFF/12/45, 4/17/12).

[18] A 50 basis point increase in the margin for the rate of charge, would, assuming full disbursement of approved access under arrangements approved to date, generate an additional SDR 1.75 billion in reserves over a period of about four years.

windfall profits would increase the size of the endowment by about 40 percent to SDR 6.1 billion. This would help reinforce the principles underlying the new income model, particularly given the uncertain prospects for investment returns from the endowment. However, in the recent discussion of the investment mandate, while acknowledging that the 3 percent real return target endorsed by most Directors in the previous discussion would be difficult to achieve in the near to medium term, most Directors considered it appropriate to retain long-term capital market assumptions to guide portfolio design, noting the long horizon of the endowment.

19. **Although subject to considerable uncertainty, the Fund's income outlook is also broadly positive**, **and projected to remain so in the medium term.** In the short and medium term, the Fund's income position is expected to be bolstered by strong demand for Fund financing. Illustrative estimates of the long-run income-expenditure position in a post-crisis environment—which assume an endowment of SDR 4.4 billion—also remain broadly balanced.[19]

20. **A decision to pursue any one of these options entails some risk.** In previous discussions, arguments were made in favor of other options and, particularly in view of the uncertainties that the Fund faces, these arguments remain valid. However, it is also clear that the Fund's capacity to support its low-income members will decline sharply in the near future in the absence of a decision to distribute the resources linked to the remaining gold sales windfall profits to facilitate PRGT subsidy contributions. It is also important to address the financing needs of the PRGT now in view of the substantial lead time involved in implementing the proposed strategy.

III. The Proposed Distribution

A. Key Legal Issues

21. **Staff proposes that a distribution be made to members using the remaining portion of the gold sales windfall profits that have been placed in the general reserve.** As discussed in the context of the February 2012 distribution of SDR 0.7 billion of the general reserve, the resources in the General Resources Account are uniformly available to all members and thus cannot be transferred to the PRGT for the benefit of only low-income members. Accordingly, the Fund has two basic options for implementing the strategy to use resources linked to gold sales profits to facilitate PRGT subsidy resources. Both of these would require an indirect mechanism involving a distribution to all members (in proportion to quotas) of resources linked to the gold sales profits on the expectation that members would

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[19] *The Consolidated Medium-Term Income and Expenditure Framework* (EBAP/13/38, 4/12/12).

direct the Fund to transfer these resources (or would provide broadly equivalent amounts) to the PRGT as subsidy contributions. The two options are: (i) a distribution of net income from any particular year, in accordance with Article XII, Section 6(a); or (ii) a distribution from the general reserve pursuant to Article XII, Section 6(d). Staff proposes the latter (a partial distribution of the general reserve), as the exact timing of the distribution following the receipt of sufficient financing assurances (see below) would be uncertain, and may not align with the timing of the Executive Board's discussion and decisions on the disposition of the Fund's annual net income, typically taken in April each year.

22. **In accordance with Article XII, Section 6(d) the Fund may decide at any time to distribute part of the general reserve.**[20] The Articles specify no substantive criteria for such a distribution. They do require, however, that the distribution be made to all members in proportion to their quotas on the date of the distribution,[21] and that it be approved by the Executive Board by a 70 percent majority of the total voting power. In addition, Article XII, Section 6(e) specifies that a distribution of the general reserve is to be made in SDRs, provided that either the Fund or the member may decide that it be made in the member's own currency. More generally, and as discussed above, while the proposed partial distribution of the general reserve would reduce the Fund's general reserve, that portion of reserves that is attributable to gold sales windfall profits has already been excluded from the Fund's precautionary balances.

B. Funding of the Distribution

23. **It is proposed that the distribution of SDR 1.75 billion be funded through a partial reduction of the amounts (representing GRA reserves) that have been placed in the IA.**[22] Pursuant to Article XII, Section 6(f) (vi), the reduction in IA principal requires a decision by the Executive Board with a 70 percent majority of the total voting power. As the purpose of the transfer is to fund the partial distribution of the general reserve, the reduction would only take place after the assurances threshold for contributions discussed above has been reached. Once the assurances are in place, the IA currencies would be transferred to the GRA pursuant to Article XII, Section 6(f)(ix), which provides that resources resulting from a

[20] The February 24, 2012 decision to distribute an initial SDR 0.7 billion of the general reserve attributed to gold windfall profits was similarly approved pursuant to Article XII, Section 6(d).

[21] Based on quotas as of August 31, 2012, the proposed distribution of SDR 1.75 billion would imply distribution to each member of an amount equivalent to 0.735 percent of its quota (see Table 2). The final proportion of quotas represented by the distribution could change, however, as it would be based on members' quotas as of the date of effectiveness of the decision on the distribution.

[22] Gold profits were transferred to the IA in March 2011 and invested on an interim basis. See *Review of the Fund's Income Position for FY 2011 and FY 2012* (EBS/11/53, 4/7/11).

reduction of the amount of investment in the IA are to be transferred to the GRA for immediate use in operations and transactions. Covered operations for these purposes include distributions of the general reserve to members.[23]

24. **As required under Article XII, Section 6(e), the partial distribution of the general reserve would be made in SDRs or, if the Fund or the member so decides, in balances of the member's own currency.[24]** Similar to the approach followed for the earlier partial distribution of the general reserve, it is proposed that the distribution to members with overdue repurchase obligations to the GRA be made in the member's own currency (as authorized under Article XII, Section 6(e)) and the corresponding reduction in Fund holdings of the member's currency would be attributed to holdings that are subject to repurchase and would thus reduce the member's overdue obligations to the Fund.[25]

C. Adequate Assurances

25. **As discussed above, the proposed strategy involves the use of resources linked to gold sales windfall profits to facilitate PRGT subsidy contributions to ensure the long-term sustainability of the PRGT. It would be important, therefore, to have strong ex-ante assurances from the membership regarding these contributions.** The modalities proposed by staff in this regard, which are summarized below, are similar to those agreed in the context of the distribution of SDR 0.7 billion of the Fund's general reserve attributed to gold sales windfall profits.[26] Thus, the mechanism would involve a Board decision to distribute part of the general reserve to members, with the actual distribution to be made only after the Fund has received satisfactory assurances that resources equal to a minimum threshold are being provided by members as new PRGT subsidy contributions.

26. **The distribution would be effected once satisfactory assurances have been received from members that new PRGT subsidy contributions equivalent to 90 percent of the distribution (SDR 1.575 billion) are being made available.** The Managing Director would inform the Executive Board once these assurances have been received and at that time the actual distribution would be effected. The time within which the distribution would be

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[23] For example, see *Developing a New Income Model for the Fund—Decisions and Report of the Executive Board to the Board of Governors* (SM/08/80, Rev. 1, Sup. 1, 4/8/2008).

[24] Although the distribution would be made mainly in SDRs and not the currencies transferred from the Investment Account, the immediate distribution following transfer from the IA would reduce GRA resources by the full amount transferred. Any temporary impact of the currency transfer would be offset in the allocation of that currency in the context of the Financial Transactions Plan (FTP).

[25] See paragraph 1(b) of Decision No. 6831-(81/65), as amended by Decision No. 15092-(12/19).

[26] *Partial Distribution of the General Reserve Attributed to Windfall Gold Sale Profits* (SM/12/23, 2/3/12).

effected is uncertain, as staff cannot predict the pace at which members will provide satisfactory assurances of PRGT contributions in the minimum amount contemplated.

D. Modalities for the Distribution and Receipt of Contributions for PRGT Subsidy Purposes

27. **As noted, it is proposed that the distribution be effected using the same modalities as those used in the context of the distribution of SDR 0.7 billion of the Fund's general reserve attributed to gold sales windfall profits.** As in that case, there would thus be a number of options to facilitate the transfer or other contribution of PRGT subsidy resources equivalent to members' shares in the distribution. Specifically, it is proposed that:

- Members have the option to instruct the Fund that, whenever the distribution becomes effective, their share in the distribution is to be transferred directly to the General Subsidy Account of the PRGT or to one of three facility-specific subsidy accounts (the ECF Subsidy Account, the SCF Subsidy Account, and the RCF Subsidy Account) as a contribution from the member;

- A new administered account, the Interim Administered Account for Remaining Windfall Gold Sales Profits (the "Administered Account"), be established pursuant to Article V, Section 2(b) to facilitate subsidy contributions to the PRGT in the context of the partial distribution of the general reserve.[27] Accordingly, the attachment to the proposed decision contains the Instrument to Establish the Administered Account, which sets out the key terms regarding its operation. The purpose of the account would be to temporarily hold members' distributions, upon their request; it could thus be used, for example to hold members' distribution pending the resolution of the domestic processes needed to enable these members to make PRGT subsidy contributions. At the member's request, its share of the distribution could be transferred at any time as directed by the member, including transfers directly from the Administered Account to one or more of the PRGT subsidy accounts. The Fund would authorize the use of SDRs in connection with the operations of the Administered Account. As with the similar transitional account established in the context of the earlier partial distribution of the general reserve, the Administered Account would remain open for three years, or until such time as there are no contributor resources remaining in the account, whichever is earlier; its resources could also be invested, at the discretion of the Managing Director, following the same investment authority and procedures as resources held in the PRGT. The

[27] A member has formally requested establishment of the Administered Account.

Administered Account would be subject to a number of additional terms that are standard for similar financial services accounts administered by the Fund;

- Members have the option to have their share in the distribution made directly to them before they make new contributions to finance PRGT subsidies. Members could also indicate that they do not wish to contribute any portion of their share of the distribution towards PRGT subsidies;

- Members could specify that their share of the distribution be allocated towards more than one of the above purposes; and

- Members that do not respond by the effective date of the distribution will by default receive their share of the distribution through a deposit to their SDR account.

28. **The Board would be notified before the distribution becomes effective**. In particular, paragraph 5 of the decision provides that all of the key terms of the decision—including paragraph 3, which provides for the distribution; and paragraph 4, which deals with the transfer from the Investment Account—shall become effective only when the Managing Director has provided notification to the Executive Board that, in her assessment, satisfactory financing assurances exist regarding the availability of at least SDR 1.575 billion for new subsidy contributions to the PRGT. In assessing that satisfactory assurances are in place, the Managing Director would take into account (i) the amounts that members have requested in writing be transferred as PRGT subsidy contributions from their share of the distribution; (ii) the amount of other new contributions that members have provided as PRGT subsidy contributions in light of the decision; and (iii) the amount of other PRGT contributions that members have given written assurances that they will provide in light of the decision.

29. **Following approval of the decision, all members will receive a letter from the Managing Director seeking their commitment that distributed resources or broadly equivalent amounts would be contributed for PRGT subsidies.** Model communications that members could use to convey their preferences regarding options summarized above are set forth in Appendix I of this paper. Staff will periodically update the Executive Board regarding progress towards obtaining satisfactory assurances of PRGT contributions in the minimum amount specified in the decision. As discussed above, the Board would also be notified in any event prior to the distribution becoming effective, as required under paragraph 5 of the decision.

IV. PROPOSED DECISION

Accordingly, the following decision, which may be adopted by a 70 percent majority of the total voting power, is proposed for adoption by the Executive Board:

1. Pursuant to Article V, Section 2(b), the Fund adopts the *Instrument to Establish the Interim Administered Account for Remaining Windfall Gold Sales Profits (the "Administered Account")* that is attached to this decision.

2. In accordance with Article XVII, Section 3, the Fund prescribes that:

(a) an SDR Department participant or prescribed holder, by agreement with an SDR Department participant or prescribed holder and at the instruction of the Fund, may transfer SDRs to that participant or prescribed holder in effecting a transfer to or from the Administered Account or in effecting a payment due to or by the Fund in connection with financial operations under the Administered Account.

(b) Operations pursuant to these prescriptions shall be recorded in accordance with Rule P-9.

3. Pursuant to Article XII, Section 6(d), an amount equivalent to SDR 1.75 billion of the general reserve shall be distributed to all members in proportion to their quotas. The payment of the distribution shall be made in SDRs or, if the Fund or a member so decides, in the

Table 2 (continued). Possible Distribution of Gold Sales Windfall Profits of SDR 1.75 billion to Fund Members
(In millions of SDRs)

Member	Quota 1/	Percent of Total Quota	Possible Distribution 2/
St. Lucia	15.3	0.01	0.11
St. Vincent and the Grenadines	8.3	0.00	0.06
Samoa	11.6	0.00	0.09
San Marino	22.4	0.01	0.16
São Tomé and Príncipe	7.4	0.00	0.05
Saudi Arabia	6,985.5	2.93	51.34
Senegal	161.8	0.07	1.19
Serbia, Republic of	467.7	0.20	3.44
Seychelles	10.9	0.00	0.08
Sierra Leone	103.7	0.04	0.76
Singapore	1,408.0	0.59	10.35
Slovak Republic	427.5	0.18	3.14
Slovenia	275.0	0.12	2.02
Solomon Islands	10.4	0.00	0.08
Somalia 3/	44.2	0.02	0.32
South Africa	1,868.5	0.78	13.73
South Sudan	123.0	0.05	0.90
Spain	4,023.4	1.69	29.57
Sri Lanka	413.4	0.17	3.04
Sudan 3/	169.7	0.07	1.25
Suriname	92.1	0.04	0.68
Swaziland	50.7	0.02	0.37
Sweden	2,395.5	1.01	17.61
Switzerland	3,458.5	1.45	25.42
Syrian Arab Republic	293.6	0.12	2.16
Tajikistan	87.0	0.04	0.64
Tanzania	198.9	0.08	1.46
Thailand	1,440.5	0.60	10.59
Timor-Leste	8.2	0.00	0.06
Togo	73.4	0.03	0.54
Tonga	6.9	0.00	0.05
Trinidad and Tobago	335.6	0.14	2.47
Tunisia	286.5	0.12	2.11
Turkey	1,455.8	0.61	10.70
Turkmenistan	75.2	0.03	0.55
Tuvalu	1.8	0.00	0.01
Uganda	180.5	0.08	1.33
Ukraine	1,372.0	0.58	10.08
United Arab Emirates	752.5	0.32	5.53
United Kingdom	10,738.5	4.51	78.92
United States	42,122.4	17.69	309.57
Uruguay	306.5	0.13	2.25
Uzbekistan	275.6	0.12	2.03
Vanuatu	17.0	0.01	0.12
Venezuela, República Bolivariana de	2,659.1	1.12	19.54
Vietnam	460.7	0.19	3.39

Table 2 (concluded). Possible Distribution of Gold Sales Windfall Profits of SDR 1.75 billion to Fund Members
(In millions of SDRs)

Member	Quota 1/	Percent of Total Quota	Possible Distribution 2/
Yemen, Republic of	243.5	0.10	1.79
Zambia	489.1	0.21	3.59
Zimbabwe	353.4	0.15	2.60
Total	**238,116.4**	**100.00** 4/	**1,750**

1/ Quota as of September 7, 2012.
2/ The exact amount of the distribution will depend on the quota shares as of the date of effectiveness of the decision on the distribution. For current quota see: http://www.imf.org/external/np/sec/memdir/members.aspx
3/ Owing to member's overdue repurchase obligations to the Fund, proposed distribution would be made in the member's own currency and the use of the member's currency would be attributed to Fund holdings of the member's currency subject to repurchase.
4/ This figure may differ from the sum of the percentages shown for individual countries because of rounding.