

DOCUMENT OF INTERNATIONAL MONETARY FUND  
AND NOT FOR PUBLIC USE



EBS/87/253  
Revision 1

CONFIDENTIAL

December 14, 1987

To: Members of the Executive Board

From: The Secretary

Subject: Enhancement of the Structural Adjustment Facility -  
Legal Documentation

Attached for consideration by the Executive Directors is a paper that presents the legal documents that would need to be adopted to give effect to the proposed enhancement of the structural adjustment facility. On the basis of the discussions of the Executive Board on December 11, 1987 the legal documentation presented in EBS/87/253 (12/2/87) and Supplement 1 (12/9/87) has been revised. The paper also summarizes the proposed changes and elaborates further on some questions raised during the Board meeting.

This subject will be brought to the agenda of the Executive Board for discussion on Tuesday, December 15, 1987.

Mr. Munzberg (ext. 6675) is available to answer legal questions, and Mr. Dhruva Gupta (ext. 7627) or Mr. Boorman (ext. 7858) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

INTERNATIONAL MONETARY FUND

Enhancement of the Structural Adjustment Facility--  
Legal Documentation

Prepared by the Legal, Treasurer's, and  
Exchange and Trade Relations Departments

Approved by F. Gianviti, D. Williams, J.T. Boorman

December 14, 1987

On the basis of the discussions of the Executive Board on December 11, 1987 the staff has revised the legal documentation presented in EBS/87/253 and EBS/87/253, Supplement 1.

This paper briefly summarizes the proposed changes and further elaborates on some questions raised during the Board meeting.

The legal documentation in the Attachments has been prepared by the Legal Department in consultation with the Treasurer's and Exchange and Trade Relations Departments.

I. The following changes have been made in the legal documentation

1. Attachment A

The draft Decision has been restructured in order to separate the Review of the Structural Adjustment Facility (paragraph 1) and the Establishment of the Enhanced Structural Adjustment Facility and the resources available under it (paragraph 2). In addition, a new paragraph 3 has been added to make reference to the use of resources that lenders agree to provide in association with the Enhanced Structural Adjustment Facility. The review of the operation of the Enhanced Structural Adjustment Facility, the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility Trust is proposed for not later than March 31, 1989.

2. Attachment B

The relationship between subparagraphs (2)(i) and (ii) of Paragraph 14 has been clarified. The reference to "if so specified in the annual arrangement" in (ii) means that normally the second disbursement would be subject to (i).

The new subparagraph (3) as proposed in EBS/87/253, Supplement 1 on timing of disbursements has been added to the text.

In subparagraph (4) of Paragraph 14, the conditions of availability of a second disbursement that may be delayed have been amended.

3. Attachment C

No change is proposed in the draft Decision in Attachment C.

4. Annex to Attachment C

Several changes are proposed in the draft Instrument.

a. Section I, Paragraph 1

The underlined words have been added at the end of the Paragraph on purposes: "...to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth."

b. Section I, Paragraph 3

It is provided that commitments of resources to the Subsidy Account may be made in currency. Once received by the Subsidy Account these resources will be denominated in SDRs for all purposes of the Subsidy Account, including its liquidation.

The SDR equivalents will be established using the exchange rate of the applicable currency against the SDR established by the Fund for the third business day of the Fund before the value date of the payment to the Trust. It should be noted that in accordance with Section VII, Paragraph 1(b) of the proposed Enhanced Structural Adjustment Facility Trust Instrument the same rules as apply to the operation of the General Resources Account shall apply to the administration of the Trust, subject to the provisions of the Instrument.

c. Section I, Paragraph 4

With respect to resources of the Subsidy Account, it is provided in subparagraph (a) that other media of payment may be received by the Subsidy Account.

The reference to the sale of resources in subparagraph (d) has been deleted.

d. Section II, Paragraph 1

The words "in a sustainable manner" have been added after "strengthening" in subparagraph (c).

In subparagraph (d), the last date for commitment of Trust loans is set at November 30, 1989. In view of this it may become operationally impossible under existing provisions for lending arrangements to make full disbursements under programs agreed toward the end of the commitment period.

In order to provide for full disbursements, lenders could be requested to agree to extensions in their loan commitments to the Trust. In addition, one Executive Director has suggested the possibility that lenders could also consider extending the commitment periods but not the repayment periods. This would add significantly to the options regarding extensions and disbursements and this issue could be addressed in a review of the operation of the Facility in light of additional experience. On the basis of available information, it is difficult to foresee whether resources would be committed in a manner that would allow such flexibility and to avoid the need at this stage to provide for changes that would be needed in other provisions of the Instrument (e.g., the repayment periods to lenders and repayment periods of loans by borrowers).

e. Section II, Paragraph 2

An outside limit is set in subparagraph (a) for the review of access limits not later than March 31, 1989. This is consistent with the date specified for review of the operation of the Enhanced Structural Adjustment Facility, the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility Trust in the Decision in Attachment A.

With respect to the assessment to be made in accordance with subparagraph (c) it should be explained that this assessment shall pay particular attention to the debt situation of the member; the adjustment program will, as a minimum, need to provide assurances of substantial progress toward medium-term viability in the member's external account over the program period and project an ability of the borrower to service its obligations to the Fund in a timely manner.

f. Section II, Paragraph 3

The new Paragraph 3(b) as proposed in EBS/87/253, Supplement 1 on disbursement dates has been included in the text.

g. Section II, Paragraph 4

The reference to rescheduling (previously subparagraph (c)) has been deleted.

h. Section III, Paragraph 4

With respect to broad proportionality regarding the rate at which loans are drawn down a drafting change has been proposed in subparagraph (a). It should be noted, however, that although it is intended to draw down proportionately as closely as possible, exact proportionality may not be possible at all times for operational reasons (such as to avoid the use of very small drawings of all loans in each Trust disbursement) and also given the possibility that the total of resources may not be available at all times.

The previous subparagraph (b) on drawings on commitments made in association with Enhanced Structural Adjustment Facility Trust loans has been deleted. A separate decision could be taken on this issue later.

A new subparagraph (b) has been added to the text on temporary suspension of calls to apply to all lenders. This paragraph is in line with the provisions suggested in the prototype borrowing agreement.

The reference to "broad" in subparagraph (c) has been deleted.

i. Section III, Paragraph 5

The description in subparagraph (a) of the cross-reference to the provisions of Sections IV and V that regulate the use of the Subsidy Account and of the Reserve Account has been redrafted without a change in the substance.

Subparagraph (b) has been amended as proposed in EBS/87/253, Supplement 1.

j. Section IV, Paragraph 3

A reference to official lenders has been added to that Paragraph.

k. Section IV, Paragraph 4

The reference to rescheduling has been deleted.

l. Section IV, Paragraph 5(c)

It has been clarified that the interest rate adjustment would be made with respect to all outstanding Trust loans.

m. Section V, Paragraphs 1(d) and 3

These Paragraphs have been amended as proposed in EBS/87/253, Supplement 1.

n. Section V, Paragraph 5

An editorial change has been made in the third line by adding the words "that are authorized."

o. Section VI, (a)

The list of electing lenders shall be established separately by the Trustee. It is again emphasized that that list may only be extended.

5. Attachment D

An editorial change is made in paragraph 2, third line, by the addition of the words "that are authorized."

II. Other Issues

EBS/87/245 contained a description of the possible use of the Fund's general resources to ensure the liquidity of claims on the Enhanced Structural Adjustment Facility Trust. It was stressed, in particular, that access because of developments in the member's reserves was possible under Article V, Section 3(b)(ii). Under that provision the member would be required to represent the existence of a liquidity need. The amount of the requested access and whether it was equivalent to a claim on the Trust would be an important factor in that assessment. The existence of a balance of payments problem was not a prerequisite, and no adjustment program would consequently be necessary. If it were desired to exclude such purchases from the calculation of the definition of the reserve tranche, and to establish special repurchase periods, decisions to that effect would need to be adopted by an eighty-five percent majority.

Review of Structural Adjustment Facility and Establishment  
of the Enhanced Structural Adjustment Facility

1. The Executive Board has reviewed the operation of the Structural Adjustment Facility within the Special Disbursement Account, as provided in Decision No. 8241-(86/56)SAF, adopted March 26, 1986.

2. (a) The Executive Board decides to establish a Facility to be known as the Enhanced Structural Adjustment Facility. Loans under that Facility shall be provided by the Enhanced Structural Adjustment Facility Trust, normally in conjunction with loans under the Structural Adjustment Facility, on concessional terms, to low-income developing members that qualify for assistance.

(b) The use of resources provided by the Structural Adjustment Facility shall be subject to the Regulations for the Administration of the Structural Adjustment Facility, as amended by Decision No. [Attachment B].

(c) The use of resources provided by the Enhanced Structural Adjustment Facility Trust shall be subject to the provisions of the Enhanced Structural Adjustment Facility Trust Instrument adopted by Decision No. [Attachment C].

3. Resources provided by lenders that agree to support arrangements under the Enhanced Structural Adjustment Facility through loans to qualifying members shall be used in association with loans under the Enhanced Structural Adjustment Facility.

4. The Fund shall review the operation of the Enhanced Structural Adjustment Facility, of the Structural Adjustment Facility, and of the Enhanced Structural Adjustment Facility Trust, not later than March 31, 1989.



Amendment of the Regulations for the Administration  
of the Structural Adjustment Facility

1. The following paragraph shall be added to the Regulations for the Administration of the Structural Adjustment Facility annexed to Decision No. 8238-(86/56)SAF:

"Paragraph 14

Assistance from the Structural Adjustment Facility, in conjunction with loans from the Enhanced Structural Adjustment Facility Trust, under the Enhanced Structural Adjustment Facility established by Decision No....., shall be governed by these Regulations subject to the following provisions:

(1) The amounts of such assistance shall be identified in any commitment, arrangement or disbursement under the Enhanced Structural Adjustment Facility.

(2) Disbursements under each annual arrangement shall be made in two installments, the first after approval of the corresponding annual arrangement, and the second after

(i) a finding by the Managing Director that the performance criteria that have been established for that disbursement have been met, and a determination by the Fund that the midterm review of the program supported by the arrangement has been completed to the satisfaction of the Fund, or

(ii) if so specified in the annual arrangement, a finding by the Managing Director that the

performance criteria that have been  
established for that disbursement have been  
met.

(3) Disbursements shall be made at the same time as the  
corresponding disbursements under Trust loans.

(4) If, pursuant to subparagraph (2) above, a second  
disbursement under an annual arrangement is not made, the  
period of the three-year commitment may be extended, and the  
corresponding amount may be made available during the extended  
period, subject to these Regulations."

2. In paragraph 6(2) of the Regulations referred to above, the  
terms "to the Fund as Trustee under the Trust Instrument" shall be  
replaced by "to the Fund as Trustee."

Establishment of the Enhanced Structural  
Adjustment Facility Trust

1. The Fund adopts the Instrument to Establish the Enhanced Structural Adjustment Facility Trust that is annexed to this Decision.

2. The Fund is committed, if it appeared that any delay in payment by the Trust to lenders would be protracted, to consider fully and in good faith all such initiatives as might be necessary to assure full payment to lenders.

Instrument to Establish the Enhanced Structural  
Adjustment Facility Trust

Introductory Section

To help fulfill its purposes, the International Monetary Fund (hereinafter called the "Fund") has adopted this Instrument establishing the Enhanced Structural Adjustment Facility Trust (hereinafter called the "Trust") which shall be administered by the Fund as Trustee (hereinafter called the "Trustee"). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

Section I. General Provisions

Paragraph 1. Purposes

The Trust shall assist in fulfilling the purposes of the Fund by providing loans on concessional terms (hereinafter called "Trust loans") to low-income developing members that qualify for assistance under this Instrument, in order to support programs to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth.

Paragraph 2. Accounts of the Trust

The operations and transactions of the Trust shall be conducted through a Loan Account, a Reserve Account and a Subsidy Account. The resources of the Trust shall be held separately in each Account.

Paragraph 3. Unit of account

The SDR shall be the unit of account for commitments, loans and all other operations and transactions of the Trust, provided that commitments of resources to the Subsidy Account may be made in currency.

Paragraph 4. Media of payment of contributions and  
exchange of resources

(a) Resources loaned 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 Account in other currency.

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

(c) Loans or donations to the Trust may also be made 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 concurrence of the issuer of such currency.

Section II. Trust Loans

Paragraph 1. Eligibility and conditions for assistance

(a) Any member eligible for assistance from the Structural Adjustment Facility shall be eligible for assistance from the Trust.

(b) This assistance shall be committed and provided under the same conditions and on the same terms as prescribed in paragraph 14 of the Regulations for the Administration of the Structural Adjustment Facility, subject to the provisions of this Section.

(c) Before approving a three-year arrangement, the Trustee shall be satisfied that the member is making a substantial effort to strengthen in a sustainable manner its balance of payments position.

(d) Commitments under three-year arrangements may be made during the period from January 1, 1988 to November 30, 1989.

Paragraph 2. Amount of assistance

(a) An initial maximum limit on access to the resources of the Trust shall be established by the Trustee, as a proportion of members' quotas in the Fund, and provision shall be made for a limit up to which that maximum limit may be exceeded in exceptional circumstances. The maximum access limit and the exceptional maximum limit shall be subject to review from time to time by the Trustee in the light of actual utilization of resources available to the Loan Account, and in any event not later than March 31, 1989.

(b) To the extent that a member has notified the Trustee that it does not intend to make use of the resources available from the Trust, the member shall not be included in the calculations of the access limits on Trust loans.

(c) The access for each member that qualifies for assistance from the Trust shall be determined on the basis of an assessment by the Trustee of the balance of payments need of the member and the strength of its adjustment program.

(d) The amount of resources committed to a qualifying member under a three-year arrangement and the amounts for the second and third year arrangements shall be reviewed at the time of consideration of each annual program. The amounts committed to a member shall not be reduced

because of developments in its balance of payments, unless such developments are substantially more favorable than envisaged at the time of approval of the three-year arrangement and the improvement for the member derives in particular from improvements in the external environment.

(e) Any commitment shall be subject to the availability of resources to the Trust.

Paragraph 3. Disbursements

(a) Any disbursement shall be subject to the availability of resources to the Trust.

(b) Disbursements shall normally be made on the fifteenth and the last day of the month, provided that if these days are not business days of the Trustee, the disbursement shall be made on the preceding business day. Following a member's qualification for a disbursement, the disbursement shall be made on the first of these value dates for which the necessary notifications and payment instructions can be issued by the Trustee.

(c) No disbursement under a three-year commitment to a member shall be made after the expiration of the period specified in Section III, Paragraph 3.

Paragraph 4. Terms of loans

(a) Interest on the outstanding balance of a Trust loan shall be charged at the rate of one half of one percent per annum subject to the provisions of Section IV, Paragraph 5, and provided that interest at a rate equal to the rate of interest on the SDR shall be charged on the amounts of any overdue interest on or overdue repayments of Trust loans.

(b) Trust loans shall be disbursed in a freely usable currency as decided by the Trustee. They shall be repaid, and interest paid, in U.S. dollars or other currency as decided by the Trustee. The Managing Director is authorized to make arrangements under which, at the request of a member, SDRs may be used for disbursements to the member or for payment of interest or repayments of loans by the member to the Trust.

Paragraph 5. Modifications

Any modification of these provisions will affect only loans made after the effective date of the modification, provided that a modification of the interest rate shall apply to interest accruing after the effective date of the modification.

Section III. Borrowing for the Loan Account

Paragraph 1. Resources

The resources held in the Loan Account shall consist of:

- (a) the proceeds of loans made to the Trust for that Account; and
- (b) payments of principal and interest on Trust loans, subject to the provisions of Section V, Paragraph 3.

Paragraph 2. Borrowing authority

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

Paragraph 3. Commitments

Commitments of loans to the Trust for the Loan Account shall extend through June 30, 1992. The commitment period with respect to a loan to



the Trust may be extended by mutual agreement between the Trustee and the lender.

Paragraph 4. Drawings on loan commitments

(a) Drawings on the commitments of individual lenders over time shall be made so as to maintain broad proportionality of these drawings relative to commitments.

(b) Calls on a lender's commitment shall be suspended temporarily if, at any time prior to December 31, 1991, the lender represents to the Trustee that it has a liquidity need for such suspension and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. The suspension shall not exceed three months, provided that it may be extended for further periods of three months by agreement between the lender and the Trustee. No extension shall be agreed which, in the judgment of the Trustee, would prevent drawing of the full amount of the lender's commitment.

(c) Following any suspension of calls with respect to the commitment of a lender, calls will be made on that commitment thereafter so as to restore proportionality of calls on all lenders as soon as practicable.

Paragraph 5. Payments to lenders

(a) The Trust shall make payments of principal and interest on its borrowing for the Loan Account from the payments into that Account of principal and interest made by borrowers under Trust loans. Payments of authorized subsidy shall be made from the Subsidy Account in accordance

with Section IV of this Instrument, and, as required, payments shall be made from the Reserve Account in accordance with Section V of this Instrument.

(b) The Trust shall pay interest on outstanding borrowing for Trust loans promptly after June 30 and December 31 of each year, unless the particular modalities of a loan to the Trust make it necessary for the Trustee to agree with the lender on interest payments at other times.

#### Section IV. Subsidy Account

##### Paragraph 1. Resources

The resources held in the Subsidy Account shall consist of:

- (a) the proceeds of donations made to the Trust for that Account;
- (b) the proceeds of loans made to the Trust for that Account; and
- (c) earnings from investment of donated or borrowed resources held in that Account.

##### Paragraph 2. Donations

The Trustee may accept donations of resources for the Subsidy Account on such terms and conditions as may be agreed between the Trustee and the respective donors, subject to the provisions of this Instrument. To the extent possible annual contributions should be made before May 30 of each year.

##### Paragraph 3. Borrowing

The Trustee may, in exceptional circumstances, borrow resources for the Subsidy Account from official lenders on such terms and conditions as may be agreed between the Trustee and the lenders; in order

- (a) to prefinance an amount that is firmly committed to be donated to the Trust for the Subsidy Account; repayment of principal and any payments of interest on such borrowing shall be contingent upon the receipt by the Subsidy Account of the Trust of the donation that has been prefunded;
- (b) that the Subsidy Account may benefit from net investment earnings on the proceeds of a loan extended at a concessional interest rate; repayment of principal and any payment of interest on such borrowing shall be made exclusively from the proceeds of liquidation of the investment and the earnings thereon.

Paragraph 4. Authorized subsidy

The Trustee shall draw upon the resources available in the Subsidy Account, in such order as it may determine, to pay the difference, with respect to each interest period, between the interest due by the borrowers and the interest due on resources borrowed for Trust loans.

Paragraph 5. Calculation of subsidy

(a) The amount of the subsidy shall be determined by the Trustee in the light of (i) the objective of reducing to the extent possible the rate of interest charged on Trust loans to 0.5 percent, (ii) the rate of interest on resources available to the Loan Account, and (iii) the availability and prospective availability of resources to the Subsidy Account.

(b) The Trustee shall keep the operation of the Subsidy Account under review. If at any time, including the beginning of operations, it determines that resources available or committed are likely to be insufficient to reduce the rate of interest on Trust loans to 0.5 percent throughout the operation of the Trust, the Trustee shall seek such additional resources as may be necessary to achieve this objective.

(c) Should adequate additional resources not be forthcoming to reduce the rate on Trust loans to 0.5 percent, the Trustee shall recalculate the subsidy with a view to reducing that interest rate to the lowest feasible rate that could be applied throughout the remaining life of the Trust. The rate of interest charged on all outstanding loans by the Trust shall be adjusted accordingly in the succeeding interest periods. Borrowers shall be notified promptly of such adjustments. Further recalculations and adjustments shall be made in subsequent interest periods, as necessary in light of developments with respect to the rate of interest on resources available to the Loan Account and to the availability of resources to the Subsidy Account.

Paragraph 6. Termination arrangements

Upon completion of the subsidy operations authorized by this Instrument, the Fund shall wind up the affairs of the Subsidy Account. Any resources remaining in the Subsidy Account shall be used first to reduce to the full extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers, by means of payments to borrowers. Any resources remaining after that subsidization shall be distributed to donors and lenders that have contributed to the subsidy

operation, in proportion to their contributions. For the purposes of this distribution, account will be taken of donations, the net earnings from investment of the proceeds of concessional loans extended to the Subsidy Account under Paragraph 3(b) above, and the subsidy element of concessional loans extended to the Trust under Section III; the subsidy element associated with such loans shall be calculated as the difference, if positive, between the SDR rate of interest and the interest on such loans, applied to the amount of the loans during the period they were outstanding.

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. [Attachment D];
- (b) earnings from investment of resources held in the Reserve Account;
- (c) net earnings from investment of any resources held in the Loan Account pending the use of these resources in operations; and
- (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 lender from the Reserve Account.

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 as they become due and payable.

Paragraph 3. Payments to the Reserve Account

Any payments of overdue principal or interest or interest thereon under Trust loans, and any payment of interest under Trust loans to the extent that payment has been made to a lender 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 that are authorized to be discharged by the Reserve Account, the Trustee shall retransfer such excess amounts to the Fund's Special Disbursement Account.

(b) 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.

Section VI. Transfer of Claims Among Certain Lenders

(a) Any lender to the Loan Account ("electing lenders") may inform the Trustee that it stands ready, upon request by the Trustee, to purchase claims on the Trust from any other electing 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 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 lender shall have the right to transfer temporarily to other electing lenders part or all of any claim arising from its loans to the Trust under Section III, if the electing 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 lender under this provision to all other electing 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 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 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 drawings on loans to the Trust 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 lending 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.



Section VII. Administration of the Trust

Paragraph 1. Trustee

(a) The Trust shall be administered by the Fund as Trustee. Decisions and other actions taken by the Fund as Trustee shall be identified as taken in that capacity.

(b) Subject to the provisions of this Instrument, the Fund in administering the Trust shall apply the same rules as apply to the operation of the General Resources Account of the Fund.

(c) The Trustee, acting through its Managing Director, is authorized:

- (i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, which shall be accounts of the Fund as Trustee, with such depositories of the Fund as the Trustee deems necessary; and
- (ii) to take all other administrative measures that the Trustee deems necessary to implement the provisions of this Instrument.

Paragraph 2. Separation of assets and accounts, audit and reports

(a) The resources of the Trust shall be kept separate from the property and assets of all other accounts of the Fund, including other administered accounts, and shall be used only for the purposes of the Trust in accordance with this Instrument.

(b) The property and assets held in the other accounts of the Fund shall not be used to discharge liabilities or to meet losses arising out of the administration of the Trust. The resources of the Trust shall

not be used to discharge liabilities or to meet losses arising out of the administration of the other accounts of the Fund.

(c) The Fund shall maintain separate financial records and prepare separate financial statements for the Trust.

(d) The audit committee selected under Section 20 of the Fund's By-Laws shall audit the financial transactions and records of the Trust. The audit shall relate to the financial year of the Fund.

(e) The Fund shall report on the resources and operations of the Trust in the annual report of the Executive Board to the Board of Governors and shall include in that annual report the report of the audit committee on the Trust.

Paragraph 3. Investment of resources

(a) Any balances held by the Trust and not immediately needed in operations shall be invested.

(b) Investments may be made in any of the following: (i) marketable obligations issued by an international financial organization and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member. Investment which does not involve an exchange of currency shall be made only after consultation with the member whose currency is to be used, or, when an exchange of currencies is involved, with the consent of the issuers of such currencies.

Section VIII. Period of Operation and Liquidation

Paragraph 1. Period of operation

The Trust established by this Instrument shall remain in effect for as long as is necessary, in the judgment of the Fund, to conduct and to wind up the business of the Trust.

Paragraph 2. Liquidation of the Trust

(a) Termination and liquidation of the Subsidy Account shall be made in accordance with the provisions of Section IV, Paragraph 6.

(b) All other resources, if any, shall be used to discharge any liabilities of the Trust, other than those incurred under Section IV, and any remainder shall be transferred to the Special Disbursement Account of the Fund.

Section IX. Amendment of the Instrument

The Fund may amend the provisions of the Instrument, except this Section and Section I, Paragraphs 1 and 2; Section III, Paragraphs 4 and 5(a) and (b); Section IV, Paragraphs 4 and 6; Section V; Section VI; Section VII, Paragraph 2(a) and (b); Section VIII, Paragraph 2(b).

Transfer of Resources from the Special Disbursement Account  
to the Enhanced Structural Adjustment Facility Trust and  
Retransfer to the Special Disbursement Account

1. The following resources held in, or to be received by, the Special Disbursement Account shall be transferred to the Enhanced Structural Adjustment Facility Trust ("the Trust") for its Reserve Account upon the establishment of the Trust or upon receipt of these resources by the Special Disbursement Account, whichever is later:

- (i) all income already received or to be received from the investment of resources available for the Structural Adjustment Facility within the Special Disbursement Account;
- (ii) all interest already received or to be received, including from special charges, on loans under the Structural Adjustment Facility;
- (iii) all repayments of loans under the Structural Adjustment Facility; and
- (iv) all the resources held in the Special Disbursement Account that are derived from the termination of the 1976 Trust Fund and that can no longer be used under the Structural Adjustment Facility;

provided that the above resources shall be retransferred to the Special Disbursement Account when and to the extent that they are needed for the reimbursement of the expenses incurred by the General Resources Account in the administration of the Structural Adjustment Facility and the Trust, which must be reimbursed in accordance with paragraph 10 of the

Regulations for the Administration of the Structural Adjustment Facility and paragraph 3 of this Decision.

2. 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 that are authorized to be discharged by the Reserve Account, the Trustee shall retransfer such excess amounts to the Special Disbursement Account. 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.

3. The Special Disbursement Account shall reimburse the General Resources Account annually in respect of the expenses of conducting the business of the Enhanced Structural Adjustment Facility Trust.

4. This Decision replaces Decision No. 8237-(86/56)SAF, adopted March 26, 1986.