

DOCUMENT OF INTERNATIONAL MONETARY FUND
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AGENDA

EBS/87/253

CONFIDENTIAL

December 2, 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 complimentary paper to the operational arrangements that will govern the enhanced structural adjustment facility (EBS/87/245, 11/25/87). It presents draft decisions and a draft instrument that would give effect to the enhancement of the structural adjustment facility. A short description of these documents, including further elaboration on the operations of the Subsidy Account, is also presented.

This subject will be brought to the agenda of the Executive Board for discussion on Friday, December 11, 1987.

Mr. Munzberg (ext. 6675), Mr. Leddy (ext. 8332) 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, F.G. Laske, J.T. Boorman

December 1, 1987

This paper is complementary to EBS/87/245 issued on November 25. It takes account of the information available at this stage and of the *comments made in the informal Board meetings on November 13 and November 20*. The paper presents for consideration of the Executive Board draft decisions and a draft Instrument that would give effect to the enhancement of the Structural Adjustment Facility. The attached documents are prepared by the Legal Department in consultation with the Treasurer's and Exchange and Trade Relations Departments. A short description of these documents, including further elaboration on the operations of the Subsidy Account, is presented below.

Establishment of an Enhanced Structural Adjustment Facility will require approval of a draft Instrument, of several separate decisions, and of individual borrowing agreements (a prototype borrowing agreement has been attached to EBS/87/245).

1. Decisions

Decisions are needed for the following purposes:

(a) The draft decision in Attachment A would satisfy the requirement of a review of the Structural Adjustment Facility, and would establish the Enhanced Structural Adjustment Facility. It would state the purposes of the facility, specify the sources of financing of loans under the facility, and provide for a review of the operation of the Enhanced Structural Adjustment Facility, the Structural Adjustment Facility and the Enhanced Structural Adjustment Facility Trust (Trust) not later than May 31, 1989 [November 30, 1989].

This decision could be adopted by a majority of the votes cast.

(b) The draft decision in Attachment B would amend the Regulations of the Structural Adjustment Facility as necessary to provide for the use of Structural Adjustment Facility resources for assistance to a member under the Enhanced Structural Adjustment Facility in conjunction with loans from the Enhanced Structural Adjustment Facility Trust.

The adoption of this decision would require seventy percent of the total voting power.

(c) The draft decision in Attachment C would adopt the Instrument on the Enhanced Structural Adjustment Facility Trust (Trust Instrument) annexed to that decision. This decision would also give effect to the Fund's commitment, 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. In such circumstances, the Fund would be committed to consider all initiatives open to it at that time, including the sale of gold, to assure full payment to lenders.

This decision could be adopted by a majority of the votes cast.

(d) The draft decision in Attachment D would prescribe the transfer of funds from the Special Disbursement Account to the Trust's Reserve Account, including any resources remaining in the Special Disbursement Account from the termination of the 1976 Trust Fund that would be transferred to the Reserve Account of the Trust if they can no longer be used under the Structural Adjustment Facility, and their subsequent retransfer to the Special Disbursement Account. The decision also provides for the coverage of the administrative costs of conducting the business of the Trust by the Special Disbursement Account. It had been considered whether resources attributable to any earnings on the investment of funds borrowed for Trust loans should be used for covering all or part of these expenses. Instead, it is proposed to add these earnings, if any, to the Trust's Reserve Account and to include them with the transfer of any remaining resources, upon a reduction of the resources of the Reserve Account or upon its liquidation, to the Special Disbursement Account as a compensation for the expenses incurred.

The adoption of this decision would require eighty-five percent of the total voting power.

2. Main Features of Proposed Trust Instrument

The draft Trust Instrument set forth in the Annex to Attachment C would regulate the operations of the Trust. It reflects the operational arrangements proposed in EBS/87/228 and EBS/87/230, as modified in EBS/87/245 in light of the Executive Board's informal discussions of these papers. This Section briefly outlines the main provisions of the Trust Instrument.

(a) Section I would define the purposes of the Trust, establish its different Accounts (Loan Account, Subsidy Account, Reserve Account), specify the unit of account of the Trust, and determine the media of payment of contributions.

(b) Section II would regulate the Trust's lending operations. It refers to the Regulations of the Structural Adjustment Facility and

prescribes the special provisions applicable to Trust loans, including qualification, access, monitoring and the terms of loans to borrowers.

(c) Section III would determine the resources of the Trust's Loan Account, and would authorize the Trust to borrow to finance its lending. The draft specifies that loan commitments to the Trust would run through June 30, 1992 but would also provide, in light of the Board discussion on November 20, that the commitment period with respect to a loan to the Trust may be extended by mutual agreement between the Trustee and a lender. This Section would also provide that calls on loans would be made in broad proportion to all commitments by lenders over time and would take account of parallel bilateral lending under the SAF enhancement.

Interest payments by the Trust on its borrowing for Trust loans would be financed from interest received on those loans, from the resources of the Subsidy Account, and, in case of delayed payments, from the Reserve Account. Repayments of principal by the Trust would be financed from receipts of principal on its loans and, in case of delays in such receipts, from the Reserve Account. In the event a payment to the Trust is not received on the due date, the Trustee will arrange for payment promptly from the Reserve Account. The individual borrowing agreements will, accordingly, need to make provision for payment to lenders promptly after the end of the relevant interest or maturity period. If it were decided to include a provision on postponement of repayments to the Trust, the obligations of the Trust to lenders would have to be discharged by the Reserve Account.

(d) Section IV would regulate the operation of the Subsidy Account and would authorize the Trustee to accept donations and, in certain exceptional circumstances, to borrow for the Subsidy Account. Any borrowing on behalf of the Subsidy Account would be serviced exclusively from the sources specified in the Instrument and would not constitute a claim on any other resources of the Subsidy Account, the Trust's other Accounts, nor on the Fund.

The staff has considered whether the Subsidy Account should be governed by a separate Instrument or by the Instrument establishing the Enhanced Structural Adjustment Facility Trust, and proposes that the latter approach be followed. While it would be possible to adopt a separate Trust Instrument, there is an integral relationship between the Subsidy Account and the payment by the Trust of interest on its borrowing for Trust loans. Moreover, the subsidization of interest that would be facilitated by the Subsidy Account is an essential feature of the proposed SAF enhancement, and it seems preferable that all of the operational aspects of the enhancement be governed by a single comprehensive document. The provisions of the Instrument maintain the necessary separation between the assets and operations of the Subsidy Account and those related to other aspects of the Trust. Thus, under the proposed draft Instrument, assets held in the Trust's Reserve could not be used to finance subsidy payments or to meet any obligations of

the Subsidy Account that might arise. Similarly, assets held in the Subsidy Account could not be used to meet any obligations of the Trust except those with respect to the subsidization of interest and obligations assumed on behalf of the Subsidy Account itself. Since the discharge of borrowing for the Subsidy Account is contingent on the receipt of the resources specified in the Instrument, any liability with respect to other Trust resources, even within the Subsidy Account, would be excluded.

The Subsidy Account would be used in conjunction with receipts of interest on Trust loans, in covering interest on the Trust's borrowing. Use of the Subsidy Account for such payments would be in amounts equivalent to the difference between the interest charged on Trust loans and the interest due to lenders on the Trust's borrowing to finance these loans. The interest charged on the borrower would not be subsidized with respect to overdue principal or interest under Trust loans.

In operating the Subsidy Account, the Trustee will need to monitor closely the availability and prospective availability over time of subsidy contributions, the cost of funds to the Trust, and the projected pattern of subsidy payments required in light of the Trust's borrowing and lending operations. If at any time, including at the beginning of operations, the Trustee determines that resources available are likely to be insufficient to achieve the targeted lending rate of 0.5 percent over the life of the Trust's operations, it is to seek additional resources necessary to achieve this objective. However, in the event such efforts are not successful, provision is made for adjustment of the rate of interest on Trust loans in future interest periods with a view to reducing that interest rate to the lowest feasible rate that could be applied during the remaining life of the Trust.

The draft Instrument calls for the receipt of annual contributions before May 30 of each year, to the extent possible, in order to assure the availability of funds necessary for subsidy operations at midyear; the staff will ask contributors to specify the planned amounts and timing of their contributions in advance and as precisely as possible, in order to facilitate the calculations and projections that will need to be made in the course of the Subsidy Account's operation.

Separate termination arrangements for the Subsidy Account are established and provide for the distribution of any residual amount to subsidy contributors in proportion to their contributions, including the subsidy element of concessional loans.

(e) Section V would determine the resources and regulate the use of the Reserve Account. These resources would be used when the amounts available from receipts of interest or principal from borrowers under Trust loans are insufficient to cover the payments to lenders. The reserve would be compensated whenever the payment by the borrower is made. Provision is made for a review if the Trustee determines that

resources available to the Reserve Account are likely to become insufficient to cover the Trust's obligations, and for the disposition of the resources in the Reserve Account on liquidation or for their reduction when they exceed in the judgment of the Trustee the amounts needed for the protection of the Trust.

(f) Section VI would authorize and regulate the transfer of claims among "electing lenders," as described in EBS/87/228 and EBS/87/245. Additions to, but not deletions from, the list of "electing lenders" and the amounts which they are committed to accept in transfers would be possible. This formulation is necessary to protect the interests of each of the individual participants in the mutual undertakings regarding such transfers.

(g) Section VII would include the customary provision, on the administration of a Trust, including investment provisions.

(h) Section VIII would regulate the period for operation of the Trust and its liquidation.

(i) Section IX would provide for amendment of the provisions of the Instrument. Amendments could be made by a majority of the votes cast. However, certain provisions, primarily relating to the purposes of the Trust and to the security of lenders' claims on the Trust, would not be subject to amendment by the Fund.

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, and has decided to establish an Enhanced Structural Adjustment Facility.

2. Loans under the Enhanced Structural Adjustment Facility shall be provided by the Enhanced Structural Adjustment Facility Trust (ESAF Trust), normally in conjunction with the Structural Adjustment Facility (SAF), on concessional terms to low-income developing members that qualify for assistance.

3. (a) The use of resources provided by the SAF shall be subject to the SAF Regulations, as amended by Decision No.....;

(b) The use of resources provided by the ESAF Trust shall be subject to the provisions of the ESAF Trust Instrument adopted by Decision No.....

4. The Fund shall review the operation of the Enhanced Structural Adjustment Facility, of the SAF, and of the ESAF Trust not later than May 31, 1989 [November 30, 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

When a member requests 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....., these Regulations shall apply 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 equal 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 may have been established for that disbursement have been met; or

(ii) a determination by the Fund that the mid-term review of the program supported by the arrangement has been completed to the satisfaction of the Fund.

(3) If, pursuant to subparagraph (2) above, a second disbursement under an annual arrangement is not made, the period of the three-year commitment shall be extended, and the corresponding amount shall be made available under an additional arrangement, 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 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.

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).

(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 sell or 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 its balance of payments position.

(d) Commitments under three-year arrangements may be made during the period from January 1, 1988 to [May 31, 1989] [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, at least annually, by the Trustee in the light of actual utilization of resources available to the Loan Account.

(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) 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.

[(c) On the request of a member, when payment of an installment is due under a Trust loan, the Trustee may reschedule the repayment to a date not later than two years after the due date if the Trustee finds that repayment on the due date would result in serious hardship for the

member, and if it has determined that the resources available in the Reserve Account are sufficient to cover all the obligations that are authorized to be discharged by that Account.]

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 broadly in proportion to all such commitments.

(b) Calls on commitments to the Trust to fund loans to a member shall take account of assistance to be provided to the member by bilateral lenders that have agreed to support the Enhanced Structural Adjustment Facility through bilateral lending in conjunction with Trust loans.

(c) Following any temporary suspension of calls with respect to the commitment of a lender, calls will be made on that commitment thereafter so as to restore broad 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.

(b) The difference between the interest or principal paid by the borrower and the interest or principal due on resources borrowed for Trust loans shall be paid from the Subsidy Account, in accordance with Section IV of this Instrument, and the Reserve Account, in accordance with Section V of this Instrument.

(c) The Trust shall pay interest on outstanding borrowing for Trust loans promptly after June 30 and December 31 of each year.

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 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. [The subsidy payment with respect to interest on loans rescheduled in accordance with II, paragraph 4(c) shall be made from the Reserve Account.]

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 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) 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 under Trust loans.

Paragraph 2. Use of Resources

The resources held in the Reserve Account shall be used by the Trustee to make payments of principal and interest on its borrowing for Trust loans, to the extent that the amounts available from receipts of repayments and interest from borrowers under Trust loans, together with the authorized subsidy under Section IV, paragraph 4, are insufficient to cover the payments to lenders as they become due and payable.

Paragraph 3. Payments to the Reserve Account

Any payments of overdue principal or interest under Trust loans 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 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 of the Trustee.

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, as of the date of this Instrument, shall be attached to this Instrument. 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: (a) marketable obligations issued by an international financial organization and denominated in SDRs or in the currency of a member of the Fund; (b) 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 (c) 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.

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 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.



(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 Sections I, paragraphs 1 and 2; III, paragraphs 4 and 5(a) and (b); IV, paragraphs 4 and 6; V; VI; VII, paragraph 2(a) and (b); VIII, paragraph 2(b).

Attachment: List of Electing Lenders

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