SELECTED DECISIONS

AND SELECTED DOCUMENTS OF THE INTERNATIONAL MONETARY FUND

THIRTY-SIXTH ISSUE
WASHINGTON, DC
DECEMBER 31, 2011

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PREFACE

This volume is the Thirty-Sixth Issue of *Selected Decisions and Selected Documents of the International Monetary Fund.* It includes decisions, interpretations, and resolutions of the Executive Board and the Board of Governors of the International Monetary Fund, as well as selected documents, to which frequent reference is made in the current activities of the Fund. In addition, it includes certain documents relating to the Fund, the United Nations, and other international organizations.

As with other recent issues, the number of decisions in force continues to increase, with the decision format tending to be longer given the use of summings up in lieu of formal decisions. Accordingly it has become necessary to delete certain decisions that were included in earlier issues, that is, those that only completed or called for reviews of decisions, those that lapsed, and those that were superseded by more recent decisions.

Wherever reference is made in these decisions and documents to a provision of the Fund's Articles of Agreement or Rules and Regulations that has subsequently been renumbered by, or because of, the Second Amendment of the Fund's Articles of Agreement (effective April 1, 1978), the corresponding provision currently in effect is cited in a footnote.

A compact disc (CD) containing the texts of the 36th Issue, the Articles of Agreement, and By-Laws, Rules and Regulations is available from the Fund.

SEAN HAGAN
The General Counsel
Director of the Legal Department

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Editor's Note, July 24, 2012
The table that follows the United Nations Convention on the Privileges and Immunities of the Specialized Agencies (see pages 922-926) was replaced to show the list of IMF members that have undertaken to apply the Convention to the IMF as of July 12, 2012. The previous table showed the list of UN members that have acceded to the Convention as of December 31, 2010.

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Selected Decisions and Resolutions of the International Monetary Fund

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Article III

Quotas and Subscriptions

ADJUSTMENT OF QUOTAS

The first interval of five years, at the end of which the Fund shall review the quotas of the members in accordance with Article III, Section 2, began on the date when the Fund Agreement, in accordance with Article XX, Section 1,[1] entered into force; i.e., on December 27, 1945.

Decision No. 408-2,
March 11, 1949

REFORM OF QUOTA AND VOICE IN THE INTERNATIONAL MONETARY FUND

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on March 28, 2008 for a vote without meeting. Considering that the Resolution is also proposing adjustments in the quotas of members that have requested such adjustment and whose names are listed in Attachment I of the Resolution, the adoption of the Resolution requires positive responses from Governors having an eighty-five percent majority of the total voting power:

WHEREAS in response to the request of the Board of Governors set forth in Resolution 61-5, the Executive Board has submitted to the Board of Governors a report entitled "Reform of Quota and Voice in the International Monetary Fund: Report of the Executive Board to the Board of Governors," hereinafter the "Report"; and

WHEREAS the Executive Board has recommended increases in the quotas of a number of Fund members, all of whom have requested that their quotas be increased; and

[1] Ed. Note: Corresponds to Article XXXI, Section 1 of the Articles of Agreement after the Second Amendment.

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WHEREAS in response to the request of the Board of Governors set forth in Resolution 61-5, the Executive Board has proposed an amendment of the Articles of Agreement that (a) would have the effect of increasing the number of basic votes of members and establish a mechanism to ensure that the ratio of the sum of the basic votes of all members to the sum of the total voting power of all members remains constant and (b) would enable each Executive Director elected by a large number of members to appoint a second Alternate Executive Director; and

WHEREAS the Chairman of the Board of Governors has requested the Secretary of the Fund to bring the proposal of the Executive Board before the Board of Governors; and

WHEREAS the Report of the Executive Board setting forth its proposal has been submitted to the Board of Governors by the Secretary of the Fund; and

WHEREAS the Executive Board has requested the Board of Governors to vote on the following Resolution without meeting, pursuant to Section 13 of the By-Laws of the Fund:

NOW THEREFORE, the Board of Governors, noting the recommendation and the said Report of the Executive Board, hereby RESOLVES that:

A. Increase in Quotas of Members

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund listed in Attachment I to this Resolution shall be increased to the amounts shown against their names in Attachment I.

2. A member's increase in quota shall not become effective unless the member in question has consented in writing to the increase and has paid to the Fund the full amount of such increase. Each member shall pay 25 percent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by each member in its own currency.

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3. Each member shall consent to the proposed increase of its quota no later than October 31, 2008; provided that the Executive Board may extend this period as it may determine, taking into account, in particular, the need of members to obtain domestic legislative approval.[1]

4. Each member shall pay to the Fund the increase in its quota within 30 days of the later of (a) the date on which it notifies the Fund of its consent or (b) the date on which the requirement for the effectiveness of the increase in quota under paragraph 5 below has been met; provided that the Executive Board may extend the payment period as it may determine.

5. No increase in quota shall become effective before the entry into force of the proposed amendment of the Articles of Agreement approved by this Resolution.

B. Future Quota Reviews

To ensure that members' quota shares continue to reflect their relative positions in the world economy, the Executive Board is requested to recommend further realignments of members' quota shares in the context of future general quota reviews, beginning with the Fourteenth General Review of Quotas.

C. Amendment of the Articles of Agreement

…[2]

D. Members Entitled to Appoint Two Alternate Executive Directors

…

[1] Ed. Note: Board of Governors Resolution 66-2, effective December 15, 2010, extended the deadline to 6:00 p.m., Washington time, on December 31, 2011. Decision No. 15059-(11/123), December 16, 2011, further extended the deadline to 6:00 p.m., Washington time, on June 30, 2012.

[2] Ed. Note: The Sixth Amendment of the Articles of Agreement to Enhance Voice and Participation in the IMF entered into force for all members on March 3, 2011, Decision No. 14860-(11/23). March 3, 2011.

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Attachment I

Proposed Quotas
(In millions of SDRs)

Albania	60.0	Austria	2,113.9
Bharain	176.4	Bhutan	8.5
Botswana	87.8	Brazil	4,250.5
Cape Verde	11.2	Chad	11.2
China	9,525.9	Costa Rica	187.1
Cyprus	158.2	Czech Republic	1,002.2
Denmark	1,891.4	Ecuador	347.8
Equatorial Guinea	52.3	Eritrea	18.3
Estonia	93.9	Germany	14,565.5
Greece	1,101.8	India	5,821.5
Ireland	1,257.6	Israel	1,061.1
Italy	7,882.3	Japan	15,628.5
Kazakhstan	427.8	Korea	3,366.4
Latvia	142.1	Lebanon	266.4
Lithuania	183.9	Luxembourg	418.7
Malaysia	1,773.9	Maldives	10.0
Mexico	3,625.7	Norway	1,883.7
Oman	237.0	Palau, Republic of	3.5
Philippines	1,019.3	Poland	1,688.4
Portugal	1,029.7	Qatar	302.6
San Marino	22.4	Seychelles	10.9
Singapore	1,408.0	Slovak Republic	427.5
Slovenia	275.0	Spain	4,023.4
Syrian Arab Republic	346.8	Thailand	1,440.5
Timor-Leste	10.8	Turkey	1,455.8
Turkmenistan	98.6	United Arab Emirates	752.5
United States	42,122.4	Vietnam	460.7

Attachment II

Proposed Amendment of the Articles of Agreement of the International Monetary Fund to Enhance Voice and Participation in the International Monetary Fund

…

Resolution 63-2,
effective April 28, 2008

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FOURTEENTH GENERAL REVIEW OF QUOTAS AND REFORM OF THE EXECUTIVE BOARD

In accordance with Section 13 of the By-Laws, the following Resolution was submitted to the Governors on November 10, 2010 for a vote without meeting:

RESOLVED:

WHEREAS the Executive Board has submitted to the Board of Governors a report entitled "Fourteenth General Review of Quotas and Reform of the Executive Board: Report of the Executive Board to the Board of Governors," hereinafter the "Report"; and

WHEREAS the International Monetary and Financial Committee in its April 2009 Communiqué called on the Executive Board to bring forward the deadline for completion of the Fourteenth General Review of Quotas by two years, to January 2011; and

WHEREAS the Executive Board has recommended increases in the quotas of members of the Fund as a result of the Fourteenth General Review of Quotas; and

WHEREAS the Executive Board has recommended an amendment of the Articles of Agreement to establish an Executive Board consisting solely of elected Executive Directors; and

WHEREAS the Executive Board has recommended that, following the first regular election of Executive Directors after entry into force of the proposed amendment of the Articles of Agreement approved under Board of Governors Resolution No. 63-2, an Executive Director elected by 7 or more members should be entitled to appoint two Alternate Executive Directors; and

WHEREAS the Chairman of the Board of Governors has requested the Secretary of the Fund to bring the proposal of the Executive Board before the Board of Governors; and

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WHEREAS the Report of the Executive Board setting forth its proposal has been submitted to the Board of Governors by the Secretary of the Fund; and

WHEREAS the Executive Board has requested the Board of Governors to vote on the following Resolution without meeting, pursuant to Section 13 of the By-Laws of the Fund:

NOW, THEREFORE, the Board of Governors, noting the recommendations and the said Report of the Executive Board, hereby RESOLVES that:

Increases in Quotas of Members

1. The International Monetary Fund proposes that, subject to the provisions of this Resolution, the quotas of members of the Fund shall be increased to the amounts shown against their names in Attachment I to this Resolution.

2. A member's increase in quota as proposed by this Resolution shall not become effective unless that member has consented in writing to the increase not later than the date prescribed by or under paragraph 4 below and has paid the increase in full within the period prescribed by or under paragraph 5 below, provided that no member with overdue repurchases, charges, or assessments to the General Resources Account may consent to or pay for the increase in its quota until it becomes current in respect of those obligations.

3. No increase in quotas proposed by this Resolution shall become effective until:

(i) the Executive Board has determined that members having not less than 70 percent of the total of quotas on November 5, 2010 have consented in writing to the increases in their quotas;

(ii) the proposed amendment of the Articles of Agreement set out in Attachment II of this Resolution has entered into force; and

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(iii) the proposed amendment of the Articles of Agreement approved under Board of Governors Resolution No. 63-2 has entered into force. Each member commits to use its best efforts to complete these steps no later than the Annual Meetings in 2012. The Executive Board is requested to monitor, on a quarterly basis, the progress made in the implementation of these steps.

4. Notices in accordance with paragraph 2 above shall be executed by a duly authorized official of the member and must be received in the Fund before 6:00 p.m., Washington time, December 31, 2011, provided that the Executive Board may extend this period as it may determine.

5. Each member shall pay to the Fund the increase in its quota within 30 days after the later of (a) the date on which it notifies the Fund of its consent, or (b) the date on which all of the conditions set forth in paragraph 3 above are met, provided that the Executive Board may extend the payment period as it may determine.

6. When deciding on an extension of the period for consent to or payment for the increase in quotas, the Executive Board shall give particular consideration to the situation of members that may still wish to consent to or pay for the increase in quota, including members with protracted arrears to the General Resources Account, consisting of overdue repurchases, charges, or assessments to the General Resources Account that, in its judgment, are cooperating with the Fund toward the settlement of these obligations.

7. For members that have not yet consented to their increases in quotas under the Eleventh General Review and under Board of Governors Resolution No. 63-2, the deadline for consent to such quota increases shall be the date determined by or under paragraph 4 above.

8. Each member shall pay 25 percent of its increase either in special drawing rights or in the currencies of other members specified, with their concurrence, by the Fund, or in any combination of special drawing rights and such currencies. The balance of the increase shall be paid by the member in its own currency.

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Quota Formula and Fifteenth General Review of Quotas

9. The Executive Board is requested to complete a comprehensive review of the formula by January 2013.

10. The Executive Board is requested to bring forward the timetable for completion of the Fifteenth General Review of Quotas to January 2014. Any realignment is expected to result in increases in the quota shares of dynamic economies in line with their relative positions in the world economy, and hence likely in the share of emerging market and developing countries as a whole. Steps shall be taken to protect the voice and representation of the poorest members.

Review of NAB Credit Arrangements

11. In light of the proposed increases in quotas under the Fourteenth General Review, the Executive Board and participants in the New Arrangements to Borrow (NAB) are requested to undertake a review of NAB credit arrangements by November 2011, with a corresponding roll-back of the NAB, preserving relative shares, to become effective when the conditions set forth in paragraph 3 of this Resolution are met and the quota payments associated with the participation threshold in paragraph 3(i) of this Resolution have been made.

Proposed Amendment of the Articles of Agreement of the International Monetary Fund on the Reform of the Executive Board

12. The proposed amendment of the Articles of Agreement of the International Monetary Fund set forth in Attachment II to this Resolution (the "Proposed Amendment on the Reform of the Executive Board") is approved.

13. The Secretary is directed to ask all members of the Fund, by circular letter or telegram, or other rapid means of communication, whether they accept, in accordance with the provisions of Article XXVIII of the Articles, the Proposed Amendment on the Reform of the Executive Board.

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14. The communication to be sent to all members in accordance with paragraph 13 of this Resolution shall specify that the Proposed Amendment on the Reform of the Executive Board shall enter into force for all members on the date on which the Fund certifies, by a normal communication addressed to all members, that three-fifths of the members, having eighty-five percent of the total voting power, have accepted the Proposed Amendment on the reform of the Executive Board.

Additional Alternate Executive Directors

15. Following the first regular election of Executive Directors after the entry into force of the amendment of the Articles of Agreement approved under Board of Governors Resolution No. 63-2, an Executive Director elected by seven or more members shall be entitled to appoint two Alternate Executive Directors.

16. As a condition for appointing two Alternate Executive Directors, an Executive Director is required to designate by notification to the Secretary of the Fund: (i) the Alternate who shall act for the Executive Director when he is not present and both Alternates are present; and (ii) the Alternate who shall exercise the powers of the Executive Director pursuant to Article XII, Section 3(f). By notification to the Secretary of the Fund, an Executive Director may change these designations at any time.

Size and Composition of the Executive Board

17. The Board of Governors takes note of: (i) the commitment to reduce, as a means of achieving greater representation of emerging market and developing countries, the number of Executive Directors representing advanced European countries by two no later than the first regular election of Executive Directors after the conditions set forth in paragraph 3 of this Resolution are met, and (ii) the commitment of the Fund's membership to maintain an Executive Board consisting of 24 Executive Directors, and to review the composition of the Executive Board every eight years following the date the conditions set forth in paragraph 3 of this Resolution are met.

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Attachment I

Proposed Quotas

(In millions of SDRs)

Afghanistan, Islamic State of	323.8	Albania	139.3
Algeria	1,959.3.	Angola	740.1
Antigua and Barbuda	20.0	Argentina	3,187.3
Armenia	128.8	Australia	6,572.4
Austria	3,932.0	Azerbaijan	391.7
Bahamas, The	182.4	Bahrain	395.0
Bangladesh	1,066.6	Barbados	94.5
Belarus	681.5	Belgium	6,410.7
Belize	26.7	Benin	123.8
Bhutan	20.4	Bolivia	240.1
Bosnia and Herzegovina	265.2	Botswana	197.2
Brazil	11,042.0	Brunei Darussalam	301.3
Bulgaria	896.3	Burkina Faso	120.4
Burundi	154.0	Cambodia	175.0
Cameroon	276.0	Canada	11,023.9
Cape Verde	23.7	Central African Rep.	111.4
Chad	140.2	Chile	1,744.3
China	30,482.9	Colombia	2,044.5
Comoros	17.8	Congo, Democratic Republic of the	1,066.0
Congo, Republic of	162.0	Costa Rica	369.4
Côte d'Ivoire	650.4	Croatia	717.4
Cyprus	303.8	Czech Republic	2,180.2
Denmark	3,439.4	Djibouti	31.8
Dominica	11.5	Dominican Republic	477.4
Ecuador	697.7	Egypt	2,037.1
El Salvador	287.2	Equatorial Guinea	157.5
Eritrea	36.6	Estonia	243.6
Ethiopia	300.7	Fiji,The Republic of	98.4
Finland	2,410.6	France	20,155.1
Gabon	216.0	Gambia, The	62.2
Georgia	210.4	Germany	26,634.4
Ghana	738.0	Greece	2,428.9
Grenada	16.4	Guatemala	428.6
Guinea	214.2	Guinea-Bissau	28.4
Guyana	181.8	Haiti	163.8
Honduras	249.8	Hungary	1,940.0

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Iceland	321.8	India	13,114.4
Indonesia	4,648.4	Iran, Islamic Republic of	3,567.1
Iraq	1,663.8	Ireland	3,449.9
Israel	1,920.9	Italy	15,070.0
Jamaica	382.9	Japan	30,820.5
Jordan	343.1	Kazakhstan	1,158.4
Kenya	542.8	Kiribati	11.2
Korea	8,582.7	Kosovo	82.6
Kuwait	1,933.5	Kyrgyz Republic	177.6
Lao People's Democratic Republic	105.8	Latvia	332.3
Lebanon	633.5	Lesotho	69.8
Liberia	258.4	Libya	1,573.2
Lithuania	441.6	Luxembourg	1,321.8
Macedonia, Former Yugoslav Republic of	140.3	Madagascar	244.4
Malawi	138.8	Malaysia	3,633.8
Maldives	21.2	Mali	186.6
Malta	168.3	Marshall Islands	4.9
Mauritania	128.8	Mauritius	142.2
Mexico	8,912.7	Micronesia, Federal States of	7.2
Moldova	172.5	Mongolia	72.3
Montenegro	60.5	Morocco	894.4
Mozambique	227.2	Myanmar	516.8
Namibia	191.1	Nepal	156.9
Netherlands	8,736.5	New Zealand	1,252.1
Nicaragua	260.0	Niger	131.6
Nigeria	2,454.5	Norway	3,754.7
Oman	544.4	Pakistan	2,031.0
Palau, Republic of	4.9	Panama	376.8
Papua New Guinea	263.2	Paraguay	201.4
Peru	1,334.5	Philippines	2,042.9
Poland	4,095.4	Portugal	2,060.1
Qatar	735.1	Romania	1,811.4
Russia	12,903.7	Rwanda	160.2
Samoa	16.2	San Marino	49.2
São Tomé and Príncipe	14.8	Saudi Arabia	9,992.6
Senegal	323.6	Serbia	654.8
Seychelles	22.9	Sierra Leone	207.4
Singapore	3,891.9	Slovak Republic	1,001.0
Slovenia	586.5	Solomon Islands	20.8
Somalia	163.4	South Africa	3,051.2

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Spain	9,535.5	Sri Lanka	578.8
St. Kitts and Nevis	12.5	St. Lucia	21.4
St. Vincent and the Grenadines	11.7	Sudan	630.2
Suriname	128.9	Swaziland	78.5
Sweden	4,430.0	Switzerland	5,771.1
Syrian Arab Republic	1,109.8	Tajikistan	174.0
Tanzania	397.8	Thailand	3,211.9
Timor-Leste	25.6	Togo	146.8
Tonga	13.8	Trinidad and Tobago	469.8
Tunisia	545.2	Turkey	4,658.6
Turkmenistan	238.6	Tuvalu	2.5
Uganda	361.0	Ukraine	2,011.8
United Arab Emirates	2,311.2	United Kingdom	20,155.1
United States	82,994.2	Uruguay	429.1
Uzbekistan	551.2	Vanuatu	23.8
Venezuela, R.B. de	3,722.7	Vietnam	1,153.1
Yemen, Republic of	487.0	Zambia	978.2
Zimbabwe	706.8		

Attachment II

Proposed Amendment of the Articles of Agreement of the International Monetary Fund on the Reform of the Executive Board

The Governments on whose behalf the present Agreement is signed agree as follows:

1. **The text of Article XII, Section 3(b) shall be amended to read as follows**:

"(*b*) Subject to (*c*) below, the Executive Board shall consist of twenty Executive Directors elected by the members, with the Managing Director as chairman."

2. **The text of Article XII, Section 3(c) shall be amended to read as follows:**

"(*c*) For the purpose of each regular election of Executive Directors, the Board of Governors, by an eighty-five percent majority of the to-

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tal voting power, may increase or decrease the number of Executive Directors specified in (*b*) above."

3. **The text of Article XII, Section 3(d) shall be amended to read as follows:**

"(*d*) Elections of Executive Directors shall be conducted at intervals of two years in accordance with regulations which shall be adopted by the Board of Governors. Such regulations shall include a limit on the total number of votes that more than one member may cast for the same candidate."

4. **The text of Article XII, Section 3(f) shall be amended to read as follows:**

"(*f*) Executive Directors shall continue in office until their successors are elected. If the office of an Executive Director becomes vacant more than ninety days before the end of his term, another Executive Director shall be elected for the remainder of the term by the members that elected the former Executive Director. A majority of the votes cast shall be required for election. While the office remains vacant, the Alternate of the former Executive Director shall exercise his powers, except that of appointing an Alternate."

5. **The text of Article XII, Section 3(i) shall be amended to read as follows:**

"(i) (i) Each Executive Director shall be entitled to cast the number of votes which counted towards his election.

(ii) When the provisions of Section 5(*b*) of this Article are applicable, the votes which an Executive Director would otherwise be entitled to cast shall be increased or decreased correspondingly. All the votes which an Executive Director is entitled to cast shall be cast as a unit.

(iii) When the suspension of the voting rights of a member is terminated under Article XXVI, Section 2(*b*), the member may agree with all the members that have elected an Executive Director that the number of votes allotted to that member shall be cast by such Executive

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Director, provided that, if no regular election of Executive Directors has been conducted during the period of the suspension, the Executive Director in whose election the member had participated prior to the suspension, or his successor elected in accordance with paragraph 3(*c*)(i) of Schedule L or with (*f*) above, shall be entitled to cast the number of votes allotted to the member. The member shall be deemed to have participated in the election of the Executive Director entitled to cast the number of votes allotted to the member."

6. **The text of Article XII, Section 3(j) shall be amended to read as follows:**

"(*j*) The Board of Governors shall adopt regulations under which a member may send a representative to attend any meeting of the Executive Board when a request made by, or a matter particularly affecting, that member is under consideration."

7. **The text of Article XII, Section 8 shall be amended to read as follows:**

"The Fund shall at all times have the right to communicate its views informally to any member on any matter arising under this Agreement. The Fund may, by a seventy percent majority of the total voting power, decide to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members. The relevant member shall be entitled to representation in accordance with Section 3(*j*) of this Article. The Fund shall not publish a report involving changes in the fundamental structure of the economic organization of members."

8. **The text of Article XXI(a)(ii) shall be amended to read as follows:**

"(*a*) (ii) For decisions by the Executive Board on matters pertaining exclusively to the Special Drawing Rights Department only Executive Directors elected by at least one member that is a participant shall be entitled to vote. Each of these Executive Directors shall be entitled to cast the number of votes allotted to the members that are participants

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whose votes counted towards his election. Only the presence of Executive Directors elected by members that are participants and the votes allotted to members that are participants shall be counted for the purpose of determining whether a quorum exists or whether a decision is made by the required majority."

9. **The text of Article XXIX(a) shall be amended to read as follows:**

"(*a*) Any question of interpretation of the provisions of this Agreement arising between any member and the Fund or between any members of the Fund shall be submitted to the Executive Board for its decision. If the question particularly affects any member, it shall be entitled to representation in accordance with Article XII, Section 3(*j*)."

10. **The text of paragraph 1(a) of Schedule D shall be amended to read as follows:**

"(*a*) Each member or group of members that has the number of votes allotted to it or them cast by an Executive Director shall appoint to the Council one Councillor, who shall be a Governor, Minister in the government of a member, or person of comparable rank, and may appoint not more than seven Associates. The Board of Governors may change, by an eighty-five percent majority of the total voting power, the number of Associates who may be appointed. A Councillor or Associate shall serve until a new appointment is made or until the next regular election of Executive Directors, whichever shall occur sooner."

11. **The text of paragraph 5(e) of Schedule D shall be deleted.**

12. **Paragraph 5(f) of Schedule D shall be renumbered 5(e) of Schedule D and the text of the new paragraph 5(e) shall be amended to read as follows:**
"(*e*) When an Executive Director is entitled to cast the number of votes allotted to a member pursuant to Article XII, Section 3(*i*)(iii), the Councillor appointed by the group whose members elected such Executive Director shall be entitled to vote and cast the number of

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votes allotted to such member. The member shall be deemed to have participated in the appointment of the Councillor entitled to vote and cast the number of votes allotted to the member."

13. **The text of Schedule E shall be amended to read as follows:**

"Transitional Provisions with Respect to Executive Directors

1. Upon the entry into force of this Schedule:

(*a*) Each Executive Director who was appointed pursuant to former Article XII, Sections 3(*b*)(i) or 3(*c*), and was in office immediately prior to the entry into force of this Schedule, shall be deemed to have been elected by the member who appointed him; and

(*b*) Each Executive Director who cast the number of votes of a member pursuant to former Article XII, Section 3(*i*)(ii) immediately prior to the entry into force of this Schedule, shall be deemed to have been elected by such a member."

14. **The text of paragraph 1(b) of Schedule L shall be amended to read as follows:**

"(*b*) appoint a Governor or Alternate Governor, appoint or participate in the appointment of a Councillor or Alternate Councillor, or elect or participate in the election of an Executive Director."

15. **The text of the chapeau of paragraph 3(c) of Schedule L shall be amended to read as follows**:

"(*c*) The Executive Director elected by the member, or in whose election the member has participated, shall cease to hold office, unless such Executive Director was entitled to cast the number of votes allotted to other members whose voting rights have not been suspended. In the latter case:"

Resolution 66-2,
effective December 15, 2010

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GOLD AND CURRENCY SUBSCRIBED TO THE FUND AND ACCOUNTING BY MEMBERS FOR TRANSACTIONS WITH THE FUND

The following principles should be observed by members in reflecting their participation in the Fund in their accounts:

1. Gold and currency subscribed to the Fund are clearly within its unrestricted ownership. They do not belong in any way to the subscriber.

2. Although the accounting practices of a member are primarily its own concern, each member should prepare its accounts in such a way that misconceptions as to the ownership of the gold and currency subscribed to the Fund would be avoided. …

Decision No. 170-3,
May 20, 1947

GUIDELINES ON PAYMENT OF RESERVE ASSETS IN CONNECTION WITH SUBSCRIPTIONS

The Executive Board approves the draft "Guidelines for Determining the Amount of Reserve Assets to Be Paid in Connection with Subscriptions" set forth [below].

Decision No. 6266-(79/156),
September 10, 1979

Guidelines for Determining the Amount of Reserve Assets to Be Paid in Connection with Subscriptions

The following are proposed for adoption by the Executive Board as guidelines for Committees of the Executive Board when considering the amount of a subscription that should be paid in reserve assets:

1. These guidelines shall be taken into account by a Committee of the Executive Board established to consider an application for membership in the Fund or to consider a request for an increase in quota that is made outside the framework of a general review of quo-

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tas. In applying the guidelines, a Committee shall pay due regard to present and prospective economic and financial circumstances of the country concerned.

2. In view of the requirement of Article II, Section 2, that the terms for membership, including the terms for subscriptions, shall be based on principles consistent with those applied to other countries that are already members, new members will be expected to pay a part of their initial subscription in reserve assets. The payment of reserve assets in connection with the initial subscription of a new member is largely a matter of exchanging one form of reserves for another.

3. The amount of the subscription to be paid in reserve assets shall be determined in the light of all the payments of reserve assets made by existing members and the country's external reserve position at the time of membership.

4. A reasonable approximation of the amount of the subscription that has been paid in reserve assets in the past is the average of all reserve assets actually paid in terms of the quotas of all members, rather than the proportions paid in the past by individual members. In making the calculation of the reserve assets to be paid, account will be taken of the repurchases made in the past by members, including those made in accordance with Schedule B of the amended Articles, and of sales of the currencies of members made to reduce to that level the amounts of the member's currency paid in excess of 75 percent of quota by a member that had joined the Fund before the date of the Second Amendment.

Taking into account the asset payments made by all members in connection with the Sixth General Review of Quotas and adding them to the sum of asset payments taken as the equivalent of 25 percent of total quotas as of the date of the Second Amendment, the reserve asset payments made by all members average 20 percent of present quotas. In the event that all eligible members consent to the full increases in their quotas approved under the Seventh General Review of Quotas and taking into account that 25 percent of any increase in quotas is to be paid in SDRs (or acceptable currency for

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nonparticipants), the reserve asset payment made by eligible members will average 21.7 percent of total quotas.

Consequently, for the period prior to the coming into effect of the quotas approved under the Seventh General Review of Quotas, the reserve asset payment for a country applying for membership can normally be expected to be of the order of 20 percent of its initial quota; after the Seventh General Review is completed, the reserve asset payment for a country applying for membership would rise to the order of 21.7 percent of its initial quota.

5. Normally, countries joining the Fund would be expected to make a payment of reserve assets in the amount, in terms of quota, calculated along the lines outlined in paragraph 3 above. However, consideration may be given, at the request of a prospective new member, for a payment of reserve assets smaller than the average size of such payments in terms of all quotas. In exceptional circumstances, and in light of the actual and prospective balance of payments and gross reserve position of the prospective member (including its ability to acquire or mobilize external financial assets and also any allocations of SDRs that might be in prospect) at the time its application is being considered, the size of the reserve asset payment may be reduced, provided that it is not less than the equivalent of 10 percent of the member's gross reserves or 10 percent of initial quota, whichever was the higher.

6. In determining the amount of the reserve asset payment, account should also be taken of the effect the size of such payment would have on the remuneration that might be payable to the new member. This factor would ameliorate a higher reserve asset payment in terms of quota because the acquisition of a remunerated reserve tranche position would tend to ease the loss of interest income involved in the payment of a reserve asset. However, there may be circumstances where the new member has a reserve level somewhat below the average level of all members or when other features of its external financial position would seem to call for some mitigation of the payment. In such circumstances, the norm for remuneration could be applied for the new member rather than the average of reserve asset payments made in the past noted in paragraph 3 above. As the norm for remuneration is likely to rise over time, the applicability of

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this approach would need to be kept under review and would be subject to the minimum payment in paragraph 5 above.

7. As regards the amount of reserve asset payments to be made in connection with ad hoc increases in quotas which occur outside a general review of quotas, and to the extent that such increases are effectively a "catching up" of the quota increases already granted to other members in past general reviews, the amount of the reserve assets to be paid shall be based on the amount of reserve assets required as a result of such past general reviews. For other ad hoc increases, if any, the amount of the reserve asset payment shall be equivalent to 25 percent of the increase in quota.

8. As regards the media of payment, payments of reserve assets shall be made in SDRs to the maximum extent practicable or in a currency that is acceptable to the Fund and which is included in the operational budget as a currency that could be sold on a net basis for the foreseeable future.

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Article IV

Exchange Arrangements and Surveillance

NOTIFICATION OF EXCHANGE ARRANGEMENTS UNDER ARTICLE IV, SECTION 2

...

2. The procedures set forth in Section IV of SM/77/277 [attached] are approved, and members shall be guided by the considerations in Section IV with respect to the prompt notification of any changes in their exchange arrangements.

...

Decision No. 5712-(78/41),
March 23, 1978

Attachment

Section IV of SM/77/277
IV. Issues Connected with Subsequent Notification

Once the procedures for initial notification have been clarified, only a few issues remain to be dealt with in respect of subsequent notifications. One of these is the question of what would constitute a change in an exchange arrangement requiring notification. Clearly, any official action involving the adoption of a different type of arrangement would require notification. Furthermore, in cases where a member pegs its currency, it would be appropriate to notify the Fund of all changes in the peg; this would include not only every change in the central point around which a member was maintaining margins, but also those involving a change in the composition of a composite, other than one occurring from a redistribution of currency weights on the basis of newly available trade or payments data.

For members with flexible exchange arrangements, it is more difficult to specify changes, which will require notification to the Fund. For members classified as fixing the rate according to a set of

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indicators, it would seem an appropriate rule that they communicate to the Fund details of any discrete exchange rate changes that are not consistent with the changes produced by the set of indicators. It would also be expected, if the suggested approach outlined earlier in this paper is accepted, that all members maintaining flexible exchange arrangements be asked to notify the Fund whenever the authorities have taken a significant decision affecting such arrangements. This would involve, as a minimum, notification of such decisions whenever public policy statements have been issued. In addition, in any instance in which the Managing Director considered that a significant change had occurred in a member's exchange policy (including intervention arrangements), and no notification has been received from that member, he would consult with the member to request information on the background to such developments. If considered appropriate, a formal notification of the change would be sought from the member.

Members would be expected to inform the Fund of all actions involving exchange taxes and subsidies. Indeed, under Article VIII, Section 3, members will continue to be required to request prior Fund approval of any multiple currency practices that may be involved in such actions.

Upon receipt of notification of a change in exchange arrangements from a member the staff would circulate it to the Executive Board. If the Board wishes, it could continue to be the normal practice that whenever a change is significant, its communication to the Board would be followed promptly by a staff paper describing the context of the change in policy and giving the staff's assessment.

Chairman's Summing Up—
Review of the 1977 Surveillance Decision—
Proposal for a New Decision
Executive Board Meeting 07/51-2, June 15, 2007

1. Following extensive discussions over recent months, the Executive Board has adopted a new Decision on bilateral surveillance over members' policies. Reflecting the momentous changes in the world economic and financial system since the previous Decision on surveillance over members' exchange rate policies was adopted in

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1977, the new surveillance Decision updates guidance to both the Fund and its members regarding their obligations under Article IV of the Articles of Agreement. The discussions leading up to the Decision have served to build a broadly shared understanding of its purpose and its key elements. I am particularly grateful that in arriving at this agreement on a new surveillance Decision, members with a spectrum of views have made their best efforts to meet the dual objective of commanding the broadest support and achieving the best outcome possible. Today's decision is also an important step forward in the implementation of the Fund's Medium-Term Strategy, and helps pave the way for positive outcomes on its other elements, including quota and voice reforms and the Fund's income model.

2. The new surveillance Decision focuses on bilateral surveillance, and provides guidance both to the Fund in the conduct of surveillance—in Part I of the Decision—and to members in the conduct of their exchange rate policies—in Part II of the Decision—including through an Annex that provides guidance with respect to the meaning of Article IV, Section 1 (iii). In their discussions on the text of the Decision, Directors reaffirmed the understanding, consistent with the Fund's legal framework, that references to the "Fund" in a Board decision are generally understood to mean the Executive Board, supported by management and staff as appropriate. A few Directors would have preferred that the Decision also cover multilateral surveillance—that is, the Fund's responsibility to oversee the international monetary system, under Article IV, Section 3(a)—and expressed the hope that this would be included at a later stage. Most Directors agreed that a number of sections of SM/07/184 identified below would provide particularly important guidance as to how the Fund should apply the Decision.

3. Looking ahead, Directors generally viewed the adoption of the Decision as an important starting point, but not by any means the end of the road, in the Fund's efforts to discharge its surveillance responsibilities effectively and in an evenhanded manner. It will be important that the adoption of the Decision is followed up by ensuring that both staff and national authorities are fully familiar with the new framework and that they deepen their shared understanding of how surveillance can be effectively enhanced.

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4. Under the new Decision, the concept of external stability becomes an overarching organizing principle of surveillance. In that regard, the Executive Board endorsed the meaning ascribed to this term in paragraphs 3 through 11 of SM/07/184, with many Directors emphasizing that, in applying the Decision, the text of those paragraphs will provide particularly useful guidance.

5. Directors considered that the adoption of a new principle for the guidance of members' exchange rate policies, PGM [Principle] D, is an important step forward for the Fund. They noted that this principle should guide members in avoiding external instability arising from their exchange rate policies.

6. The Executive Board endorsed the definition of fundamental exchange rate misalignment as set forth in paragraph 6 of SM/07/184. Directors underscored, however, that this needs to be applied with appropriate caution. They stressed, in particular, that it should be used with due acknowledgement of the considerable measurement uncertainties involved, and that estimates of misalignment require the exercise of careful judgment. In practice, an exchange rate would only be judged to be fundamentally misaligned if the misalignment is found to be significant. Directors also attached considerable importance to the provisions of the Decision whereby the benefit of any reasonable doubt would be given to the authorities in establishing whether fundamental misalignment is present. Directors noted that any judgment on misalignment should be applied in an evenhanded manner irrespective of the nature of the exchange rate regime and the size of the economy. Also, a number of Directors emphasized the potential market-sensitivity of estimates of misalignment and the need for care in communicating them.

7. With regard to the indicator in paragraph 15 of the Decision on protracted large-scale intervention in one direction in the exchange market, Directors noted that such intervention is worthy of special scrutiny when it is accompanied by sterilization. Of course, sterilization—often appropriately engaged in to promote domestic stability—may very well be perfectly justified. The Executive Board endorsed the discussion contained in paragraphs 41–42 of SM/07/184.

8. With respect to the guidance which the Board has provided in the Annex to the Decision on the meaning of Article IV, Section 1

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(iii), Directors recognized that exchange rate manipulation can take many different forms, including intervention in the exchange markets and the imposition of capital controls for the purpose of directly targeting the exchange rate. They noted that, as explained in the Annex to the Decision, under Article IV, Section 1 (iii), a member is only required to avoid exchange rate manipulation when such manipulation is engaged in for one of the purposes identified in that provision. A number of Directors stressed that the above mention of intervention and capital controls should not be construed as stigmatizing the use of these legitimate policy options per se, or removing them from the toolkit of members.

9. Today's discussion completes the review of the 1977 Decision, which is now replaced by the 2007 Decision on Bilateral Surveillance over Members' Policies.

Annex

I. Paragraphs 3 through 11 of SM/07/184

A. The Concept of External Stability

…

3. **A balance of payments position consistent with external stability is one in which both** (i) the underlying current account is broadly in line with its equilibrium (which, as discussed below, is equivalent to there being no fundamental exchange rate misalignment), and (ii) the capital and financial account does not create risks of abrupt shifts in capital flows. While the balance of payments refers to "flows," the assessment of these flows must take into account the existing stocks, and, in particular, the economy's net external asset position (NEAP) and the level and structure (e.g., composition by instrument or holder, maturity, currency denomination) of gross assets and liabilities. The next two sections examine the current account and the capital and financial account in turn, while a third section further clarifies the concept of external stability.

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The underlying current account and fundamental exchange rate misalignment

4. **External stability requires the underlying current account to be broadly in equilibrium**:

• *The underlying current account is in equilibrium when the country's NEAP is evolving in a manner consistent with the economy's structure and fundamentals.* Otherwise, the NEAP evolves in a way that creates a risk of abrupt reversal and thus of disruptive adjustments in exchange rates.[1] In general, the equilibrium evolution of the NEAP is expected to be consistent with the present and expected values of such fundamentals as productivity differentials, the terms of trade, permanent shifts in factor endowments, demographics, and world interest rates.[2] Of course, the equilibrium evolution of the NEAP is a matter of considerable judgment, especially in light of the recent trend toward financial globalization.

• *The underlying current account is the current account stripped of temporary factors,* such as cyclical fluctuations, temporary shocks, and adjustment lags.[3] If the actual current account deviates from the equilibrium current account due to temporary factors, the NEAP will evolve *for a while* in a way inconsistent with the economy's structure and fundamentals, but this will not necessarily create risks of abrupt

[1] See paragraph 9 below on the unsustainability over time of NEAPs that are evolving inappropriately.

[2] The initial position of the NEAP is also important. If it is low because of earlier negative shocks, it may be appropriate for a country to run temporarily stronger current account balances. In general, the equilibrium evolution of the NEAP is not one in which the NEAP is necessarily constant.

[3] Including lags in the current account with respect to previous exchange rate movements.

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reversal.[1] The underlying current account is thus the one consistent with a zero output gap.[2, 3]

5. **The underlying current account may deviate from equilibrium for various reasons.** Exchange rate policies may be keeping the exchange rate at a level where, in the absence of an output gap, it yields too large a current account deficit or surplus. Or the same exchange rate result may come about because of market imperfections or persistent expectational errors on the part of the private sector, such as overoptimistic assessments of future productivity growth. Alternatively, a current account disequilibrium may also stem from domestic policies that tend to lead to excessive accumulation of assets or liabilities. Unsustainable fiscal policy is an obvious example.

6. **When the underlying current account differs from the equilibrium current account, the exchange rate is "fundamentally misaligned."**[4] In these circumstances, the exchange rate is not at its equilibrium level—the one required to generate an equilibrium current account, in the absence of an output gap—be it because of exchange rate policies, market imperfections, or unsustainable domestic policies. The exchange rate of interest here is the one that affects the current account, hence the *real effective* exchange rate,[5] and its equi-

[1] These temporary factors are assumed to offset each other over time, so that any temporary accumulation of assets does not affect the long-term position of the NEAP.

[2] In low-income countries, defining an output gap and an associated underlying current account is likely to be challenging because cyclical fluctuations are typically less important than structural changes. The judgment required is similar, however, to the commonly-made judgment whether aggregate demand is consistent with the economy's "absorptive capacity."

[3] Since the assessment should be conducted in a multilateral setting, the underlying current account should also be calculated assuming other countries have no output gap.

[4] An exchange rate will be misaligned in a manner that is not "fundamental" when the *actual* current account differs from the equilibrium current account. Such misalignment may thus include a cyclical component.

[5] Of course, the concept of misalignment could equally be cast in terms of the exchange rate at a *particular point in time* and measured in nominal terms—that is,

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librium level will also depend on factors affecting the relationship between the exchange rate and the equilibrium current account (such as trade restrictions). Of course, in practice an exchange rate would only be judged to be fundamentally misaligned if the misalignment was found to be significant.

7. **Although "equilibrium" exchange rates can be defined in various ways, the definition above is the one of prime relevance to Fund surveillance.** It differs from the short-term market equilibrium, and assessments about misalignments are not intended to try to anticipate market outcomes over any specific time horizon. Rather, the goal here is to assess the potential for significant real exchange rate adjustments that might occur when fundamental forces eventually prevail. Accordingly, the concept of equilibrium exchange rate described above is the one used in best practice Article IV consultations and the one that underlies the work of the Fund's Consultative Group on Exchange Rates (CGER) (backed up by three different methodologies), which embodies a multilateral consistency constraint and serves as an input for consultation teams.[1]

The role of the capital and financial account

8. **Even if the underlying current account is in equilibrium (and, thus, there is no fundamental exchange rate misalignment), the capital and financial account may be a separate source of external instability:**

• First, the NEAP may be evolving appropriately, and yet the country may be building up, or maintaining, *vulnerable external balance sheet*

given the relevant price levels. To form a view on misalignment through time, however, it is clearly necessary to account for the evolution of price levels.

[1] The *Surveillance Guidance Note* (SM/05/156, 5/9/05) suggests indicators relevant to an assessment of misalignment. *Methodology for CGER Exchange Rate Assessments*, (SM/06/283, 8/10/06), discusses econometric methods of estimating the equilibrium exchange rate.

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structures, which could be abruptly unwound. The importance of such structures has been amply demonstrated in the capital account-driven crises of the last decade. The level and structure of gross capital flows is key in this regard—against the background, as noted above, of the level and structure of existing external assets and liabilities.

• Second, even temporary fluctuations in the current account may cause disruptions in the presence of market imperfections leading to *financing constraints*. Inability to finance an excessive current account deficit due to cyclical fluctuations (overheating) or to temporary shocks is thus another possible source of external instability. The level of reserves and access to international capital markets are key factors here.

Three clarifications

9. **The concept of external stability takes account of spillovers across countries, and applies to both surplus and deficit countries.** External instability—the mirror image of external stability—captures instances where a member's balance of payments creates a risk of disruptive adjustments in exchange rates, where the trigger for such an adjustment may come from within the member's balance of payments or from within that of its partners. A country building up excessive net liabilities clearly becomes vulnerable to disruptions, as it would be regarded to be breaching its intertemporal budget constraint, and would face financing constraints. By contrast, a country building up excessive net assets, inconsistent with the economy's fundamentals, might be able to do so for a long period. However, at least one of its partners is likely to be building up an excessive net liability position, at risk of abrupt reversals.

10. **Although the concept of external stability is anchored in the balance of payments position *today*, this does not mean that surveillance can ignore policies and developments that will only affect the balance of payments position *tomorrow*.** Problems yet to influence the balance of payments—e.g., domestic problems—but that risk leading to external instability are also relevant for surveillance. For example, domestic financial sector weakness might eventually spill over onto the balance of payments when a crisis occurs.

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11. **Eliminating external instability does not necessarily mean exchange rates *need to adjust*, but external instability, if not addressed, risks being *reflected in disruptive exchange rate adjustment.*** The definition of external instability should not be read as describing a situation requiring exchange rate adjustment at all times. Rather, it is meant to acknowledge that without remedial action, there is a risk of disruptive adjustment in exchange rates. Consistent with paragraph 5 above, action to promote external stability is not necessarily sought in exchange rate adjustment, but in a range of policies to ensure a balance of payments position consistent with external stability.[1]

II. Paragraphs 41–42 of SM/07/184

Indicator (i)—Intervention

41. **The proposed text places particular emphasis on the need to examine sterilization that accompanies protracted large-scale one-way intervention.**[2] Exchange rate intervention *coupled with* sterilization—i.e., mopping up liquidity associated with reserve gains or injecting liquidity to offset reserve losses—prevents domestic prices from adjusting and hence impedes the adjustment of not only the nominal but also the real exchange rate. It therefore warrants special scrutiny.

42. **The explicit mention of sterilization is by no means intended to indicate that sterilization will always be a cause for concern.** Some Directors in February were concerned that such reference

[1] This said, if domestic prices are rigid downward (and inflation is low in other countries), there will be limits to what domestic policies can achieve to make an *overvalued* exchange rate consistent with external stability. In this situation an adjustment in exchange rate policies may be necessary.

[2] Ed. Note: The reference to "the proposed text" in paragraph 41 refers to a proposed addition of the phrase "particularly if accompanied by sterilization" at the end of surveillance indicator (i) that reads "protracted large-scale intervention in one direction in the exchange market."

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would risk surveillance making no allowance for well-justified sterilization such as would, for example, take place in the course of normal reserve buildup or in response to large temporary or cyclical capital inflows.[1] The indicator, however, does not call for special scrutiny of all sterilization, but only of sterilization that accompanies protracted large scale one-way intervention. Moreover, in applying it, it is critical to assess whether the sterilized intervention occurs in the presence of a misaligned exchange rate, or whether sterilized intervention aims at preventing market forces from moving the real exchange rate away from its equilibrium, as in the case of speculative capital inflows.[2]

BILATERAL SURVEILLANCE OVER MEMBERS' POLICIES—2007 DECISION

Preamble

Since the adoption in 1977 of the Decision entitled "Surveillance over Exchange Rate Policies"(the "1977 Decision"), there have been significant developments in the global economy, characterized by growing trade and financial integration. In light of these developments and in recognition of the increasingly important international dimensions of surveillance and of cross-country spillovers, the Fund is of the view that, by incorporating existing best practice in the area of surveillance, an update of the 1977 Decision would play an important role in providing guidance to both the Fund and its members regarding their mutual responsibilities under Article IV. The Fund emphasizes that the guidance being provided to members in this Decision relates to the performance of their existing obligations under Article IV; no new obligations are created for members by this Decision. Moreover, the Fund recognizes that members have legiti-

[1] Of course, the practical effectiveness and viability of sterilized intervention would depend on the elasticity of capital inflows to interest rate differentials, as well as on its costs.

[2] For example, particular attention should be paid to sterilization of current account surpluses and deficits, rather than of capital account flows, as such sterilization is more likely to point to a misaligned exchange rate.

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mate policy objectives that are beyond the scope of Article IV and, accordingly, beyond the scope of this Decision, although when adopting policies to achieve these objectives, members need to ensure that such policies are consistent with their obligations under Article IV. Part I of this Decision is designed to give guidance to the Fund in its exercise of surveillance; Part I of this Decision does not, and cannot be construed or used to, expand or broaden the scope—or change the nature—of members' obligations under the Articles of Agreement, directly or indirectly. The principles for the guidance of members set forth in this Decision regarding their exchange rate policies respect the domestic social and political policies of members and will be applied in a manner that pays due regard to the circumstances of members and the need for evenhandedness in the practice of surveillance. Finally, looking forward, flexibility should be maintained to allow for the continued evolution of surveillance.

1. This Decision provides guidance to the Fund in its oversight over members' policies pursuant to Article IV, Sections 3(a) and (b), and guidance to members in the conduct of their exchange rate policies pursuant to Article IV, Section 3(b). It does not deal directly with the Fund's responsibility to oversee the international monetary system in order to ensure its effective operation, referred to in Article IV, Section 3 (a).

2. Part I of this Decision sets out the scope and modalities of the Fund's oversight of members' obligations under Article IV, Section 1, including the Fund's exercise of firm surveillance over the exchange rate policies of members (such oversight of members' obligations is hereinafter referred to as "bilateral surveillance." Part II establishes principles for the guidance of members in the conduct of their exchange rate policies as required under Article IV, Section 3 (b); it also identifies certain developments which, in the Fund's assessment of a member's observance of the principles, would require thorough review and might indicate the need for discussion with the member. Part III sets out procedures for surveillance.

3. Fund surveillance over members' policies shall be adapted to the needs of the international monetary and financial system as they develop. The principles and procedures set out in this Decision, which

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apply to all members irrespective of their exchange arrangements and balance of payments positions, are not necessarily comprehensive and are subject to reconsideration by the Fund in the light of experience.

Part I. Principles for the Guidance of the Fund in its Bilateral Surveillance

A. The Scope of Bilateral Surveillance

4. The scope of bilateral surveillance is determined by members' obligations under Article IV, Section 1. Members undertake under Article IV, Section 1 to collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates (hereinafter "systemic stability." Systemic stability is most effectively achieved by each member adopting policies that promote its own "external stability"—that is, policies that are consistent with members' obligations under Article IV, Section 1 and, in particular, the specific obligations set forth in Article IV, Sections 1 (i) through (iv). "External stability" refers to a balance of payments position that does not, and is not likely to, give rise to disruptive exchange rate movements. Except as provided in paragraph 7 below, external stability is assessed at the level of each member.

5. In its bilateral surveillance, the Fund will focus on those policies of members that can significantly influence present or prospective external stability. The Fund will assess whether these policies are promoting external stability and advise the member on policy adjustments necessary for this purpose. Accordingly, exchange rate policies will always be the subject of the Fund's bilateral surveillance with respect to each member, as will monetary, fiscal, and financial sector policies (both their macroeconomic aspects and macroeconomically relevant structural aspects). Other policies will be examined in the context of surveillance only to the extent that they significantly influence present or prospective external stability.

6. In the conduct of their domestic economic and financial policies, members are considered by the Fund to be promoting external stability when they are promoting domestic stability—that is, when they (i) endeavor to direct their domestic economic and financial policies to-

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ward the objective of fostering orderly economic growth with reasonable price stability, with due regard to their circumstances, and (ii) seek to promote stability by fostering orderly underlying economic and financial conditions and a monetary system that does not tend to produce erratic disruptions. The Fund in its surveillance will assess whether a member's domestic policies are directed toward the promotion of domestic stability. While the Fund will always examine whether a member's domestic policies are directed toward keeping the member's economy operating broadly at capacity, the Fund will examine whether domestic policies are directed toward fostering a high rate of potential growth only in those cases where such high potential growth significantly influences prospects for domestic, and thereby external, stability. However, the Fund will not require a member that is complying with Article IV, Sections 1(i) and (ii) to change its domestic policies in the interests of external stability.

7. This Decision applies to members of currency unions, subject to the following considerations. Members of currency unions remain subject to all of their obligations under Article IV, Section 1 and, accordingly, each member is accountable for those policies that are conducted by union-level institutions on its behalf. In its surveillance over the policies of members of a currency union, the Fund will assess whether relevant policies implemented at the level of the currency union (including exchange rate and monetary policies) and at the level of members are promoting the external stability of the union and will advise on policy adjustments necessary for this purpose. In particular, the Fund will assess whether the exchange rate policies of the union are promoting its external stability, and whether domestic policies implemented at the level of the union are promoting the domestic, and thereby external, stability of the union. Because, in a currency union, exchange rate policies are implemented at the level of the union, the principles for the guidance of members' exchange rate policies and the associated indicators set out in paragraph 15 of this Decision only apply at the level of the currency union. With respect to the conduct of domestic policies implemented at the level of individual members, a member of a currency union is considered by the Fund to be promoting the external stability of the union when it is promoting its own domestic stability. In view of the importance of individual members' balances of payments for the domestic stability

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of the member and the external stability of the union, the Fund's assessment of the policies of a member of a currency union will always include an evaluation of developments in the member's balance of payments.

B. The Modalities of Bilateral Surveillance

8. Dialogue and persuasion are key pillars of effective surveillance. The Fund, in its bilateral surveillance, will clearly and candidly assess relevant economic developments, prospects, and policies of the member in question, and advise on these. Such assessments and advice are intended to assist that member in making policy choices, and to enable other members to discuss these policy choices with that member. In the context of bilateral surveillance, the Fund will foster an environment of frank and open dialogue and mutual trust with each member and will be evenhanded across members, affording similar treatment to members in similar relevant circumstances.

9. The Fund's assessment of a member's policies and its advice on these policies will pay due regard to the circumstances of the member. This assessment and advice will be formulated within the framework of a comprehensive analysis of the general economic situation and economic policy strategy of the member, and will pay due regard to the member's implementation capacity. Moreover, in advising members on the manner in which they may promote external stability, the Fund shall, to the extent permitted under Article IV, take into account the member's other objectives.

10. The Fund's assessment and advice in the context of bilateral surveillance will be informed by, and be consistent with, a multilateral framework that incorporates relevant aspects of the global and regional economic environment, including exchange rates, international capital market conditions, and key linkages among members. The Fund's assessment and advice will take into account the impact of a member's policies on other members to the extent that the member's policies undermine the promotion of its own external stability.

11. The Fund's assessment and advice in the context of bilateral surveillance will, to the extent possible, be placed in the context of an

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examination of the member's medium-term objectives and the planned conduct of policies, including possible responses to the most relevant contingencies.

12. The Fund's assessment of a member's policies will always include an evaluation of the developments in the member's balance of payments, including the size and sustainability of capital flows, against the background of its reserves, the size and composition of its other external assets and its external liabilities, and its opportunities for access to international capital markets.

Part II. Principles for the Guidance of Members' Policies Under Article IV, Section 1

13. Principles A through D below are adopted pursuant to Article IV, Section 3 (b) and are intended to provide guidance to members in the conduct of their exchange rate policies in accordance with their obligations under Article IV, Section 1. In accordance with Article IV, Section 3 (b), these Principles respect the domestic social and political policies of members. In applying these Principles, the Fund will pay due regard to the circumstances of members. Members are presumed to be implementing policies that are consistent with the Principles. When, in the context of surveillance, a question arises as to whether a particular member is implementing policies consistent with the Principles, the Fund will give the member the benefit of any reasonable doubt, including with respect to an assessment of fundamental exchange rate misalignment. In circumstances where the Fund has determined that a member is implementing policies that are not consistent with these Principles and is informing the member as to what policy adjustments should be made to address this situation, the Fund will take into consideration the disruptive impact that excessively rapid adjustment would have on the member's economy.

14. Principle A sets forth the obligation contained in Article IV, Section 1(iii); further guidance on its meaning is provided in the Annex to this Decision. Principles B through D constitute recommendations rather than obligations of members. A determination by the Fund that a member is not following one of these recommendations would not

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create a presumption that that member is in breach of its obligations under Article IV, Section 1.

A. A member shall avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members.

B. A member should intervene in the exchange market if necessary to counter disorderly conditions, which may be characterized *inter alia* by disruptive short-term movements in the exchange rate of its currency.

C. Members should take into account in their intervention policies the interests of other members, including those of the countries in whose currencies they intervene.

D. A member should avoid exchange rate policies that result in external instability.

15. In its surveillance of the observance by members of the Principles set forth above, the Fund shall consider the following developments as among those which would require thorough review and might indicate the need for discussion with a member:

(i) protracted large-scale intervention in one direction in the exchange market;

(ii) official or quasi-official borrowing that either is unsustainable or brings unduly high liquidity risks, or excessive and prolonged official or quasi-official accumulation of foreign assets, for balance of payments purposes;

(iii)(a) the introduction, substantial intensification, or prolonged maintenance, for balance of payments purposes, of restrictions on, or incentives for, current transactions or payments, or (b) the introduction or substantial modification for balance of payments purposes of restrictions on, or incentives for, the inflow or outflow of capital;

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(iv) the pursuit, for balance of payments purposes, of monetary and other financial policies that provide abnormal encouragement or discouragement to capital flows;

(v) fundamental exchange rate misalignment;

(vi) large and prolonged current account deficits or surpluses; and

(vii) large external sector vulnerabilities, including liquidity risks, arising from private capital flows.

Part III. Procedures for Surveillance

16. Each country that becomes a member of the Fund after the adoption of this decision shall, within thirty days of the date of its membership, notify the Fund in appropriate detail of the exchange arrangements it intends to apply in fulfillment of its obligations under Article IV, Section 1. Each member, regardless of its date of membership, shall notify the Fund promptly of any changes in its exchange arrangements.

17. Members shall consult with the Fund regularly under Article IV. In principle, the consultations under Article IV shall comprehend the regular consultations under Articles VIII and XIV, and shall take place annually. They shall include consideration of the observance by members of the principles set forth above as well as of a member's obligations under Article IV, Section 1. It is expected that no later than sixty-five days after the termination of discussions between the member and the staff, the Executive Board will reach conclusions and thereby complete the consultation under Article IV, except in the case of consultations with members eligible for financing under the Poverty Reduction and Growth Facility identified in Decision No. 8240-(86/56), SAF, adopted March 26, 1986, as amended, where it is expected that the Executive Board will reach conclusions no later than three months from the termination of discussions between the member and the staff.

18. Broad developments in exchange rates will be reviewed periodically by the Fund, inter alia in discussions of the international adjust-

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ment process within the framework of the World Economic Outlook. The Fund will continue to conduct consultations in preparing for these discussions.

19. The Managing Director shall maintain close contact with members in connection with their exchange arrangements and their policies under Article IV, Section 1, and will be prepared to discuss on the initiative of a member important changes that it contemplates in its exchange arrangements or its policies.

20. (a) Whenever the Managing Director considers that important economic or financial developments are likely to affect a member's exchange rate policies or the behavior of the exchange rate of its currency, the Managing Director shall initiate informally and confidentially a discussion with the member. After such discussion the Managing Director may report to the Executive Board or informally advise the Executive Directors and, if the Executive Board considers it appropriate, an ad hoc Article IV consultation between the member and the Fund shall be conducted in accordance with the procedure set out in subparagraph (b) below.

(b) A staff report will be circulated to the Executive Directors under cover of a note from the Secretary specifying a tentative date for Executive Board discussion which will be at least 15 days later than the date upon which the report is circulated. The Secretary's note will also set out a draft decision taking note of the staff report and completing the ad hoc consultation without discussion or approval of the views contained in the report; the decision will be adopted upon the expiration of the two-week period following the circulation of the staff report to the Executive Directors unless, within such period, there is a request from an Executive Director or decision of the Managing Director to place the report on the agenda of the Executive Board. If the staff report is placed on the agenda, the Executive Board will discuss the report and will reach conclusions which will be reflected in a summing up.

(c) Unless otherwise decided by the Executive Board, the conduct of an ad hoc consultation with a member will not affect the consultation

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cycle applicable to the member or the deadline for completion of the next consultation with the member

21. The Executive Board shall review this Decision and the general implementation of bilateral surveillance at intervals of three years, and at such other times as consideration of such matters may be placed on the agenda of the Executive Board.[1]

22. Decision No. 5392-(77/63), adopted April 29, 1977, as amended, and paragraph 3 of Decision No. 6026-(79/13), adopted January 22, 1979, as amended, are hereby repealed.

Decision No. 13919-(07/51),
June 15, 2007,
as amended by Decision No. 14766-(10/115),
November 29, 2010

ANNEX

Article IV, Section 1(iii) and Principle A

1. Article IV, Section 1(iii) of the Fund's Articles provides that members shall "avoid manipulating exchange rates or the international monetary system in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members." The language of this provision is repeated in Principle A contained in Part II of this Decision. The text set forth below is designed to provide further guidance regarding the meaning of this provision.

2. A member would only be acting inconsistently with Article IV, Section 1(iii) if the Fund determined both that: (a) the member was manipulating its exchange rate or the international monetary system

[1] Decision No. 14175-(08/84), September 26, 2008, provides that the next review required by paragraph 21 shall be completed no later than September 26, 2011. (SM/08/287, Sup. 3, 9/2/08)

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and (b) such manipulation was being carried out for one of the two purposes specifically identified in Article IV, Section 1(iii).

(a) "Manipulation" of the exchange rate is only carried out through policies that are targeted at—and actually affect—the level of an exchange rate. Moreover, manipulation may cause the exchange rate to move or may prevent such movement.

(b) A member that is manipulating its exchange rate would only be acting inconsistently with Article IV, Section 1(iii) if the Fund were to determine that such manipulation was being undertaken "in order to prevent effective balance of payments adjustment or to gain an unfair competitive advantage over other members." In that regard, a member will only be considered to be manipulating exchange rates in order to gain an unfair competitive advantage over other members if the Fund determines both that: (A) the member is engaged in these policies for the purpose of securing fundamental exchange rate misalignment in the form of an undervalued exchange rate and (B) the purpose of securing such misalignment is to increase net exports.

3. It is the responsibility of the Fund to make an objective assessment of whether a member is observing its obligations under Article IV, Section 1 (iii), based on all available evidence, including consultation with the member concerned. Any representation made by the member regarding the purpose of its policies will be given the benefit of any reasonable doubt. (SM/07/183, Sup. 2, 6/19/07)

The Acting Chairman's Summing Up—
2008 Triennial Surveillance Review—Overview Paper
Executive Board Meeting 08/84, September 26, 2008

Executive Directors welcomed the opportunity to review the implementation of Surveillance. They considered that the refocusing of surveillance had steered it in the right direction. In concluding the 2008 Triennial Surveillance Review, Directors generally concurred on the thrust of many of the review's findings and recommendations, as outlined below.

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Overall value added. The review's findings suggest that the overall quality of Fund surveillance is held in high regard by its key audiences. The value-added is most evident with regard to fiscal policy issues and policy challenges facing developing countries. New insights and value-added are rated more highly by audiences concerned with surveillance *across countries* than by country authorities with regard to surveillance of their *own country.* So Directors also felt that Fund advice has less traction in large advanced and emerging economies than in other economies. Thus, there appear to be some value-added gaps, [that] surveillance should strive to fill.

Progress. Nearly all Directors concurred that significant progress has been made against the four priority monitorable objectives identified in the 2004 surveillance review yielding: sharper focus of surveillance on the Fund's core mandate; better quality of exchange rate analysis; greater emphasis on providing a multilateral perspective; and stronger financial sector surveillance. But challenges remain, and the Fund should further improve the effectiveness of surveillance by building on its comparative advantage.

Risk assessments. Surveillance is paying insufficient attention to risks, and communication about such risks has also sometimes been rather tentative. Surveillance countries need to assess risks around the baseline more systematically, including those identified at the multilateral level. More attention also needs to be given to "tail risks"—[that] is, risks with low probability of occurrence but with potentially severe implications. The selection of risks for such analysis must be judicious. A few Directors considered that risk assessments could be done in a "statement of risks" in all Article IV reports. Many Directors felt that surveillance communication should be bolder and should avoid excessive hedging, recognizing that such an approach does mean a risk of being proved wrong. A number of Directors underscored the need for greater candor in the Fund's assessment of risks to global financial stability emanating from advanced countries. It would be important to provide clear messages without undermining confidence and triggering adverse market reaction.

Macrofinancial linkages. Increased attention to financial sector surveillance is beginning to pay off, particularly in identifying financial sector vulnerabilities. However, further progress is needed to improve assessments of the relative likelihood and impact of key

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financial stability risks, and to integrate analysis of financial sector and macroeconomic issues more generally, including across borders. For example, surveillance in the run up to the subprime crisis identified well a number of vulnerabilities, but failed to "connect the dots" and thereby take the full measure of the risks they posed in aggregate. A clear and flexible organizing framework for macrofinancial surveillance will thus need to be developed and put in place. The forthcoming guidance on financial sector surveillance should also contribute to better mainstreaming best practices in this area. Also, the financial sector surveillance toolkit should be further enhanced, and high priority placed on improving mechanisms for early warning on risks to global financial stability.

To enhance financial sector surveillance, macrofinancial expertise must be further built and used strategically. Most Directors saw merit in a risk-based approach, whereby allocation of expertise should be prioritized according to the criteria of systemic or regional importance, importance of vulnerabilities, and importance of financial development issues for present or prospective macroeconomic or external stability. Capacity for financial sector analysis should be further developed through new training programs and flexible human resource policies. Well-focused FSAPs continue to be important and should be better integrated into Article IV reports.

Multilateral perspective. Much more attention is being devoted to multilateral perspectives, but this work is not being used effectively enough and is not always well-matched with demand. As regards *spillovers,* surveillance needs to better place countries in the global context by discussing cross-border economic linkages more explicitly. Article IV consultations need to make full use of the conjunctural analysis in the *World Economic Outlook* (WEO), *Global Financial Stability Report* (GFSR), and *Regional Economic Outlooks* (REOs); analyze relevant transmission channels of cross-border risks; and discuss policy implications. *Lessons from cross-country experience* need to be brought out more effectively to inform Article IV consultations, for example, through more policy-oriented, illustrative case studies that discuss other countries' experiences and draw concrete policy lessons. Cross-country findings from analytical work in the WEO, GFSR, and REOs also need to be more fully leveraged. Changing incentives and making cross-country knowledge more ac-

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cessible, including through the review process, should help encourage more such analysis. Recent initiatives to bring together expertise across Fund departments on issues of broad interest were seen as useful in this context.

External stability and exchange rate assessments. Following the adoption of the 2007 Surveillance Decision, work on exchange rate issues has strengthened significantly. Most staff reports now describe the de facto exchange rate regime adequately, with advice on any recommended changes generally well supported. Nearly all reports provide a clear assessment of the exchange rate level, and in most cases, this is based on multiple indicators and techniques. However, there is widespread skepticism about the consistency of treatment across countries and the methodological soundness of exchange rate assessments. In addition, the so-called "fear of labeling" under the 2007 Decision may have weakened the candor of some assessments. Further efforts will be needed to ensure that these assessments are candid, evenhanded, and fully integrated into the broader assessment of external stability and overall macroeconomic policies—including the policy mix—and present transparently the analysis underlying the assessment. Greater consistency across countries in terms of the choice of methods and the presentation of the results was stressed. While recognizing the ongoing progress, a number of Directors stressed that further efforts are needed to refine the analytical toolkit for equilibrium exchange rate assessments. At the same time, many Directors were of the view that undue importance should not be attached to precise calculations, given the inherent methodological and data limitations. More generally, Directors stressed that challenges related to the implementation of the 2007 Surveillance Decision should be addressed expeditiously, and they considered that consistent implementation of the recently issued guidance should be helpful in this regard.

Priorities. To better meet stakeholder expectations and enhance the effectiveness of surveillance with reduced staff, trade-offs are inevitable, and priorities need to be assigned. A few Directors emphasized that surveillance, being one of the Fund's core responsibilities, must be supported with the necessary resources. Most Directors broadly agreed that the four areas mentioned above should be given priority over the next few years. At the same time, existing

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areas of strength in macroeconomic policy analysis and recent gains—for example, in focus—should be preserved. Noting variations in the quality of staff reports across regional and income groups, many Directors emphasized that the review process should strive to ensure evenhandedness of treatment.

The current global financial crisis has clearly highlighted the need for the Fund to strengthen its macrofinancial work, while complementing, and not overlapping with, the responsibilities of other international agencies in this area, such as the BIS and the FSF. A number of Directors considered that the Fund's greater focus on exchange rate issues under the 2007 Surveillance Decision and global imbalances in recent years may have detracted from attention to macrofinancial stability issues. At the same time, given that exchange rate surveillance is central to the Fund's mandate, Directors stressed that the Fund must exercise strong surveillance over members' exchange rate policies.

Communications. Communicating well is also key to effective surveillance. The policy dialogue with authorities is generally seen as fruitful and candid, but staff reports less uniformly so. A number of Directors were of the view that surveillance should strike a balance between the candor of public communications and the Fund's role as a confidential advisor. Most Directors were generally open to exploring new formats for staff reports and alternative means of conveying their message, and welcomed efforts to improve the timeliness of reports. Staff reports should continue to cover follow-up to past Fund advice as a means of allowing for an assessment of both the appropriateness of the Fund's advice and the member's implementation of it. Different communication vehicles may be a source of confusion in communicating the Fund's message, and some vehicles—for example, PINs—may be perceived as outdated. Surveillance messages need to be more concise—focused on a few key points—as well as clear, timely, and strategically targeted. On the whole, there was broad support for further staff work along these lines. Any changes requiring amendments to the transparency policy will be followed up during the transparency review.

Methodology. The methodology used to conduct this surveillance review, as described in Supplement 2, establishes a robust framework, and should be used in future surveillance reviews with

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further improvements. Some Directors also welcomed the use of an independent consultant as a component of the review.

Conclusion. Directors considered that the findings of this surveillance review provide a good basis for defining operational priorities, and looked forward to the upcoming discussion of the Statement of Surveillance Priorities (SSP), which would lay out the medium-term priorities for Fund surveillance. SUR/08/104, October 8, 2008

STATEMENT OF SURVEILLANCE PRIORITIES—REVISIONS OF ECONOMIC PRIORITIES AND PROGRESS ON OPERATIONAL PRIORITIES

The Fund approves the attached revised Statement on Surveillance Priorities for the International Monetary Fund, 2008-2011. (SM/09/235, Rev. 2, 9/30/09)

Surveillance Priorities for the International Monetary Fund 2008–2011

In pursuit of its mandate to promote international monetary and financial stability, IMF surveillance will be guided through 2011 by the following priorities:

Economic Priorities

After the most severe slowdown since the 1930s, the global economy has begun to show tentative signs of a recovery. The objective should be well-timed and coordinated policies to restore global growth in a sustainable manner.

Priorities are to:

Allow for an orderly unwinding of crisis-related policy interventions to ensure a sustained recovery. In particular, design exit strategies that:

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Support the economy and the financial system as needed. Resolve financial market distress, and maintain measures to support demand and financial intermediation until recovery takes firm root; and

Safeguard the room for future policy maneuver. In particular, pay due regard to medium- and long-term implications of crisis-related measures, including on public sector balance sheets.

Strengthen the global financial system. Upgrade domestic and cross-border regulation and supervision, especially in major financial centers. Avoid the exposure of capital-importing countries, including low-income countries, to excessive risks.

Promote a rebalancing of sources of global demand, through both macroeconomic and structural policies, so as to achieve sustained world growth while keeping global imbalances in check. In this context, encourage open trade and competition. Be ready to adjust to changes in commodity prices. *In coordination with other International Financial Institutions, the IMF should* ***promote a common understanding*** *of the forces and linkages underlying these challenges;* ***draw key lessons*** *from different experiences to share across the membership;* ***provide clear advance warnings of risks*** *to global economic and financial stability; and* ***advise on how best to use policy****—in particular monetary, fiscal, exchange rate, and financial sector policies-in support of these objectives.*

Operational Priorities

Risk assessment. Refine the tools necessary to provide clear early warnings to members. Thorough analysis of major risks to baseline projections (including, where appropriate, high-cost tail risks) and their policy implications should become more systematic;

Financial sector surveillance and real-financial linkages. Improve analysis of financial stability, including diagnostic tools; deepen understandings of linkages, including between markets and institutions; and ensure adequate discussion in surveillance reports;

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Multilateral perspective. Bilateral surveillance to be informed systematically by analysis of inward spillovers; outward spillovers (where relevant); and cross-country knowledge (as useful); and

Analysis of exchange rates and external stability risks. In the context of strengthening external stability analysis, integrate clearer and more robust exchange rate analysis, underpinned by strengthened methodologies, into the assessment of the overall policy mix.

The Executive Board has set the above priorities to foster multilateral collaboration and guide IMF management and staff in the conduct of surveillance. These priorities look ahead three years, but may be revised if circumstances warrant. They will guide the Fund's work within the framework for surveillance provided by the Articles of Agreement and the relevant Board decisions, including the 2007 Decision on Bilateral Surveillance. Moreover, traditional areas of strength (such as fiscal policy and debt sustainability analysis) and relevant country-specific issues should not be overlooked.

The Executive Board is responsible for conducting, guiding and evaluating surveillance in order to ensure the achievement of these priorities. Management and staff are responsible for delivering on the operational priorities, subject to members' cooperation in line with commitments under the Articles of Agreement. To foster progress toward economic priorities, management and staff are responsible for providing candid high quality analysis and effective communication. The Managing Director will report: (i) regularly on actions toward priorities and readily visible results; and (ii) at the time of the next Triennial Surveillance Review on progress in attaining these priorities; management's and staff's contributions; and factors that impeded progress. (SM/09/235, 09/02/09)

Decision No. 14436-(09/102),
September 25, 2009

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The Acting Chair's Summing Up—
2011 Triennial Surveillance Review—
Review of the 2007 Surveillance Decision and
the Broader Legal Framework for Surveillance
Executive Board Meeting 11/102, October 24, 2011

Directors welcomed the comprehensive Triennial Surveillance Review (TSR) and the review of the legal framework for surveillance. They appreciated the broad scope of the reviews, which, for the first time, included multilateral surveillance, and welcomed the stepped-up use of external inputs. Directors broadly agreed with the main conclusions of the review. In particular, they agreed that significant progress has been made in the way surveillance is conducted since the 2008 TSR, but that important gaps remain.

Directors concurred that six areas of work deserve particular attention, namely (i) interconnections; (ii) risk assessments; (iii) financial stability; (iv) external stability; (v) legal framework; and (vi) traction. Directors welcomed the Managing Director's statement on strengthening surveillance and considered that the concrete measures it lays out, building on the review's recommendations, would support progress in surveillance. Therefore, they broadly endorsed the action plan described in the statement, while noting differences of views on a number of points discussed below. They also endorsed the corresponding operational priorities for 2011–14 as proposed by staff. Several Directors noted the need for measures to further strengthen surveillance, including addressing data gaps.

Interconnections. Directors saw merit in strengthening the link between the global and country level analyses to inform policy recommendations at the bilateral level. They agreed that the analysis of outward spillovers, such as employed in spillover reports for five systemic economies, has been a useful contribution to Fund surveillance and should be repeated for them before taking stock in 2012. In this context, a number of Directors suggested integrating this analysis, as appropriate, in existing multilateral or bilateral reports. While Directors strongly supported further use of cross country analysis, some Directors noted potential difficulties in bringing interconnected countries to the Board in clusters.

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Risk assessments. Directors agreed on the need to pay more attention to risks and their transmission channels in bilateral and multilateral surveillance, while not losing attention to the baseline. In this regard, Directors generally supported staff's proposals, including on better drawing on the results of existing risk assessment tools, but a few Directors cautioned that communication on tail risks needs to be handled carefully.

Financial stability. Directors emphasized the importance of continued progress in financial sector surveillance. They recommended adopting a strategic work plan, promoting work on financial interconnections, strengthening financial sector analysis in bilateral surveillance, and addressing data gaps, while encouraging a close coordination with other international bodies. Directors supported increasing the participation of financial sector experts in Article IV missions for economies with systemic financial sectors or with high financial sector vulnerabilities. They considered it a welcome alternative to an increased frequency of mandatory financial sector assessments under the FSAP for economies with systemic financial sectors.

External stability. Directors supported efforts to broaden the analysis of external stability beyond exchange rates, while emphasizing that exchange rate analysis should not be diluted in the process. In this regard, most agreed that the Fund should regularly publish multilaterally consistent staff assessments of external balances, building on refined exchange rate assessments conducted by the Consultative Group on Exchange Rates (CGER). A number of Directors stressed that the limitations to such analysis should be recognized and that due attention needs to be paid to communication issues so as not to adversely affect financial markets. Some other Directors did not see a need to publish such assessments in light of the market sensitivity of such information.

Legal framework. Most Directors considered it appropriate to update the current legal framework to enable a more effective conduct of surveillance. Most Directors supported, or were open to, the adoption of a new integrated surveillance decision, which would encompass both bilateral and multilateral surveillance and reflect a broader

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approach to global stability, and looked forward to the follow-up paper on the integrated surveillance decision in early 2012. Many Directors supported, or were open to considering, the option of amending the Articles of Agreement. A significant minority of the Board, however, did not support or had reservations about the need to revamp the legal framework, considering that there is enough flexibility within the current system.

Traction. Directors agreed that traction has to be earned. In addition to quality, they were of the view that candor, evenhandedness, the need to tailor advice to country circumstances, and adequate follow-up to past advice are key to achieving greater traction. In this regard, Directors welcomed the new consolidated multilateral surveillance report as a useful tool to foster discussion among policymakers and strengthen the role of the IMFC. Directors agreed that the Fund could pay more attention to inclusive growth, employment, and other social issues that have significant macroeconomic impacts, drawing from the expertise of other institutions. Directors noted the importance of an exchange of views between staff and the authorities on the key issues prior to Article IV consultation discussions. A few Directors saw merit in periodically reviewing the relevance of past policy recommendations. Directors welcomed organizational changes that would address the shortcomings identified by the IEO—including to enhance collaboration and promote diversity of views among staff and greater continuity of mission teams—and encouraged their timely implementation.

Resources. Directors welcomed management's commitment that the costs of implementing TSR proposals would be contained and that offsetting savings would be sought in the next budget round, while ensuring the quality of surveillance for all members. A number of Directors saw merit in consolidating some of the multilateral and/or regional surveillance outputs.

Completion of reviews. Directors decided to complete the reviews of the 2007 Surveillance Decision and of the general implementation of the bilateral surveillance as required under Paragraph 21of the 2007 Decision. It is expected that the next such reviews will be completed no later than October 24, 2014.

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BUFF/11/139,
October 28, 2011

The Chairman's Summing Up—
The Fund's Role Regarding Cross-Border Capital Flows
Executive Board Meeting 10/122
December 17, 2010

Executive Directors welcomed today's timely discussion of the Fund's role on cross-border capital flows. They observed that capital flows have conferred substantial benefits by facilitating efficient resource allocation across countries, but prolonged episodes of high volatility have also presented serious policy challenges. Directors noted that volatile capital flows played a key role in the recent crisis, both in increasing vulnerabilities and in transmitting shocks across borders. Considering the Fund's mandate to oversee international monetary stability, Directors agreed with the need to strengthen the Fund's role regarding international capital flows. They called for further work to advance in bilateral and multilateral surveillance and policy advice for member countries, based on extensive analytical work and taking into account country-specific circumstances and relevant experiences.

Directors stressed that substantial analytical work is needed to develop a coherent Fund view and inform policy guidance on capital flows. Critical elements of this work include gaining a better understanding of the key drivers of capital flows and of developments in global liquidity, and the relationship between the latter, domestic policies, and global financial stability. Analytical work should also help to develop a clear view on whether and, if so, which macroprudential measures, microprudential measures, and/or capital controls might be appropriate in different circumstances. In this context, Directors welcomed work under way on *Cross-Cutting Themes from Recent Country Experiences with Capital Flows* as a basis for elaborating the Fund's view on how to deal with capital inflows.

Directors observed that, despite the complex interdependences and channels for policy spillovers created by capital flows, there are no universal "rules of the road" governing such flows. This stands in

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contrast to arrangements governing trade in goods and services or international monetary arrangements. In this light, Directors saw merit in developing a coherent Fund view on capital flows and the policies that affect them. Such a view could help establish guidelines for the purposes of the Fund's surveillance on capital account and possibly other policies affecting capital flows. Such guidelines should be designed in a way that leaves sufficient room for country-specific circumstances, and in particular acknowledge the difference between countries with open capital accounts and those that have yet to liberalize. These guidelines would be intended to provide guidance on the scope of existing obligations under Article IV.

Directors welcomed efforts to foster multilateral dialogue and policy coordination over cross-border capital flows. They noted that macroeconomic, financial, and capital account policies designed to address domestic concerns can have significant effects on other countries by generating or curtailing capital flows, or acting to divert them to third countries. They also recognized the scope for members to take divergent approaches in addressing any tensions created, and these could also have effects on others. Directors emphasized that the Fund has an important role in drawing attention to these potential spillovers, and the possible implications for the international monetary system as a whole. Directors supported efforts by the Fund to analyze and disseminate lessons from cross-country experiences in dealing with capital flows, and to foster dialogue with both originators and recipients of cross-border capital flows.

Most Directors agreed that filling data gaps—through existing initiatives where possible—will strengthen surveillance of cross-border flows. They called for the Fund to collaborate with other institutions, such as the Bank for International Settlements, the Financial Stability Board, and national authorities, in meeting this goal. Directors expressed a wide range of views regarding amendment of the Articles of Agreement to provide a more complete and consistent legal framework for addressing issues related to capital flows. While a number of Directors were open to considering an amendment of the Articles in the future, most felt that it would be premature to initiate a discussion on this step without further analysis and practical experience.

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BUFF/10/181,
December 23, 2010

The Chairman's Summing Up—
Recent Experiences in Managing Capital Inflows—
Cross-Cutting Themes and Possible Policy Framework
Executive Board Meeting 11/28, March 21, 2011

Executive Directors welcomed today's discussion, which is an important first step in furthering the Fund's work on cross-country experiences with capital flows and on developing a framework for policies to manage capital inflows. They agreed that the recent surge of capital inflows has been driven by a combination of improved fundamentals and growth prospects in capital-receiving economies and accommodative monetary policy in capital-originating economies, amongst other factors. A range of views emerged on the approach to managing capital flows.

Directors noted that a comprehensive and balanced approach to capital flows is required, taking into account both capital recipients and capital originators. They emphasized that capital inflows are generally beneficial for recipient countries, promoting investment and growth. At the same time, they recognized that a sudden surge in inflows can pose challenges, including currency appreciation pressures, overheating, the buildup of financial fragilities, and the risk of a sudden reversal of inflows. Directors observed that policy responses to the recent inflow surge have varied across countries, and noted that countries have generally complemented macroeconomic policy with other measures to manage inflows, although there are wide differences in the nature, extent, and effectiveness of these measures.

Directors considered the paper before them as part of a broader and ongoing work agenda on capital flows, although most Directors noted that the cross-country analysis should have included a broader spectrum of countries and a more comprehensive analysis of the supply-side factors in driving inflows. Most Directors broadly supported the substance of the proposed policy framework for managing capital inflows, which they agreed would apply to all countries with

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open or partially open capital accounts. However, a few Directors thought that, at this stage, establishing a framework for managing inflows was premature because analytical consensus does not yet exist and because any framework should also encompass policy responses to push (supply side) factors that lead to capital inflows. While the currently proposed framework does not constitute obligations, a significant minority of the Board was concerned that such a framework would restrict the range of policy responses for countries facing large capital inflows.

Directors emphasized that policy advice on managing inflows should be evenhanded and give due regard to country-specific circumstances and the external setting. They recommended that emphasis be placed on structural measures to increase the capacity of the economy to absorb capital inflows and strengthen the resilience of the domestic financial system in handling them. Directors noted that, beyond this, when confronted with surging inflows, macroeconomic policies are appropriate tools—namely, rebalancing the monetary and fiscal policy mix consistent with inflation objectives, allowing the currency to strengthen if it is undervalued, and building foreign exchange reserves if these are not more than adequate from a precautionary perspective. Some Directors, however, observed the difficulties about the degree of judgment required in determining appropriateness of macroeconomic policies, currency undervaluation, or reserve adequacy. A number of other Directors, noting that these judgments are made in the context of Article IV consultations, called for maintaining flexibility in making such judgments in the context of policy advice to manage inflows.

Directors acknowledged the broad spectrum of instruments in the policy toolkit to manage inflows, aside from macroeconomic policies and structural measures. They agreed that capital flow management measures (CFMs), encompassing a number of prudential, administrative and tax measures designed to influence inflows, are squarely within the toolkit and could be used to address macroeconomic and financial risks related to inflows. At the same time, Directors stressed that CFMs should not be used as a substitute for necessary macroeconomic policy adjustment. Most Directors concurred that CFMs should be employed when appropriate macroeconomic

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conditions are in place, namely, if the exchange rate is not undervalued, reserves are in excess of adequate prudential levels, the cyclical position of the economy precludes monetary easing, and there is no scope to tighten fiscal policy. Many Directors emphasized the need for flexibility in the proposed framework, lest it result in an overly sequential approach. A number of these Directors noted that CFMs may need to be used simultaneously with macroeconomic measures. A number of other Directors noted that countries should take due account of any negative spillovers of CFMs, although a few Directors noted that evidence on such spillovers is yet to be established.

A majority of the Board noted their broad endorsement of the framework set forth in Box 1 and paragraphs 42–58 of the paper,[1] which constitutes a first-round articulation of the Fund's institutional views on responses to manage capital inflows. This framework would be intended to inform policy discussions with all member countries facing large capital inflows and could evolve over time based on experience gained. A number of these Directors broadly supported Board consideration at a later stage on incorporating the framework into Fund surveillance. On the other hand, a significant minority of the Board were opposed to incorporating the framework into Fund surveillance, emphasizing that policymakers need flexibility and discretion to adopt policies that they consider appropriate to mitigate risks arising from large capital inflows, giving due regard to country-specific circumstances.

Directors welcomed staff work plans in related areas that will enhance the comprehensiveness of policy discussions regarding capital flows. This work will include analysis of policies in source countries that give rise to capital flows and of capital account liberalization.

BUFF/11/50,
March 31, 2011

[1] Ed. Note: See "Recent Experiences in Managing Capital Flows—Cross Cutting Themes and Possible Guidelines," SM/11/30, Correction 1, March 15, 2011.

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The Acting Chair's Summing Up—
The Multilateral Aspects of Policies Affecting Capital Flows
Executive Board Meeting 11/109, November 14, 2011

Executive Directors welcomed the opportunity to discuss the multilateral aspects of policies affecting capital flows, which they saw as another important step in developing a comprehensive perspective for the management of capital flows. Directors agreed that national policies, including prudential frameworks, have the potential to influence the riskiness of capital flows in a way that can affect cross-border stability. They noted, however, that national authorities may not fully appreciate the multilateral transmission of their policies and may not often internalize their cross-border effects.

Noting that policies of both source and recipient countries play a role in reaping the benefits of capital flows while limiting their risks, Directors concurred that national policymakers should pay more attention to the multilateral transmission of their policies, including with respect to prudential frameworks and monetary policy. In support of these efforts, Directors noted that the Fund, in accordance with its mandate, has an important role to play regarding capital flows in its bilateral and multilateral surveillance, including by monitoring global liquidity and cross-border flows, surveying international spillovers, fostering a multilateral dialogue and policy coordination over capital flows, and providing candid advice.

Directors agreed that before and during the crisis, shortcomings in regulation and supervision in source countries allowed banks and other market participants to take excessive cross-border risks that led to macrofinancial instability. More effective regulatory and supervisory policies in both source and recipient countries would help limit systemic stress, including its transmission via capital flows. Directors agreed that improved national prudential frameworks benefit all countries and the global system as a whole.

Directors stressed that prudential policies should be strengthened on both the national and international levels. They noted that completing and fully implementing the national and international regulatory and supervisory reforms now underway and developing new

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macroprudential frameworks will help reduce arbitrage opportunities and mitigate cross-border risks. Directors agreed that greater cross-border coordination, including of macroprudential policies, would help reduce the riskiness of capital flows. They called for more analysis to fully understand the drivers of global systemic risk and the implications for macroprudential policies and their coordination.

Directors concurred that the monetary policy of major central banks affects capital flows to other economies. Most Directors noted that, given the complicated transmission process, the case for major central banks to proactively consider in their monetary policy its multilateral effects is limited. Directors agreed that sound prudential frameworks in source countries would help mitigate the multilateral risks associated with global liquidity creation. A significant minority of the Board called for considering exchange rate flexibility in the analysis of recipient countries.

Most Directors agreed that the renewed interest in capital flow management measures suggests that their multilateral implications warrant attention, as CFMs could transmit multilaterally by increasing or decreasing capital flows to countries with similar characteristics. Directors noted, however, the lack of firm empirical evidence to date on the magnitude and direction of multilateral effects of CFMs. Most Directors agreed that a moderate use of CFMs has few implications for the overall riskiness of capital flows and global stability, noting, however, that CFMs, if they proliferate or intensify, would have escalating global costs. A few Directors noted that the likelihood that CFMs would proliferate is low, especially since it did not happen at the height of the current crisis, and some other Directors pointed to the importance of flexibility in recipient countries' policies to mitigate risks without stigma attached to the use of particular instruments. Most Directors called on the Fund to continue to monitor CFMs and a few Directors requested regular publication of an overview of CFMs applied by countries.

Directors welcomed the Fund's work on capital flows. In this connection, most Directors saw the elements in Box 6 of the staff report [SM/11/277, October 13, 2011, p. 29] as a step in the right direction, with a number of Directors asking for further specificity. Look-

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ing forward, the next steps involve a paper on capital account liberalization and net capital outflows that will examine among other issues the multilateral effects of maintaining and liberalizing closed capital accounts by large countries. Another paper will draw together the previous, current, and planned work toward articulation of a comprehensive, balanced, and flexible Fund institutional view on policies affecting capital flows, drawing on country experiences, and thereby underpinning the provision of consistent and evenhanded policy advice, appropriate to country-specific circumstances.

BUFF/11/146,
November 18, 2011

SURVEILLANCE: PROCEDURES

1. Review. The Executive Board has reviewed the procedures relating to the Fund's surveillance over members' exchange rate policies. These procedures, and the procedures for regular consultations under Article IV, will be reviewed again by the Executive Board in December 1979. The Executive Board will review the document "Surveillance over Exchange Rate Policies" at an appropriate time not later than April 1, 1980, as provided for in paragraph 2 of Decision No. 5392-(77/63), adopted April 29, 1977. ...

3. …[1]

Decision No. 6026-(79/13),
January 22, 1979,
as amended by Decision Nos. 10273-(93/15), January 29, 1993,
10364-(93/67), May 10, 1993, and

13919 (07/51),
June 15, 2007

[1] Ed. Note: Decision No. 13919-(07/51), June 15, 2007 repealed paragraph 3.

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SUMMINGS UP AND CONCLUDING REMARKS FOR POLICY ITEMS—MODIFICATION OF REVIEW AND FINALIZATION PROCESS

The Executive Board approves the proposals with regard to the review and finalization of summings up and concluding remarks for policy items as set forth in EBAP/07/95 (6/20/07).

Decision No. A-12833-(07/55),
June 25, 2007

Annex

Approved Proposals Set Forth in EBAP/07/95

• The period for sending electronic comments on draft policy summings up should be extended from two hours to one full day, between 10:00 a.m. and 6:00 p.m. This will provide the Secretary some room to prepare for the circulation of the draft summing up in the morning.

• The Secretary will inform the Board in advance as to when the draft summing up or concluding remarks on a policy item will be circulated for Directors' comments.

• The Chair and the Secretary will be invited to use their discretion in deciding on when the draft summing up or concluding remarks should be read to the Board. In cases where the Board discussion has been particularly rich, the Secretary may need more time to incorporate the views of Directors expressed during the discussion, with the benefit of the transcript. In such cases, the Chair may choose to read the draft summing up in a future session instead of at the end of the Board meeting. To avoid complicating the Board's agenda, it is envisaged that this procedure will be used selectively, only when the extra time is necessary to guarantee the quality and evenhandedness of the summing up.

Apart from the extended time frame for sending comments, the Secretary should continue with the current practice of handling Directors' comments received via email on the basis of the record of

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the Board discussion. The current practice whereby the Secretary consults bilaterally with Executive Directors to discuss issues of their concern has been found useful and all Executive Directors are encouraged to use available channels of communication. This approach, which does not require an additional layer of bureaucracy, and would not entail extra work, is consistent with the maintenance of streamlined practices.

• The present distribution of summaries of grays should be maintained. The summaries of grays are meant to highlight selected points that warrant management's attention as understood by the Secretary, and to list questions put to the staff for ease of reference. The summaries are not meant to reflect all the views raised in the grays and cannot substitute for the reading of all the grays by the staff involved. Circulating the summaries more widely for the use of Directors would likely require that the views and nuances be captured more comprehensively, and with greater attention to the range of positions. This would make the document less concise and probably require an earlier cut-off time for submitting grays.

• The Secretary will review the text of the Compendium of Executive Board Work Procedures with a view to clarifying further: (i) when the Board is expected to meet in an informal seminar format and in a formal session; and (ii) the distinction between summings up and concluding remarks. The Compendium is reviewed periodically and this modification will be reflected in the next revision.

BILATERAL SURVEILLANCE—IMPLEMENTATION OF THE DECISION—TRANSITIONAL ISSUES

In the context of the application of the Decision No. 13919-(07/51) (the 2007 Surveillance Decision), which came into effect on June 15, 2007, there are essentially three categories of countries. With reference to those, the following treatment is provided for:

Category 1: Countries for which consultations have been concluded by the Executive Board as of June 29, 2007, including Madagascar

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and Kazakhstan. Such cases will stand as "Article IV Consultations Concluded" under the 1977 Surveillance Decision.

Category 2: Countries for which missions commence after June 15, 2007. In such cases the 2007 Surveillance Decision shall apply.

Category 3: Other countries for which, as of June 15, 2007, the process has commenced and consultations are at different stages before their completion, e.g., (i) mission discussions have been completed; (ii) staff papers are under preparation after the completion of the mission; or (iii) staff papers have already been circulated to the Board. Such cases will be re-examined by staff and Management and if, with respect to a member in this category, the Managing Director, after informing the Executive Director for the member concerned, informs the Executive Board that, in his view:

(a) there are no grounds for concern as to whether the member's external position is in a state of external stability or as to whether its policies are promoting external stability, the staff report for that member may be taken up for discussion in the Executive Board without further discussion by staff with the relevant member, and the Executive Board will complete that consultation and reach conclusions in accordance with the provisions of the 2007 Surveillance Decision; or

(b) there are grounds for concern as to whether the member's external position is in a state of external stability or as to whether its policies are promoting external stability, either (i) additional discussions will be required between staff and the member, the modalities of which will be determined in consultation with the member, or (ii) if the member so requests, a fresh full range of consultation discussions will take place, and the Executive Board will complete that consultation and reach conclusions in accordance with the provisions of the 2007 Surveillance Decision. (SM/07/222, Sup. 1, 6/29/07)

Decision No. 13941-(07/56),
June 29, 2007

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ARTICLE IV CONSULTATION DOCUMENTATION—RECENT ECONOMIC DEVELOPMENTS

Article IV consultation documentation shall no longer include Recent Economic Development reports. Instead, the staff could incorporate, as needed, the appropriate information on recent economic developments in a Selected Issues paper as analytical background for key policy issues.

Decision No. 12661-(02/6),
January 22, 2002

Summing Up by the Chairman—Biennial Review of the Implementation of the Fund's Surveillance over Members' Exchange Rate Policies and of the 1977 Surveillance Decision; and Transmittal of Fund Documents to Other International Organizations
Executive Board Meeting 97/30, March 28, 1997

...

Directors expressed broad satisfaction with current surveillance procedures and emphasized that the principle of annual consultations represented a cornerstone in ensuring the continuity of Fund surveillance. At the same time, Directors recognized the need for flexibility in Fund procedures to ensure an effective focus of Fund surveillance, particularly in the context of the Fund's strained resources. In considering the proposals contained in my BUFF statement on consultation cycles, Directors encouraged flexibility regarding consultation frequency, mission size and documentation, particularly in cases where economic developments appeared to be on a positive track. In particular:

Directors generally agreed that greater use should be made of longer consultation cycles to allow for redirecting resources toward priority areas. They agreed that the staff and management, on the basis of criteria suggested in my BUFF statement, should periodically identify those countries for which annual consultations will be held and those countries for which consultations were not expected to be

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held within the next year. In cases of consultations on a longer than annual cycle, the Executive Director for the country concerned would, of course, be consulted, and the consent of the member would be needed.

...

Summing Up by the Acting Chairman—Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision
Executive Board Meeting 00/24, March 10, 2000

...

Most Directors agreed with the current selective approach to the dissemination and use of early warning system models, given the state of the art in this area as well as the sensitivity and imprecision of the results. They encouraged staff to discuss the results of EWS models with country authorities, and to keep the Board informed of these discussions. They … thought that this suggests that the results of these models have to be tempered with a good deal of judgment and, in any event, used selectively and carefully. Directors supported stepping up collaboration with the World Bank in the analysis of corporate sector vulnerability, with a view toward identifying useful operational indicators. They encouraged staff to continue to look for signs of linkages between potential weaknesses in the corporate sector and external vulnerability, following up, if warranted, on a case-by-case basis.

…

Summing Up by the Chairman—Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision
Executive Board Meeting 02/38, April 4 and 5, 2002

…

The Focus of Surveillance

…

9. Notwithstanding the satisfactory overall record with respect to the balance achieved generally between coverage and focus, Direc-

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tors considered that there remains some further scope for enhancing selectivity in individual cases and areas. Trade policy, including domestic trade-distorting subsidies and non-tariff barriers, is one such area. Coverage of trade policies is critical in countries where serious trade distortions hamper macroeconomic prospects, as well as in countries whose trade policies have global or regional implications—for example, where trade policies in the major industrial countries affect market access for developing countries, or where trade policies have a significant impact on countries in that region. Such concentration would simultaneously strengthen the coverage of trade issues and make surveillance more focused.

The Depth of Surveillance

…

14. Directors observed that structural issues outside the Fund's traditional areas of expertise may, in some instances, be key to a country's economic situation and, thus, priority issues for Fund surveillance. In those cases, most Directors reiterated the importance of drawing on the expertise of the appropriate outside institutions and, in particular, of making effective use of input from the World Bank.

Multilateral Surveillance

15. Directors expressed support for the current modalities of multilateral surveillance. They noted that the semi-annual discussions on the World Economic Outlook, the more frequent World Economic Market Development sessions, and the quarterly discussions on Global Financial Stability provide appropriate and flexible tools to review the rapidly evolving conditions of the world economy and global financial markets. Directors particularly welcomed the enhancements to the multilateral surveillance of capital markets, which have been made possible by the creation of the International Capital Markets Department. …

Surveillance in Program Countries

16. Directors agreed that surveillance and Fund-supported programs share the same broad objective, namely promotion or restora-

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tion of macroeconomic stability, external viability, and sustainable growth. Nevertheless, in countries with Fund-supported programs, as in other countries, there is a need for periodic reassessment of economic conditions and policies. This requires a stepping back from the program framework. …

17. There was broad agreement that a radical separation of surveillance and program activities, for instance through separate mission teams, is not operationally feasible. Most Directors noted that such an approach would entail significant resource costs, would complicate communication with the authorities, and could give rise to inconsistent policy advice. At the same time, most Directors felt that clear guidance on the role and nature of surveillance in program countries could help strengthen surveillance in these countries. …

18. Directors agreed that better timing of Article IV consultations in program countries would be one way of enhancing their effectiveness, as a comprehensive assessment of economic developments, prospects, and policies is more useful at some points in the program cycle than at others. For example, consultations are most valuable before a program is negotiated, when a program has moved off-track, or when a major change in the program strategy is envisaged between programs.

…

Staff-Monitored Programs

21. Directors generally agreed that staff-monitored programs (SMPs) constitute a useful vehicle for closer monitoring of countries' policies outside a Fund arrangement. They welcomed the improvements in the design and documentation of SMPs since the 1998 discussion of the draft guidelines. Directors noted, however, that less progress has been made in the reporting of performance under SMPs.

22. Most Directors felt that inadequate reporting on performance is of particular concern in cases where the SMP is intended to provide signals to private and/or official creditors. Therefore, they considered that, since SMPs do not require upper credit tranche conditionality and do not entail Fund endorsement of the member's policies, trans-

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parency on performance under the SMP is essential to allow creditors and donors to assess the quality of the policy adjustment under the SMP. Many Directors supported a strengthening of the performance reporting guidelines and greater transparency. However, several other Directors expressed concern that introducing a presumption of publication in these cases may be inconsistent with the Fund's transparency policy and may, in fact, further blur the distinction between SMPs and Fund arrangements. Against this background, Directors agreed that a further discussion of signaling SMPs would be useful. Some Directors suggested that a different instrument may be appropriate in signaling cases.

…

Summing Up by the Chairman—Biennial Review of the Implementation of the Fund's Surveillance and of the 1977 Surveillance Decision—Follow Up
Executive Board Meeting 02/76, July 15, 2002

1. Directors welcomed the opportunity to follow up on a number of outstanding issues from their discussion of the biennial surveillance review on April 4 and 5, 2002, and to consider the Draft Operational Guidance Note for Staff on Surveillance.

…

3. Regarding the effectiveness of surveillance, Directors generally agreed that the proposal to strengthen the coverage of the authorities' response to past policy advice in Article IV staff reports is a useful, first step towards enhanced assessment of the impact of the Fund's policy advice. Many Directors suggested that such reviews also include a fuller account of the authorities' views on the policy advice received from the Fund, and a discussion of the reasons for their policy actions. Directors also underscored the importance of assessing the quality of the Fund's advice, and, in that context, a few Directors suggested that an annual assessment of the impact of the Fund's advice might be considered as a framework for examining the effectiveness of Fund surveillance. … Going forward, several Directors underscored that discussions with member country authorities should be undertaken in a spirit of consultation, based on mutual trust

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and confidence, and reflecting the preparedness of missions to discuss alternative policy options that could deliver similar overall macroeconomic results.

4. Most Directors saw the proposed guidance defining the role and nature of surveillance in program countries as a useful clarification, whose consistent implementation should ensure that surveillance in all program countries is conducted with an appropriately fresh perspective. Several Directors felt that greater formal separation of surveillance and program activities would be desirable. However, many Directors, while recognizing the usefulness of stepping back from a pure review of performance under the program during surveillance missions, cautioned against a radical separation, such as systematically differentiating between surveillance and UFR mission teams, noting the important synergies between surveillance and program reviews. At the same time, Directors noted that management retains the prerogative to alter the composition of Article IV consultation teams to meet the needs of particular country circumstances. The Board will consider the need for further work on surveillance in program countries, taking into account experience with the implementation of the proposals in the Guidance Note.

5. Directors supported the proposal to move countries receiving Fund financial assistance to a 24-month consultation cycle, subject to the qualifications outlined in the draft decision (SM/02/184, Supplement 1). Some Directors stressed the need for caution in this regard, noting the role that surveillance can play in identifying problems in program countries at an early stage. Several Directors underscored the need for flexibility in consultation cycles to accommodate country-specific circumstances. It was understood that thorough surveillance exercises on longer cycles, coupled with frequent contacts under the program, should strengthen surveillance in program countries.

6. Directors generally agreed with the clarification of the existing policy on the production of statistical appendices as background documentation for Article IV consultation reports, and with the proposal to retain this policy. Statistical appendices will thus continue to be produced for every consultation, except for countries where com-

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prehensive economic data are readily and freely available from an alternative source.

…

8. The Guidance Note for staff will be finalized in light of today's discussion, and will be updated from time to time to reflect the outcome of Board discussions on matters pertaining to the conduct of effective surveillance.

…

ARTICLE IV CONSULTATION CYCLES

This Decision is adopted pursuant to Article IV, Sections 3 (a) and (b) of the Fund's Articles. It establishes a framework for the periodicity of consultations between the Fund and each member on the member's policies under Article IV, Section 1.

1. Except as provided for in paragraphs 2 and 3 below, consultations with members shall be conducted in accordance with the principles set out in this paragraph.

In principle, Article IV consultations with members will take place annually. Article IV consultations that take place on the standard twelve-month cycle will be subject to a grace period of 3 months and, accordingly, will be expected to be completed within 15 months of the date of the completion of the most recent consultation.

The Fund may decide to place a member on a consultation cycle that is longer than 12 months but, in any event, is not longer than 24 months (hereinafter an "extended cycle") only if the member does not meet any of the following criteria:

(a) the member is of systemic or regional importance;

(b) the member is perceived to be at some risk because of policy imbalances or particular threats from exogenous developments, or the member is facing pressing policy issues of broad interest to the Fund membership; or

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(c) the member has outstanding credit to the Fund under all facilities above two hundred percent (200%) of the member's quota.

The Fund will place a member on an extended cycle only after consulting with the Executive Director for the member and obtaining the member's consent.

2. Whenever a Fund arrangement (other than an arrangement under the Flexible Credit Line (FCL) or Precautionary and Liquidity Line (PLL)) or a Policy Support Instrument (PSI) is approved for a member, that member shall automatically be placed on a 24-month consultation cycle. Article IV consultations with such members shall be conducted in accordance with the procedures specified below:

(a) Article IV consultations with such a member will be expected to be completed within 24 months of the date of completion of the previous Article IV consultation with that member. The consultation cycle will be shortened where a program review under an arrangement for the member is not completed by the date for completion specified in the arrangement: in these circumstances the next Article IV consultation with that member will be expected to be completed by the later of (i) 6 months after the date specified in the arrangement for completion of the review, and (ii) 12 months, plus a grace period of 3 months, after the date of completion of the previous Article IV consultation, provided, however, that, where the relevant program review is completed before the later of the dates specified in (i) and (ii) above, the next Article IV consultation will be expected to be completed within 24 months of the date of completion of the previous Article IV consultation with that member.

(b) A member that has completed an arrangement (other than an FCL or PLL arrangement) by drawing all amounts, or a PSI by completing all reviews, shall remain on the cycle determined pursuant to paragraph 2(a) above, unless at the time of the final review under the arrangement or the PSI, the Executive Board determines, based on the criteria specified in paragraph 1, that a different cycle shall apply. Where the arrangement or PSI is cancelled by the member, or the arrangement expires with undrawn amounts or the PSI expires with uncompleted reviews or is terminated, the member concerned shall re-

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main on the cycle determined pursuant to paragraph 2(a) above, unless the Executive Board determines, based on the criteria specified in paragraph 1, that a different cycle will apply.

3. Whenever an FCL or a PLL arrangement is approved for a member, that member will automatically be placed on a 12-month consultation cycle. Article IV consultations with such members will be conducted in accordance with the procedures specified below:

(a) if, prior to the approval of the FCL or PLL arrangement, the member was on an extended cycle, the next Article IV consultation with that member will be expected to be completed by the later of (i) 6 months after the date of approval of the arrangement, and (ii) 12 months, plus a grace period of 3 months, after the date of completion of the previous Article IV consultation;

(b) if an FCL or a PLL arrangement is completed by drawing all amounts, expires with undrawn amounts, or is cancelled by the member, that member will remain on the standard 12-month cycle, unless the Executive Board determines that a different cycle will apply.

4. At the conclusion of each Article IV consultation with a member, the Fund will specify the cycle that will apply to the next Article IV consultation with the member.

5. Decision No. 12794-(02/76), adopted July 15, 2002, as amended, is hereby repealed. (SM/10/253, 9/21/10)

Decision No. 14747-(10/96), September 28, 2010,
as amended by Decision No. 15017-(11/112),
November 21, 2011

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Summing Up by the Acting Chair—Review of Data Provision to the Fund for Surveillance Purposes
Executive Board Meeting 04/25, March 15, 2004[1]

Executive Directors welcomed the further opportunity to review progress in the provision of data to the Fund by members. Better data not only support strengthened Fund surveillance and crisis prevention, but they also allow members to formulate sounder economic policies. In this context, Directors expressed their appreciation to the staff and country authorities for the substantial progress achieved in recent years in improving data provision to the Fund. They reaffirmed the principles underlying the policy on data provision to the Fund for surveillance purposes, namely: that timely, accurate, and comprehensive data are essential for effective surveillance; that data needs vary according to members' circumstances; and that data requirements evolve over time with changes in the scope and focus of surveillance.

In taking stock of developments in the coverage and frequency of data provision by members, Directors were encouraged by the finding that a rising share of the membership now provides data that are deemed adequate for Fund surveillance, and that most members—including virtually all countries with market access—now report core statistical indicators on a timely basis. At the same time, Directors recognized that in just under one-third of the Fund's membership—consisting mostly of countries with small populations or low per capita incomes—severe data deficiencies continue to hamper policy analysis and Fund surveillance. A number of Directors considered that efforts to strengthen data provision, going forward, should focus on these countries. Directors acknowledged that, in many cases, more time will be needed to overcome long-standing statistical capacity constraints, requiring national efforts and international support calibrated to the circumstances of each case.

Directors viewed favorably the current framework for data provision to the Fund, and agreed that it should be essentially preserved. They noted that the core statistical indicators had been re-

[1] Ed. Note: For the 2008 Review of Data Provision to the Fund for Surveillance Purposes, see page 620.

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placed by a set of common indicators required for surveillance, following the recent decision adopted by the Executive Board pursuant to Article VIII, Section 5. Directors supported addressing data quality issues in the Statistical Issues Appendix based on available Reports on the Observance of Standards and Codes (ROSCs). Most Directors also agreed that the table of common indicators required for surveillance should include summary assessments of data quality when available from data modules of ROSCs. Some Directors were concerned about the adequacy of data ROSCs for providing assessments of data quality, especially because the quality of the individual common indicators is not directly assessed in the ROSCs, and about the risk that these assessments could be inappropriately viewed as a rating of members' statistics.

Directors called for strengthened implementation of the framework for data provision to the Fund. In particular, they stressed that Article IV consultation reports should identify data shortcomings, indicate where the analysis of key issues is significantly affected by these shortcomings or where important policy conclusions may be subject to unusual uncertainty due to data weaknesses, and recommend remedial actions where data prove inadequate for effective surveillance. In general, Directors encouraged staff to seek full compliance with existing guidelines on treatment of data issues in staff reports, while noting that coverage of these issues will of course vary from report to report, depending upon the adequacy of data provision to the Fund in each case. Most Directors supported the continued inclusion in Article IV summings up of a paragraph assessing the adequacy of data provision to the Fund, in particular in cases where there are shortcomings.

Directors also called for greater elaboration of remedial strategies in Article IV staff reports for countries where severe and longstanding data deficiencies hamper policy analysis and Fund surveillance. They emphasized that these member countries should be encouraged to participate in the GDDS, which provides a structured framework for statistical improvement. Directors stressed the importance of technical assistance to strengthen these countries' statistical systems as well as the need for country authorities to demonstrate ownership of these institution-building efforts by committing the necessary local resources. Generally, Directors were of the view that

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technical assistance priorities in the area of statistics should continue to be guided by identified deficiencies in data provision to the Fund.

Directors had a wide-ranging discussion on how best to meet the data needs of the Fund, as the framework for Fund surveillance evolves and gives rise to new data provision requirements. They focused on the data implications of the work the Fund is doing in four areas to strengthen Fund surveillance, namely, the balance sheet approach, the framework for debt sustainability assessments, liquidity management, and financial soundness indicators for financial sector surveillance. Most Directors agreed that a priority in the period ahead is to improve data availability to conduct balance sheet analysis, as contemplated in these four areas of work. They emphasized the importance of breakdowns of assets and liabilities to gauge currency and maturity mismatches in sectoral balance sheets and the need to address weaknesses in public debt data.

Directors recognized that improving the availability of data needed for balance sheet analysis will involve costs for member countries and the Fund. In this context, some Directors emphasized the need to balance the benefits of improved data against the resource costs involved, including the costs to member countries. Taking account of these considerations, most Directors endorsed a pragmatic action plan to improve data availability to serve the needs of the various balance sheet initiatives. This plan involves (a) the continuation of current efforts to improve external debt data, foreign direct investment data, and compilation of financial soundness indicators; and (b) the seven additional steps outlined in paragraph 43 of the staff report.[1] It was suggested that a reduced set of core financial soundness indicators be included within the SDDS.

[1] These additional steps are: development of a standard set of tables to help guide reporting of public debt data to the Fund, including appropriate breakdowns; enhanced collection of monetary and financial sector data, including through development and use of standard reporting forms; promotion of greater coherence of data needs across policy initiatives, such as FSIs and the balance sheet approach; review of the contents of the *International Financial Statistics* to explore the scope for reflecting data needed for policy initiatives; continued experimentation with the use of nonfinancial corporate data from a variety of sources; continued elaboration of internationally agreed methodologies to incorporate pertinent breakdowns and details; and

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Directors expressed satisfaction that significantly increased dissemination of macroeconomic data by the Fund has been a vital part of efforts in recent years to strengthen the international financial architecture. To minimize the risk of misperceptions about the accuracy and reliability of Fund data that may arise from the publication of different data series for a given variable, Directors endorsed several approaches. These will include: efforts to strengthen metadata and explain data differences; work to promote common sourcing and better sharing of data across the Fund; and inclusion of a general disclaimer on published staff reports. Directors generally supported the acceleration and extension of the Integrated Monetary Database Project, pointing to the prospective significant medium-term efficiency of such an exercise.

Directors reviewed the resource implications of the measures endorsed in this review and, more broadly, of steps to improve availability of data for policy analysis and Fund surveillance. They noted that many of the steps to strengthen availability of data are compatible with medium-term budget plans, if the current pace of implementation is maintained. Some other steps—particularly the expanded reporting of public domestic debt data, enhanced collection of monetary and financial data, and review of the *International Financial Statistics (IFS)*—will involve additional costs. The majority of the Board felt that these additional costs should be accommodated within the existing budget envelope. The preferred course of action, for these Directors, is to boost the efficiency of existing data initiatives and to prioritize statistical activities. In this context, it was suggested that the review of the contents of the *IFS* could be delayed. A number of other Directors, however, were in favor of expanding the resource envelope to accommodate the additional costs, emphasizing the need to protect the effectiveness and high quality of the Fund's data work while not crowding out other important activities, including data ROSCs.

initiation of consultations on the SDDS prescriptions for public debt in the context of the next review of the Fund's Data Standards Initiatives.

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Directors agreed that the next review of data provision to the Fund should be conducted in about two years' time.[1]

SURVEILLANCE PROCEDURES—IMPLEMENTATION OF THREE-MONTH PERIOD

The Executive Board approves the proposed method of applying the three-month rule for implementing the procedures for surveillance, set forth in EBD/83/161, 6/3/83.

Decision No. 7427-(83/83),
June 8, 1983

Attachment

EBD/83/161

The document entitled "Surveillance over Exchange Rate Policies," attached to Decision No. 5392-(77/63), includes certain Procedures for Surveillance. Of these, Procedure II states that "Not later than three months after the termination of discussions between the member and the staff, the Executive Board shall reach conclusions and thereby complete the consultation under Article IV." This three-month period begins from the last day of discussions between the authorities and the staff mission and it is counted off on a calendar basis. Accordingly, the first Board day (viz., Monday, Wednesday, or Friday) upon the completion of the three-month period is regarded as the deadline for Executive Board discussion. Sometimes Executive Board consideration and completion of the Article IV consultation are delayed beyond the three-month deadline (see SM/83/43, 3/1/83, pages 29–30), and in such cases, Board approval is usually sought on a lapse-of-time basis for an extension of the period. The procedure is

[1] Ed. Note: Pursuant to Decision No. 13814-(06/98), November 15, 2006, future reviews will be conducted on an "as needed" basis. The expectation going forward is that "as needed" would generally mean a lag of at least five years between any such reviews. Decision No. 14036-(08/1), December 27, 2007, extended the deadline for the next review to end-June 2008.

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administered flexibly in the sense that if Board discussion is scheduled just one or two Board days after the deadline, the three-month waiver paper seeking Board approval is not necessarily circulated.

However, there are certain periods during the year when Board meetings would normally be avoided for the convenience of Executive Directors. For example, in 1983 Board meetings were not scheduled in the weeks of February 7–11 and April 25–29 because of Interim and Development Committee meetings, respectively. For the same reason, Board meetings are not likely to be scheduled during August 8–19, 1983 because of the informal Board recess and during approximately September 16–30 because of the Annual Meetings and ancillary meetings, including caucus meetings. It would be appropriate and convenient to recognize these recurrent and normal gaps in the Board's schedule when applying the three-month rule. Accordingly, if a three-month deadline falls in a period such as one of those mentioned above when a Board meeting would normally not be scheduled, the Friday of the week immediately following such a period would be regarded as the applicable deadline for the purposes of the rule. …

LAPSE OF TIME PROCEDURES FOR ARTICLE IV CONSULTATIONS

1. The completion of an Article IV consultation on a lapse of time basis may be proposed by the Managing Director with the approval of the Executive Director for the member concerned, or by the Executive Director for the member concerned, in accordance with the procedures set forth herein.

2. **Eligibility:** (a) Subject to 2(b) below, the lapse of time procedure would be proposed for Article IV consultations where the following conditions apply: (i) there are no acute or significant risks, or general policy issues requiring Board discussion; (ii) policies or circumstances are unlikely to have significant regional or global impact; (iii) in the event a parallel program review is being completed, it is also being completed on a lapse of time basis; and (iv) the use of Fund resources is not under discussion or anticipated.

(b) The lapse of time procedure for an Article IV consultation will not be proposed where: (i) the last Article IV consultation was concluded

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on a lapse of time basis; (ii) more than 24 months has elapsed since Board discussion of an Article IV consultation; or (iii) the country is on a 24-month consultation cycle.

3. **Procedures for Proposing Lapse of Time for Article IV Consultations:**

(a) By the Managing Director: On the basis of the eligibility criteria set forth in paragraph 2 above, a judgment would be made by the Managing Director on whether a country meets the eligibility criteria. If the criteria are met, the Managing Director, with the approval of the Executive Director for the member concerned, would propose completion of an Article IV consultation on lapse of time at the time the staff paper is circulated to the Executive Board. The cover memorandum for the circulated staff paper will: (i) include a deadline for Executive Directors to object to a proposal by the Managing Director for lapse of time completion that is consistent with paragraph 4 below; (ii) specify the date upon which the decision will become effective if no objection to the proposal for lapse of time is received; (iii) specify a reserved date, consistent with minimum circulation periods for Article IV consultations, for discussion if an Executive Director objects to the proposal for lapse of time consideration; and (iv) explain the reasons why lapse of time completion is warranted. Should the Managing Director judge that a member meets the lapse of time criteria, but the Executive Director for the member concerned does not approve, the cover memorandum circulating the staff paper would include a notation to this effect.

(b) *By the Executive Director for the Member Concerned:* On the basis of the eligibility criteria set forth in paragraph 2 above, the Executive Director for the member concerned may propose the completion of an Article IV consultation by lapse of time no more than two business days after the issuance of the staff paper to the Executive Board, and preferably, as soon as possible after the circulation of the staff paper. The Executive Director's notification will: (i) include a deadline for Executive Directors to object to the proposal by the Executive Director for the member concerned for lapse of time completion that is consistent with paragraph 4 below; (ii) specify the date upon which the decision will become effective if no objection to the proposal for

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lapse of time is received; (iii) specify a reserved date, consistent with minimum circulation periods for Article IV consultations, for discussion if an Executive Director objects to the proposal for lapse of time consideration; and (iv) explain the reasons why lapse of time completion is warranted.

4. **Objections:** An Executive Director may object to a proposal for lapse of time consideration up to two business days before the end of the lapse of time period. A Director need not announce the reasons for an objection, but would be expected to inform the Executive Director for the member concerned of those reasons.

5. **Effective Date:** If no objection is received to a proposal for lapse of time completion of an Article IV consultation, the decision recording the completion of the Article IV consultation will be recorded in the minutes of the next Board meeting with effect on the date of effectiveness stated in the cover note described in paragraph 3(a) or 3(b) above.

6. **Review:** A review of the lapse of time procedures for Article IV consultations is expected to be conducted 12 months after the date of the effectiveness of this Decision.

7. **Transitional Provisions and Repeal of Earlier Procedures**:

(a) The provisions of this Decision concerning lapse of time procedures for Article IV consultations shall apply to staff reports issued following the date of the effectiveness of this Decision.

(b) The "Procedures for Completion of Article IV consultations on a Lapse of Time Basis" set forth in SM/96/214, Supp. 1, 11/6/96 are hereby repealed.

Part A of Decision No. 14766-(10/115),
November 29, 2010

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The Acting Chair's Summing Up—
The Fund's Response to the 2007–08 Financial Crisis—
Stocktaking and Collaboration with the
Financial Stability Forum
Executive Board Meeting 08/88, October 6, 2008

Executive Directors welcomed the opportunity to take stock of the Fund's response to date to the international financial crisis that began last year. The financial crisis is testing the resilience of the global financial system. Directors commended the staff's efforts to assess unfolding developments through the GFSR and the WEO, and, in collaboration with other international agencies, to identify measures that will strengthen national policy frameworks and the international financial system. They stressed the need for continued close collaboration among national authorities, standard setters, international financial agencies, and the private sector to deal with the crisis.

Directors noted that the Fund will have a key role to play as the leading international institution for macrofinancial analysis, with a global mandate and unique capacity to help prevent and resolve international financial crises and disseminate best practices. The Fund will need to be an articulate participant in the public debate, while at the same time safeguarding and strengthening its role as a confidential advisor to all its members.

Directors supported the recent increased focus of the Fund's surveillance and financial sector work on the policy challenges raised by the financial crisis. They welcomed, in particular, the increased attention paid to macrofinancial linkages and contagion risks, financial safety nets, and crisis preparedness and management. They also emphasized that the Fund should give greater priority to assisting members in identifying and remedying gaps in financial regulation and supervision. Directors considered streamlined and risk-focused FSAPs that are better integrated with Article IV consultations, along with coordinated assessments of the GFSR and the WEO, to be key instruments for the Fund's enhanced financial sector work.

Directors concurred that the Fund and the Financial Stability Forum (FSF) have complementary and mutually reinforcing roles. The FSF plays a key role by bringing together senior national policymakers, international supervisory and regulatory agencies, and central

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banks. The Fund, for its part, is uniquely placed to draw synergies from its multilateral, regional, and bilateral surveillance activities. The Fund is also best positioned to integrate financial sector assessments with macroeconomic stability analyses, and to encourage and disseminate best practices in the context of its bilateral surveillance. Given the enhanced involvement of the Fund and other institutions in financial sector work, many Directors saw the need for a clearer multilateral framework for overarching macrofinancial analysis and coordinated solutions, and suggested that, given its near universal membership, the IMF should aim to provide both the institutional and the analytical backing for such an effort. These Directors suggested that the IMF could provide a platform for members to work toward such a multilateral framework. Some Directors stressed that the Fund should concentrate on its comparative advantage and enhance its crisis prevention instruments, particularly surveillance, macrofinancial analysis, and monitoring implementation of key standards and policy recommendations.

Directors were encouraged that Fund staff has been working closely with the FSF since its establishment, including through direct participation in FSF working groups, projects, and outreach efforts. They saw merit in strengthening that collaboration and in exploring concrete modalities for doing so, including with respect to financial stability assessments and further exploiting opportunities for joint Fund/FSF outreach. In this context, the importance of maintaining flexible and informal modalities was stressed.

Looking ahead, Directors stressed that the Fund should continue to enhance its work on financial stability and macrofinancial linkages, consistent with its mandate and strategic priorities, and focusing in areas where it adds most value and complements the work of other institutions. They welcomed the ongoing efforts to deepen the Fund's expertise across a range of policy areas relevant to macrofinancial stability. Directors noted that the Fund's value added stems both from in-house technical expertise in core financial sector policy areas, and from the Fund's capacity to put regulatory and supervisory policy challenges into a broader macrofinancial stability context. Directors also emphasized that the Fund needs to better integrate its country-specific surveillance with its regional and global analyses, further sharpen its high-frequency market analyses and stability as-

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sessments, and maintain an ongoing dialogue with market participants in order to strengthen its early warning capabilities. Many Directors reiterated the importance of addressing the Fund's financing role in the context of the current crisis in a timely and flexible way, and called for accelerated progress toward a decision on a new liquidity instrument.

BUFF/08/148,
October 8, 2008

The Acting Chair's Summing Up
IMF Membership in the Financial Stability Board
Executive Board Meeting 10/86
September 8, 2010

Executive Directors welcomed the opportunity to discuss the proposal for Fund membership in the Financial Stability Board (FSB). Directors noted that Fund staff had already been collaborating informally but closely with the FSB's predecessor, the Financial Stability Forum, on a wide range of financial sector issues. They considered that the establishment of the FSB with its own Charter in 2009 provided an opportunity for the Fund, alongside the other international financial institutions, to establish a more formal basis for its participation in the work of the FSB.

Directors noted that the responsibilities of the Fund and the FSB are distinct but closely related and complementary. They considered that the Fund should continue to fulfill its responsibilities as they are set out in the Articles of Agreement while the two bodies should strive to minimize duplication and overlap in their work. They stressed that the Fund should continue to take the lead in surveillance over the international monetary system and analysis of macrofinancial stability issues in its member countries. At the same time, the Fund should also collaborate with the FSB to address financial sector vulnerabilities and to develop and implement strong regulatory, supervisory, and other policies in the interest of financial stability.

Most Directors agreed that Fund membership in the FSB would provide the most appropriate basis for effective cooperation

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and collaboration between the two bodies. They noted that membership would allow the Fund to build effectively on the relationship that Fund staff had already established with the FSB, and to play an important role in the FSB's work. A number of other Directors, however, expressed reservations with this approach and called for more discussion of other alternatives, including less formal arrangements, such as observer status for the Fund or a bilateral memorandum of understanding.

Directors underscored the importance of preserving the Fund's independence and accountability to its entire membership in its future collaboration with the FSB. In approving the Fund's acceptance of membership, they endorsed the understandings that are set out in paragraph 23 of SM/10/221 and, in particular, emphasized that the acceptance of membership in the FSB would not give rise to any legal rights or obligations for the Fund, and the Fund would reserve the right not to take part in the decision making of the FSB where such participation would not be consistent with the Fund's legal or policy framework. In this connection, a number of Directors expressed concern about the nature of the FSB's non-cooperating jurisdictions (NCJs) process and its potential impact on the Fund's accountability to its membership, and stressed that Fund membership in the FSB should not be seen as endorsement of possible FSB initiatives to sanction NCJs.

Directors agreed that the Managing Director would guide the Fund's participation in the FSB based on consultations with the Board, including on issues of strategic importance. In this context, they took note of management's intention to keep Directors informed of the staff's work in the FSB through regular updates.

BUFF/10/132,
September 16, 2010

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Attachment 1

Paragraph 23 of SM/10/221

23. **In approving Fund membership in the FSB, the Executive Board would need to clarify certain understandings that would be communicated to the FSB.** Similar to the approach that the Secretariat of the OECD and the staff of the World Bank are taking in respect to membership to the FSB, the Board would clarify:

- The acceptance of membership in the FSB will not give rise to any legal rights or obligations for the Fund.
- Like other IFIs, the Fund will participate in the FSB in accordance with its legal framework and policies, under Article 5(3) of the FSB Charter.
- Accordingly, the Fund will reserve the right in specific circumstances not to take part in the decision making of the FSB where such participation would not be consistent with its legal or policy framework.
- In the event that the FSB reaches a decision by consensus that its members would be expected to implement, the Fund will only be prepared to do so to the extent that, and for so long as, it is consistent with its legal and policy framework.

These understandings could be set out in the summing up of the Board discussion approving membership and communicated to the FSB after the meeting.

IMF MEMBERSHIP IN THE FINANCIAL STABILITY BOARD

1. The Fund's acceptance of membership in the Financial Stability Board is approved.

[1] Ed. Note: The text of paragraph 23 of SM/10/221, August 11, 2010, is included in this volume for the reader's convenience.

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2. In approving the Fund's acceptance of membership in the FSB, it is understood that: (i) the Fund's acceptance of membership in the FSB will not give rise to any legal rights or obligations for the Fund; (ii) as noted in Article 5(3) of the FSB Charter, the Fund will participate in the FSB in accordance with the Fund's legal framework and policies; (iii) the Fund will reserve the right in specific circumstances not to take part in the decision making of the FSB where such participation would not be consistent with the Fund's legal or policy framework; and (iv) in the event the FSB reaches a decision by consensus that its members would be expected to implement, the Fund will only be prepared to do so to the extent that, and for so long as, it is consistent with the Fund's legal and policy framework. (SM/10/221, Sup. 2, 9/10/10)

Decision No. 14730-(10/86),
September 8, 2010

The Acting Chair's Summing Up—Sovereign Wealth Funds—The Santiago Principles—Generally Accepted Principles and Practices Developed by the International Working Group
Executive Board Meeting 08/87, October 3, 2008

Executive Directors commended the International Working Group of Sovereign Wealth Funds (IWG) for its intensive and collaborative efforts, which have led to a consensus on a voluntary set of generally accepted principles and practices (GAPPs)—also known as the Santiago Principles. The Principles represent a significant achievement by a group of 23 diverse countries with sovereign wealth funds (SWFs). Directors welcomed the professional role played by the Fund staff in facilitating, coordinating, and providing secretarial support to the Group. They also appreciated the contribution by the OECD and the World Bank, and the engagement of recipients of SWF investments to maintain an open investment regime.

Directors viewed the development of the Santiago Principles as a good example of collaborative engagement between countries with SWFs and the recipient countries. It is the first time that SWFs have set out a comprehensive framework to guide their institutional arrangements, governance structures, and investment decisions. The

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Principles, together with the SWF survey conducted by the Fund staff, also provide a useful point of reference for policymakers, financial markets, and the general public.

Directors stressed that the principles are voluntary in nature, and that their implementation is subject to home country laws, regulations, requirements, and obligations. Most Directors agreed that the Santiago Principles appropriately recognize a number of key elements. In particular, the Principles recognize the need for:

• First, sound and clear legal frameworks, and a governance framework that ensures separation of responsibilities and promotes operational independence in the management of SWFs and accountability, including through high-quality auditing and accounting standards;

• Second, SWF operations to be conducted in compliance with applicable regulatory and disclosure requirements in the countries in which they operate;

• Third, close coordination between the SWF's activities and macroeconomic policy formulation where the SWF's activities have direct domestic macroeconomic implications, and provision of data to the government, or other relevant agencies, for inclusion where appropriate in macroeconomic datasets;

• Fourth, the publication of relevant financial information relating to the SWF to demonstrate its economic and financial orientation;

• Fifth, investment decisions to be based on economic and financial grounds;

• Sixth, adequate risk management frameworks and regular internal reporting of investment performance;

• Seventh, public disclosure of an SWF's general approach to voting securities of listed entities; and

• Eighth, regular review of the implementation of the Santiago Principles by the SWF or by its owner or governing bodies.

Most Directors believed that the implementation of the Santiago Principles by countries with SWFs will improve the understand-

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ing of SWF investment operations, and help alleviate concerns raised by countries that are recipients of SWF investments. This will help foster trust and confidence in the global operations of SWFs, and strengthen an open environment for cross-border investments. From the perspective of the SWF countries, the Principles provide SWFs with strong incentives to hold themselves to high standards. They will be helpful, in particular, in guiding the management of countries' fiscal and external surpluses through SWFs in a sound, prudent, and accountable manner. In this way, the Principles should help to further strengthen the stabilizing benefits that SWFs bring to the global financial markets.

Notwithstanding the progress achieved, the IWG recognizes the need to keep the Santiago Principles under review as capital markets develop and sovereign institutional arrangements evolve, and to work to further improve the Principles over time. In particular, several aspects of the Principles could benefit from further work, such as those relating to the provision of comprehensive and reliable information about SWF activities, and potential risks to investment operations and SWF balance sheets. In this respect, a number of Directors encouraged SWFs to work toward public disclosure of their financial information, including annual reports and ex post voting records. Some other Directors stressed the need to ensure a level playing field vis-à-vis other institutional investors. A few Directors also underscored that, to preserve full ownership of the Principles by the SWFs, it will be important to continue with the voluntary approach going forward.

The issue of how to monitor the implementation of the Santiago Principles remains to be agreed upon by the owners of SWFs. Directors welcomed the intention of the IWG to consider establishing a Standing Group that could review the Principles and provide a forum for the exchange of ideas among SWFs and with recipient countries, as well as examine ways in which aggregate information on SWF operations could be collected and made available to the public. If established, it will be important for the Standing Group to take full cognizance of the relevance of the macroeconomic and financial stability perspectives in its work.

Directors stressed the importance of clear and nondiscriminatory policies by recipient countries toward SWF investments. They

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welcomed the progress being made by the OECD in this area, and encouraged continued dialogue and coordination between the OECD and SWFs. Directors also noted that several countries with SWFs are also becoming recipients of investments from other SWF countries. They looked forward to the guidelines by the OECD for recipient countries.

Most Directors agreed that the Fund staff should continue to play a constructive role in support of the work of the IWG. Most Directors also felt that the Fund staff can play a helpful role in facilitating the activities of the Standing Group once it is established. Some Directors emphasized, however, that, in the current tight budgetary environment facing the Fund, staff resources should remain focused on strategic priorities. A few Directors suggested that the possible modalities of future Fund involvement should be worked out in light of the experience gained with the Standing Group, and with the updated guidelines for recipient countries.

BUFF/08/151,
October 9, 2008

SURVEILLANCE OVER MONETARY AND EXCHANGE RATE POLICIES: MEMBERS OF EURO AREA

The Executive Board approves the modalities for conducting surveillance over the monetary and exchange rate policies of the members of the euro area, as set out in SM/98/257 (11/25/98).

Decision No. 11846-(98/125),
December 9, 1998,
effective December 11, 1998

SM/98/257

. . .

The current frequency of Article IV consultations with individual euro-area countries, which are generally on the standard 12-month

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cycle, would be maintained, at least during the initial period of Stage 3 of EMU.[1]

- There would be twice-yearly staff discussions with EU institutions responsible for common policies in the euro area.[2] For practical reasons, these discussions would be expected to be held separately from the discussions with individual euro-area countries, but would be considered an integral part of the Article IV process for each member. The discussions with individual euro-area countries would be clustered, to the extent possible, around the discussions with the relevant EU institutions.

- There would be an annual staff report and Board discussion on "The Monetary and Exchange Rate Policies of Euro-Area Countries in the Context of the Article IV Consultations with these Countries," which would be considered part of the Article IV consultation process with individual euro-area countries. The paper would also cover economic policies from a regional perspective to provide an adequate setting for the discussions on monetary and exchange rate policies.[3] A report on the second (follow-up) set of discussions would also be issued to the Board for information and to provide adequate context for bilateral consultations with euro-area countries that did not coincide broadly with the annual Board discussion on the euro area.

[1] However, it is envisaged that there would be some scaling back of resources devoted to individual Article IV consultations in the area of monetary and exchange rate policies to provide the resources needed for surveillance of the common policies of the euro area.

[2] As is done for Article IV consultations with national authorities, the staff would leave a concluding statement with the ECB at the end of the discussions.

[3] As noted in BUFF/98/93 (9/24/98), while for each member of the EU fiscal policy remains the responsibility of national authorities, discussions at the EU level would also need to evaluate the fiscal position of the euro area as a whole in order to assess the stance of monetary and exchange rate policies and the coherence of macroeconomic policies. They would also need to cover developments in structural areas relevant to the Fund's surveillance over the policies of members of the euro area as a whole. In this context, the staff missions referred to above would visit the European Commission.

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- There would be a summing up of the conclusion of the Board's annual discussion on "The Monetary and Exchange Rate Policies of the Euro Area Countries in the Context of the Article IV Consultations with these Countries." It would be cross-referenced in the summings up for the Article IV consultations with euro-area countries, which would be given at the conclusion of the Article IV process for each country. This approach would have the advantage of recognizing clearly the obligation of euro-area countries to consult with the Fund in this context. …

MODALITIES FOR SURVEILLANCE OVER EURO-AREA POLICIES IN CONTEXT OF ARTICLE IV CONSULTATIONS WITH MEMBER COUNTRIES

The current frequency of Article IV consultations with individual euro-area countries, which are generally on the standard 12-month cycle, will be maintained.

There will be twice-yearly staff discussions with EU institutions responsible for common policies in the euro area. These discussions will be held separately from the discussions with individual euro-area countries, but are considered an integral part of the Article IV process for each member. The discussions with individual euro-area countries will be clustered, to the extent possible, around the discussions with the relevant EU institutions.

There will be an annual staff report and Board discussion on Euro-Area Policies in the Context of the Article IV Consultations with Member Countries, which will be considered part of the Article IV consultation process with individual members. In addition to monetary and exchange rate policies, the staff report will also cover from a regional perspective other economic policies relevant for Fund surveillance. Staff will report informally to the Board on the second round of discussions with EU institutions to provide adequate context for bilateral consultations with euro-area countries that do not coincide broadly with the annual Board discussion on the euro area.

There will be a summing up of the conclusion of the Board's annual discussion on Euro-Area Policies in the Context of the Article IV Consultations with Member Countries. It will be incorporated by

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reference into the summings-up for the Article IV consultations with individual Euro-Area members that take place before the next Board discussion of the Euro-Area common policies.[1] To the extent that the summing up for the euro area covers economic policies that apply to all EU member countries and that are considered relevant for Fund surveillance, the pertinent parts of the summing up for the euro area could also be referred to in the bilateral Article IV consultations with EU member countries that are not part of the euro area. (SM/02/359, 11/21/02)

Decision No. 12899-(02/119),
December 4, 2002,

as amended by Decision No. 14062-(08/15)
February 12, 2008

MODALITIES FOR SURVEILLANCE OVER CENTRAL AFRICAN ECONOMIC AND MONETARY UNION POLICIES IN CONTEXT OF ARTICLE IV CONSULTATIONS WITH MEMBER COUNTRIES

Staff will hold annual discussions with the regional institutions responsible for common policies in the Central African Economic and Monetary Union (CEMAC). These discussions will be held separately from the discussions with individual CEMAC members.

There will be an annual staff report and Board discussion of the common policies of CEMAC. Both staff's discussions with CEMAC institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member of CEMAC.

In addition to common policies in CEMAC that are relevant for surveillance, including monetary and exchange rate policies, the annual staff report will cover from a regional perspective other eco-

[1] Ed. Note: Decision No. 14062-(08/15), February 12, 2008 provides that this sentence shall take effect from the next annual Board discussion of Euro-Area policies. *See* SM/08/50, 2/5/08.

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nomic policies relevant for Fund surveillance for which responsibility remains at the national level. There will be a summing up of the conclusion of the Board's annual discussion on CEMAC's common policies. It will be incorporated by reference into the summings-up for the Article IV consultations with individual CEMAC members that take place before the next annual Board discussion of CEMAC's common policies.[1] The Board discussions for the Article IV consultations with individual CEMAC members will be clustered, to the extent possible, around the Board discussion on the common policies of CEMAC.

If considered necessary by the Managing Director, staff will hold a second round of discussions during the year with regional institutions and report to the Board informally on these discussions to provide adequate context for bilateral consultations with the individual CEMAC members that do not coincide broadly with the annual Board discussion on the CEMAC's policies.

The frequency of Article IV consultations with individual CEMAC members shall be determined in accordance with the Board decisions on consultation cycles. (SM/05/429, 12/22/05)

Staff reports and related documents pertaining to Fund surveillance under Article IV concerning (i) the common monetary and exchange rate policies of CEMAC, and (ii) the policies of each individual Fund member that forms part of CEMAC, shall be communicated to the Bank of Central African States (BEAC) at the same time the relevant staff report is made available to the Executive Board, provided, however, that a staff report or related document concerning the policies of an individual Fund member will only be shared with BEAC with that member's consent.[2]

[1] Ed. Note: Decision No. 14059-(08/15), February 12, 2008 provides that this sentence "shall become effective from the time of the next annual Board discussion of CEMAC's common policies."

[2] Ed. Note: Decision No. 14059-(08/15), February 12, 2008 provides that this paragraph "shall become effective upon receipt by the Managing Director of a certification from the Governor of BEAC that it will, in the manner specified by the Fund, preserve the confidentiality of all information and documents communicated by the Fund to BEAC and that any such information and documents shall be solely for the internal use of BEAC. (SM/08/50, 2/5/08)"

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Decision No. 13654-(06/1),
January 6, 2006,
as amended by Decision No. 14059-(08/15),
February 12, 2008

MODALITIES FOR SURVEILLANCE OVER EASTERN CARIBBEAN CURRENCY UNION POLICIES IN CONTEXT OF ARTICLE IV CONSULTATIONS WITH MEMBER COUNTRIES

Staff will hold annual discussions with the regional institutions responsible for common policies in the Eastern Caribbean Currency Union (ECCU). These discussions will be held separately from the discussions with individual ECCU members.

There will be an annual staff report and Board discussion of the common policies of ECCU. Both staff's discussions with ECCU institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member.

In addition to common policies in ECCU that are relevant for surveillance, including monetary and exchange rate policies, the annual staff report will cover from a regional perspective other economic policies relevant for Fund surveillance for which responsibility remains at the national level. There will be a summing up of the conclusion of the Board's annual discussion on ECCU's common policies. It will be incorporated by reference into the summings-up for the Article IV consultations with individual ECCU members that take place before the next annual Board discussion of ECCU's common policies.[1] The Board discussions for the Article IV consultations with individual members will be clustered, to the extent possible, around the Board discussion on the common policies of ECCU.

If considered necessary by the Managing Director, staff will hold a second round of discussions during the year with regional insti-

[1] Ed. Note: Decision No. 14060-(08/15), February 12, 2008 provides that this sentence "shall become effective from the time of the next annual Board discussion of ECCU's common policies."

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tutions and report to the Board informally on these discussions to provide adequate context for bilateral consultations with the individual members that do not coincide broadly with the annual Board discussion on the ECCU's policies.

The frequency of Article IV consultations with individual members shall be determined in accordance with the Board decisions on consultation cycles. (SM/05/429, 12/22/05)

Staff reports and related documents pertaining to Fund surveillance under Article IV over the (i) common monetary and exchange rate policies of ECCU, and (ii) the policies of each individual Fund member that forms part of ECCU, shall be communicated to the East Caribbean Central Bank (ECCB) at the same time the relevant staff report is made available to the Executive Board, provided, however, that a staff report or related document concerning the policies of an individual Fund member will only be shared with ECCB with that member's consent.[1]

Decision No. 13655-(06/1),
January 6, 2006,
as amended by Decision No. 14060-(08/15),
February 12, 2008

MODALITIES FOR SURVEILLANCE OVER WEST AFRICAN ECONOMIC AND MONETARY UNION POLICIES IN CONTEXT OF ARTICLE IV CONSULTATIONS WITH MEMBER COUNTRIES

Staff will hold annual discussions with the regional institutions responsible for common policies in the West African Economic and Monetary Union (WAEMU). These discussions will be held separately from the discussions with individual WAEMU members.

[1] Ed. Note: Decision No. 14060-(08/15), February 12, 2008, provides that this paragraph "shall become effective upon receipt by the Managing Director of a certification from the Governor of ECCB that it will, in the manner specified by the Fund, preserve the confidentiality of all information and documents communicated by the Fund to ECCB and that any such information and documents shall be solely for the internal use of ECCB. (SM/08/50, 2/5/08)"

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There will be an annual staff report and Board discussion of the common policies of WAEMU. Both staff's discussions with WAEMU institutions and the Board discussion of the annual staff report will be considered an integral part of the Article IV consultation with each member of WAEMU.

In addition to common policies in WAEMU that are relevant for surveillance, including monetary and exchange rate policies, the annual staff report will cover from a regional perspective other economic policies relevant for Fund surveillance for which responsibility remains at the national level. There will be a summing up of the conclusion of the Board's annual discussion on WAEMU's common policies. It will be incorporated by reference into the summings-up for the Article IV consultations with individual WAEMU members that take place before the next annual Board discussion of WAEMU's common policies.[1] The Board discussions for the Article IV consultations with individual WAEMU members will be clustered, to the extent possible, around the Board discussion on the common policies of WAEMU.

If considered necessary by the Managing Director, staff will hold a second round of discussions during the year with regional institutions and report to the Board informally on these discussions to provide adequate context for bilateral consultations with the individual WAEMU members that do not coincide broadly with the annual Board discussion on the WAEMU's policies.

The frequency of Article IV consultations with individual WAEMU members shall be determined in accordance with the Board decisions on consultation cycles. (SM/05/429, 12/22/05)

Staff reports and related documents pertaining to Fund surveillance under Article IV over the (i) common monetary and exchange rate policies of WAEMU, and (ii) the policies of each individual Fund member that forms part of WAEMU, shall be communicated to the Central Bank of West African States (BCEAO)

[1] Ed. Note: Decision No. 14061-(08/15), February 12, 2008 provides that this sentence "shall become effective from the time of the next annual Board discussion of WAEMU's common policies."

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at the same time the relevant staff report is made available to the Executive Board, provided, however, that a staff report or related document concerning the policies of an individual Fund member will only be shared with BCEAO with that member's consent.[1]

Decision No. 13656-(06/1),
January 6, 2006,
as amended by Decision No. 14061-(08/15),
February 12, 2008

The Role of the Fund in Governance Issues—Guidance Note
EBS/97/125, July 2, 1997

I. Introduction

1. Reflecting the increased significance that member countries attach to the promotion of good governance, on January 15, 1997, the Executive Board held a preliminary discussion on the role of the Fund in governance issues, followed by a discussion on May 14, 1997 on guidance to the staff.[2] The discussions revealed a strong consensus among Directors on the importance of good governance for economic efficiency and growth.[3] It was observed that the Fund's role in these issues had been evolving pragmatically as more was learned about the contribution that greater attention to governance issues could make to macroeconomic stability and sustainable growth in member countries. Directors were strongly supportive of the role the Fund has been playing in this area in recent years through its policy advice and technical assistance.

[1] Ed. Note: Decision No. 14061-(08/15), February 12, 2008, provides that this paragraph "shall become effective upon receipt by the Managing Director of a certification from the Governor of BCEAO that it will, in the manner specified by the Fund, preserve the confidentiality of all information and documents communicated by the Fund to BCEAO and that any such information and documents shall be solely for the internal use of BCEAO. (SM/08/50, 2/5/08)"
[2] The Interim Committee Declaration of September 26, 1996 on Partnership for Sustainable Global Growth also attached particular importance "to promoting good governance in all its aspects."
[3] Concluding Remarks by the Chairman, SUR/97/48 (5/21/97).

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2. The Fund contributes to promoting good governance in member countries through different channels. First, in its policy advice, the Fund has assisted its member countries in creating systems that limit the scope for ad hoc decision making, for rent seeking, and for undesirable preferential treatment of individuals or organizations. To this end, the Fund has encouraged, inter alia, liberalization of the exchange, trade, and price systems, and the elimination of direct credit allocation. Second, Fund technical assistance has helped member countries in enhancing their capacity to design and implement economic policies, in building effective policymaking institutions, and in improving public sector accountability. Third, the Fund has promoted transparency in financial transactions in the government budget, central bank, and the public sector more generally, and has provided assistance to improve accounting, auditing, and statistical systems in all these ways, the Fund has helped countries to improve governance, to limit the opportunity for corruption and to increase the likelihood of exposing instances of poor governance, in addition, the Fund has addressed specific issues of poor governance, including corruption,[1] when they have been judged to have a significant macroeconomic impact.

3. Building on the Fund's past experience in dealing with governance issues and taking into account the two Board discussions, the following guidelines seek to provide greater attention to Fund involvement in governance issues, in particular through:

- a more comprehensive treatment in the context of both Article IV consultations and Fund-supported programs of those governance issues that are within the Fund's mandate and expertise;

- a more proactive approach in advocating policies and the development of institutions and administrative systems that aim to eliminate the opportunity for rent seeking, corruption, and fraudulent activity;

[1] Corruption could be defined as the abuse of public office for private gain, a definition also used by the World Bank.

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- an evenhanded treatment of governance issues in all member countries; and

- enhanced collaboration with other multilateral institutions, in particular the World Bank, to make better use of complementary areas of expertise.

II. Guidance for Fund Involvement

Responsibility for good governance

4. The responsibility for governance issues lies first and foremost with the national authorities. The staff should, wherever possible, build on the national authorities' own willingness and commitment to address governance issues, recognizing that staff involvement is more likely to be successful when it strengthens the hands of those in the government seeking to improve governance. However, there may be instances in which the authorities are not actively addressing governance issues of relevance to the Fund. In such circumstances, the staff should raise their specific concerns in this regard with the authorities and point out the economic consequences of not addressing these issues.

Aspects of governance of relevance to the Fund

5. Many governance issues are integral to the Fund's normal activities. The Fund is primarily concerned with macroeconomic stability, external viability, and orderly economic growth in member countries. Therefore, the Fund's involvement in governance should be limited to economic aspects of governance. The contribution that the Fund can make to good governance (including the avoidance of corrupt practices) through its policy advice and, where relevant, technical assistance, arises principally in two spheres:

- improving the management of public resources through reforms covering public sector institutions (e.g., the treasury, central bank, public enterprises, civil service, and the official statistics function), including administrative procedures (e.g., expenditure control, budget management, and revenue collection);

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- supporting the development and maintenance of a transparent and stable economic and regulatory environment conducive to efficient private sector activities (e.g., price systems, exchange and trade regimes, banking systems and their related regulations).

6. Within these areas of concentration, the Fund should focus its policy advice and technical assistance on areas of the Fund's traditional purview and expertise. Thus, the Fund should be concerned with issues such as institutional reforms of the treasury, budget preparation and approval procedures, tax administration, accounting, and audit mechanisms, central bank operations, and the official statistics function. Similarly, reforms of market mechanisms would focus primarily on the exchange, trade, and price systems, and aspects of the financial system. In the regulatory and legal areas, Fund advice would focus on taxation, banking sector laws and regulations, and the establishment of free and fair market entry (e.g., tax codes and commercial and central bank laws). In other areas, however, where the Fund does not have a comparative advantage (e.g., public enterprise reform, civil service reform, property rights, contract enforcement, and procurement practices), the Fund would continue to rely on the expertise of other institutions, especially the World Bank. But, consistent with past practice, policies and reforms in these areas could, as appropriate, be part of the Fund staff's policy discussions and conditionality for the Fund's financial support where those measures were necessary for the achievement of program objectives.

7. Although it is difficult to separate economic aspects of governance from political aspects, confining the Fund's involvement in governance issues to the areas outlined above should help establish the boundaries of this involvement. In addition, general principles that are more broadly applicable to the Fund's activities should also guide the Fund's involvement in governance issues. Specifically, the Fund's judgments should not be influenced by the nature of a political regime of a country, nor should it interfere in domestic or foreign politics of any member. The Fund should not act on behalf of a member country in influencing another country's political orientation or behavior. Nevertheless, the Fund needs to take a view on whether the member is able to formulate and implement appropriate policies. This is especially clear in the case of countries implementing economic programs

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supported by the Fund from the guidelines on conditionality that call on Fund management to judge that "*the program is consistent with the Fund's provisions and policies and that it will be carried out.*"[1] As such, it is legitimate for management to seek information about the political situation in member countries as an essential element in judging the prospects for policy implementation.

The criteria for Fund involvement

8. The Fund's mandate and resources do not allow the institution to adopt the role of an investigative agency or guardian of financial integrity in member countries, and there is no intention to move in this direction. The staff should, however, address governance issues, including instances of corruption, on the basis of economic considerations within its mandate.

9. In considering whether Fund involvement in a governance issue is appropriate, the staff should be guided by an assessment of whether poor governance would have significant current or potential impact on macroeconomic performance in the short and medium term, and on the ability of the government to credibly pursue policies aimed at external viability and sustainable growth. The staff could draw upon comparisons with broadly agreed best international practices of economic management to assess the need for reforms.

10. As regards possible individual instances of corruption, Fund staff should continue raising these with the authorities in cases where there is a reason to believe they could have significant macroeconomic implications, even if these effects are not precisely measurable. Such implications could arise either because the amounts involved are potentially large, or because the corruption may be symptomatic of a wider governance problem that would require changes in the policy or regulatory framework to correct. Instances could include, for example, the diversion of public funds through misappropriation, tax (including customs) fraud with the connivance of public officials, the misuse of official foreign exchange reserves, or abuse of powers by

[1] Guidelines on Conditionality, Decision No. 6056-(79/138), paragraph 7.

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bank supervisors that could entail substantial future costs for the budget and public financial institutions. Corrupt practices could also occur in other government activities, including the regulation of private sector activities that do not have a direct impact on the budget or public finances, such as ad hoc decisions made in relation to the regulation of foreign direct investment. Such practices would be counter to the Fund's general policy advice aimed at providing a level playing field to foster private sector activity.

11. Instances of corruption that do not meet the threshold of having significant macroeconomic implications are best addressed through the Fund's efforts to promote transparency and remove unnecessary regulations and opportunities for rent seeking—consistent with the broad principles that apply to other issues of economic governance. Staff recommendations could include improvements in government management processes and systems that would have the beneficial side effect of preventing a recurrence of corrupt practices, or advice to the authorities to seek the assistance of competent institutions for advice in these areas.

The modalities of Fund involvement in governance issues

12. Governance issues are relevant to all member countries although the problems differ depending on the economic systems, institutions, and the economic situation. The mode of Fund involvement will have implications for the manner in which governance concerns are addressed by staff in different member countries. Nonetheless, whatever the mode of involvement, the Fund's main contribution to improving governance in all countries—both countries receiving financial support from the Fund and other countries—will continue to be through support for policy reforms that remove opportunities for rent-seeking activities and through sustained efforts to help strengthen institutions and the administration capacity in member countries.

Article IV consultation discussions

13. In Article IV consultation discussions, the staff should be alert to the potential benefits of reforms that can contribute to the promotion of good governance (e.g., reduced scope for generalized

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rent seeking, enhanced transparency in decision making and budgetary processes, reductions in tax exemptions and subsidies, improved accounting and control systems, improvements in statistical dissemination practices, improvements in the composition of public expenditure, and accelerated civil service reform). The potential risks that poor governance could adversely affect private market confidence and, in turn reduce private capital inflows and investment—even in countries enjoying relatively strong growth and private capital inflows—should also be brought to the attention of the authorities. Fund policy advice should also make use of the broad experience of countries with different economic systems and institutional practices and be based on the broadly agreed best international practices of economic management, and on the principles of transparency, simplicity, accountability, and fairness. In the case of international transactions that involve corruption, the staff should pay equal attention to both sides of corrupt transactions and recommend that such practices be stopped if they have the potential to significantly distort economic outcomes (e.g., the tax deductibility of bribes in member countries or certain operations of official agencies). Where poor governance with a significant economic impact is evident and brought to the staff's attention in its surveillance activities, the staff should discuss the issue with the authorities.

Use of Fund resources

14. While the policy advice indicated above in relation to Article IV consultations is also relevant in the case of Fund-supported programs, the need to safeguard the Fund's resources must also be taken into account.

15. The use of conditionality related to governance issues emanates from the Fund's concern with macroeconomic policy design and implementation as the main means to safeguard the use of Fund resources. Thus, conditionality, in the form of prior actions, performance criteria, benchmarks, and conditions for completion of a review, should be attached to policy measures including those relating to economic aspects of governance that are required to meet the objectives of the program. This would include policy measures which may have important implications for improving governance, but are

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covered by the Fund's conditionality primarily because of their direct macroeconomic impact (e.g., the elimination of tax exemptions or recovery of nonperforming loans). While the Fund staff should rely on other institutions' expertise in areas of their purview (e.g., public enterprise reform by the World Bank), it could nevertheless recommend conditionality in these areas if it considers that measures are critical to the successful implementation of the program.

16. Weak governance should be addressed early in the reform effort. Financial assistance from the Fund in the context of completion of a review under a program or approval of a new Fund arrangement could be suspended or delayed on account of poor governance, if there is reason to believe it could have significant macroeconomic implications that threaten the successful implementation of the program, or if it puts in doubt the purpose of the use of Fund resources. Corrective measures that at least begin to address the governance issue should be prior actions for resumption of Fund support and, if necessary, certain key measures could be structural benchmarks or performance criteria. Examples of such measures include recuperation of foregone revenue and changes in tax or customs administration. The staff would need to exercise judgment in assessing whether the actions adopted by the authorities were adequate to address the governance concerns; as in the case of other policies in which the track record is weak and the commitment of the authorities is in doubt, it may be appropriate in some circumstances to call for a period of monitoring prior to a resumption of financial support. The authorities' policy response could also entail changes in management in public institutions and, as appropriate, the removal of individuals from involvement in particular operations where corruption had occurred, and efforts to recover government funds that have been misappropriated. The staff must, of course, be mindful of the need to avoid action prejudicial to any related domestic legal processes in a particular case.

Technical assistance

17. The Fund's technical assistance programs should continue to contribute to improving economic aspects of governance. This would apply to areas of Fund expertise, including budget management and

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control, tax and customs administration, central bank laws and organization, foreign exchange laws and regulations, and macroeconomic statistical systems and dissemination practices. In these areas, technical assistance missions should bring to the attention of the authorities areas in which procedures and practices fall short of best international practices.

Identification of governance problems

18. In the context of Article IV consultations, program negotiations, and technical assistance missions, the staff should be alert to aspects of poor governance that would influence the implementation and effectiveness of economic policies and private sector activities. For example, this could be related to a weak and poorly remunerated civil service, which could be addressed through civil service reforms encompassing a restructuring or selective increase in pay scales or the process and transparency of the privatization process. The staff should also pay attention to inconsistencies or improbabilities in the various data and accounts in member countries. For instance, tax collection might fall short of the expected potential yields as a result of weak administration of tax laws, procedural complexities or the widespread abuse of exemptions. The staff should bring data inconsistencies that are not judged to be the result of problems in statistical collection and compilation to the attention of the authorities. The staff should also advise that greater transparency in macroeconomic policy implementation could help build private sector confidence in government policies, for example, the consolidation of all extra budgetary accounts within the budget, the early publication of the budget, and early reporting on the outcome at the end of the fiscal year.

19. It is recognized that there are clear practical limitations to the ability of the staff to identify deficiencies in governance. The availability, quality, and reliability of information are likely to be important factors affecting Fund involvement in corruption cases. The staff should continue to rely on information provided by the authorities. If inconsistencies in public accounts and reports suggest that a problem exists, the staff should, in the first instance, raise the issue with the authorities. In its endeavor to seek information, the staff may need to be prepared to face some tension in the working relationship with

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country authorities in specific cases potentially involving corrupt practices. The staff may also point out that, in an atmosphere of widespread rumors of corrupt practices, and where the rumors have some genuine credence, an independent audit may be desirable to address such concerns. If the staff considers that further information is required to resolve an issue that has a significant macroeconomic impact, it may be appropriate to make use of information from third parties, including other international organizations and donors. In view of the confidential nature of the information obtained by the staff from member countries, staff enquiries will need to be handled with due discretion and regard for the sensitive nature of the issue.

Coordination with bilateral donors and other multilateral institutions

20. The Fund should collaborate with other multilateral institutions and donors in addressing economic governance issues. Recognizing that the interests of these bodies are more diverse than the Fund's—ranging from political aspects of governance to specific project-related issues—the Fund staff should exercise independent judgment in formulating policy advice. In addition, the staff should focus its analysis and technical assistance only on those issues that are within its expertise. However, as noted in paragraph 6, conditionality may apply to measures to address governance concerns in areas outside the Fund staff's expertise. Fund staff should also keep abreast of changes in the policies of partner organizations and specific efforts in member countries on governance issues. This should include the activities of partner organizations, particularly the World Bank, in addressing governance issues in areas which are outside Fund staff's competence but nonetheless important for the achievement of the economic policies advocated by the Fund (e.g., the reliable enforcement of contracts).

21. Given the commonality of interest with other multilateral institutions, the Fund should seek to strengthen its collaboration on issues of governance with them, and in particular with the World Bank. This should include, especially when requested by the authorities concerned, coordination of action to improve governance.

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22. As regards bilateral donors, it is useful to distinguish two different cases in which donor responses to economic and noneconomic governance issues affect the Fund's relations with its members, although in practice there is seldom a clear separation between such economic and noneconomic aspects:

- In cases where bilateral donors or creditors withhold or interrupt external support because of concern over political and/or economic aspects of governance, the Fund should have an independent view on the economic implications. The Fund staff should examine whether these issues have a direct and significant impact on macroeconomic developments in the short or medium term. If this is the case, the staff should seek to assist the member country concerned through policy advice and technical assistance in areas of its expertise and coordinate as appropriate with donors with a view to helping to address the governance issues before recommending provision of Fund financial support. If this is not the case, but donors continue to withhold support, the staff should seek to assist the authorities in reformulating a program with greater internal adjustment to compensate for reduced external financing, paying due regard to the medium-term sustainability in the absence of a resumption of external assistance. If this were not feasible because of a lack of financing assurances, i.e., adequate external financing for the reformulated program is not in place, as a last resort, the staff should recommend that the Fund withhold its own financial support but continue to provide technical assistance support.

- In cases where governance issues significantly affect short- or medium-term economic developments but donors and creditors continue their financial assistance to the country concerned and do not assist the government in improving governance, Fund staff nevertheless has an independent responsibility for raising the governance issue with the authorities and for reporting to the Board on this issue. There may be occasions when the Fund staff may raise its concerns with donors and creditors, including at consultative group meetings and in round tables. But these instances would need to be addressed with care with the guidance of the Board and due regard to the confidential nature of such information. There are clear limitations to what the Fund's contribution to improvements in governance in member coun-

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tries can achieve without the active support from the rest of the international community.

Reporting to the Executive Board

23. The Executive Board will be kept informed about developments in significant cases involving governance issues and will have the opportunity to comment on the operation of these guidelines as country cases are brought forward. In addition, there will be a periodic review by the Executive Board of the Fund's experience in governance issues.

Concluding Remarks by the Acting Chairman—Military Expenditure and the Role of the Fund
Executive Board Meeting 91/138, October 2, 1991

During the discussions on the *World Economic Outlook*, Directors touched on the issue of military spending in the context of the need to raise global savings and to help meet new investment demands. The scale of global resources devoted to military spending—estimated at nearly 5 percent of world GDP—underscores its importance. In the more recent discussion on Military Expenditure and the Role of the Fund, most Directors indicated that as military expenditures can have an important bearing on a member's fiscal policy and external position, information about such expenditures may be necessary to permit a full and internally consistent assessment of the member's economic position and policies. At the same time, Directors emphasized that national security, and judgments regarding the appropriate level of military expenditures required to assure that security, were a sovereign prerogative of national governments and were not in the domain of the work of the Fund.

While many Directors saw a limited, albeit important, role for the Fund in the collection and analysis of data on military spending, a number questioned the role of the Fund in this area. Since the collection of data from all members in the context of Article IV consultations requires the cooperation of members, Directors felt it important, in light of the diverse views expressed during this meeting, to find a common ground that commands a wide degree of support. This common ground should be based on the Fund's mandate in the Articles.

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In the context of the Fund's surveillance responsibilities, the staff needs to request of members certain data to provide the analytic basis for an effective assessment of members' macroeconomic policies. At a minimum and for all members, aggregate data which include fiscal expenditures (including off-budget accounts), international trade, and external assets and liabilities, must be reported fully to the Fund. These data should therefore encompass military transactions, even if not separately identified. It has been the policy and practice of the Fund staff to seek comprehensive macroeconomic data for this purpose. In those instances when inconsistencies in data suggested significant reporting gaps, Fund staff has informed the Board and supplemented data from the authorities to the extent possible with data from other sources. Most Directors agreed that the Fund staff should enhance its work to improve the comprehensiveness, comparability, and timeliness of such data reported by authorities.

As military spending is a highly sensitive area, however, several Directors expressed concern about the degree of data disaggregation that might be requested by the staff. In the past, the staff has generally requested, or been offered by authorities of members countries, more detailed information on the breakdown of government expenditures, either on a national or fiscal accounts basis, which have been part of the documentation in staff reports. Such disaggregation, say, as between consumption and capital items, may be necessary in order fully to assess growth prospects and external viability. The staff will continue to request a breakdown of government expenditures, but still at a highly aggregated level, in the context of the Article IV consultation process in order to assess the consistency and sustainability of a member's policies. The staff will continue to rely on the voluntary cooperation of the authorities in the submission of data. Data deficiencies, which were thought to impair the ability to assess a member's economic position and prospects and to conduct meaningful policy discussions, would be brought to the attention of the Board in the manner in which such data deficiencies are normally so reported. Directors agreed that data on military expenditures should not serve as a basis for establishing performance criteria or similar conditions associated with Fund-supported programs.

Countries, when contemplating downsizing their military establishments, may wish to be assisted by the staff in assessing the

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possible effects of such downsizing on macroeconomic performance. In such cases, the authorities may wish to provide such data as would permit more detailed economic analysis and facilitate economic policy discussions. The Fund staff would work closely with Bank staff in these cases on the structural issues associated with shifting domestic resources to other uses.

The macroeconomic effects of military spending could also be analyzed from a regional and global perspective in the WEO.

GUIDELINES ON MINIMUM CIRCULATION PERIODS FOR EXECUTIVE BOARD DOCUMENTS—AMENDMENT

1. Staff reports for Article IV consultations with members shall be subject to a minimum circulation period of two weeks for all members. The *Guidelines on Minimum Circulation Periods for Executive Board Documents* , EBD/97/66, Sup. 2 are amended accordingly.

2. The circulation period provided for in Paragraph 1 will apply to all Article IV consultations for which staff reports are issued after the effective date of this decision. (EBD/09/8, 1/27/09)

Decision No. 14260-(09/11),
February 3, 2009

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Article V, Section 2(*b*)

Technical and Financial Services

Technical Services

ENHANCED SURVEILLANCE: PROCEDURES FOR TRANSMITTAL OF STAFF REPORTS

When the Executive Board has approved a request by a member for consultations under the Fund's policy on enhanced surveillance, the annual and midyear consultation reports prepared by the Fund staff in accordance with that policy in respect of the member may be transmitted by the member to creditor banks and other creditor financial institutions party to the arrangements specified by the member in the request for consultations, on the understanding that the recipients of the reports have assured the member that the reports will not be used for any purpose other than those of the arrangements specified in the member's request to the Fund and will be kept confidential; and that the reports shall not be transmitted by the member earlier than two weeks after their circulation to members of the Executive Board.

Decision No. 8222-(86/45),
March 12, 1986

ENHANCED SURVEILLANCE: MIDTERM REVIEW

The midterm review of a member's economic policy program under enhanced surveillance shall be conducted in accordance with the following procedure. A staff report will be circulated to the Executive Directors under cover of a note from the Secretary specifying a tentative date for Executive Board discussion which will be at least 15 days later than the date upon which the report is circulated. The Secretary's note will also set out a draft decision taking note of the staff report and completing the review without discussion or approval of the views contained in the report; the decision will be adopted upon the expiration of the two-week period following the circulation

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of the staff report to the Executive Directors unless, within such period, there is a request from an Executive Director or a decision of the Managing Director to place the report on the agenda of the Executive Board. If the staff report is placed on the agenda, the Executive Board will discuss the report and will reach conclusions which will be reflected in a summing up.

Decision No. 10365-(93/67),
May 10, 1993

Summing Up by the Chairman—
Biennial Review of the Fund's Surveillance Policy
Executive Board Meeting 93/15, January 29, 1993

…

The Executive Board agreed that the criteria relating to enhanced surveillance set out on pages 28 and 29 of SM/92/234 [below] would be appropriate. In sum, these provide that the procedures, which would normally be initiated by the authorities in the context of Article IV discussions, would involve submitting a quantified annual economic program, generally formulated with the assistance of the staff, and also half-yearly reports to the Board; both the Article IV reports (as appropriately modified) and the half-yearly reports could be made available to creditors. Application of the procedures would be approved by the Executive Board until the next Article IV consultation or for a 12-month period. These procedures should be reviewed within two years, and in the interim, they will be applied with a view to the concerns noted by you today and during the discussion of January 27.

…

SM/92/234

…

The principal features of the proposed revised enhanced surveillance procedures are summarized below.

1. Enhanced surveillance procedures would be initiated by a member with a request for Fund monitoring of its macroeconomic

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and structural policies, usually at the time of the Article IV consultation.

2. The Executive Board would respond to the member's request on a case-by-case basis, taking into account among other things a member's track record of adjustment.

3. In recognition of a concern of Executive Directors at the time of the 1989 review of enhanced surveillance, each Executive Board approval of the application of the procedures would be only until the time of the next Article IV consultation with the member (or a 12-month period), when a further request for application of the procedures could be presented. Limiting the duration of the procedures to a relatively short period should reduce the need for unilateral termination of such procedures by the Fund.

4. The member's request for enhanced surveillance would be granted on the strength of a quantified economic policy program, which had been discussed with the Fund staff, usually as part of the consultation discussions. It is expected that there would be a mid-term review of progress under the economic program before the next scheduled Article IV consultation, irrespective of the actual performance; failing which, Directors would be informed of the absence of the review and the reasons. The review report would be issued by the staff under the same procedures as for interim consultations and the Executive Board would take note of the report on a lapse-of-time basis unless a discussion was requested by a Director or the Managing Director.

5. As before, enhanced surveillance would not involve Executive Board approval or endorsement of the macroeconomic program presented by the member.

6. Information on the economic program and its implementation, as well as the staff's assessment of the situation as contained in the staff reports, could be made available by the authorities to donors and creditors on a timely basis. In addition to the staff report, official creditors/donors would also receive the Chairman's summing up of the Executive Board discussion.

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Summing Up by the Acting Chairman—Settlement of Disputes Between Members Relating to External Financial Obligations—Role of the Fund
Executive Board Meeting 84/99, June 22, 1984

I shall begin by outlining four general points that were made in the course of the Board discussion. First, Executive Directors generally endorsed the approach that the Fund has taken in the three major aspects of the subject dealt with in the staff paper.

Second, Directors agreed that the functioning of the international monetary system depended on members' fulfilling their international financial obligations promptly and according to the terms of those obligations. Therefore, the Fund had a direct interest in the settlement of overdue obligations and a role to play in accordance with the Articles of Agreement.

Third, there was a consensus that the circumstances surrounding overdue financial obligations typically were complex, and that there were often important differences among individual cases. Thus, Directors preferred not to codify the Fund's approach in each of the three main areas discussed. Instead, most of them supported the idea that the Fund should continue to fulfill its responsibilities under the Articles on a case-by-case basis within the context of the present policies and procedures, which could be expected to continue to evolve as individual cases of overdue financial obligations and related general policy matters were discussed. There was a strong feeling among Directors that the Fund should show caution and restraint in making judgments on issues involving claims on such overdue obligations.

Fourth, Directors stressed the importance of the Fund's helping member governments to improve their statistical base and to increase the supply of information on their external debt obligations, particularly in cases involving overdue claims. Where necessary, the Fund could provide the technical resources to help sort out the frequently complex circumstances surrounding the debt situation, including individual cases.

Let me turn now to more specific comments on the three major areas dealt with in the staff paper. With respect to the Fund's jurisdiction under Article VIII and Article XIV, there was strong sup-

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port for the policies and practices that the Fund had followed to date. Directors generally agreed that, in exercising its functions under Article VIII and Article XIV, the Fund was entitled to examine the context in which nonpayment of a financial obligation had occurred in order to determine whether or not it involved an exchange restriction and, as such, was subject to Fund approval, and that members were obliged to provide the information that the Fund required to make such a determination. The Fund has developed a substantial body of principles and practices for determining which measures were and were not within its jurisdiction and when approval under Article VIII was appropriate. These judgments were inherent in the exercise of the Fund's jurisdiction.

Executive Directors also generally endorsed the Fund's existing policies and practices for dealing with disputed financial obligations in members using Fund resources. This concerned primarily the identification and treatment of payments arrears. Directors accepted the general premise that, to restore its financial position, a member country must reduce and eliminate its external payments arrears. In that context, there was broad support for the approach that the Fund had taken to the problems involving countries with large external payments arrears. It was noted that the degree of involvement by the Fund in helping countries to deal with their arrears had varied depending, in part, upon the severity of the case. Some Directors noted that the pivotal role that it had been necessary for the Fund to play in helping some member countries should be the exceptional practice, not the general practice. Nevertheless, the Fund should stand ready to provide technical and analytical expertise to help a member country to negotiate a financing agreement with its external creditors.

Most Directors attached importance to the principle that a member country should give comparable treatment to all its creditors, although there was not broad support for trying to define that principle in detail. There was a strong feeling that responsibility for the enforcement of the principle of comparable treatment was ultimately in the hands of creditors, and that the Fund should take into account the actions of the creditors when assessing the viability of, and progress under, a Fund-supported program. In that connection, Directors felt that the debt relief to help to close the financing gap of a member could best be dealt with through a Paris Club negotiation,

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which usually involved a large number of a country's creditors. A Paris Club Agreed Minute could be seen as satisfying a member country's need for debt relief and could be used for judging whether or not a country's financing gap has been closed. A Paris Club Agreement also has implications for official creditors not participating in the Paris Club because of the commitment of the debtor to seek and to accord comparable treatment to those creditors. Some Directors stressed that it would be helpful to know about a Paris Club meeting well in advance of its occurrence, although it was also accepted that such notification was ultimately the responsibility of the debtor country in consultation with its creditors. At the same time, it was clearly desirable for as many of a country's creditors as possible to participate in a Paris Club meeting.

Directors also generally agreed that, if an anticipated bilateral agreement required by the Paris Club, between a debtor and one of its official creditors, were not ratified within the specified period, the amount of arrears involved should be included in the calculation of arrears for purposes of the debtor country's Fund-supported program. While there was general support for that approach, there was a call for flexibility and the exercise of judgment by the Fund when making such decisions during the course of a Fund-supported program. If a debtor country had made its best efforts to comply with a Paris Club requirement to conclude a bilateral agreement but had been unable to do so, the arrears involved should not be included in the calculation of arrears for purposes of the debtor country's Fund-supported program. However, such judgments should be made on a case-by-case basis.

Decisions on whether or not a country's financing gap had been closed, and on whether or not rescheduling and refinancing agreements were being fulfilled, should be made by the Fund itself. The Fund should take into account the particular circumstances of a member, such as the preconditions on the provision of debt relief by other agencies.

There was a strong consensus on three general matters relating to the use of the Fund's good offices. First, in the light of the Fund's primary responsibilities concerning the international monetary system and of its specific authority under the Articles to provide financial and technical services, management and staff should stand ready to use their good offices in helping members engaged in a par-

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ticular dispute over an external financing obligation. Second, such good offices should, however, be limited in scope and frequency, although in that connection there were differences in emphasis among Directors. Some felt that the Fund should be more active, others that the Fund must be quite cautious. In short, the use of good offices should be consistent with available resources and should be substantially technical. Third, all Directors attached great importance to the Fund's remaining neutral in issues of debt dispute. It should be clearly understood that the Fund's good offices were meant to bring the parties to a dispute together. Fourth, there was agreement that the Fund should act in such cases only if both parties wished to have the Fund provide its good offices.

The Chairman's Summing Up of the Discussion of the Role of the Fund in Assisting Members with Commercial Banks and Official Creditors
Executive Board Meeting 85/132, September 4, 1985

General Remarks

The procedures relating to enhanced surveillance that have been discussed by Directors were developed in response to the need to help members make progress toward addressing their debt problems and improving their relations with their creditors in an orderly manner and in a broader framework.

It was noted by many Directors that by adapting some of its policies, the Fund had played a central role in helping to limit the disruptions associated with the debt crisis and in promoting a normalization of debtor/creditor relations. Most Directors, however, observed that the practice of enhanced surveillance that had developed involved some risks. Some Directors stressed the risk of a possible weakening of Fund conditionality. Others feared that the Fund might tend to become too deeply and too specifically involved in relations with the commercial banks, and that generalized reliance on the Fund's judgment by the international community could affect the Fund's credibility and interfere with the normal functioning of the markets, which should rely eventually on the banks' own assessments. In other words, enhanced surveillance in the view of most Directors should not become a substitute for stand-by and extended arrangements and

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should not "crowd out" or "dilute" the Fund's normal procedures and transform the institution into a kind of universal credit-rating agency. In that vein, a majority of Directors, while recognizing the usefulness of the practices that have evolved, considered that enhanced surveillance should be used on a limited basis under the guidance and control of the Executive Board, essentially to help promote MYRAs (multi-year rescheduling arrangements), although all MYRAs might not be associated with enhanced surveillance.

Criteria and Procedures

a. *Criteria for the adoption of enhanced surveillance*

While several Directors insisted on the need for flexibility and on the importance of avoiding too rigid criteria, most Directors felt that enhanced surveillance could be undertaken when the four following conditions are met:

First, at the request of a member country, who must initiate the procedures;

Second, in cases where a good record of adjustment has been shown;

Third, in cases in which a MYRA is needed to normalize market relations and to facilitate the return to voluntary or spontaneous financing;

Fourth, in cases where the member is in a position to present an adequate quantified policy program in the framework of consultations with the Fund staff, which are part of the procedure of enhanced surveillance.

b. *Length of the Fund's involvement*

Directors thought that, on the whole, the early cases of enhanced surveillance had covered rather too long periods. They felt that in the future the Fund should try to limit the procedure to about the consolidation period of a MYRA. I would suggest that we should retain some flexibility and remain open to the possibility of extending enhanced surveillance a little beyond the consolidation period. If the Fund were to cut off enhanced surveillance at the end of the consolidation period, the communication of reports to the banks would be halted at a delicate time in the normalization of relations between the

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country and its creditors; i.e., at the time when the country will need more voluntary financing to meet external payments falling due. While we should try to limit enhanced surveillance as much as possible to the consolidation period, there might be occasions when an extension of enhanced surveillance into the period after consolidation may be necessary and warranted.

c. *Trigger mechanisms*

A number of Directors feared that staff involvement in the design and the negotiation of trigger mechanisms between the commercial banks and the member country risked diluting the banks' responsibility in the monitoring process under MYRAs and risked engaging the Fund in providing on/off signals to the banks. Most Directors felt that the staff should not negotiate or take responsibility for designing and assessing trigger mechanisms. But, if the member wished, the Fund staff would not refuse to give its views on the purely technical merits or drawbacks of such mechanisms. It is important to emphasize that the Fund should take no active part in the negotiation of the design of these trigger mechanisms.

d. *Contents and distribution of staff reports*

Directors stressed the need to ensure that staff reports to be issued to creditor banks under the policy of enhanced surveillance continue to provide full and frank assessments of the policies and economic prospects of member countries. While a number of Directors were of the view that staff reports should be made available to creditor banks under the enhanced surveillance procedures only after the Executive Board had met to discuss the reports, most Directors agreed that countries would be authorized to release these staff reports to their creditor banks not earlier than two weeks after their issuance to the Executive Board. The majority of Directors were of the view that authorization to release staff reports should be provided by a general decision pertaining to all cases for which enhanced surveillance is agreed rather than by an individual decision in each case. The reports to be released to creditor banks would reflect only the staff's views and would not contain any references to the discussions and views of the Executive Board. No amendments to the staff report other than the deletion of references to Board discussions would be made.

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e. *Involvement of the Executive Board*

I understand that the procedure would be as follows: First, request by a member for enhanced surveillance; second, management assesses the case in accordance with the policies agreed by the Executive Board today and determines whether to submit the request for the endorsement of the Board. In cases where the criteria raise delicate problems of interpretation, management would continue to consult informally with Executive Directors at the earliest opportunity.

…

g. *Review of the policy on enhanced surveillance*

A number of Directors suggested that in view of the need to assess changing circumstances and the possible effects of the procedures for enhanced surveillance on the Fund and its policies, the Board should engage in a periodic review of the policy of enhanced surveillance, with an initial review to be held in about one year.

Summing Up by the Acting Chairman—Financial Sector Assessment Program—A Review—Lessons from the Pilot and Issues Going Forward
Executive Board Meeting 00/123, December 13, 2000

Overview

Executive Directors welcomed the opportunity to review the Financial Sector Assessment Program (FSAP) in light of the further experience that has been gained with the FSAP pilot since the review in the spring of this year. Directors agreed that based on the completion of the missions to all 12 pilot countries, the work to date with the second round of country cases, and the feedback and support received from participating countries and cooperating institutions, it is timely to establish guidelines for a continuation of the FSAP program for the period ahead.

Directors agreed that the FSAP process provides a coherent and comprehensive framework to identify financial system vulnerabilities and strengthen the analysis of domestic macroeconomic and financial stability issues, to identify development needs and priorities, and to help authorities develop appropriate policy responses. They

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welcomed the broad range of information and analysis that the FSAP process brings to financial sector assessments, and noted in particular that this process provides the overall macroprudential and institutional context necessary for a thorough assessment of observance of international standards, codes, and good practices in the financial sector.

Directors observed that the Financial System Stability Assessments (FSSAs) derived from FSAP findings and Article IV consultations have appropriately focused on the stability issues of relevance to Fund surveillance. The comprehensive coverage of FSSAs, drawing on a broad range of information, helps to deepen the quality and scope of coverage of Article IV consultations. Accordingly, Directors agreed that the FSSAs are the preferred tool for strengthening the monitoring of financial systems under the Fund's bilateral surveillance.

Directors underscored that an underlying objective of the FSAP is to encourage national authorities to implement measures to redress identified vulnerabilities and development needs. In that context, they believed that the Fund (as well as the Bank) should ensure that the strategic components of the assessment be reflected in other aspects of country programming, and that appropriate technical assistance and other support be provided to national authorities that request it.

Directors welcomed the steps taken in the Fund and the Bank to ensure consistency and quality in their joint FSAP work, as well as in the separate related work in the two institutions, including for the monitoring in the Fund of financial systems under Article IV surveillance. They encouraged the staff to press ahead with the work being undertaken in the context of the FSAP to develop analytical techniques, including macroprudential indicators, the use of stress tests and scenario analysis, and the assessment methodologies of financial sector standards in collaboration with standard-setting bodies.

Standards and Codes

Directors emphasized that assessments of observance of international standards, codes, and best practices have an important role to play in the FSAP. When considered with the other analysis undertaken in the FSAP, they help to identify vulnerabilities, gaps in regu-

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latory structures and practices, and medium-term reform and development needs and priorities. They also help country authorities to evaluate their own systems against international benchmarks.

Directors noted that the summary standards assessments that flow from the detailed assessments are presented as an input into the overall stability assessment in the FSSA, and become financial sector modules of the Reports on Observance of Standards and Codes (ROSCs). While agreeing that the FSAP/FSSA process provides the proper context within which to assess standards, a number of Directors suggested that financial sector standards assessments carried out outside the FSAP also have a highly useful role to play, both to support implementation of standards by member countries, and as part of the preparatory work for a future FSAP assessment. Some Directors noted that, although central to the FSAP, the assessment of observance of standards and codes is resource-intensive and that the relevant standards to assess should be carefully selected in order to avoid stretching costs and procedures.

Bank-Fund Collaboration

Directors noted that the collaborative nature of the FSAP has ensured that the best expertise is mobilized to undertake the diagnostic work of joint Bank-Fund FSAP missions. At the same time, most Directors agreed that the division of responsibilities, once the joint work is completed, ensures that clear accountability for the Fund's and the Bank's separate work is maintained. While noting the interrelationship between financial system stability and financial sector development, Directors stressed that the Fund's primary responsibility is in the area of systemic stability issues, while that of the Bank is in the development aspects.

Coverage and Frequency of FSAP

Directors had an extensive discussion of prioritization in the FSAP process. They considered that a variety of criteria could appropriately be employed to establish priorities in selecting country cases in the face of limited resources, including a country's systemic importance; its external sector weakness or financial vulnerability; the nature of its exchange rate and monetary regime; and geographical balance among countries. All in all, Directors agreed that the country selection should be such as to help maximize the program's contribu-

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tion to the strengthening of national and international financial stability. Most Directors noted that within any one year, giving a higher priority in the FSAP country selection process, to systemically important countries would be warranted.[1] It was noted that prioritization in this sense means a difference in timing, not treatment. At the same time, Directors continued to stress the merit in maintaining a broad country coverage in the program. They felt that members should have the opportunity to participate in the FSAP to help them strengthen and develop their financial sectors, to prevent costly financial sector crises, and, where relevant, to prepare the ground for financial market liberalization and greater access to the international capital markets.

Directors considered how to maintain adequate monitoring of financial systems under Fund surveillance in years between full assessments, given the voluntary nature of the program and the limited frequency with which full assessments of an individual member can be undertaken. This is particularly important for countries identified as vulnerable, or systemically important, and whose financial systems are evolving at a rapid pace. Directors agreed that, for surveillance purposes, focused updates of FSSA findings could be undertaken by Fund staff in the context of subsequent Article IV consultations.

Directors agreed that the country's choice of whether or not to participate in the FSAP does not alter the Fund's responsibility to conduct financial sector monitoring. If a country volunteered to participate in the FSAP, but could not be accommodated by the program immediately, or if a country chose not to participate in the FSAP, Directors noted that the Article IV mission team for that country could be reinforced with financial sector expertise, and some assessment in key areas of concerns could be undertaken. Nevertheless, Directors believed that the full exercise remains the preferred vehicle for conducting financial sector assessments as input to Fund surveillance, and they agreed that, when relevant, the staff should be prepared to recommend—for instance, in discussions with authorities or in the

[1] Ed. Note: Paragraph 71 of SM/00/263 defines systemically important countries as those countries whose capital markets intermediate the bulk of global financial transactions and emerging economies whose financial systems have the potential to cause, or be subject to, undue volatility in cross-border flows and financial system contagion.

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staff appraisal in the Article IV staff report—that the country participate in the FSAP.

Directors noted that the scope of FSSAs, particularly for countries with significant offshore financial centers, should be extended beyond domestic stability considerations to encompass possible cross-border effects and consideration of international repercussions, while maintaining its country-specific focus.

Offshore Financial Centers (OFCs)

Directors also noted that FSAP assessments covered both the cross-border activities of financial institutions, and the activities of financial institutions operating in an off-shore center within the country. The FSAP assessment of such countries would generally be expected to result in "module three" assessments—which comprise financial risks, relevant financial sector standards and codes, and cross-border effects of the relevant OFC. Separate "module three" assessments could, however, still take place for OFCs that are not members of the Fund and the Bank, as well as, in some cases, for OFCs within a member country. In the latter case, these OFC assessments could provide input into a subsequent full FSAP assessment for the country.

Resource Implications

Directors considered the potential budgetary implications of the staff proposals on the FSAP for fiscal year 2002 and beyond. They noted that the pace of the FSAP will depend on a number of factors, including how the suggested prioritization of FSAP country cases is translated into practice. Directors broadly agreed that the Fund should keep the effective implementation of priorities in view in aiming for the suggested pace of up to 30 assessments per year. Both the pace of the FSAP and its new resource implications will be subjected to further assessments by the Fund and the Bank in the context of their respective upcoming budget discussions.

Publication and Circulation

On publication and circulation issues, Directors noted that, under the existing arrangements, FSAP reports are prepared as confidential documents for national authorities, since some information needed to carry out the diagnostic aspects of an FSAP mission's work, especially that related to individual financial institutions, is

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highly sensitive. Directors agreed that the current policy of the management of the Fund and Bank not to provide authorization for the publication of the main volume of FSAP reports and the associated confidential documents should be continued. They also endorsed the management's intended policy to provide authorization for the publication by the authorities of the detailed assessments of observance of standards and codes that are included in FSAP reports.

When discussing publication and circulation policies for FSSAs, most Directors agreed that the policy of voluntary publication was appropriate. They noted that several national authorities have requested that the Fund allow publication of FSSAs. Some Directors felt, however, that the current policy, whereby publication of FSSAs is not permitted, should be continued.

On balance, most Directors agreed to authorize Fund publication of FSSAs after the associated Article IV consultation has been concluded. Such publication will be subject to: (i) the consent of the respective member concerned; (ii) the same deletions policy regarding highly market-sensitive information that applies to Article IV staff reports; and (iii) the same rules on internal circulation and release to outside agencies that apply to Article IV staff reports. It was agreed that publication of an FSSA could proceed even if the member concerned did not consent to the publication of the relevant Article IV consultation report. While some Directors supported publication of the initial assessments for the 12 pilot countries, it was also agreed that the new publication policy for FSSAs should not apply to these cases. For a participant in the FSAP pilot project in the process of accession to the European Union, it was agreed that the member's FSSA could be circulated to the European Commission.

Confidentiality

The importance of adequate procedures to ensure the confidentiality of sensitive information provided to FSAP missions, especially on individual financial institutions, has been stressed in previous Board discussions. Directors noted that the confidentiality procedures that must be followed by staff, as well as experts from cooperating institutions, as laid out in the confidentiality protocol are working well.

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Next Review

Directors agreed that the further review of the experience under the FSAP should take place in 18 months' time.

The Acting Chair's Summing Up—Financial Sector Assessment Program—Review, Lessons, and Issues Going Forward
Executive Board Meeting 05/26, March 18, 2005

Executive Directors reviewed the experience with the Financial Sector Assessment Program (FSAP) since the last Board review of the program. They noted that the program remains a cornerstone of financial sector work by the Fund and the Bank in member countries, and commended the staff on its continuing success. They observed that about 120 countries, two-thirds of the membership, have participated or requested participation in the program.

Directors noted that assessments continue to be comprehensive and to highlight a broad range of financial sector vulnerabilities, while heightening awareness of international financial standards in member countries. Greater expertise developed in the assessment process has also improved the quality of Fund and Bank advice with regard to the financial sector. In addition, especially in assessments of underdeveloped financial systems, FSAPs have rightly devoted more effort to explaining why specific markets are missing and broad access to financial services is limited. Directors were pleased that feedback from country authorities underscores the usefulness of the program in diagnosing stability and development issues in financial systems and in charting appropriate policy responses. They also took note of the authorities' suggestions of areas for further improvement, as key input into the ongoing process of strengthening the FSAP.

Directors discussed the advantages and disadvantages of two key features of the program—its joint Bank-Fund character and voluntary nature. Most Directors agreed that these features should remain unchanged. Directors observed that the FSAP exercise is a good example of effective Fund-Bank collaboration. The joint nature efficiently pools resources from the two institutions, contributes to a broad perspective of financial issues in low- and middle-income countries, and leads to greater consistency in policy advice. Directors agreed that voluntary participation results in greater country owner-

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ship, and agreed that the program should remain voluntary. They stressed the importance of maintaining the case-by-case design of FSAPs to make the exercise useful to countries, within limits that preserved the program's integrity.

Directors were pleased to note that the streamlining measures adopted since the last review have been effective. Improved prioritization and streamlining have resulted in assessments that are better tailored to country circumstances. Along with the smaller average size of financial systems undergoing initial assessments in the last two years, this has contributed to lower average costs per FSAP. For the Fund, this has freed up resources for other work in financial sector surveillance such as FSAP updates and participation in Article IV missions, as envisioned in the previous Board review. For the Bank, more emphasis has been placed on development issues. As a result, the balance of resources used in the program has become more equally distributed between the two institutions. While encouraging the staff of the Bank and Fund to keep down the cost of the program, some Directors cautioned against FSAPs that are too narrow, thereby negating the benefits of the comprehensive assessment. Several Directors noted that the increasing share of resources devoted to AML/CFT assessments, while important, could crowd out other important assessments.

Directors welcomed the discussion of the size and scope of FSAP updates, especially as the number of these exercises is on the rise and will eventually account for the bulk of the program. They endorsed the definition of the minimum element of an update as comprising an assessment of financial sector developments and progress in implementing earlier FSAP recommendations. An update should contain a financial stability analysis, reassessments of key development and structural issues raised in the initial assessment, and factual updates of key standards and codes. At the same time, Directors agreed that updates can include additional elements if justified by new developments or particular risks. Flexibility would maximize the program's usefulness to country authorities and its contribution to surveillance.

Directors agreed that, given the pace of financial sector development and the need to keep the staff's institutional knowledge current enough for effective financial sector work, an average fre-

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quency of FSAP updates of about five years seems reasonable. However, in any particular country, the frequency will depend on financial sector developments, the country's willingness to participate, its systemic importance, resource availability for the program, and its track record in implementing recommendations from the previous FSAP.

Directors welcomed efforts to deepen the treatment of developmental issues in low-income countries. They thought that in-depth fact-finding carried out, generally by Bank staff, before the main assessment or update mission can help identify the priority development issues. Directors said, however, that this should not affect the speed with which the main assessment report is prepared and should avoid being burdensome to the country authorities.

Directors welcomed the broad country coverage that the program has achieved, especially of systemically-important countries, but noted the wide differences in coverage by region. Many Directors expressed concern that, some five years after the program's inception, several systemically-important countries have still not requested an initial assessment, and encouraged those countries to do so. Most Directors urged the staff to promote the program more actively, focusing on initial assessments in the under-represented regions and on updates in other regions. In this context, most Directors endorsed the proposal to institute annual reporting to the Board on country participation in the FSAP as a way to increase awareness of the program. Some Directors pointed out that some countries that have not yet undertaken FSAPs have opted for self-assessments and reform of their financial systems as an initial step, and considered that such efforts should be welcomed.

Directors welcomed steps being taken by staff to strengthen follow up monitoring of financial systems. They observed that more needs to be done to ensure that issues identified during the FSAP are followed-up through Fund surveillance. Thus, Directors welcomed and encouraged more systematic participation in Article IV consultations by financial sector specialists and more technical support from headquarters. To facilitate this process, Directors also suggested ways for authorities to report to staff on progress achieved. They encouraged staff to continue to strengthen financial sector work, as called for in the recent biennial surveillance review. In this connection, several Directors saw scope for integrating FSAPs more closely with Ar-

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ticle IV surveillance, noting the crucial importance of the financial sector for a country's overall macroeconomic stability.

Directors also urged staff to continue to make technical assistance follow-up more systematic. They agreed that to improve country ownership, flexibility is needed in the way this is accomplished. They supported the idea of organizing, in appropriate country cases, follow-up meetings on technical assistance among the authorities, staff, and possibly other donors.

Directors discussed the publication policy. They noted that about two-thirds of countries have volunteered to publish the Financial Sector Stability Assessments (FSSAs) arising out of the FSAP. A range of views was expressed with regard to the suggestion of moving to a policy of presumed publication of the FSSA. A number of Directors agreed that such a move contributes to the effectiveness of the program, not least through building support for reforms, and signals that the benefits of transparency are recognized. Many other Directors, however, noted that a move to presumed publication for the FSSA is not consistent with the voluntary nature of the program. In the absence of a clear consensus by the Board, we will return to this issue at a later time.

Directors encouraged staff to continue research on developmental and stability issues, to better underpin policy advice in the financial sector. Directors saw great potential value in regional financial exercises for regions with substantial cross-border links. They agreed that countries can gain from deepening such linkages while addressing related vulnerabilities, since enhanced trading of financial products can help overcome structural weaknesses and shallow financial systems.

Directors noted that further proposals may arise from the upcoming reviews of the program by the Independent Evaluation Office (IEO) and the Bank's Operations Evaluation Department (OED). These studies, together with the Fund's own strategic review, will provide an opportunity to make a more in-depth and critical assessment of the progress so far and the program's overall effectiveness. In this context, Directors agreed that the next review of the FSAP should

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take place in three years,[1] to allow for the implementation of recommendations from those reviews, and the upcoming Board review of the standards and codes initiative.

The Acting Chair's Summing Up—
Integrating Stability Assessments Under the
Financial Sector Assessment Program into
Article IV Surveillance
Executive Board Meeting 10/92
September 21, 2010

Executive Directors welcomed the opportunity to discuss the proposal to make stability assessments under the Financial Sector Assessment Program (FSAP) a regular and mandatory part of Article IV surveillance for members with systemically important financial sectors. Most Directors saw this as an important step toward strengthening the Fund's financial sector surveillance, consistent with the Fund's existing bilateral surveillance mandate, and as a key component of the overall strategy to modernize the Fund's surveillance mandate and modalities. At the same time, Directors called for further steps to integrate financial sector issues more fully into bilateral surveillance for all members. Some Directors stressed the need for a broader discussion of the Fund's mandate for surveillance, in particular in the financial stability area, at an early opportunity.

Directors agreed that the proposed scope of mandatory financial stability assessments, modeled on the current FSAP stability modules, covers the macro-relevant financial sector issues that are critical for the Fund's surveillance. They underscored that assessments of compliance with financial sector standards and codes would continue to be made available to members on a voluntary basis, as at present.

[1] Ed. Note: Pursuant to Decision No. 13814-(06/98), November 15, 2006, future reviews will be conducted on an "as needed" basis. The expectation going forward is that "as needed" would generally mean a lag of at least five years between any such reviews.

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Directors recognized that regular financial stability assessments hold the promise of enhancing the effectiveness of Fund surveillance and its coverage of financial sector issues. They stressed that delivering on this promise would require follow-up on the results of these assessments by Article IV teams. Many Directors considered that combining financial stability assessment and Article IV missions and further strengthening the coverage of financial sector issues in annual consultation missions, based on close interdepartmental cooperation, would help in this regard, while also possibly contributing to ease the burden on country authorities.

Directors endorsed the move toward a more risk-based approach to financial sector surveillance by focusing mandatory financial stability assessments on members with systemically important financial sectors. They took note of the list of members whose financial sectors the Managing Director had determined to be systemically important. Most Directors considered that the criteria described in the staff paper are relevant, clear, and transparent but would need to be periodically reviewed as members' financial sectors and markets evolve and as refinements to the methodology can be made. A few Directors noted that the methodology would benefit from including risk and vulnerabilities in addition to size.

Directors noted that a higher frequency of mandatory financial stability assessments compared to the current average gap between FSAP updates of six to seven years is necessary to ensure effective surveillance of the members with systemically important financial sectors and closer integration with the Article IV process. Most Directors agreed that this increase in the frequency of financial stability assessment should be implemented with flexibility. They supported or were willing to go along with the Managing Director's proposal to set the frequency, at which financial stability assessments under Article IV will be expected to be conducted, at no more than five years. Many Directors noted that this would also be consistent with the commitment made by FSB members, most of which are on the list of jurisdictions with systemically important financial sectors. A number of Directors would nevertheless have preferred a three-year cycle. At the same time, Directors acknowledged that, depending on the circumstances, it may be appropriate for the Managing Director in some

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cases to encourage members with systemically important financial sectors to undergo financial stability assessments more frequently, in particular within a three-to-five-year timeframe. Proceeding ahead of the deadline in this manner would be voluntary for members. Before calling upon a member to do so, the Managing Director would take into account (i) the date of the last financial stability assessment or FSAP for the member, (ii) legislative or other developments in the member country that may affect the member's financial sector, and (iii) the need to ensure an efficient use of staff resources.

Directors noted that making financial stability assessments under the FSAP mandatory for members with systemically important financial sectors should not lead to a diminished availability of FSAPs for members without systemically important financial sectors. They emphasized that developmental assessments conducted by the World Bank in developing and emerging market countries should continue to be provided on a voluntary basis, as at present. Given the interlinkages between financial stability and financial development in these countries, Directors considered these developmental assessments to be an important complement to the Fund's stability analysis. They encouraged authorities to continue volunteering for these assessments, and called for continued close cooperation between the Fund and the Bank in this area.

Directors generally agreed that the mandatory financial stability assessments in jurisdictions with systemically important financial sectors will require appropriate additional resources. They also noted that this is important to ensure that implementing this proposal does not come at the expense of conducting FSAPs on a voluntary basis in the rest of the membership. They emphasized the need, in particular, to ensure that developing and emerging market countries would continue to benefit from joint Bank-Fund assessments.

Directors took note of the preliminary staff estimates of the proposal's resource implications and agreed to consider these in the context of the Fund's medium-term budget discussion. A few Directors expressed the expectation that the additional costs be financed through a Fund-wide reallocation of resources, including a review of the workload.

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BUFF/10/138,
September 24, 2010

INTEGRATING STABILITY ASSESSMENTS UNDER THE FINANCIAL SECTOR ASSESSMENT PROGRAM INTO ARTICLE IV SURVEILLANCE

This Decision sets out the scope and modalities of bilateral surveillance over the financial sector policies of members with systemically important financial sectors in accordance with Article IV, Sections 3 (a) and (b) of the Fund's Articles and the Fund's Decision on Bilateral Surveillance over Members' Policies—2007 Decision (Decision No. 13919-(07/51), adopted June 15, 2007 (the "2007 Surveillance Decision").

Introduction

1. Article IV, Section 1 of the Fund's Articles requires each member to "collaborate with the Fund and other members to assure orderly exchange arrangements and to promote a stable system of exchange rates" ("systemic stability"). Recognizing the important impact that a member's domestic economic and financial policies can have on systemic stability, Article IV, Sections 1(i) and (ii) establish obligations for members respecting the conduct of these policies, including their financial sector policies.

2. In accordance with the framework set out in Article IV, the 2007 Surveillance Decision provides that systemic stability is most effectively achieved by each member adopting policies that promote its own "external stability"—that is, a balance of payments position that does not, and is not likely to, give rise to disruptive exchange rate movements. In the conduct of their domestic economic and financial policies, members are considered to be promoting external stability when they are promoting their own domestic stability—that is, when they comply with the obligations of Article IV, Sections 1(i) and (ii) of the Fund's Articles. For this purpose, the 2007 Surveillance Decision requires the Fund's bilateral surveillance to assess, in particular, whether a member's domestic policies are directed towards domestic stability. It provides that "financial sector policies (both their macroe-

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conomic aspects and macroeconomically relevant structural aspects)" will always be the subject of the Fund's bilateral surveillance with respect to each member.

3. While an examination of members' financial sector policies is important in all cases of bilateral surveillance, the Fund decides that, taking into account the framework described above and the overall purpose of surveillance, heightened scrutiny should be given in bilateral surveillance to the financial sector policies of those members whose financial sectors are systemically important, given the risk that domestic and external instability in such countries will lead to particularly disruptive exchange rate movements and undermine systemic stability. As financial stability assessments are a key tool for assessing members' financial vulnerabilities and financial sector policies, it is appropriate that financial stability assessments be conducted with such members as provided for in this Decision.

4. This Decision does not impose new obligations on members or, in particular, modify the scope of their obligations under Article IV, Section 1. The Fund, in its bilateral surveillance, will continue to assess whether a member's domestic economic and financial policies are directed toward the promotion of domestic stability. Scope and modalities of financial stability assessments

5. *Determination of systemic importance*. The Managing Director, in consultation with the Executive Board, will identify those members that have systemically important financial sectors. This determination will be made in the context of each review that is conducted under paragraph 10 below, and will be based on an assessment of the size and interconnectedness of members' financial sectors as contemplated in paragraphs 23 to 26 in SM/10/235.[1]

6. *Financial stability assessments*. Where the financial sector of a member is determined to be systemically important pursuant to paragraph 5 of this Decision, the member shall engage in a financial

[1] Ed. Note: The texts of paragraphs 23 to 26 of SM/10/235 (8/31/2010) are reproduced in the attachment below.

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stability assessment in the context of bilateral surveillance under Article IV of the Fund's Articles in accordance with the terms of this Decision. For this purpose, the member shall consult with the Fund and the authorities of the member shall make themselves available for discussions with Fund staff of the issues that fall within paragraph 7 of this Decision.

7. *Scope of financial stability assessments*. The financial stability assessments undertaken under this Decision will consist of the following elements:

a. An evaluation of the source, probability, and potential impact of the main risks to macrofinancial stability in the near-term for the relevant financial sector. Such an evaluation will involve: an analysis of the structure and soundness of the financial system; trends in both the financial and nonfinancial sectors; risk transmission channels; and features of the overall policy framework that may attenuate or amplify financial stability risks (such as the exchange rate regime). Both quantitative analysis (such as balance sheet indicators and stress tests) and qualitative assessments will be used to evaluate the risks to macrofinancial stability.

b. An assessment of the authorities' financial stability policy framework. Such an assessment will involve: an evaluation of the effectiveness of financial sector supervision; the quality of financial stability analysis and reports; the role of and coordination between the various institutions involved in financial stability policy; and the effectiveness of monetary policy.

c. An assessment of the authorities' capacity to manage and resolve a financial crisis should the risks materialize. Such an assessment will involve an overview of the country's liquidity management framework; financial safety nets (such as deposit insurance and lender-of-last-resort arrangements); crisis preparedness and crisis resolution frameworks; and the possible spillovers from the financial sector onto the sovereign balance sheet.

8. *Modalities of assessments*. The key findings and recommendations of a financial stability assessment under this Decision will be

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summarized in a Financial System Stability Assessment Report (FSSA) that will normally be discussed by the Executive Board at the same time as the relevant Article IV consultation report.

9. *Frequency.* Where the financial sector of a member is determined to be systemically important pursuant to this Decision, it will be expected that a financial stability assessment will be conducted and the FSSA resulting from such an assessment will be discussed by the Executive Board by no later than the first deadline for completion of an Article IV consultation with the member that follows the fifth anniversary of such determination or, in the case of the financial sector of a territory of a member, the first deadline for completion of an Article IV consultation discussion with respect to that territory by the Executive Board that follows the fifth anniversary of such determination. It is expected that subsequent FSSAs for a member with a systemically important financial sector will be discussed by the Executive Board by no later than the first deadline for completion of an Article IV consultation with that member that follows the fifth anniversary of the date of completion of the previous Executive Board discussion of the FSSA respecting that member or, in the case of the financial sector of a territory of a member, the first deadline for completion of an Article IV consultation discussion with respect to that territory by the Executive Board that follows the fifth anniversary of the date of completion of the previous Executive Board discussion of the FSSA respecting the financial sector of that territory.

Miscellaneous

10. *Review*. It is expected that the Fund will review this Decision no later than five years following the date of its adoption and subsequently at intervals of no longer than five years. In particular, as "systemic importance" is a dynamic concept, the Fund will, in the context of each such review, examine and revise, as necessary, the criteria and methodology for determining members with systemically important financial sectors. Moreover, the Fund may review this Decision at any time to take into account major advances in the availability of data and in the development of methodologies for assessing the systemic importance of financial sectors. (SM/10/235, Sup. 3, 9/20/10)

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Decision No. 14736-(10/92),
September 21, 2010

Attachment[1]

Paragraphs 23 to 26 in SM/10/235 (8/31/2010)

23. **The point of departure for defining systemic importance for this exercise is the conceptual framework developed by the IMF, BIS, and FSB**.[2] This framework—originally developed for evaluating the systemic importance of financial institutions, markets, and instruments (SIMIs)—approaches systemic importance from both a domestic and a global point of view. It identifies the following three key concepts: (i) *size*, i.e., the volume of financial services provided by an individual financial institution or market; (ii) *interconnectedness*, i.e., the extent of linkages with other financial institutions or markets; and (iii) *substitutability*, i.e., the extent to which other institutions or markets can provide the same services in the event of the failure of part of the system.

24. **Systemic importance of a financial sector is defined below with the focus on its size and interconnectedness**. The volume of financial services provided by a financial sector is the main component of systemic importance. Size is measured across several dimensions, to capture the importance of a particular financial sector in the specific jurisdiction (expressed in terms of the jurisdiction's output) and in the global financial system (expressed in absolute terms and scaled by the jurisdiction's GDP relative to world GDP). Cross-border interconnectedness is an important complementary measure: it captures the systemic risk that can arise through direct and indirect interlinkages among financial sectors in the global financial system,

[1] Ed. Note: These paragraphs, which are referred to in paragraph 5 of Decision No. 14736-(10/92), are included for the reader's convenience.

[2] IMF/BIS/FSB, (2009), *Guidance to Assess the Systemic Importance of Financial Institutions, Markets and Instruments: Initial Considerations*.

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i.e., the risk that individual failure or malfunction may have severe repercussions on other countries or on systemic stability. As regards the notion of substitutability, while it is important at the level of individual institutions and markets, it is not included in the criteria. As acknowledged in IMF/BIS/FSB (2009), the concept of substitutability is difficult to measure, because it is hard to capture the degree of uniqueness of an individual institution or a specific market in the provision of a financial service. More importantly, substitutability may not be a relevant concept for entire financial sectors.

25. **It is important to bear in mind the limitations of this definition of systemic importance:**

- **It is not a proxy for a jurisdiction's systemic importance writ large.** The analytical approach used in this paper is focused on the financial sector. It does not purport to measure all aspects of a country's relative importance in the world economy, such as the size of the domestic market, growth potential, trade linkages, etc. As a result, some large, systemically important economies may be ranked lower than smaller countries that have relatively big and/or highly interconnected financial sectors.

- **It does not capture market perceptions.** This approach is entirely data based. Market perception of a financial sector's systemic importance, though a key component of systemic risk, can be volatile; is influenced by economic and political factors that go beyond the size and interconnectedness of the particular financial sector; and is hard to measure objectively. It is therefore not incorporated into this approach.

- **The extent of vulnerabilities is not a factor.** The methodology is focused on systemic importance as measured by size and interconnectedness, not vulnerabilities. This is because the benefits of regular financial stability assessments would be maximized—both for the individual members and for the global financial system—if these assessments were focused on the jurisdictions with the most systemically important financial sectors, not on the most vulnerable. To be sure, members faced with macrofinancial vulnerabilities, regardless of their size or interconnections, would also benefit from an in-depth look at

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their financial sectors and may need additional Fund support. But there are other instruments, including Article IV surveillance, voluntary FSAPs, and technical assistance, which would continue to provide this analysis.

- **Like all quantitative analyses, it is limited by the quality of data.** In particular, it may not reflect accurately the importance of nonbank and unregulated segments of the financial sector, given the difficulties countries often experience in collecting such data, nor can it fully take into account differences in the quality of data collection and reporting across countries.

26. **The methodology for identifying jurisdictions with systemically important financial sectors, explained in greater detail in the accompanying Background Paper, is a three-stage process that uses available financial data for the entire Fund membership.** The need to apply the criteria uniformly across the entire membership limits the data that can be used. Data for the analysis are mainly drawn from the BIS, the IMF's *World Economic Outlook*, the IMF's *International Financial Statistics*, the IMF's *Coordinated Portfolio Investment Survey*, and the United Nations Conference on Trade and Development's datasets on foreign direct investment. The sample covers 191 jurisdictions (187 Fund members plus four territories that are subject to Article IV surveillance) for the year 2008.

- **In the first stage, separate ordinal rankings of jurisdictions are developed for size and interconnectedness**.

  - **The *size* of a jurisdiction's financial sector is measured by the volume of financial services.** The size ranking is a median of four rankings, three of which are measures of the "absolute" size of the sector (currency and deposits as a proxy for the banking-system balance sheet; volume on nonbank financial services; and the jurisdiction's international investment position, all measured in U.S. dollars), and the fourth is a measure of the "relative" size of the financial sector (financial depth, measured as a share to the jurisdiction's output). The first three capture the importance of a jurisdiction's financial sector in the global financial system and

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the fourth measures the relative weight of the financial sector within a given jurisdiction. At the same time, since distress in an individual financial sector can propagate to the rest of the world both directly through financial connections and indirectly through real economy linkages, these measures of size are weighted by the relative size of each jurisdiction's total output to global economic output.

- ***Interconnectedness* is determined on the basis of bank-based network analysis.** The basic idea (see Background Paper) is to infer from the pattern of cross-border linkages to what extent the banking sector of a particular jurisdiction is an important center in the international banking network.[1] Data availability has limited the measures of interconnectedness to the banking sector only, so the network is defined as a set of bilateral claims of different banking systems on each other. The importance (or "centrality") of a banking sector in the network is measured in terms of the number and structure of claims on other banking sectors.

- **In the second stage, the rankings of size and interconnectedness are combined into a single weighted composite index of systemic importance**. To derive the single index, the relative weights for size and interconnectedness are set at 0.7 and 0.3, respectively. As size is a more fundamental measure of systemic importance, it is given a relatively higher weight in the composite index than interconnectedness. As a robustness check, alternative composite rankings are calculated for a range of different weight combinations, and different ways of combining the indices of size and interconnectedness (using averages instead of medians), and different types of bilateral financial assets and liabilities (such as equity, debt, and FDI) are tested.

- **In the third stage, cluster analysis is used to identify groups**

[1] Ed. Note: The following text is footnote 14 in the original text: "14 The network analysis is based on von Peter (2007), *International Banking Centres: A Network Analysis*, BIS Quarterly Review, and Kubelec and Sá (2010), *The Geographical Composition of National External Balance Sheets: 1980–2005*, Bank of England Working Paper No. 384."

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of jurisdictions with financial sectors that have consistently the highest degree of systemic importance. The underlying idea is to "let the data speak for themselves" in identifying groups of financial sectors whose rankings are relatively stable across different weight combinations. To capture this idea, the standard deviation of ordinal rankings across different combinations of weights is calculated for each financial sector as a proxy for the robustness of the ranking. Clusters of jurisdictions are then calculated by iteratively minimizing the within-cluster sum of squared standard deviations from cluster means over several possible clusters of jurisdictions. The final list includes the clusters with the jurisdictions that are not just the highest ranked, but also have the most robust rankings across different weighting schemes and represent a substantial share of the global financial system. This methodology eschews as much as possible a priori judgments on the size and makeup of the list (the number of jurisdictions to be included is not predetermined, and it is not possible to "cherry pick" individual jurisdictions), and allows the data to indicate its final composition.

THE G-20 MUTUAL ASSESSMENT PROCESS AND THE ROLE OF THE FUND

The Executive Board adopts the general framework for the Fund's involvement in the G-20 mutual assessment process described in SM/09/283 and SM/09/283, Supplement 2. (SM/09/283, Sup. 2, 12/17/09)

Decision No. 14487-(09/125),
December 16, 2009

The Acting Chair's Summing Up—
Review of the Fund's Involvement in the
G-20 Mutual Assessment Process
Executive Board Meeting 11/56, June 3, 2011

Executive Directors welcomed the review of the Fund's role in the G-20 Mutual Assessment Process (MAP) and supported the continuation of Fund engagement in this work.

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Directors observed that the Fund's involvement in the G-20 MAP has significant synergies with its surveillance, most notably at the multilateral level. Most Directors noted that the MAP has helped enhance the traction of Fund advice by opening up new channels of communication to G-20 policymakers. Directors considered it important to review the implications of broader G-20/Fund collaboration for the Fund's surveillance as part of the forthcoming Triennial Surveillance Review.

Directors agreed that, while the MAP has evolved, the Fund's input to the exercise has remained within the framework set in December 2009. In this context, Directors took note that the legal nature of the Fund's involvement as technical assistance had not changed. However, a number of Directors considered whether, in substance, such involvement should be treated as surveillance rather than technical assistance.

Directors concurred that Board involvement in this work should be consistent with G-20 ownership of the MAP and preserve the independent nature of staff analysis and input. They appreciated timely briefings by staff of their work in this regard, but differed on the timing and form of Board involvement. While the majority of the Board supported maintaining the current procedure of holding informal Board discussions of MAP reports at the time of submission to the G-20, a number of other Directors suggested advancing such informal discussion ahead of submission and a number of others expressed support for formal Board discussions.

Directors considered resource implications of the Fund's involvement in the G-20 MAP. Most Directors noted that any additional cost, which has in part been met through reprioritization and reallocation of existing resources, should be seen in light of the benefits of this work for the Fund's membership at large, including the synergies with the Fund's surveillance. Some Directors emphasized the need for ongoing assessment of the evolving cost.

BUFF/11/84,
June 9, 2011

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CONFIDENTIALITY PROTOCOL—PROTECTION OF SENSITIVE INFORMATION IN THE FINANCIAL SECTOR ASSESSMENT PROGRAM

Purpose

1. The World Bank (the "Bank") and the International Monetary Fund (the "Fund")[1] have agreed to cooperate in the implementation of a Financial Sector Assessment Program (the "FSAP"), designed to assist the authorities of members of the Bank and Fund in determining the condition of their financial sectors, identifying strengths, vulnerabilities and risks in these sectors, assessing the observance and implementation of internationally accepted financial sector standards, and elaborating reforms that would address vulnerabilities and risks, and position the sectors to contribute more effectively to financial stability, economic growth and the reduction of poverty.

2. For the FSAP to be effective, it is critical that financial institutions and governmental entities feel comfortable sharing relevant market-sensitive information and documents with the FSAP teams, which will include staff members of the Bank and Fund as well as consultants engaged for the FSAP. To encourage the sharing of such sensitive information and documents, staffs of the Bank and Fund have prepared this Protocol to describe procedures aimed at preventing unauthorized access to and disclosure of sensitive information obtained through the FSAP. This Protocol is an application of the existing policies and guidelines of the Institutions concerning the safeguarding of sensitive information and documents, which are listed in Appendix I, and does not represent the adoption of new policies or guidelines.

Classification and handling of sensitive information

3. Three levels of classification will be used for sensitive information provided to the Institutions in connection with the FSAP:

[1] Hereinafter, the World Bank and the Fund are referred to as the "Institutions."

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(a) STRICTLY CONFIDENTIAL; (b) CONFIDENTIAL; and (c) for OFFICIAL USE ONLY (NOT for PUBLIC USE).[1]

STRICTLY CONFIDENTIAL

Information and documents that are deemed to be of a highly sensitive nature or to be inadequately protected by the CONFIDENTIAL classification shall be classified as STRICTLY CONFIDENTIAL and access to them shall be restricted solely to persons with a specific need to know. The staffs of the Institutions shall establish a control and tracking system for documents classified as STRICTLY CONFIDENTIAL, including the maintenance of control logs. Documents classified as STRICTLY CONFIDENTIAL shall be (i) marked with such classification on each page; (ii) kept under lock and key or given equivalent protection when not in use; and (iii) in the case of physical documents, transmitted by an inner sealed envelope indicating the classification marking and an outer envelope indicating no classification, or, in the case of documents in electronic form, transmitted by encrypted or password-secured files.

For purposes of this Protocol, the following individuals are deemed to have a specific need to know: (i) the FSAP team leader and deputy leader; (ii) FSAP team members directly involved with the substance of the sensitive information; (iii) immediate supervisors of FSAP team members who are staff members of the Institutions, who need the information to fulfill their management function; and (iv) the Managing Director of the Fund, the President of the World Bank Group, or their respective designated representatives; and (v) other individuals by agreement between the FSAP team leader or deputy leader and the provider of the sensitive information.

[1] General Administration Order 35 in the Fund also provides for a classification category of SECRET; however, this classification category is currently under review in the Fund, and it is likely to be abolished in the near future.

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CONFIDENTIAL

Information and Documents that must be restricted to persons with a need to know or a legitimate interest in the information, shall be classified as CONFIDENTIAL. A document classified as CONFIDENTIAL shall be (i) marked with such classification on the cover and first page; (ii) kept out of view of unauthorized individuals when not in use; and (iii) transmitted in appropriately marked envelopes.

For purposes of this Protocol, the following individuals are deemed to have a need to know or a legitimate interest in information and documents classified as CONFIDENTIAL: (i) all FSAP team members; (ii) immediate supervisors and department heads of FSAP team members who are staff members of the Institutions; (iii) the relevant Country Directors and Sector Leaders in the Bank, and the relevant Area Department Mission Chiefs and MAE Country Managers in the Fund;[1] (iv) the Managing Director of the Fund, the President of the World Bank Group, or their respective designated representatives; and (v) other individuals by agreement between the FSAP team leader or deputy leader and the provider of the sensitive information. Authorization is not required for further distribution on a need-to-know basis, within a specific office of one of the Institutions, but any such further disclosure must include notice to each additional recipient that the information is CONFIDENTIAL.

FOR OFFICIAL USE ONLY (NOT for PUBLIC USE)

A document classified as "FOR OFFICIAL USE (NOT for PUBLIC USE)" shall be marked with such classification on the cover and first page and no other specific restrictions on the handling or

[1] The term "provider" means an individual or entity that retains the right to restrict the disclosure of information or documents entrusted by the provider to the staffs or FSAP consultants of the Institutions.

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transmission of such documents shall be imposed other than the general requirement to prevent public access.[1]

4. In general, the lowest appropriate category of classification should be used, and will be decided by the FSAP team leader in consultation with the provider of the sensitive information. It is expected that the majority of sensitive information will be classified as either NOT for PUBLIC USE or CONFIDENTIAL, and that the STRICTLY CONFIDENTIAL classification will need to be used only sparingly.

Transmitting and referencing sensitive information

5. Cover letters or transmittal forms shall bear the classification of the most restricted attached documents. Documents that quote from, or otherwise contain sensitive information from classified documents shall be marked with the same security classification as the original information with the most restricted classification contained in the records, and shall be treated in the same way as the original information. E-mail messages that convey sensitive information from classified records shall have distribution lists reflecting the restrictions of the relevant classification.

Downgrading of security classifications

6. At the time of classifying as "STRICTLY CONFIDENTIAL" or "CONFIDENTIAL" sensitive information entrusted to the FSAP team, the recipient will make a good faith effort to reach agreement with the provider on specific downgrading instructions, such as when, in what circumstances or under what conditions it might receive a lower classification.

[1] Documents receiving this classification in the Fund are normally made available to certain international organizations as identified in decisions of the Executive Board.

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Participation of staff in FSAP teams

7. FSAP team leaders shall be responsible for providing each member of their respective teams a copy of this Protocol and attachments hereto. The policies and guidelines of the Institutions in Appendix 1 provide for procedures and measures in the event of breach by their respective staff members of the applicable policies and guidelines.

Participation of consultants in FSAP teams

8. FSAP team leaders shall, prior to fielding the first FSAP mission, consult with the relevant authorities of the country concerned regarding the participation of any consultant, from either the private or public sectors, in the FSAP team. In choosing consultants to be included in such team, FSAP team leaders will take into account concerns expressed by the relevant authorities about the security of sensitive information in connection with the participation of any particular consultant. The same procedure shall apply if a consultant is proposed to be added to the team after the first mission.

9. A consultant that participates in an FSAP team shall execute a confidentiality letter in the form of Appendix II (which may be modified from time to time), except when the requisite elements of such letter have been incorporated in the relevant consulting contracts. Such elements are: (i) acknowledgment of receipt of a copy of this Protocol and its attachments; (ii) agreement not to disclose or use to private advantage sensitive information known to the consultant by reason of his participation in the FSAP team; and (iii) agreement that confidentiality obligations undertaken in connection with the FSAP shall survive the termination of the consultant's contract, unless the obligations refer to sensitive information that have been declassified for public use.

10. In the event of a breach of confidentiality by a consultant in connection with the FSAP, the Institution with which the consultant has a contract will address the matter, in accordance with such Institution's rules and procedures.

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Sharing of sensitive information and FSAP-related documents between the institutions and with authorities

11. Sensitive information entrusted to the staff and consultants of either Institution, as well as FSAP-related documents generated by the staff and consultants of either Institution, will be shared with identified counterparts in the other institution, subject to the restrictions on access and procedures described or referred to in this Protocol. Nothing in this Protocol shall limit the staffs of the Institutions from sharing sensitive information entrusted to them through the FSAP with the relevant country authorities that are authorized to receive the information.

Disclosure of Protocol

12. This Protocol and attachments thereto shall not be classified. Prior to the commencement of the initial FSAP mission, copies will be provided to the appropriate authorities and will be made available on request to representatives of financial institutions participating or proposing to participate in the FSAP.

APPENDIX I

General Policies and Guidelines

The security procedures set forth in this Protocol have been prepared particularly for the FSAP in accordance with the following policies and guidelines of the Institutions (Attachments I(a) to I(i)), as amended from time to time, concerning the safeguarding of confidential information and documents:

(a) Guidelines for Bank-Fund Collaboration in the Financial Sector (June 1999);

(b) World Bank Principles of Staff Employment, paragraph 3.1(d);

(c) World Bank Staff Rule 3.01, Section 4.02, *Disclosure and Use of Non-public Information* (April 1999);

(d) World Bank Policy on Disclosure of Information (March 1994);

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(e) World Bank Administrative Manual Statement 10.20, Security of Records (September 1996);

(f) World Bank Administrative Manual Statement 10.20B, *Confidentiality in Financial Sector Work* (January 1998);

(g) International Monetary Fund Staff Regulations N-4, N-5, N-6, and N-11;

(h) International Monetary Fund Staff Code of Conduct, Section 20, *Use and Disclosure of Information* (July 1998);

(i) International Monetary Fund, General Administrative Order No. 26, Rev. 2 and Supplement 1, *Records*, September 5, 1990; and,

(j) International Monetary Fund, General Administrative Order No. 35, *Information Security* (September 1990).

APPENDIX II

[Date]

[International Monetary Fund or
World Bank Address]

Re: FSAP—Confidentiality Obligations

In connection with my participation as a [World Bank/IMF] consultant in the Financial Sector Assessment Program for [country], I hereby confirm that I have received and read copies of the Protocol on Protection of Sensitive Information in the Financial Sector Assessment Program and attachments thereto (the "Documents"). I agree to observe the procedures described in the Documents and, in particular, not to disclose or use for private advantage sensitive information known to me by reason of my participation in the FSAP. I also agree that my confidentiality obligations under the FSAP shall survive termination of my FSAP assignment, unless the obligations refer to sensitive information (as defined in the protocol) that have been declassified for public use.

SM/00/54,
March 15, 2000

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REPORTS ON OBSERVANCE OF STANDARDS AND CODES[1]

Individual hard copies of Reports on the Observance of Standards and Codes that are to be published shall no longer be circulated to Executive Directors.

Decision No. 12662-(02/6),
January 22, 2002

The Acting Chair's Summing Up—Offshore Financial Centers—The Assessment Program—A Progress Report and the Future of the Program
Executive Board Meeting 03/101, November 5, 2003

Executive Directors welcomed the opportunity to review the offshore financial center (OFC) assessment program in light of the experience gained since it was initiated in June 2000. They also discussed the future role of the Fund in OFCs, in the context of the Fund's work on financial sectors.

Directors recognized that OFCs could pose risks, associated with prudential and financial integrity concerns, to the international financial system. While effective consolidated supervision in the home country can mitigate prudential risks, there remain weaknesses and gaps in supervision. Also, combating money laundering and the financing of terrorism (AML/CFT) requires worldwide implementation of the relevant international standards.

Directors commended the significant progress made by the OFC assessment program since it was initiated in 2000, noting that all major jurisdictions contacted since the start of the program have now been assessed. They welcomed the improvements made to the supervisory and regulatory systems of a number of OFCs as a result of the program. However, Directors noted that supervision and regulation of the non-banking sector, in particular, needed to be strengthened in many OFCs.

[1] Ed. Note: The IMF Executive Board reviewed the standards and codes initiative in *The Acting Chair's Summing Up—The Standards and Codes Initiative—Is It Effective? And How Can It Be Improved?* EBM/ 05/66, July 25, 2005.

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Directors agreed with the proposed evolution of the OFC program as outlined in the staff paper. They emphasized that the Fund's role should continue to be guided by the Fund's mandate and expertise in this area, and that the future program should be based on the following four broad elements:

- regular monitoring of OFCs' activities and compliance with supervisory standards;

- improved transparency of OFC supervisory systems and activities;

- technical assistance in collaboration with bilateral and multilateral donors;

- collaboration with standards-setters and the onshore and offshore supervisors to strengthen standards and exchanges of information.

Directors stressed that participation in OFC assessments and monitoring should continue to be voluntary.

Directors agreed that the monitoring of OFCs' activities and their compliance with supervisory and integrity standards should become a standard component of the financial sector work of the Fund. Ongoing monitoring of OFCs would help to ensure that well-managed jurisdictions maintain good supervisory practices and to monitor progress in the development of supervisory systems in other jurisdictions. Nevertheless, Directors considered it important to maintain an appropriate distribution of resources in monitoring offshore and onshore centers. Some Directors noted that some onshore financial centers potentially pose greater risks to international financial stability.

Directors agreed that it would be appropriate to continue periodic monitoring of OFCs' compliance with relevant international regulatory standards. Module 2 assessments every 4–5 years of supervisory and regulatory systems' compliance with international standards, focusing mainly on those jurisdictions that are not covered by FSAPs, would generally be appropriate, but the program should be sufficiently flexible to allow for more frequent targeted assessments to address areas of immediate concern. Some Directors felt that the scope of OFC assessments should be consistent with that of ROSCs

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and FSAPs. Directors agreed that, for the time being, the OFC program should remain separate from the FSAP, and that the next review of the OFC program should reevaluate the need for a separate program. Some Directors, however, noted that the objective should be to integrate the program into the Fund's regular FSAP/ROSC procedures.

Directors welcomed the decision by many jurisdictions to publish their OFC assessment reports, as this has helped to improve transparency of OFC activities and their supervisory systems and contributed to promoting market discipline. Directors encouraged all jurisdictions to publish their reports, noting that this was in their interest since failure to do so would send an adverse signal to the market. Directors supported a continued policy of voluntary publication.

Directors endorsed reclassifying the Module 2 main report (which would contain a description of the activities of a financial center and the supervisory system, ROSCs, and prioritized recommendations) as a staff report, and circulating these to the Board. Board members, as usual, would have the option to request a Board discussion. Directors were of the view that the detailed assessment reports should remain a confidential document and would not be circulated to the Board unless the authorities chose to have it published.

Directors agreed that technical assistance should continue to be extended to OFCs, focusing on those OFCs that have the resources and commitment to benefit most from technical assistance or that experience the greatest shortcomings in complying with international standards. Directors underlined that all OFCs should meet minimum international financial regulatory standards. However, they stressed that the Fund should limit itself to identifying areas where further guidance from the relevant standards-setters would be useful—the Fund should not itself set financial supervisory standards. Furthermore, meeting international standards carries significant costs and thus creates particular challenges in small, low-income jurisdictions. Directors encouraged the staff to explore with other bilateral and multilateral donors how best to assist these jurisdictions. However, they reiterated the agreed principle that collaboration with other organizations should continue to be based on their commitment to work within a cooperative framework.

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Directors recognized that information sharing arrangements play a key role in effective cross-border supervision. In this context, they indicated that the Fund should help strengthen information sharing mechanisms through increased collaboration with standards-setters and supervisors, while noting that institutions would need to protect the confidentiality of information.

Directors welcomed the staff's proposal on rebalancing the use of resources within the existing budget envelope. In particular, most Directors supported the introduction of offsite monitoring of OFC activities and risk-focused assessments, which would be less resource-intensive compared to full assessments.

Directors noted that while the initial Fund OFC program has helped to improve the information available on OFCs' supervisory systems, the jurisdictions need to disseminate more information themselves. They encouraged jurisdictions to work with the Fund to develop data on OFCs for general dissemination.

Directors agreed that the staff should continue to provide periodic updates on the progress with the OFC program, and that the Board should conduct its next review of the OFC program in 2–3 years.[1]

The Acting Chair's Summing Up—
Offshore Financial Centers—Report on the Assessment Program and Proposal for Integration with the Financial Sector Assessment Program
Executive Board Meeting 08/48, May 30, 2008

Executive Directors welcomed the opportunity to review the experience with the offshore financial center (OFC) program and con-

[1] Ed. Note: Pursuant to Decision No. 13814-(06/98), November 15, 2006, future reviews will be conducted on an "as needed" basis. The expectation going forward is that "as needed" would generally mean a lag of at least five years between any such reviews.

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sider the integration of the OFC program into the Financial Sector Assessment Program (FSAP).

Directors welcomed the progress made in implementing the four elements of the OFC program agreed in 2003: (i) monitoring of activities and compliance with international standards; (ii) enhancing transparency; (iii) technical assistance; and (iv) cooperation with standard setters and other agencies. They were encouraged that the reassessments, although based on a small sample and to be interpreted with caution, indicated improvements in compliance with prudential standards, as well as progress on prudential cross-border cooperation and information exchange. Given the scope for further improvements, in particular in lower- and middle-income OFCs, Directors encouraged OFCs to further enhance work in these areas.

Directors observed that, to varying degrees, some weaknesses remain in the regulatory frameworks of OFCs for anti-money laundering and combating the financing of terrorism (AML/CFT). Although compliance with the standard is generally comparable with that of non-OFC jurisdictions, Directors pointed to low compliance in areas that pose risks for both OFCs and the jurisdictions with which they interact. They encouraged OFCs to take early and effective actions to address these issues.

Directors welcomed that most OFC jurisdictions had published their assessment reports and many had published their detailed assessments, and encouraged all jurisdictions to publish their reports. Directors also commended the 28 jurisdictions that have submitted data as part of the Information Framework Initiative, and encouraged the remaining jurisdictions to submit their data.

Against this background, most Directors supported the integration of the OFC program with the FSAP, although it was emphasized that integration should not result in a less rigorous assessment of OFCs. Directors noted that integration of the two programs would permit a more risk-focused approach to assessments, and would eliminate the need for the Fund to maintain a separate list of OFCs, which has become increasingly difficult to justify in the face of financial globalization. Directors saw as a positive aspect of the integration that a broader range of issues would be covered under the FSAP compared with OFC assessments, which would strengthen the Fund's financial

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sector surveillance and contribute to a more effective oversight of the global financial system. Directors noted that analysis should be tailored to the risk profile of each jurisdiction, including by focusing on cross-border issues as appropriate.

Directors were of the view that integration would also permit a more effective prioritization and use of resources. In particular, decisions on which jurisdictions would be assessed would be taken based on the same criteria used in the FSAP. Directors generally concurred to assess the nine or ten OFCs that account for the overwhelming volume of activity about every 5–7 years, and that smaller jurisdictions should be assessed less frequently. However, Directors stressed that the frequency of such FSAP assessments should be considered in a flexible manner so as to respond to changing risks and circumstances and taking into account information collected through continuous monitoring (or the nonprovision of information).

Directors stressed that the integration of the OFC program with the FSAP should not lead to a diminished focus by the Fund on OFCs' compliance with international standards. The assessments under the OFC program and the FSAP have led to significant improvements in the quality of supervision in OFCs. Directors called on the staff to work to maintain this momentum, including by working closely with international bodies, such as the FSF and standard setters. Directors noted that, in addition to Article IV consultations, member countries could also be monitored outside the assessment cycle. Other jurisdictions will continue to be monitored by the staff, including through the Information Framework Initiative. Directors encouraged jurisdictions to continue to work with the Fund to improve data collection, compilation, and dissemination.

Directors noted that, as part of the global arrangements for AML/CFT assessments involving the IMF, World Bank, FATF, and FATF-Style Regional Bodies, attention will continue to be paid to money laundering and financing of terrorism vulnerabilities posed by OFCs. The integration of the programs would not affect the scope or cycle of AML/CFT assessments or the range of jurisdictions to be assessed, either in the context of an FSAP or on a stand-alone basis.

Directors noted that, under the integrated program, the publication policy would continue to be voluntary and would be guided by

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the policies determined under the FSAP. They also noted that participation in the Information Framework Initiative would contribute to transparency.

Directors agreed that all OFC assessments would be undertaken as part of the FSAP starting in FY 2010. Jurisdictions scheduled to be assessed under the second phase of the OFC program prior to FY 2010 could receive a Module 2 assessment or FSAP. Directors also agreed that assessments of jurisdictions that have already been assessed under the OFC program would be treated as FSAP updates under the FSAP.

Directors agreed that, as the FSAP is currently available only to members, its coverage would be extended to encompass the four non-member jurisdictions presently covered by the OFC program. They noted that the Board would continue to have the option to request discussion of non-member assessments and to invite non-member representatives to attend the Board meeting. Some Directors suggested that consideration be given to having those non-members contribute financially to cover the Fund's administrative expenses in such exercises. Directors also agreed that technical assistance would continue to be provided to help strengthen supervision of the financial sector and address money laundering and financing of terrorism risks, including in those non-members, while recognizing the need for prioritization within the context of a tighter resource envelope.

BUFF/08/78,
June 4, 2008[1]

[1] Ed. Note: Pursuant to Decision No. 13814-(06/98), November 15, 2006, future reviews will be conducted on an "as needed" basis. The expectation going forward is that "as needed" would generally mean a lag of at least five years between any such reviews.

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The Acting Chair's Summing Up on
Intensified Fund Involvement in Anti-Money Laundering
and Combating the Financing of Terrorism
Executive Board Meeting 01/116, November 12, 2001

...

In particular, Directors supported:

- circulating to all Fund members over time in the context of Article IV consultations a voluntary questionnaire (based on the expanded AML methodology). This exercise should be seen as a complement and not as a substitute to FSAPs and OFC assessments, and should inform the Article IV discussions and help set priorities for technical assistance. The results of the exercise could, with the agreement of the member, be made available to the Board.

...

Summing Up by the Acting Chair—Anti-Money Laundering
and Combating the Financing of Terrorism—Proposals to
Assess a Global Standard and to Prepare ROSCs
Executive Board Meeting 02/80, July 26, 2002

Executive Directors welcomed the opportunity to discuss proposals that would significantly advance the Fund's contribution to international efforts to combat money laundering and the financing of terrorism. They noted that the Fund has begun a new chapter in its work in this area by taking two key steps:

- conditionally adding the Financial Action Task Force (FATF) 40 Recommendations on an effective anti-money laundering framework and the 8 Special Recommendations on Terrorism Financing (FATF 40+8) to the list of areas and associated standards and codes useful to the operational work of the Fund; and

- endorsing a 12-month pilot program of AML/CFT assessments and accompanying Reports on the Observance of Standards and Codes (ROSCs) that would involve participation of the Fund and the World Bank, the Financial Action Task Force, and FATF-Style Regional Bodies (FSRBs).

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Directors expect that such assessments and ROSCs will play an important role in the further development of an effective global AML/CFT framework.

Directors noted that, in its Communiqué of April 20, 2002, the International Monetary and Financial Committee (IMFC) stated that the Fund's AML/CFT efforts should now be focused on completing the comprehensive AML/CFT methodology being developed jointly by Fund/Bank staff and the FATF, based on a global standard covering the FATF 40+8 Recommendations; on the development of assessment procedures compatible with the uniform, voluntary, and cooperative nature of the ROSC process; and on enhancing the delivery of related technical assistance. Directors had committed the staff to work collaboratively with the FATF and other financial sector standard setters to implement these goals.

In moving forward, Directors emphasized that the following four key principles should guide the Fund's role in AML/CFT assessments and accompanying ROSCs:

- the staff's involvement in assessing non-prudentially-regulated financial sector activities should be confined to those that are macroeconomically relevant and pose a significant risk of money laundering/terrorism financing;

- all assessment procedures should be transparent and consistent with the mandate and core expertise of the different institutions involved, and compatible with the uniform, voluntary, and cooperative nature of the ROSC exercise;

- the assessments should be followed up with appropriate technical assistance at the request of the countries assessed in order to build their institutional capacity and develop their financial sectors; and

- the assessments would be conducted in accordance with the comprehensive and integrated methodology.

Directors considered the staff paper to have set out a pragmatic and forward-looking framework by which the Fund can begin to operationalize its intensified work on AML/CFT and cooperation with relevant international bodies. For this reason, they endorsed add-

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ing AML/CFT to the list of 11 areas where standards and codes are useful to the operational work of the Fund and for which assessments are undertaken, and to adopt the FATF 40+8 Recommendations as the associated standard, provided that four conditions are met:

i. the FATF Secretariat, in consultation with Fund/Bank staff, satisfactorily completes the draft of the comprehensive and integrated assessment methodology by the Annual Meetings for consideration at the October FATF Plenary;

ii. the FATF endorses in its October Plenary the comprehensive and integrated assessment methodology and its use in undertaking FATF/FSRB mutual evaluations and Fund/Bank staff-led assessments;

iii. the FATF agrees in its October Plenary to undertake its mutual evaluations consistent with the ROSC process as elaborated in Section II of SM/02/227; and

iv. the FATF does not undertake a further round of the non-cooperative countries and territories (NCCT) initiative, at least during the period of the 12-month pilot project.

Directors endorsed the proposal to use two approaches to conduct the assessments:

- FATF and FSRBs-led assessments and associated ROSCs, which would be undertaken in the context of FATF/FSRB mutual evaluations and would not include Fund/Bank staff; and

- Fund/Bank staff-led assessments and associated ROSCs, which would be undertaken by both Fund/Bank staff (including experts under staff supervision), who would assess and take responsibility for part of each assessment and associated ROSC, and other experts not affiliated with Fund/Bank staff who would assess and take responsibility for the rest of the assessment and associated ROSC.

In the case of Fund/Bank-led assessments, a number of Directors would have preferred a more unified approach under which the Fund/Bank would have responsibility for the whole process.

Most Directors, in order to enhance cooperation further with the FATF, agreed that reports on observance associated with FATF-

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led assessments would be considered ROSCs provided that there is compliance with the conditions outlined above. However, several Directors expressed concern that condition 4 did not go far enough. They preferred that the FATF also state that it did not expect to undertake a further round of the NCCT process after the end of the 12-month pilot program. These Directors also preferred that reports on observance associated with FATF-led assessments not be designated ROSCs unless the FATF undertook a blanket commitment not to undertake any further country assessments without the consent of the country, and acknowledge that it would accept the results of any Fund/Bank-led assessments. Directors hoped that the Fund/Bank's cooperative relationship with the FATF on AML/CFT assessments based on the ROSC principles would continue even after the 12-month pilot program had expired. It was generally agreed that duplication of assessments should be avoided, to the extent possible. However, some Directors felt that instances of duplication could allow comparison of the two methods and be a source of useful information on the assessment procedure. It was also noted that these assessments are meant to be an ongoing process, and it is possible that over a period of time countries may undergo assessment under both approaches. At the same time, a few Directors also considered it important to avoid creating the impression that the two approaches implied that there are two tiers of membership: those countries eligible for FATF/FSRB-led assessments and others eligible for Fund/Bank-led assessments.

Directors agreed that, while both approaches would encompass a comprehensive treatment of AML/CFT covering all FATF 40+8 Recommendations, Fund staff (and experts under staff supervision) would not be involved in assessing implementation of criminal laws and the activities of those parts of the non-prudentially-regulated financial sector that are not macro-relevant and do not pose a significant risk of money laundering or financing of terrorism. Although it would not be responsible for assessing these areas, several Directors underscored that the Fund would need to select the outside experts who would be assessing them in a manner that ensures the independence of the assessors and the confidentiality of information.

Directors supported the proposed process for reviewing the assessments and associated ROSCs, while emphasizing the need to

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ensure that they conform with the principle of uniformity. Some Directors, however, advocated a higher level of substantive review of assessments and associated ROSCs prepared by the FATF and FSRBs so as to ensure uniformity with those prepared by the Fund and the Bank. They saw the 12-month pilot program as a sensible and practical vehicle to learn lessons about the assessment methodology, the two assessment approaches, and coordination. A comprehensive review at the end of the pilot study was expected, focusing, inter alia, on the various lessons learned, and the consistency and quality of assessments.

Directors emphasized the importance of the delivery of technical assistance to help countries address gaps in the AML/CFT frameworks that are identified in assessments, and the associated allocation of additional resources to this effort. However, it was stressed that this should not come at the expense of more traditional core technical assistance.

Given the high priority that the international community has attached to the Fund's AML/CFT efforts, Directors supported the assignment of additional resources to AML/CFT work as outlined in the supplementary paper, noting that resource costs will need to be further refined in light of experience with the 12-month pilot program as part of the FY 2003–2004 budget preparation process.

Directors noted that a timetable for completion of the draft comprehensive and integrated assessment methodology for circulation to the Board by the time of the Annual Meetings and endorsement at the FATF October Plenary was agreed to by the staff and representatives from the FATF, other financial standard setters, and the Egmont Group at a meeting held in Basel on July 23, 2002. The comprehensive and integrated assessment methodology would be presented to the Fund's Executive Board for its endorsement following endorsement at the FATF Plenary.

Directors looked forward to a report from the staff on the completion of the four conditions prior to the commencement of the 12-month pilot program.

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REPORT ON OUTCOME OF FATF PLENARY MEETING AND ENDORSEMENT OF METHODOLOGY FOR ASSESSING COMPLIANCE WITH ANTI-MONEY LAUNDERING AND COMBATING FINANCING OF TERRORISM STANDARD

Executive Directors take note that the conditions set forth in BUFF/02/122[1] are met and add the FATF 40+8 Recommendations to the list of areas and associated standards and codes useful to the operational work of the Fund for which assessments will be undertaken and reports on the Observance of Standards and Codes (ROSCs) will be prepared.

Executive Directors endorse the comprehensive and integrated methodology that was endorsed at the FATF October 2002 Plenary. (SM/02/349, 11/8/02)

Decision No. 12884-(02/114),
November 15, 2002

The Acting Chair's Summing Up—Twelve-Month Pilot Program of Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Assessments—Joint Report on the Review of the Pilot Program
Executive Board Meeting 04/29, March 24, 2004

Executive Directors welcomed the opportunity to review the experience of the joint Fund/Bank program for assessments and technical assistance for Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT). They commended the Fund/Bank staffs on the overall success of the pilot program, noting that AML/CFT assessments and technical assistance have now become an important component of the Fund and the Bank's work to strengthen the integrity of financial systems and deter financial abuse.

[1] Ed. Note: See *Summing Up by the Acting Chair—Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT)—Proposals to Assess a Global Standard and to Prepare ROSCs,* EBM/ 02/80, July 26, 2002, at p. 158.

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Directors welcomed the participation by the Financial Action Task Force (FATF) and FATF-style regional bodies (FSRBs) in the pilot program. Although a full review of the quality and consistency of their reports will take place at a later date, Directors were encouraged by the initial finding that the FATF/FSRBs' assessments were prepared in accordance with the principles of the Reports on the Observance of Standards and Codes (ROSCs) and were linked to the Financial Sector Assessment Program (FSAP), and that the reports received to date were generally of good quality. They underlined the importance of coordinating the Fund/Bank's work with that of the FATF and the FSRBs to avoid duplication of assessments. Directors looked forward to receiving the full review of the quality of the FATF/FSRBs' assessments and their consistency with the ROSC principles, as well as the effectiveness of coordination efforts, in about 18 months' time.

Directors noted that the pilot program had achieved the initial objectives agreed to by the Executive Board and, in particular, that it had led to a considerable deepening of international attention to AML/CFT issues and to the provision of substantial technical assistance in this area. They were encouraged that most jurisdictions have responded positively to assessments. Directors commended the generally high level of compliance with the FATF recommendations in higher- and middle-income countries, while noting that many lower-income countries face a challenge in implementing the FATF standard owing in part to shortages of resources to devote to this purpose. While observing that there are more general weaknesses regarding compliance with the eight special recommendations on terrorist financing, Directors welcomed the increased awareness among jurisdictions of the need for strong legislative and institutional frameworks in this area.

Directors emphasized that a key element of raising global compliance with the FATF standard is the delivery of technical assistance. In this regard, they welcomed the significant and increased contribution by the Fund in the delivery of technical assistance on AML/CFT in legislative drafting, support to supervisory bodies, establishment of financial intelligence units, and training. At the same time, Directors recognized that the Fund is only one of many technical assistance providers, and emphasized the Fund's need to work

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closely with bilateral and other multilateral donors, while respecting their different mandates and expertise. They agreed that the delivery of technical assistance to strengthen the capacity of FSRBs to conduct assessments was a cost-effective way of strengthening the global efforts on AML/CFT.

Directors noted that the Fund/Bank had conducted the great majority of assessments during the pilot program, reflecting the late start of the FATF/FSRBs in conducting assessments during the pilot program. Further, they observed that the Fund had conducted a greater share of the assessments, in part reflecting the intensified work on Offshore Financial Centers (OFCs), in which the Bank is not involved. Looking ahead, Directors welcomed the commitment by the FATF President to ensure that the FATF takes on a more equitable sharing of the burden. They noted that the FATF and the FSRBs combined are expected to conduct assessments of 15 to 20 countries per year. They requested the staff to ensure close collaboration and coordination with the FATF/FSRBs on assessment schedules. Directors also welcomed the commitment by the Bank to share the assessment burden equally with the Fund during the transition period and later.

In view of the success of the pilot program and the importance attached to AML/CFT work, Directors agreed that it should be a regular part of the Fund's work, and that AML/CFT assessments, whether prepared by the Fund/Bank or the FATF/FSRBs, should continue to be included in all FSAP and OFC assessments. Going forward, the Executive Board endorsed the revised FATF standard that expands the scope of activities, and the revised assessment methodology for the Fund's operational work, in view of the international acceptance that the revised FATF 40+8 is the relevant standard for the preparation of the AML/CFT ROSCs. Directors, moreover, agreed on the importance of continuing collaboration with the FATF in light of its indication that it has no plans at present to conduct a further round of the Non-Cooperative Countries and Territories (NCCT) exercise. In addition, in this regard, some Directors expressed concern that the FATF had left open the possibility of further rounds of the NCCT exercise, and noted that if the FATF were to resume the NCCT exercise, the Fund would need to reconsider collaboration with the FATF, as the exercise is at odds with the uniform, voluntary, and cooperative

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nature of the ROSC exercise. They indicated that the suspension of the exercise should continue to be a condition for the Fund's joint work.

Directors acknowledged that some areas of the assessment process could be improved, particularly with regard to the integration of the work now carried out by the independent AML/CFT experts (IAEs) into the overall assessment process. They stressed that the need to ensure effective integration and quality control of the IAEs' work would become more pressing with the adoption of the new FATF recommendations, and therefore supported the adoption of measures to strengthen the contribution of IAEs in Fund assessments, within resource constraints.

In considering the options for advancing the Fund's work on AML/CFT, many Directors expressed a preference for continuing the status quo, as outlined under Option 1 in the staff paper, which they thought is working well and limits the staff's involvement in the assessments to those areas that they felt were within the core mandate and expertise of the Fund. They considered that extending the Fund's involvement to law enforcement issues would risk jeopardizing the cooperative nature of the Fund's relations with its members and the support of the membership for AML/CFT. These Directors also felt that the identified need to improve the work of the independent AML/CFT experts (IAEs) could be accommodated without expanding the areas of involvement of the Fund and the Bank in AML/CFT. However, the majority of the Executive Board agreed to support the Fund becoming fully accountable, together with the Bank, for AML/CFT assessments and for providing technical assistance, including in the sectors covered by IAEs, as outlined under Option 3 in the staff paper. These Directors agreed that assessing whether countries have the capacity to implement AML/CFT laws effectively is part of the core mandate of the Fund and does not contravene the prohibition of the Fund to exercise law enforcement powers. They supported a more comprehensive and integrated approach to conducting AML/CFT assessments in order to enhance the efficiency and quality of the process.

In considering Option 3, which calls for the costs of assessments to be borne by the Fund/Bank, Directors noted that there is uncertainty about the eventual cost of taking on the additional assess-

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ment and technical assistance work. In particular, they noted that developing more precise cost estimates for assessments will require practical experience with implementation of the new standard in the transition period in fiscal year 2005. Directors also noted that actual experience will help refine estimates of the resource costs. Some Directors indicated that without better estimates of the costs, it was difficult for them to assess fully the merits of the different options, and thought it appropriate to introduce a cap in the fiscal year 2005 budget for the assessments. Directors emphasized, however, that the extension of this work should not crowd out other essential activities, including ongoing technical assistance. They noted that specific redeployment and allocation of the additional resources and staff positions to undertake the expanded assessment and technical assistance work in the next year will be taken up as part of the fiscal year 2005 budget discussion. In this regard, Directors urged bilateral and multilateral donors of financing and of expert resources to support this initiative generously.

Directors indicated their interest in receiving reports on (i) the review of the quality and consistency of the FATF/FSRBs' assessments and coordination in about 18 months' time; and (ii) a comprehensive review of the overall effectiveness of the Fund/Bank program in about three years' time.[1]

[1] Ed. Note: Pursuant to Decision No. 13814-(06/98), November 15, 2006, future reviews under the above paragraph will be conducted on an "as needed" basis. The expectation going forward is that "as needed" would generally mean a lag of at least five years between any such reviews. Decision No. 14235-(09/1), December 31, 2008, provided that a review shall be completed by June 30, 2009.

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The Acting Chair's Summing Up—
Anti-Money Laundering and Combating the
Financing of Terrorism (AML/CFT)—Report on the Review of
the Effectiveness of the Program
Executive Board Meeting 11/55, June 1, 2011

Executive Directors welcomed the opportunity to discuss the effectiveness of the AML/CFT program. They noted that the Fund's work has significantly contributed to the international community's response to money laundering and the financing of terrorism.

Directors recognized that AML/CFT assessments are an important part of the ROSC and FSAP programs and rely on close cooperation and coordination with other key players, notably the Financial Action Task Force (FATF) and the World Bank. Directors noted that, although useful, the comprehensiveness of the FATF standards sets a high benchmark. Compliance remains low, assessments are resource intensive, and country specific issues may not receive full attention. In this context, a few Directors called for further evidence of the effectiveness of AML/CFT assessments.

Against this background, Directors saw merit in exploring ways to strengthen AML/CFT assessments, including the possibility of conducting targeted, risk-based assessments. While Directors acknowledged the potential benefits of a risk-based approach, many Directors preferred to keep options open pending FATF discussions of these issues next year.

Directors agreed that, under a framework for risk-based assessments, the first AML/CFT assessment for a member would be comprehensive while subsequent assessments would focus on those areas that present the greatest risk of money laundering and/or terrorist financing taking place without being detected or sanctioned. This approach would produce better targeted and more focused assessments.

Directors agreed that a shift to targeted and risk based AML/CFT ROSCs would need to be agreed with the standard setter and other stakeholders. In particular, the methodology for conducting

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such assessments and criteria for the selection of issues to be assessed with respect to specific countries need to be developed in cooperation with the FATF and the FATF-style regional bodies along with other stakeholders. Directors agreed that staff, in continued close cooperation with the World Bank, should raise these issues with FATF and report to the Board within two years. To the extent that there is a sufficient consensus within the international community to move to a risk-based approach, Fund staff should also make a specific proposal on how to move forward, including an analysis of the associated resource implications.

Directors recognized that the FSAP framework has provided an effective mechanism for addressing AML/CFT issues on a consistent basis. Most Directors agreed to maintain the mandatory link of AML/CFT assessments with every FSAP, although a number of Directors expressed the view that, going forward, the incorporation of AML/CFT into an FSAP should be determined on a case-by-case basis, as is the case for other standards and codes and if justified by the level of money laundering and terrorist financing risks.

Directors continued to support Fund collaboration with the FATF, including its International Cooperation Review Group (ICRG) process towards non-cooperative jurisdictions (NCJs). Consistent with guidance provided in the recent Board review of the Standards and Codes Initiative, Directors agreed that staff should continue to participate in the ICRG, play a "good offices" role, and provide relevant information on member countries under review with the consent of the relevant members, while refraining from participating in those aspects of the process that are coercive in nature. Directors noted that staff participation in such cases should not be seen as an endorsement of possible public statements on NCJs.

The majority of the Board endorsed the approach and considerations outlined in the paper for the coverage of AML/CFT issues and their related predicate crimes in the context of modular financial stability assessments under the FSAP and bilateral surveillance. However, a number of other Directors expressed the view that the framework proposed by staff, although useful, required further elaboration before it could be applied for the purposes of financial stability assessments

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and bilateral surveillance under Article IV. In addition, Directors broadly supported the continued inclusion of AML/CFT issues in Article IV discussions on a voluntary basis, while a number of Directors favored a more consistent treatment across members of these issues in bilateral surveillance.

Directors welcomed the strategic delivery of the Fund's AML/CFT technical assistance program, which is now almost exclusively funded by external resources.

Directors noted that the next review of the AML/CFT program would be expected to be completed within the next five years.

BUFF/11/77,
June 6, 2011

The Acting Chair's Summing Up—
2011 Review of the Standards and Codes Initiative
Executive Board Meeting 11/24, March 9, 2011

Executive Directors welcomed the timely review of the implementation of the Standards and Codes Initiative, which draws lessons from the recent global crisis. They welcomed the international community's renewed emphasis on adherence to international standards, particularly to promote financial stability. Directors noted the usefulness of the Initiative in identifying data gaps and weaknesses in institutional frameworks, setting reform agendas, and enhancing transparency. They emphasized the importance of prioritizing recommendations in line with countries' needs, updating current standards where needed, and further promoting country ownership of recommendations in Reports on Observance of Standards and Codes (ROSCs).

Directors acknowledged that compliance with agreed standards represents only one of the building blocks for crisis prevention. The recent crisis has identified gaps in the architecture of standards and codes. It has also brought to the fore the need to complement assessments under ROSCs with rigorous follow-up implementation, strengthened surveillance of financial institutions, and international cooper-

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ation on cross-border issues and crisis resolution. The impact of the crisis on public balance sheets also calls for renewed attention to fiscal transparency, including a possible review of fiscal standards and an update of the framework for assessing data quality.

Directors endorsed amendments to the list of key standards. Specifically, they supported the decision of the Financial Stability Board (FSB) to combine the accounting and auditing standards into one policy area, and to introduce a new policy area on crisis resolution and deposit insurance. Enhancing coordination between standard setters and assessors, through a more systematic feedback mechanism, will ensure that lessons from standard implementation inform standard revisions.

Given additional demand for assessments of the two new standards within a limited resource envelope, Directors generally considered it necessary to prioritize ROSCs across standards. They supported plans to improve the link between ROSC assessments and capacity building, and to integrate these assessments more systematically into area departments' Regional Strategy Notes. Directors saw considerable merit in the use of topical trust funds to finance follow-up technical assistance in high-priority areas, building on the overall positive experience of the AML/CFT trust fund, although a few noted some practical difficulties with this approach. Directors stressed the need to ensure that the focus on systemically important members does not crowd out low-income and emerging market countries.

Directors generally supported the broader application of targeted ROSCs to enhance efficiency and allow for more frequent updates. Most viewed country self-assessments, with the help of qualified outside experts, as a cost-effective means of fostering ownership and building capacity. Directors recognized that such assessments could not substitute for ROSCs, and that their quality could vary. They urged that, in assisting country authorities to conduct self-assessments, staff exercise care so as not to create an impression that the findings are endorsed by the Fund and the Bank.

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Most Directors agreed with the recommendations to better integrate ROSC findings into Fund surveillance, including by following up on macro-relevant ROSC recommendations in the context of bilateral surveillance. A number of Directors pointed out that such a move would be inconsistent with the voluntary nature of ROSCs, as well as run counter to the ongoing efforts to streamline and focus Article IV staff reports. Directors urged continued efforts at information-sharing and coordination between the Fund and the Bank. Extending Bank-led ROSCs on accounting, auditing, and corporate governance to a broader group of advanced countries could also improve the effectiveness of surveillance.

Directors welcomed steps to improve the public's access to ROSCs and efforts to encourage countries to publish ROSCs. They were generally open to considering a mechanism to facilitate public reporting on progress in implementing ROSC recommendations, based on clear guidelines to ensure credibility. A few cautioned against creating undue pressures for countries to provide updated information to markets, which is not a key objective of ROSCs.

Most Directors agreed to maintain the current system on the use of compliance ratings, in which some ROSCs assign ratings while others do not, reflecting the tension between public disclosure and a focus on reform efforts and country ownership. A few were of the view that greater use of compliance ratings would enhance clarity, transparency, and comparability of assessments across countries, as well as provide stronger incentives to push ahead with reforms.

Directors continued to support Fund collaboration with the FSB, including with respect to its initiatives to encourage greater compliance by non-cooperative jurisdictions (NCJ) with international standards, insofar as the FSB's initiatives respect the Fund's legal framework, the cooperative nature of the Fund's relationship with its members, and the voluntary nature of the ROSC exercise. In particular, they broadly endorsed the proposed principles on the Fund's participation in NCJ processes.

Directors agreed that the next review of the Standards and Codes Initiative should be undertaken in five years, with some flex

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ibility to conduct ad hoc reviews as necessary. They looked forward to the forthcoming reviews of selected standards under the Initiative.

BUFF/11/42,
March 15, 2011

TECHNICAL ASSISTANCE—ESTABLISHMENT OF FRAMEWORK ADMINISTERED ACCOUNT

1. Pursuant to Article V, Section 2(*b*), the Fund adopts the Instrument to establish an account for the administration by the Fund of resources to be contributed by: (i) governments or other official agencies of countries and (ii) intergovernmental organizations, in accordance with the terms and conditions of the Instrument set forth in the Annex to EBS/01/202.

2. The provisions of the Instrument may only be amended by a decision of the Fund and with the concurrence of the contributors that are financing activities through the account at the time of such decision.

Decision No. 10942-(95/33), April 3, 1995,
as amended by Decision Nos. 11162-(95/121), December 19, 1995,
and 12641-(01/126)
December 6, 2001

ANNEX TO EBS/01/202

Instrument for a Framework Administered Account for Technical Assistance Activities

To help fulfill its purposes, the International Monetary Fund (the "Fund") has adopted this Instrument to establish an account in accordance with Article V, Section 2(*b*) which shall be governed by, and administered in accordance with, the provisions of this Instrument.

1. The Fund hereby establishes an account (the "Framework Account") for the purpose of the administration of resources to be

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contributed by: (i) governments or other official agencies of countries and (ii) intergovernmental organizations (individually referred to as a "Contributor," collectively referred to as "Contributors"), in order to finance technical assistance activities of the Fund.

2. The resources provided by Contributors to the Framework Account shall be: (i) grants, or (ii) proceeds of grants or loans that have been received by the Contributor from entities other than the Fund for the purpose of financing technical assistance to the Contributor. The resources may be used by the Fund only for technical assistance activities consistent with its purposes, in accordance with the procedures specified in paragraph 3 of this Instrument.

3. (a) The financing of technical assistance activities shall be implemented through the establishment and operation of subaccounts within the Framework Account. A subaccount may be established with resources from one or more Contributors; with the agreement of the Managing Director and after consultation with the Contributors of such a subaccount, a Contributor may be added to the subaccount following the subaccount's establishment.

(b) The establishment of a subaccount shall be subject to prior approval by the Fund, upon the recommendation of the Managing Director. When recommending approval of the establishment of a subaccount, the Managing Director shall specify the essential terms of the understandings that have been reached between the Contributor(s) and the Managing Director regarding (i) the nature, design and implementation of the technical assistance activities to be financed from the subaccount in question and (ii) the method by which the costs of the technical assistance activities will be financed from resources contributed to the subaccount by the Contributor(s). Further understandings between the Managing Director and the Contributor(s) shall determine the conditions governing and methods used for the disposition of any net contributions for purposes of paragraph 13. Following the establishment of a subaccount, the Fund shall be authorized to use the resources in the subaccount in accordance with the understandings reached between the Contributor(s) and the Managing Director.

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4. Costs charged to a subaccount of the Framework Account as a result of costs incurred by the Fund in the performance of technical assistance activities shall be based on standard costs as determined by the Fund, unless otherwise agreed between the Fund and the Contributor(s). A subaccount shall also be charged an amount equivalent to a percentage of such costs so as to help cover the expenses incurred by the Fund in the administration of the technical assistance activities financed from the subaccount in question.

5. Resources in a subaccount may be used to make disbursements to the Fund's General Resources Account as required to reimburse the Fund for expenditures incurred by the Fund on account of any technical assistance activity financed by resources from such subaccount.

6. All transactions and operations of the Framework Account shall be denominated in U.S. dollars.

7. Resource held in a subaccount of the Framework Account pending disbursement shall be invested at the discretion of the Managing Director. Earnings net of any costs associated with such investments shall accrue to the subaccount and shall be available for the purposes of the subaccount.

8. Subject to the requirement of Fund approval specified in paragraph 3, the Managing Director is authorized (i) to make all arrangements, including establishment of accounts in the name of the Fund, as he deems necessary to carry out the operations of the Framework Account; and (ii) to take all other measures he deems necessary to implement the provisions of this Instrument.

9. Assets held in the Framework Account shall be accounted for separately from the assets and property of other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet any liabilities, obligations, or losses of the Fund incurred in the administration of the Framework Account nor shall the assets of the Framework Account be used to discharge or meet any liabilities, obligations, or losses incurred by the Fund in the administration of such other accounts. The

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assets and property held in each subaccount of the Framework Account shall not be used to discharge or meet any liabilities, obligations, or losses of the Fund incurred in the administration of any other subaccount of the Framework Account.

10. (a) The Fund shall maintain separate financial records and prepare separate financial statements for the Framework Account. Such records and statements, which shall include a breakdown with respect to each subaccount, will be maintained in accordance with generally accepted accounting principles. The financial statements for the Framework Account shall be expressed in U.S. dollars. For each subaccount, a report on the subaccount's expenditures and a review of the activities financed by it shall be prepared by the Fund and furnished to the subaccount's Contributor(s) annually, or more often if agreed between the Contributor(s) and the Managing Director.

(b) The External Audit Firm selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions conducted through the Framework Account. The audit shall relate to the financial year of the Fund.

(c) The Fund shall report on the position of the Framework Account, including a breakdown with respect to each subaccount, in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the External Audit Firm on the Framework Account.

11. Subject to the provisions of this Instrument, the Fund, in administering the Framework Account, shall apply, mutatis mutandis, the same rules and procedures as apply to the operation of the General Resources Account of the Fund.

12. The Framework Account or any subaccount thereof may be terminated by the Fund at any time; the termination of the Framework Account shall terminate each subaccount thereof. A subaccount may also be terminated by the Contributor of the resources to the subaccount or, in the case of a subaccount comprising resources from more than one Contributor, by all the Contributors participating in the subaccount at the time of termination, provided that a Contributor to such a subaccount may cease its own participation in the subaccount at any

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time without termination of the subaccount. Termination shall be effective on the date that the Fund or the Contributor(s), as the case may be, receives notice of termination, or such later date, if any, as may be specified in the notice of termination.

13. The Managing Director and the Contributor(s) shall reach understandings under paragraph 3(b) of this Instrument on the disposition upon termination of the subaccount of any balances, net of the amounts of continuing liabilities and commitments under the activities financed, that may remain in the subaccount with respect to the Contributor or, in the case of a subaccount comprising resources from more than one Contributor, the Contributors participating in the subaccount at the time of termination. The Managing Director and the Contributor(s) may also reach understandings with respect to retransfer to the Contributor of its contribution, net of the amounts of continuing liabilities and commitments under the activities financed, prior to termination of the subaccount; absent such understandings, any net contribution shall be retransferred to the Contributor only upon termination of the subaccount.

FRAMEWORK ADMINISTERED ACCOUNT FOR TECHNICAL ASSISTANCE ACTIVITIES—PACIFIC FINANCIAL TECHNICAL ASSISTANCE CENTRE SUBACCOUNT

In accordance with the terms and conditions of the Instrument establishing the Framework Administered Account for Technical Assistance Activities (Decision No. 10942-(95/33)), as amended, the Fund hereby approves the establishment of the "Pacific Financial Technical Assistance Centre Subaccount," which shall be used by the Fund to administer resources to be contributed by the Government of Australia, and any subsequent Contributors, as described in EBS/02/84, 5/15/02.

Decision No. 12751-(02/52),
May 22, 2002

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FRAMEWORK ADMINISTERED ACCOUNT FOR TECHNICAL ASSISTANCE ACTIVITIES—AFRICA REGIONAL TECHNICAL ASSISTANCE CENTERS SUBACCOUNT

In accordance with the terms and conditions of the Instrument establishing the Framework Administered Account for Technical Assistance Activities (Decision No. 10942-(95/33)), as amended, the Fund hereby approves the establishment of the Africa Regional Technical Assistance Centers Subaccount, which shall be used by the Fund to administer resources to be contributed by the Governments of France, the Federal Republic of Germany, Italy, the Netherlands, Norway/Ministry of Foreign Affairs, Sweden, and the United Kingdom, and any subsequent Contributors, as described in EBS/02/135 (7/26/02).

Decision No. 12832-(02/88),
August 9, 2002

ESTABLISHMENT OF A NEW FRAMEWORK ADMINISTERED ACCOUNT FOR SELECTED FUND ACTIVITIES

1. Pursuant to Article V, Section 2(b), the Fund adopts the Instrument to establish an account for the administration by the Fund of resources to be contributed by donors, in accordance with the terms and conditions of the Instrument set forth in the Annex to EBS/09/27.

2. The provisions of the Instrument may only be amended by a decision of the Fund, and with the concurrence of the contributors that are financing activities through the account at the time of such decision. Such concurrence may be presumed if contributors do not object within thirty days after the issuance of the proposed amendment to contributors. (EBS/09/27, 3/6/09)

Decision No. 14294-(09/31),
March 27, 2009

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ANNEX

Instrument for a Framework Administered Account for Selected Fund Activities

To help fulfill its purposes, the International Monetary Fund (the "Fund") has adopted this Instrument to establish a framework administered account for Selected Fund Activities, which shall be governed by, and administered in accordance with, the provisions of this Instrument.

1. The Fund hereby establishes an account, the "Framework Administered Account for Selected Fund Activities" (the "SFA Framework Account"), for the purpose of the administration of resources to be contributed by (i) donors and (ii) recipients of technical services in relation to the application of the Fund's policies on charging for technical assistance (individually referred to as a "Contributor," collectively referred to as "Contributors"), in order to finance Selected Fund Activities.

2. For purposes of the SFA Framework Account, "Selected Fund Activities" include:

(a) technical and financial services provided by the Fund consistent with Article V, Section 2(b) of the Fund's Articles, including:

(i) the provision of technical services in the form of technical assistance and training of officials, and

(ii) activities in support of the provision of technical services including, but not limited to research, high-level conferences and international standard setting initiatives, secondments, assignments, and staff exchanges; and

(b) such other activities or services for which the Fund may accept external financing under its policies, consistent with the purposes of the Fund.

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3. The resources provided by Contributors to the SFA Framework Account shall consist of:

(i) grants,

(ii) proceeds of grants or loans that have been received by a Contributor from entities other than the Fund, or

(iii) amounts paid in connection with the Fund's policies on country contributions for technical assistance. The resources may be used by the Fund only in accordance with the procedures specified in paragraph 4 of this Instrument.

4. The financing of Selected Fund Activities shall be implemented through the establishment by the Fund of subaccounts within the SFA Framework Account.

(a) The establishment of a subaccount shall be subject to prior approval by the Fund, upon the recommendation of the Managing Director, with or without a request from a Contributor. When proposing the establishment of a subaccount, the Managing Director shall specify (i) the essential terms and conditions of the subaccount with respect to the nature, design and implementation of the Selected Fund Activities to be financed from the subaccount in question and (ii) the method by which the costs of the activities will be financed from resources contributed to the subaccount.

(b) A subaccount may be used to administer resources from one or more Contributors. The essential terms and conditions of the subaccount may provide for additional Contributors to be added to the subaccount following its establishment, with the consent of the Managing Director and the concurrence of existing Contributors. Each Contributor to a subaccount shall consent to the essential terms and conditions of the subaccount before the Managing Director may accept that the Contributor's resources flow into the subaccount.

(c) Following the establishment of a subaccount, the Managing Director shall be authorized to use the resources in the subaccount in accordance with essential terms and conditions of the subaccount.

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5. Costs incurred by the Fund in the performance of Selected Fund Activities and charged to the subaccount shall be based on the prevailing cost system that the Fund employs at the time that relevant activities are financed under the subaccount, unless otherwise agreed between the Fund and the Contributor(s). Each subaccount shall also be charged an amount equivalent to a percentage of costs charged to the subaccount for Selected Fund Activities so as to help cover the expenses incurred by the Fund in the administration of the subaccount in question.

6. Resources held in a subaccount may be used to make disbursements to the Fund's General Resources Account as required to reimburse the Fund for expenditures incurred by the Fund on account of any Selected Fund Activity financed by resources from such subaccount.

7. All transactions and operations of the SFA Framework Account shall be denominated in U.S. dollars.

8. Resources held in a subaccount pending disbursement shall be invested at the discretion of the Managing Director. Earnings net of any costs associated with such investments shall accrue to the subaccount and shall be available for the purposes of the subaccount.

9. Subject to the requirement of Fund approval specified in paragraph 4, the Managing Director is authorized (i) to make all arrangements, including establishment of accounts in the name of the Fund, as he deems necessary to carry out the operations of the SFA Framework Account; and (ii) to take all other measures he deems necessary to implement the provisions of this Instrument.

10. Assets held in the SFA Framework Account shall be accounted for separately from the assets and property of other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet any liabilities, obligations, or losses of the Fund incurred in the administration of the SFA Framework Account nor shall the assets of the SFA Framework Account be used to discharge or meet any liabilities, obligations, or

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losses incurred by the Fund in the administration of such other accounts. Unless otherwise specified in the essential terms and conditions of the subaccount, the assets and property held in each subaccount of the SFA Framework Account shall not be used to discharge or meet any liabilities, obligations, or losses of the Fund incurred in the administration of any other subaccount of the SFA Framework Account. The essential terms and conditions of the subaccount may authorize the Fund to transfer amounts directly to and from the subaccount to other subaccounts under the SFA Framework Account.

11. (a) The Fund shall maintain separate financial records and prepare separate financial statements for the SFA Framework Account. Such records and statements, which shall include a breakdown with respect to each subaccount, will be maintained in accordance with International Financial Reporting Standards. The financial statements for the SFA Framework Account shall be expressed in U.S. dollars. For each subaccount, a report on the subaccount's expenditures and a review of the activities financed by it shall be prepared by the Fund and furnished to the subaccount's Contributor(s) annually, or more often if agreed between the Contributor(s) and the Managing Director. The essential terms and conditions of the subaccount may provide for direct reporting on subaccount expenditures by the Fund to specified third parties.

(b) The External Audit Firm selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions conducted through the SFA Framework Account. The audit shall relate to the financial year of the Fund.

(c) The Fund shall report on the position of the SFA Framework Account, including a breakdown with respect to each subaccount, in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the External Audit Firm on the SFA Framework Account.

12. Subject to the provisions of this Instrument, the Fund, in administering the SFA Framework Account, shall apply, mutatis mutandis, the same rules and procedures as apply to the operation of the General Resources Account of the Fund.

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13. A Contributor may cease its participation in the subaccount or withdraw from the subaccount at any time without causing the termination of the subaccount. A Contributor's withdrawal shall become effective on the date that the Fund receives notice of withdrawal, or such later date, if any, as may be specified in the notice of withdrawal.

14. The SFA Framework Account may be terminated by the Fund at any time, upon request of the Managing Director; the termination of the SFA Framework Account shall terminate each subaccount thereof. A subaccount may be terminated by the Fund upon the request of the Managing Director with the concurrence of all Contributors participating in the subaccount at the time of termination. A subaccount may be terminated by the Fund upon the request of a Contributor with the concurrence of the Managing Director and all other Contributors participating in the subaccount at the time of termination.

15. The essential terms and conditions of each subaccount shall specify terms for the disposition upon termination of the subaccount of any balances, net of the amounts of continuing liabilities and commitments under the activities financed, that may remain in the subaccount at the time of termination. The essential terms and conditions of a subaccount shall also specify the terms of distribution of a contribution of a Contributor, net of the amounts of continuing liabilities and commitments under the activities financed, upon the withdrawal by the Contributor from the subaccount. Unless otherwise provided in the essential terms and conditions of a subaccount, any net contribution held in that subaccount shall be retransferred to a Contributor only upon the Contributor's withdrawal from the subaccount or upon termination of the subaccount.

POLICY SUPPORT INSTRUMENT—FRAMEWORK

General

1. Upon request, the Fund will be prepared to provide the technical services described in this Decision to members that are eligible for assistance under the Poverty Reduction and Growth Trust

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(PRGT), i.e., included in the list of members annexed to Decision No. 8240-(85/56), as amended, and that: (a) have a policy framework focused on consolidating macroeconomic stability and debt sustainability, while deepening structural reforms in key areas in which growth and poverty reduction are constrained; and (b) seek to maintain a close policy dialogue with the Fund, through the Fund's endorsement and assessment of their economic and financial policies under a Policy Support Instrument (PSI).

2. A PSI is a decision of the Executive Board setting forth a framework for the Fund's assessment and endorsement of a member's economic and financial policies. A PSI may be approved for a duration of one to three years, and may be extended up to an overall maximum period of four years.

3. Members with overdue financial obligations to either the Fund's General Resources Account (GRA) or to the PRGF Trust are not eligible for a PSI.

The Member's Documents

4. Program Documents. The member's program of economic and financial policies for the period of a PSI will be described in a letter and/or memorandum that may be accompanied by a technical memorandum ("Program Documents"). The initial Program Documents will include: (a) a macroeconomic policy framework, including a quantified framework for at least the first 12 months under the PSI, with quarterly or semi-annual quantitative targets, and proposed assessment criteria for the first and second scheduled reviews, and (b) key structural measures that are needed to meet the objectives of the program. The Program Documents will be updated from time to time, as appropriate, in the context of reviews under the PSI.

5. Poverty Reduction Strategy (PRS) Documents. The member's program will be based on the member's poverty reduction strategy, which will be set forth in a Poverty Reduction Strategy Paper ("PRSP"), PRSP Preparation Status Report, Interim PRSP ("I-PRSP"), or Annual Progress Report ("APR").

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Approval

6. A member's request for a PSI may be approved only if the Fund is satisfied that: (a) the policies set forth in the member's Program Documents meet the standards of upper credit tranche conditionality; and (b) the member's program will be carried out, and in particular, that the member is sufficiently committed to implement the program.

7. A member may be expected to adopt measures prior to the Executive Board's approval of a PSI when it is critical for the successful implementation of the program that such actions be taken.

Program Reviews

8. The implementation of the member's program under a PSI will be assessed through program reviews, which will normally be scheduled semi-annually. A review can be completed only if the Executive Board is satisfied that the member's program is on-track and that the conditions for the approval of a PSI, noted in paragraph 6, above, continue to be met. Having conducted, but not completed, a scheduled review, the Executive Board may subsequently return to that review, unless the previous scheduled review was not completed. Documentation supporting a return to the uncompleted review must be issued to the Executive Board prior to the earliest test date of the periodic quantitative assessment criteria linked to the next scheduled review. In addition, the second and subsequent reviews under a PSI can be completed only if the Executive Board is satisfied that the member has a poverty reduction strategy evidenced by a PRS Document that has been issued to the Executive Board normally within the previous 18 months and the PRS Document has been the subject of a staff analysis, including in the staff report on a request for a PSI or a review under a PSI.

9. Implementation of the program will be monitored, in particular, on the basis of assessment criteria, indicative targets, structural benchmarks and prior actions:

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(a) Assessment criteria.

(i) For the purposes of each review, the Fund shall establish assessment criteria, which may include: (a) assessment criteria linked to that review; and (b) assessment criteria that will apply on a continuous basis. Assessment criteria will apply to clearly-specified quantitative variables or structural measures that can be objectively monitored and are critical for the achievement of program goals or for monitoring implementation and whose nonobservance would normally signify that the program is off-track. In principle, quantitative assessment criteria shall be established with test dates at six month intervals. Documentation with respect to the conduct of a scheduled review would normally be issued to the Executive Board within 4 months of the earliest test date for the periodic quantitative assessment criteria linked to that review and shall in any event be issued before the earliest test date of the periodic quantitative assessment criteria linked to the next scheduled review.

(ii) A review will not be completed unless each assessment criterion related to that review is observed or a waiver for the nonobservance is granted. A review will not be completed where the member does not provide information necessary for the Fund to conclude that: (a) an assessment criterion related to that review is observed, or (b) a waiver of nonobservance is warranted. The Fund will grant a waiver for the nonobservance of an assessment criterion only if it is satisfied that, notwithstanding the nonobservance, the program will be successfully implemented, either because of the minor or temporary nature of the nonobservance or because of corrective actions taken by the authorities.

(iii) In order to complete a review, assessment criteria must be established for the shorter of: (a) the next two scheduled reviews, or (b) the remaining period of the PSI.

(b) Indicative targets and structural benchmarks. Variables and measures may also be established as quantitative indicative tar-

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gets or structural benchmarks that will be examined in a review's assessment of program performance.

(c) Prior actions. A member may be expected to adopt measures prior to the Executive Board's completion of a review.

10. Notwithstanding paragraphs 8 and 9, and subject to paragraph 20, following the approval of an arrangement under the Exogenous Shocks Facility ("ESF arrangement") or the Standby Credit Facility ("SCF arrangement") for a member implementing a program under a PSI, and for as long as the ESF arrangement or SCF arrangement remains in effect:

(a) reviews of the implementation of the member's program under the PSI may be scheduled at such time as reviews of the member's ESF-supported program or SCF-supported program are scheduled;

(b) assessment criteria under the PSI shall normally be established for the same test dates and shall apply to the same variables and measures as performance criteria under the ESF arrangement or SCF arrangement;

(c) documentation with respect to the conduct of a scheduled review under the PSI shall normally be issued to the Board at such time as documentation for a review under the ESF-supported program or SCF-supported program is issued;

(d) in order to complete a review under the PSI, assessment criteria would be required to be established only for the next scheduled PSI review; and

(e) no reviews under the PSI could be conducted but not completed.

Misreporting

11. Any decision approving a PSI or completing a review will be made conditional upon the accuracy of information provided by the

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member regarding implementation of prior actions or performance under related assessment criteria.

12. Whenever evidence comes to the attention of the staff indicating that the member's reporting of information noted in paragraph 11 above was inaccurate, the Managing Director shall promptly inform the member concerned.

13. If after consultation with the member, the Managing Director finds that, in fact, the member had reported such inaccurate information to the Fund, the Managing Director shall promptly notify the member of this finding.

14. In any case where a PSI was approved, or a review was completed, no more than three years prior to the date on which the Managing Director informs the member, as provided for in paragraph 12 above, the Executive Board shall decide whether misreporting has occurred and shall reassess program performance in the light of that determination.

15. The Fund shall proceed to make relevant information public in every case following an Executive Board decision under paragraph 14 above that misreporting has occurred, with prior Executive Board review of the text for publication.

16. For the purposes of this decision:

(a) whenever the Managing Director considers there is evidence that the member's reporting of information noted in paragraph 11 above was inaccurate, but the nonobservance of the relevant assessment criterion or other specified condition was de minimis in nature, as defined in paragraph 1 of Decision No. 13849, the communication referred to in paragraph 12 may be made by a representative of the relevant Area Department;

(b) if the Managing Director determines that, in fact, a member has reported such inaccurate information to the Fund, but the nonobservance was de minimis in nature, as defined in paragraph 1 of Decision No. 13849, the notification referred to in paragraph 13

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may be made by a representative of the relevant Area Department, and the Executive Board shall be informed of the misreporting in a staff report on a review under the relevant PSI or, if no such review is provided for, a staff report which deals with issues other than the misreporting, and shall include a recommendation that the Executive Board find that the misreporting was de minimis in nature and had no effect on program performance under the PSI. In those rare cases in which no review is provided for, and no other such staff report on the member is to be issued to the Board promptly after the Managing Director concludes that misreporting has taken place, the Managing Director shall consult Executive Directors and, if deemed appropriate by the Managing Director, a stand-alone report on the misreporting will be prepared for consideration by the Executive Board normally on a lapse-of-time basis; and

(c) whenever the Executive Board finds that a member has misreported information referred to in paragraph 11, but that the nonobservance of the relevant assessment criterion or other specified condition was de minimis in nature as defined in paragraph 1 of Decision No. 13849: (i) the Executive Board shall also find that the misreporting had no effect on program performance; and (ii) the fact of misreporting shall not be published by the Fund.

Applicability of Certain UFR Policies

17. The Guidelines on Conditionality (Decision No. 12864-(02/102), September 25, 2002) shall apply where relevant and except where this Decision sets forth different or more specific provisions.

18. In addition, the Fund's policies on the following subjects shall apply by analogy to PSIs: (a) requirement of full program financing; (b) arrears to official sector and external private creditors; and (c) use of side letters.

Termination of a PSI

19. A member may cancel a PSI at any time by notifying the Fund of such cancellation.

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20. A PSI for a member will terminate upon: (a) the relevant member incurring overdue financial obligations to the GRA or PRGT; or (b) noncompletion of two consecutive PSI scheduled reviews; provided that, in lieu of the circumstance specified in clause (b), the PSI for a member whose program reviews are scheduled at the same time as reviews of the member's ESF-supported program or SCF-supported program are scheduled will terminate if no scheduled review is completed within twelve months of the completion of the last scheduled review; or (c) the approval for the relevant member of an arrangement under the Extended Credit Facility of the PRGT.

Miscellaneous

21. For purposes of this decision, the terms PRSP, PRSP Preparation Status Report, I-PRSP, and APR shall have the meaning given to each of them in Section I, Paragraph 1 of the PRGF-HIPC Trust Instrument (Annex to Decision No. 11436-(97/10), adopted February 4, 1997, as amended).

Periodic Review

22. The Fund will review application of this Decision at intervals of five years.[1]

Decision No. 13561-(05/85),
October 5, 2005,
as amended by Decision Nos. 13814-(06/98), November 15, 2006,
13849-(06/108), December 20, 2006,
14153-(08/82), September 19, 2008,
effective November 24, 2008,
14253-(09/8), January 27, 2009, and
14354-(09/79), July 23, 2009,
effective January 7, 2010

[1] Ed. Note: Pursuant to Decision No. 13814-(06/98), the frequency interval of reviews is extended from three years to five years after 2008. Decision No. 14235-(09/1), December 31, 2008, provided that a review of the Policy Support Instrument shall be completed by March 31, 2009.

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MODIFICATIONS OF THE FUND'S CONDITIONALITY FRAMEWORK—APPLICATION TO THE POLICY SUPPORT INSTRUMENT

The Fund decides that, effective May 1, 2009, it shall no longer establish structural assessment criteria as a modality for monitoring performance under a Policy Support Instrument. (SM/09/91, 4/14/09) (SM/09/91, 04/14/09)

Decision No. 14317-(09/41),
April 21, 2009

Financial Services

A NEW ARCHITECTURE OF FACILITIES FOR LOW-INCOME COUNTRIES AND REFORM OF THE FUND'S CONCESSIONAL FINANCING FRAMEWORK

A. Transformation of the PRGF-ESF Trust

1. The name of the Trust established pursuant to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, shall be changed to the "Poverty Reduction and Growth Trust" ("PRGT"). Accordingly, Decision No. 8759-(87/176) ESAF and the title of the Annex to that Decision shall be amended by replacing "Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust" with "Poverty Reduction and Growth Trust."

2. The Instrument to Establish the PRGT ("PRGT Instrument") annexed to Decision No. 8759-(87/176) ESAF, along with its Appendices, shall be amended to read as set forth in the Attachment to this decision.[1]

3. All arrangements under the Poverty Reduction and Growth Facility that are in force on the effective date of this decision shall be renamed

[1] Ed. Note: See the Annex of the following decision for the text of the instrument of the PRG Trust.

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arrangements under the Extended Credit Facility ("ECF") provided for in the Attachment to this decision, and all PRGF loans outstanding on the effective date of this decision shall be renamed ECF loans.

4. The Fund may continue to approve arrangements under the Exogenous Shocks Facility ("ESF") established pursuant to Decision No. 13590-(05/99) ESF for up to a period of three months after the effective date of this decision. Such arrangements, along with those in force on the effective date of this decision, shall generally be subject to the same modalities as were applicable to ESF arrangements immediately prior to the effective date of this decision, as set forth in the PRGT Instrument and Appendix III thereof. All disbursements outstanding under the ESF, whether made before or after the effective date of this decision, shall be subject to the terms and conditions set forth in the PRGT Instrument, including as those may be amended from time to time while such disbursements remain outstanding.

5. Except as otherwise specifically provided, references in other Fund decisions, instruments, agreements or documents to the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust, PRGF, PRGF Trust, PRGF/ESF eligibility or PRGF/ESF Instrument shall be understood to be, respectively, references to the Poverty Reduction and Growth Trust, ECF, PRGT, PRGT eligibility and PRGT Instrument.

B. Amendment of the PRGF-HIPC Trust Instrument

…

6(c) Except as otherwise specifically provided, references in the PRG-HIPC Trust Instrument to "interim PRGF" shall be understood to be references to "interim ECF," and references to "self-sustained PRGF" shall be understood to be references to "self-sustained ECF."

…

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C. Amendment of the Policy Support Instrument

…

D. Amendment of the Administered Account for EPCA/ENDA Subsidies to PRGT-Eligible Members

…

E. Consequential Changes to Other Fund Decisions

12. The Fund as Trustee under the PRGT Instrument decides that Decisions No. 8845-(88/61) ESAF, and No. 8846-(88/61) ESAF, both adopted April 20, 1988 are repealed.

…

F. Transfers of SDA-Derived Resources for Subsidy Purposes

19. For financial years 2010 through 2012, no reimbursement shall be made to the General Resources Account from the Reserve Account of the PRGT for the cost of administering the PRGT. The estimated cost of administering the PRGT shall be transferred after the end of each such financial year from the PRGT Reserve Account (through the Special Disbursement Account) to the General Subsidy Account of the PRGT provided for in the Attachment to this decision.

G. Effectiveness of Decision

20. This decision shall become effective when all lenders to the Loan Account of the PRGF-ESF Trust, and all third party contributors of subsidies to the PRGF-ESF Trust, have consented to the amendments set forth in Section A above. (SM/09/189, Sup. 2, 7/24/09)

Decision No. 14354-(09/79), July 23, 2009,
effective January 7, 2010

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POVERTY REDUCTION AND GROWTH TRUST

1. The Fund adopts the Instrument to Establish the Poverty Reduction and Growth Trust (PRGT) 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 and expeditious payment to lenders.

Decision No. 8759-(87/176) ESAF
December 18, 1987,
as amended by Decision Nos. 9115-(89/40) ESAF, March 29, 1989,
9488-(90/106) ESAF, July 2, 1990,
9555-(90/146) ESAF, September 24, 1990,
9585-(90/161) ESAF, November 15, 1990,
10092-(92/94) ESAF, July 23, 1992,
10287-(93/23) ESAF, February 22, 1993,
10515-(93/162) ESAF, November 29, 1993,
10530-(93/170) ESAF, December 15, 1993,
10532-(93/170) ESAF, December 15, 1993,
11114-(95/110) ESAF, November 20, 1995,
11395-(96/110) ESAF, December 9, 1996,
11434-(97/10), February 4, 1997,
11435-(97/10), February 4, 1997,
11533-(97/67) ESAF, July 2, 1997,
11610-(97/113), December 19, 1997,
11832-(98/119) ESAF, November 20, 1998,
12087-(99/118) PRGF, October 21, 1999,
effective November 22, 1999,
12206-(00/55) PRGF, May 31, 2000,
12228-(00/66) PRGF, June 30, 2000,
12252-(00/77) PRGF, July 27, 2000,
12279-(00/86), August 25, 2000,
12326-(00/111) PRGF, November 10, 2000,
12344-(00/117) PRGF, November 28, 2000,
12545-(01/84) PRGF, August 22, 2001,
12560-(01/85) PRGF, August 23, 2001,
effective September 19, 2001,
13374-(04/105) PRGF, November 9, 2004,

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13588-(05/99) MDRI, November 23, 2005,
effective January 5, 2006,
13590-(05/99) ESF, November 23, 2005,
effective January 5, 2006,
13689-(06/24) ESF, March 10, 2006,
13774-(06/78), August 30, 2006,
effective December 8, 2006,
13849-(06/108), December 20, 2006,
14153-(08/82), September 19, 2008,
effective November 24, 2008,
14253-(09/08), January 27, 2009,
14287-(09/29), March 24, 2009,
effective April 1, 2009,
14354-(09/79), July 23, 2009,
effective January 7, 2010, and
14593-(10/41), April 28, 2010, effective June 1, 2010, and
15035-(11/116),
December 1, 2011

ANNEX

Instrument to Establish the Poverty Reduction and Growth Trust

Introductory Section

To help fulfill its purposes, the International Monetary Fund (hereinafter called the "Fund") has adopted this Instrument establishing the Poverty Reduction and Growth 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:

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(a) loans on concessional terms (hereinafter called "Trust loans") to low-income developing members that qualify for assistance under this Instrument, in order to:

(i) support programs under the Extended Credit Facility (hereinafter called the "ECF") that enable members with a protracted balance of payments problem to make significant progress toward stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth;

(ii) support programs under the Standby Credit Facility (hereinafter called the "SCF") that enable members with actual or potential short-term balance of payment needs to achieve, maintain or restore stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth;

(iii) support policies under the Rapid Credit Facility (hereinafter called the "RCF") of members facing urgent balance of payment needs so as to enable them to make progress towards achieving or restoring stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth; and (iv) for a transitional period, support programs under the Exogenous Shocks Facility that help members to resolve their balance of payments difficulties whose primary source is a sudden and exogenous shock in a manner consistent with strong and durable poverty reduction and growth; and

(b) grants, for a transitional period, to subsidize post-conflict and/or natural disaster emergency assistance purchases under Decision No. 12341-(00/117) made by low-income developing members as of January 7, 2010, through transfers to the Post-Conflict and Natural Disaster Emergency Assistance Subsidy Account for PRGT Eligible members annexed to Decision No. 12481-(01/45) ("the ENDA/EPCA Subsidy Account").

Paragraph 2. *Accounts of the Trust*

The operations and transactions of the Trust shall be conducted through a General Loan Account, an ECF Loan Account, a SCF Loan

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Account, and a RCF Loan Account (the latter four accounts collectively referred to herein as the "Loan Accounts"), a Reserve Account, a General Subsidy Account, an ECF Subsidy Account, a SCF Subsidy Account, a RCF Subsidy Account and an ESF Subsidy Account (the latter five accounts collectively referred to herein as the "Subsidy Accounts"). The resources of the Trust shall be held separately in these Accounts.

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 Accounts may be made in currency.

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

(a) Resources provided under borrowing agreements or donated to the Trust shall be received in a freely usable currency, subject to the provisions of (c) below, and provided that resources may be received by the Subsidy Accounts in other currencies.

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

(c) Resources provided under borrowing agreements or donated to the Trust may also be made available in or exchanged for SDRs in accordance with such arrangements as may be made by the Trust for the holding and use of SDRs.

(d) The Trustee may exchange any of the resources of the Trust, provided that any balance of a currency held in the Trust may be exchanged only with the consent of the issuers of such currencies.

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Section II. Trust Loans

Paragraph 1. *Eligibility and Conditions for Assistance*

(a) The members on the list annexed to Decision No. 8240-(86/56) SAF, as amended, shall be eligible for assistance from the Trust.

(b) Assistance under the ECF

(1) Assistance under the ECF shall be committed and made available to a qualifying member under a single three-year arrangement (hereinafter called an "ECF arrangement") in support of a three-year macroeconomic and structural adjustment program presented by the member. The member shall also present a detailed statement of the policies and measures it intends to pursue for the first twelve months of the arrangement, and indicate how the program advances the member's poverty reduction and growth objectives, in line with the objectives and policies of the three-year program. The ECF arrangement will prescribe the total amount of resources committed to the member, the amount to be made available during the first year of the arrangement, the phasing of disbursements during that year, and the overall amounts to be made available during the second and third years of the arrangement. In principle, disbursements shall be phased at semiannual intervals (one upon approval and at approximately six-monthly intervals thereafter) with semiannual performance criteria and appropriate monitoring of key financial variables in the form of quarterly quantitative benchmarks and structural benchmarks for critical structural reforms. Structural benchmarks may be targeted for implementation either by a specific date or by the time of a specific review under the ECF arrangement. The ECF arrangement shall also provide for semi-annual reviews by the Trustee of the member's program to evaluate the macroeconomic and structural reform policies of the member and the implementation of its program and reach new understandings if necessary. In exceptional cases where closer monitoring is needed, the ECF arrangement may provide for quarterly performance criteria and reviews and quarterly disbursements. The determination of the phasing of, and the conditions applying to, disbursements during the second and third years of the ECF arrangement will be made by the Trustee in the context of reviews of the program with the

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member. At each review, the member will present a detailed statement describing progress made under the program, the policies it will follow during the subsequent twelve months of the arrangement to further the realization of the objectives of the three-year program, and how the program advances the country's poverty reduction and growth objectives, with such modifications as may be necessary to assist it to achieve its objectives in changing circumstances. After the expiration of an ECF arrangement for an eligible member, or the cancellation of the ECF arrangement by the member, the Trustee may approve additional ECF arrangements for that member in accordance with the Instrument.

(2) Before approving an ECF arrangement, the Trustee shall be satisfied that the member has a protracted balance of payments problem and is making an effort to strengthen substantially and in a sustainable manner its balance of payments position under a policy program that supports significant progress toward a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

(3) The Trustee shall not complete the second or any subsequent review under an ECF arrangement unless it finds that (i) the member concerned has a poverty reduction strategy set out in an I-PRSP, PRSP preparation status report, PRSP, or APR, that has been issued to the Executive Board normally within the previous 18 months, and (ii) the I-PRSP, PRSP preparation status report, PRSP, or APR has been the subject of a staff analysis, including in the staff report on a new ECF arrangement or a review under an ECF arrangement. For purposes of this Instrument, the terms I-PRSP, PRSP preparation status report, PRSP, and APR shall have the meaning given to each of them in Section I, Paragraph 1 of the PRG-HIPC Trust Instrument (Annex to Decision No. 11436-(97/10), adopted February 4, 1997).

(c) Assistance under the SCF

(1) Assistance under the SCF shall be committed and made available to a qualifying member under an arrangement (hereinafter called an "SCF arrangement") in support of a macroeconomic and structural adjustment program presented by the member. The period for an SCF

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arrangement shall range from one to two years. The member shall present a detailed statement of the policies and measures it intends to pursue during the first year of the arrangement, and how the program advances the member's poverty reduction and growth objectives. In addition, the member will make an explicit statement, where applicable, about its intention to treat the SCF arrangement as precautionary. The SCF arrangement will prescribe the total amount of resources committed to the member and the phasing of disbursements during the period of the arrangement; provided that in cases where the period of a SCF arrangement exceeds one year, the arrangement may prescribe the amount to be made available during the first year of the arrangement and the phasing of disbursements during that year. In principle, disbursements shall be phased at semiannual intervals (one upon approval and at approximately six-monthly intervals thereafter) with semiannual performance criteria and appropriate monitoring of key financial variables in the form of quarterly quantitative benchmarks and structural benchmarks for critical structural reforms. The SCF arrangement shall also provide for semi-annual reviews by the Trustee of the member's program to evaluate the macroeconomic and structural reform policies of the member and the implementation of its program and reach new understandings if necessary. In cases where closer monitoring is needed, the SCF arrangement may provide for quarterly performance criteria and reviews and quarterly disbursements. In cases where the period of a SCF arrangement exceeds one year, the determination of the phasing of, and the conditions applying to, disbursements during the period of the arrangement following the first year may be made by the Trustee in the context of reviews of the program with the member. At the time of each review, the member will present a detailed statement describing progress made under the program, and the policies it will follow during the next twelve months up to the remaining period of the arrangement to further the realization of the objectives of the program, and how the program advances the country's poverty reduction and growth objectives, with such modifications as may be necessary to assist it to achieve its objectives in changing circumstances. The member may request at any time any previously scheduled and undrawn disbursements under an SCF arrangement, provided that the most recently scheduled review under the arrangement prior to the request has been completed. After the expiration of an SCF arrangement for a member,

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or the cancellation of the SCF arrangement by the member, the Trustee may approve additional SCF arrangements for that member in accordance with the Instrument provided that, normally, no SCF arrangement shall be approved that could result in a member having had SCF arrangements in place for more than two and a half years out of any five-year period, assessed on a rolling basis.

(2) Before approving a SCF arrangement, the Trustee shall be satisfied (a) that the member does not have a protracted balance of payments problem, and has an actual or potential short-term balance of payment need that is expected (or in the case of a potential balance of payments need, would be expected) to be resolved within two years and in any event not later than three years; (b) that the member's balance of payments difficulties are not predominantly caused by a withdrawal of financial support by donors; and (c) that the member is implementing, or is committed to implement, policies aimed at resolving the balance of payments difficulties it is encountering or could encounter, and at achieving, maintaining or restoring a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction.

(3) Notwithstanding subparagraph 2 above, no SCF arrangement shall be approved before January 1, 2010, based solely on the existence of a potential balance of payments need.

(d) Assistance under the RCF

(1) Assistance under the RCF shall be made available to a qualifying member through outright loan disbursements. A member requesting assistance under the RCF shall describe in a letter the general policies it plans to pursue to address its balance of payment difficulties, how its policies advance its poverty reduction and growth objectives, and its intention not to introduce measures or policies that would compound its balance of payments difficulties. The member shall also commit to undergoing a safeguard assessment, provide staff with access to its central bank's most recently completed external audit reports and authorize its external auditors to hold discussions with staff. The Trustee will approve support under the RCF only where it is satisfied that the member will cooperate with the Trustee in an ef-

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fort to find, where appropriate, solutions for its balance of payments difficulties. In exceptional cases, the Managing Director may request that the member implement upfront measures before recommending that the Trustee approve a disbursement under the RCF.

(2) Before approving a disbursement under the RCF, the Trustee shall be satisfied (a) that the member is experiencing an urgent balance of payments need characterized by a financing gap that, if not addressed, would result in an immediate and severe economic disruption; (b) that the member's balance of payments difficulties are not predominantly caused by a withdrawal of financial support by donors; and (c) normally, that the member either (i) has a balance of payments need that is expected to be resolved within one year with no major policy adjustments being necessary, or (ii) lacks capacity to implement an upper credit tranche-quality economic program owing to its limited policy implementation capacity or the urgent nature of its balance of payments need. If a member has received a disbursement under the RCF within the preceding three years, then any additional disbursements under the RCF may be approved only where the Trustee is satisfied that: (i) the member's balance of payments need was caused primarily by a sudden and exogenous shock, or (ii) the member has established a track record of adequate macroeconomic policies for a period of normally about six-months prior to the request; provided that a member may not in any case receive more than two disbursements under the RCF during any 12-month period.

(e) General Provisions

(1) A member may not obtain assistance from the Trust under the ECF, SCF or ESF at the same time. So long as the requirements under the Instrument for approval of such assistance have been met, a member may obtain assistance under the RCF when it has an ECF, ESF, or SCF arrangement in place, if (a) disbursements under the relevant arrangement are delayed due to delays in program implementation, the nonobservance of conditions attached to such disbursements or delays in reaching new understandings when necessary, and (b) the member's balance of payments need giving rise to the request for assistance under the RCF is caused primarily by a sudden and exogenous shock.

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(2) Commitments under arrangements under this Instrument may be made for the period through December 31, 2015.

(3) The Managing Director shall not recommend for approval, and the Trustee shall not approve, a request for a disbursement under the RCF or an arrangement under this Instrument whenever the member has an overdue financial obligation to the Fund in the General Resources Account, the Special Disbursement Account, or the SDR Department, or to the Fund as Trustee, or while the member is failing to meet a repurchase expectation to the Fund pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action, or is failing to meet a repayment expectation pursuant to Section II, paragraph 3(c) or the provisions of Appendix I to this Instrument.

(4) The Trustee shall not complete a review under an arrangement under this Instrument unless and until all other conditions for the disbursement of the corresponding loan have been met or waived.

Paragraph 2. *Amount of Assistance*

(a) The overall access of each eligible member to the resources of the Trust under all facilities of the Trust as specified in Section I, Paragraph 1(a) shall be subject to (i) an annual limit of 100 percent of quota; and (ii) a cumulative limit of 300 percent of quota, net of scheduled repayments. The Fund may approve access in excess of these limits in cases where the member is experiencing an exceptionally large balance of payments need, has a comparatively strong adjustment program and ability to repay the Fund, does not have sustained past and prospective access to capital markets, and has income at or below the prevailing operational cutoff for assistance from the International Development Association (IDA); provided that access shall in no case exceed (i) a maximum annual limit of 150 percent of quota, and (ii) a maximum cumulative limit of 450 percent of quota, net of scheduled repayments. As a transitional arrangement, until December 31, 2010, the Fund may also approve access above the limits specified in the first sentence of this subparagraph (a), up to the limits specified in the second sentence, in cases where, as of January 7, 2010, (i) the total amount of resources committed to the member under the PRGF

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and ESF exceeded 50 percent of quota per year, or (ii) the total amount of credit outstanding under the PRGF and the ESF exceeded 150 percent of quota.

(b) The access of each eligible member under the RCF shall be subject to an annual limit of 25 percent of quota and a cumulative limit of 75 percent of quota, net of scheduled repayments; provided that the annual and cumulative access limits under the RCF shall be 50 percent of quota and 100 percent of quota, respectively, net of scheduled repayments, in cases where (i) the member requests assistance under the RCF to address an urgent balance of payments need resulting primarily from a sudden and exogenous shock, and (ii) the member's existing and prospective policies are sufficiently strong to address the shock. Outstanding credit by a member under the rapid-access component of the ESF or outstanding purchases from the General Resources Account under emergency post conflict/natural disaster assistance covered by Decision No. 12341-(00/117), shall count towards the annual and cumulative limits applicable to access under the RCF.

(c) The Trustee shall not approve an SCF arrangement that provides for access in excess of 50 percent of quota on an annualized basis unless the member has an actual balance of payments need at the time of approval of the arrangement.

(d) These access limits shall be subject to review from time to time by the Trustee.

(e) 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.

(f) The access for each member that qualifies for assistance from the Trust under the ECF, SCF, RCF or ESF shall be determined on the basis of an assessment by the Trustee of the actual or potential balance of payments need of the member, the strength of its adjustment program and capacity to repay the Fund, the amount of the member's outstanding use of credit extended by the Fund, and its record in using Fund credit in the past. The access for each member that qualifies for

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assistance under the RCF and ESF shall also take into account the size and likely persistence of the shock (where applicable, in the case of the RCF).

(g) The amount of resources committed to a qualifying member under an ECF, SCF or ESF arrangement may be increased at the time of any review contemplated under the arrangement, to help meet a larger balance of payments need or in the case of an ECF or SCF arrangement, to support a strengthening of the program. The amount committed to a member under an ECF arrangement 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 arrangement and the improvement for the member derives in particular from improvements in the external environment.

(h) 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 the resources to the Trust.

(b) Disbursements under an arrangement under this Instrument must precede the expiration of the arrangement period. If phased amounts under an arrangement do not become available as scheduled due to delays in program implementation, nonobservance of conditions attached to such disbursements or delays in reaching new understandings when necessary, the Trustee may rephase those amounts over the remaining period of the arrangement.

The Trustee may also extend the period of (i) an ECF arrangement for up to two additional years to allow for the disbursement of rephased amounts or to provide additional resources in light of projected developments in the member's balance of payments position, subject to appropriate conditions consistent with the terms of assistance under the ECF, and (ii) an SCF or ESF arrangement for up to the overall maximum two-year period referred to in Section II, paragraph 1 (c)(1)

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and Appendix III, respectively, to allow for the disbursement of rephased amounts or to provide additional resources subject to appropriate conditions consistent with the terms of assistance under the ESF or SCF.

(c) When requesting a disbursement under the SCF, RCF or ESF, the member shall represent that it has a need because of its balance of payments or its reserve position or developments in its reserves. The Trustee shall not challenge this representation of need prior to providing the member with the requested disbursement. If, after a disbursement is made, the Trustee determines that the disbursement took place in the absence of a need, the Trustee may decide that the member shall be expected to repay an amount equivalent to the disbursement, together with any interest accrued thereon, normally within a period of 30 days from the date of the Executive Board decision establishing that the member is expected to make an early repayment. If the member fails to meet a repayment expectation within the period established by the Trustee, (i) the Managing Director shall promptly submit a report to the Executive Board together with a proposal on how to deal with the matter, and (ii) interest shall be charged on the amount subject to the repayment expectation at the rate applicable to overdue amounts under paragraph 4 of this Section.

(d) Following a member's qualification for a disbursement, the disbursement shall be made on the soonest value date for which the necessary notifications and payment instructions can be issued by the Trustee.

(e) No disbursement to a member shall be made after the expiration of the period referred to in Section III, paragraph 3.

(f) In cases of misreporting and noncomplying disbursements of Trust loans, the provisions of Appendix I, which is incorporated at the end of this Instrument, shall apply.

(g) Disbursements under an arrangement to a qualifying member shall be suspended in all the cases specified in Paragraph 1(e)(3) of this Section.

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Paragraph 4. *Terms of Loans*

(a) Effective January 7, 2010, interest on the outstanding balance of Trust loans shall be charged at the rate of zero percent per annum for loans under the ECF and RCF, and at the rate of one quarter of one percent per annum for loans under the SCF and ESF, 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) The interest rates for the ECF, SCF and RCF as specified under subparagraph (a) shall be subject to periodic reviews to take account of developments in world interest rates, with the first such review to be completed by December 31, 2011, and subsequent reviews every two years thereafter. In the context of such reviews, and subject to the provisions of Section IV, paragraph 5, the interest rate for loans under the ECF, SCF and RCF shall normally be determined by the Trustee as follows:

(i) If the SDR interest rate (average rate over the most recently observed 12-month period) is less than 2 percent, the interest rate shall be established or maintained, as the case may be, at zero percent per annum for ECF and RCF loans, and at one quarter of one percent per annum for SCF loans;

(ii) If the SDR interest rate (average rate over the most recently observed 12-month period) is 2 percent or more, up to 5 percent, the interest rate shall be established or maintained, as the case may be, at one quarter of one percent per annum for ECF and RCF loans, and at one half of one percent per annum for SCF loans; and

(iii) If the SDR interest rate (average rate over the most recently observed 12-month period) is greater than 5 percent, the interest rate shall be established or maintained, as the case may be, at one half of one percent per annum for ECF and RCF loans, and at three quarters of one percent per annum for SCF loans.

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(c) Notwithstanding subparagraph (a) and paragraph 2 of Executive Board Decision No. 15035-(11-116) and subject to the provisions of Section IV, paragraph 5 of this Instrument, for the period from January 7, 2010 through December 31, 2012, no interest shall be charged on outstanding balances of Trust loans owed by members on the list annexed to Decision No. 8240-(86/56) SAF, as amended, provided that interest at a rate equal to the rate of interest on the SDR shall in all cases be charged on the amounts of any overdue interest on or overdue repayments of Trust loans.

(d) 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 freely usable 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.

(e) The Trustee may not reschedule the repayment of loans from the Trust.

(f) Trust loans under the ECF, RCF and ESF shall be repaid in ten equal semi-annual installments beginning not later than five and a half years from the date of each disbursement and completed at the end of the tenth year after that date. Trust loans under the SCF shall be repaid in nine equal semi-annual installments beginning not later than four years from the date of each disbursement and completed at the end of the eighth year after that date.

Paragraph 5. *Availability Fee*

A charge in the amount of 0.15 percent per annum shall be payable on the full amount of disbursements available during each six-month period under an SCF arrangement, or any shorter period that is remaining under an SCF arrangement, to the extent that such available disbursements were not drawn by the member. The charge shall be paid to the SCF Subsidy Account five days after the end of each relevant period. Payment of the availability fee shall normally be made in SDRs but can also be made in a freely usable currency as decided by

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the Trustee. The Managing Director shall make the necessary arrangements for the use of SDRs for payment of the availability fee.

Paragraph 6. *Modifications*

Any modification of these provisions will affect only loans made after the effective date of the modification, provided that 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*

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Paragraph 2. *Borrowing Authority*

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

Paragraph 3. *Commitments*

Commitments for drawings under borrowing agreements to the Loan Accounts of the Trust that were entered into before November 30, 1993, shall extend through December 31, 1997, and under borrowing agreements that are entered into after November 30, 1993, shall extend through December 31, 1999. The drawdown period under borrowing agreements to the Loan Accounts of the Trust entered into or amended after September 19, 2001, shall normally extend through December 31, 2018. The drawdown period may be extended by mu-

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tual agreement between the Trustee and the creditor. The Managing Director is authorized to conclude such agreements on behalf of the Trustee.

Paragraph 4. *Drawings under Borrowing Agreements*

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

(b) Notwithstanding subparagraph (a) above, the Trustee may draw under one or more borrowing agreements to any Loan Account of the Trust to fund the early repayment of outstanding Trust borrowing under another borrowing agreement to any Loan Account of the Trust ("encashment"), where (i) the terms of all such borrowing agreements permit the Trustee to make drawings to fund such early repayments, and (ii) the creditor requesting early repayment represents that its balance of payments and reserve position (the balance of payments and reserve position of the relevant member if the creditor is the central bank or other official institution of a member) justify the early repayment, and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. As from the effective date of such early repayment, the creditor or creditors whose borrowing agreements have been drawn to fund the early repayment shall have the same rights to repayment as the creditor receiving the early repayment had with respect to the encashed claim, including all rights

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to payments of principal and interest pursuant to paragraph 5 of this Section III. For purposes of Section IV of this Instrument, drawings under this paragraph 4(b) shall be considered resources borrowed for the Trust loans for which the disbursements related to the encashed claims were made. Borrowing agreements allowing for encashment shall provide for the same effective maturity dates for drawings under this paragraph 4(b) as apply to encashed claims. Drawings on the commitments of individual creditors under this paragraph 4(b) shall be made with the aim of maintaining broad proportionality of these drawings relative to the commitments of these creditors.

(c) Calls on commitments under borrowing agreements shall be suspended temporarily if, at any time prior to June 30, 1997, in case of a commitment under a borrowing agreement entered into before November 30, 1993, or prior to June 30, 1999, in case of a commitment under a borrowing agreement entered into after November 30, 1993, or prior to June 30, 2018, in case of a commitment under a borrowing agreement entered into after August 31, 2001, the creditor represents to the Trustee that it has a liquidity need for such suspension and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. The suspension shall not exceed three months, provided that it may be extended for further periods of three months by agreement between the creditor and the Trustee. No extension shall be agreed which, in the judgment of the Trustee, would prevent drawing of the full amount of the commitment.

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

Paragraph 5. *Payments of Principal and Interest*

(a) The Trust shall make payments of principal and interest on its borrowing for the Loan Accounts from the payments into these accounts of principal and interest made by borrowers under Trust loans. Payments of the authorized subsidy shall be made from the Subsidy Accounts in accordance with Section IV of this Instrument, and, as re-

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quired, payments shall be made from the Reserve Account in accordance with Section V of this Instrument.

(b) The Trust shall pay interest on outstanding borrowing for Trust loans promptly after June 30 and December 31 of each year, unless the particular modalities of a borrowing agreement make it necessary for the Trustee to agree with the creditor on interest payments at other times; provided however that interest on outstanding drawings under borrowing agreements that provide for disbursements in SDRs will normally be paid promptly after April 30, July 31, October 31, and January 31 of each year.

Section IV. *Subsidy Accounts*

Paragraph 1. *Resources*

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

(i) the proceeds of donations made to the Trust for the General Subsidy Account;

(ii) the proceeds of loans made to the Trust for the General Subsidy Account;

(iii) transfers from the Special Disbursement Account in accordance with Section F of Decision No. 14354-(09/79);

(iv) transfers from the Reserve Account in accordance with Section V, Paragraph 5(b)(ii) of this Instrument.

(v) net earnings from investment of resources held in that Account.

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

(i) the proceeds of donations made to the Trust for the PRGF-ESF Subsidy Account and the PRGF Subsidy Account as of January 7, 2010, unless a donor notifies the Trustee that it wishes to transfer the

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proceeds of its outstanding donation to another Subsidy Account by January 22, 2010;

(ii) the proceeds of loans made to the Trust for the PRGF-ESF Subsidy Account and the PRGF Subsidy Account as of January 7, 2010, unless a lender notifies the Trustee that it wishes to transfer the proceeds of its outstanding loan to another Subsidy Account by January 22, 2010;

(iii) the proceeds of donations made to the Trust for the ECF Subsidy Account;

(iv) the proceeds of loans made to the Trust for the ECF Subsidy Account;

(v) transfers from the Special Disbursement Account in accordance with Decision No. 10531-(93/170);

(vi) transfers from the Special Disbursement Account in accordance with paragraph 5(c) of Decision No. 13588-(05/99) MDRI;

(vii) transfers from the Trust for Special Poverty Reduction and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations (PRG-HIPC Trust), in accordance with Section III *bis* of the Instrument establishing that Trust; and

(viii) net earnings from investment of resources held in that Account.

(c) The resources held in the SCF Subsidy Account shall consist of:

(i) the proceeds of donations made to the Trust for the SCF Subsidy Account;

(ii) the proceeds of loans made to the Trust for the SCF Subsidy Account;

(iii) proceeds from availability fees in accordance with Section II, paragraph 5 of this Instrument; and

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(iv) net earnings from investment of resources held in that Account.

(d) The resources held in the RCF Subsidy Account shall consist of:

(i) the proceeds of donations made to the Trust for the RCF Subsidy Account;

(ii) the proceeds of loans made to the Trust for the RCF Subsidy Account; and

(iii) net earnings from investment of resources held in that Account.

(e) The resources held in the ESF Subsidy Account shall consist of:

(i) the proceeds of donations made to the Trust for the ESF Subsidy Account as of January 7, 2010, unless a donor notifies the Trustee that it wishes to transfer the proceeds of its outstanding donation to another Subsidy Account by January 22, 2010;

(ii) the proceeds of loans made to the Trust for the ESF Subsidy Account as of January 7, 2010, unless a lender notifies the Trustee that it wishes to transfer the proceeds of its outstanding loan to another Subsidy Account by January 22, 2010; and

(iii) net earnings from investment of resources held in that Account.

Paragraph 2. *Donations*

The Trustee may accept donations of resources for any of the Subsidy Accounts 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 April 30 of each year. For this purpose the Managing Director of the Trustee is authorized to accept donations of resources and agree to their terms and conditions with donors to the Subsidy Accounts of the Trust.

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Paragraph 3. *Borrowing*

The Trustee may, in exceptional circumstances, borrow resources for any of the Subsidy Accounts 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 relevant Subsidy Account; repayment of principal and any payments of interest on such borrowing shall be contingent upon the receipt by the relevant Subsidy Account of the donation that has been prefinanced; and

(b) that the relevant 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. For this purpose the Managing Director of the Trustee is authorized to enter into borrowing agreements and agree to their terms and conditions with lenders to the Subsidy Accounts of the Trust.

Paragraph 4. *Authorized Use of Subsidy Accounts*

(a) The Trustee shall draw upon the resources available in the General Subsidy Account 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 loans under the facilities of the Trust specified in Section I, Paragraph 1 of the Instrument, provided that resources available in the General Subsidy Account shall be drawn upon for these purposes only if there are no other resources immediately available in the ECF Subsidy Account, SCF Subsidy Account, RCF Subsidy Account or ESF Subsidy Account, as the case may be, for these purposes. For purposes of the preceding sentence, resources in the PRG-HIPC Trust that are transferable to the ECF Subsidy Account shall not be considered resources immediately available in the ECF Subsidy Account. The Trustee may also draw upon resources available in the General Subsidy Account for transfer to the ENDA/EPCA Subsidy Account, if there are no other resources im-

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mediately available in the ENDA/EPCA Subsidy Account for purposes of the subsidies of post-conflict and/or natural disaster emergency assistance purchases provided by that Account. Any such transfers shall be limited to the amounts needed for subsidy payments.

(b) The Trustee shall draw upon the resources available in the ECF Subsidy Account 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 loans under the ECF and ESF, provided that resources in the ESF Subsidy Account shall be drawn first, with respect to the interest on ESF loans, before resources in the ECF Subsidy Account are drawn to subsidize ESF loans.

(c) The Trustee shall draw upon the resources available in the SCF Subsidy Account 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 loans under the SCF.

(d) The Trustee shall draw upon the resources available in the RCF Subsidy Account 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 loans under the RCF.

(e) The Trustee shall draw upon the resources available in the ESF Subsidy Account 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 loans under the ESF.

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 ensuring that the facilities of the Trust are highly concessional facilities and, to the extent possible, of reducing the rate of interest charged on Trust loans in accordance with Section II, paragraphs 4(a), (b), and (c), as well as the objective of subsidizing, as needed, the rate of charge on purchases from the General Resources Account ("GRA") in accordance with the terms of the ENDA/EPCA Subsidy Account; (ii) the rate of interest on resources available to the Loan Accounts and the rate of charge on GRA pur-

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chases covered by the ENDA/EPCA Subsidy Account; and (iii) the availability and prospective availability of resources to the Subsidy Accounts of the Trust and the ENDA/EPCA Subsidy Account.

(b) The Trustee shall keep the operation of the Subsidy Accounts under review. If at any time it determines that resources available or committed are likely to be insufficient to reduce the rate of interest on Trust loans in accordance with Section II, paragraphs 4(a), (b), and (c) throughout the operation of the Trust, and to fund needed transfers to the ENDA/EPCA Subsidy Account to subsidize the rate of charge on GRA purchases in accordance with the terms of that Account, then 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 of interest on Trust loans in accordance with Section II, paragraphs 4(a), (b), and (c), or to fund needed transfers to the ENDA/EPCA Subsidy Account to subsidize the rate of charge on GRA purchases in accordance with the terms of that Account, then the Trustee shall recalculate the subsidy with a view to reducing those interest rates to the lowest feasible rates and funding those transfers to the maximum extent that could be applied throughout the remaining life of the Trust. The rate of interest charged on all outstanding loans by the Trust under the relevant facility shall be adjusted accordingly in the succeeding interest periods, and the level of transfers to the ENDA/EPCA Subsidy Account shall be calculated to achieve the new level of subsidization. Borrowers shall be notified promptly of such adjustments. Further recalculations and adjustments shall be made in subsequent interest periods, as necessary in light of relevant developments, including the rate of interest on resources available to the Loan Accounts, the rate of charge on purchases covered by the ENDA/EPCA Subsidy Account and the availability of resources to the Subsidy Accounts and the ENDA/EPCA Subsidy Account.

(d) If the interest due to creditors for an interest period has exceeded the interest due by borrowers under the relevant facility, together with the authorized subsidy under paragraph 4 of this Section for that period, and payment to creditors of that difference has been made from the Reserve Account in accordance with Section V, paragraph 2, then

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an amount equivalent to that difference shall be added to the interest due by the relevant borrowers for the succeeding interest period. Payment of that amount shall be made to the Reserve Account in accordance with Section V, paragraph 3. The additional interest due shall not be taken into account in the calculation of the authorized subsidy for that same interest period.

Paragraph 6. *Termination arrangements*

(a) The ESF Subsidy Account shall be terminated after its resources as of January 7, 2010 have been used for subsidy operations in accordance with paragraphs 4(b) and 4(e) of this Section or transferred to other Subsidy Account in accordance with paragraph 1(e) of this Section.

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

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

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(ii) Any resources remaining in the ECF Subsidy Account shall be used to reduce to the fullest extent possible the interest rate paid by borrowers on ECF and ESF loans in accordance with Section II, paragraphs 4(a), (b), and (c), by means of payments to such borrowers. Any resources remaining after that subsidization shall be transferred to the General Subsidy Account, provided that a contributor may request that its share in any remaining resources be returned to it.

(iii) Any resources remaining in the SCF Subsidy Account shall be used to reduce to the fullest extent possible the interest rate paid by borrowers on SCF loans in accordance with Section II, paragraphs 4(a), (b), and (c), by means of payments to such borrowers. Any resources remaining after that subsidization shall be transferred to the General Subsidy Account, provided that a contributor may request that its share in any remaining resources be returned to it.

(iv) Any resources remaining in the RCF Subsidy Account shall be used to reduce to the fullest extent possible the interest rate paid by borrowers on RCF loans in accordance with Section II, paragraphs 4(a), (b), and (c), by means of payments to such borrowers. Any resources remaining after that subsidization shall be transferred to the General Subsidy Account, provided that a contributor may request that its share in any remaining resources be returned to it.

(v) Any resources remaining in the ESF Subsidy Account shall be used to reduce to the fullest extent possible, in accordance with Section II, paragraphs 4(a), (b), and (c), the interest rate paid by borrowers on ESF loans, by means of payments to such borrowers. Any resources remaining after that subsidization shall be transferred to the General Subsidy Account, provided that a contributor may request that its share in any remaining resources be returned to it.

(vi) For the purposes of the distributions provided for in this paragraph 6, account will be taken of donations, the net earnings from investment of the proceeds of concessional loans extended to the Subsidy Accounts 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 dif-

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ference, 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. 8760-(87/176), adopted December 18, 1987, as amended by Decision No. 10531-(93/170), adopted December 15, 1993;

(b) net earnings from investment of resources held in the Reserve Account;

(c) net earnings from investment of any resources held in the Loan Accounts pending the use of these resources in operations;

(d) payments of overdue principal or interest or interest thereon under Trust loans, and payments of interest under Trust loans to the extent that payment has been made to a creditor from the Reserve Account;

(e) transfers by the Fund from the Special Disbursement Account in accordance with Decision No. 10286-(93/23) ESAF, adopted February 22, 1993; and

(f) repayments of the principal under Trust loans, to the extent that resources in the Reserve Account have been used to make payments to a creditor due to a difference in timing between scheduled principal repayments to the creditor and principal repayments under Trust loans.

Paragraph 2. *Use of resources*

The resources held in the Reserve Account shall be used by the Trustee to make payments of principal and interest on its borrowing for

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Trust loans, to the extent that the amounts available from receipts of repayments and interest from borrowers under Trust loans, together with the authorized subsidy under Section IV, paragraph 4, are insufficient to cover the payments to creditors as they become due and payable.

Paragraph 3. *Payments to the Reserve Account*

Any repayment of principal under Trust loans, to the extent that repayment to a creditor has been made from the Reserve Account due to differences in timing between scheduled principal repayments to the creditor and principal repayments under Trust loans, any payments of overdue principal or interest or interest thereon under Trust loans, and any payments of interest under Trust loans to the extent that payment has been made to a creditor from the Reserve Account, shall be made to the Reserve Account.

Paragraph 4. *Review of resources*

If resources in the Reserve Account are, or are determined by the Trustee likely to become, insufficient to meet the obligations of the Trust that may be discharged from the Reserve Account as they become due and payable, the Trustee shall review the situation in a timely manner.

Paragraph 5. *Reduction of resources and liquidation*

(a) Whenever the Trustee determines that amounts in the Reserve Account of the Trust exceed the amount that may be needed to cover the total liabilities of the Trust to creditors that are authorized to be discharged by the Reserve Account, the Trustee shall retransfer such excess amount to the Fund's Special Disbursement Account.

(b) Notwithstanding (a) above, (i) the equivalent of up to SDR 250 million may be transferred from the Reserve Account to the Special Disbursement Account to be used to provide Trust grants or Trust loans, as defined in the Instrument to Establish a Trust for Special PRG Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations; and (ii) the equivalent SDR 620 million

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(end-2008 NPV terms) may be transferred from the Reserve Account to the General Subsidy Account to be used in accordance with Section IV, paragraph 4(a). Transfers under (i) above will be made only when and to the extent that the Trustee of the Trust established by that Instrument determines that there are no other resources immediately available for this purpose.

(c) Upon liquidation of the Trust, all amounts in the Reserve Account remaining after discharge of liabilities authorized to be discharged by the Reserve Account shall be transferred to the Special Disbursement Account.

Section VI. *Transfer of Claims*

Paragraph 1. *Transfers by creditors*

(a) Any creditor shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 ("other fiscal agency"), or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(b) The transferee shall, as a condition of the transfer, notify the Trustee prior to the transfer that it accepts all the obligations of the transferor relating to the transferred claim with respect to renewal and new drawings, and shall acquire all the rights of the transferor with respect to repayment of and interest on the transferred claim, except that any right to encashment pursuant to Section III, paragraph 4(b) of this Instrument shall be acquired only if the transferee is a member or the central bank or other fiscal agency of a member and, at the time of transfer, the balance of payments and reserve position of the member is considered sufficiently strong in the opinion of the Fund for its currency to be usable in transfers under the Fund's Financial Transactions Plan.

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Paragraph 2. *Transfers among electing creditors*

(a) Any creditor to one of the Loan Accounts ("electing creditors") may inform the Trustee that it stands ready, upon request by the Trustee, to purchase claims on the Trust from any other electing creditor, provided that the holdings of claims so acquired shall at no time exceed the amount communicated to the Trustee and subject to the other provisions of this section. A list of electing creditors and the amounts communicated by them shall be established separately by the Trustee. This list may be extended and the amounts therein increased in accordance with communications received subsequently.

(b) An electing creditor shall have the right to transfer temporarily to other electing creditors part or all of any claim arising from its loans to the Trust or note purchases under Section III, if the electing creditor represents to the Trustee that it has a liquidity need to make such transfer and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees.

(c) The Trustee shall allocate each transfer by an electing creditor under this provision to all other electing creditors in proportion to the amounts by which the respective maximum holdings listed in the attachment exceed actual holdings of claims acquired under this provision; provided, however, that no allocation shall be made to an electing creditor if it represents to the Trustee that it has a liquidity need for exclusion from an allocation and the Trustee agrees, in which case allocations to the remaining electing creditors shall be adjusted accordingly.

(d) The purchaser of any claim transferred under this provision shall assume, as a condition of the transfer, any obligation of the transferor, relating to the transferred claim, with respect to the renewal of drawing on Trust borrowing and to new drawings in the event a renewal, having been requested, is not agreed by the transferor.

(e) Transfers of claims under this provision shall be made in exchange for freely usable currency and shall be reversed in the same media within three months, provided that such transfers may be renewed, by agreement between the transferor and the Trustee, for further periods

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of three months up to a total of one year. Notwithstanding the above, the transferor shall reverse a transfer under this provision not later than the date on which the transferred claim is due to be repaid by the Trust.

(f) Interest on claims transferred under this Section shall be paid by the Trust to the transferor in accordance with the provisions of the transferor's borrowing agreement with the Trust. The transferor shall pay interest to the transferee(s) on the amount transferred, so long as the transfer remains outstanding, at a daily rate equal to that set out in Rule T-1 of the Fund's Rules and Regulations; such interest shall be payable three months after the date of a transfer or of its renewal, or on the date the transfer is reversed, whichever is earlier.

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.

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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 external audit firm 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 external audit firm 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 cur-

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rency 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 Accounts 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; Section IV, paragraphs 4 and 6; Section V; Section VI; Section VII, paragraph 2(a) and (b); and Section VIII, paragraph 2(b).

APPENDIX I

Misreporting and Noncomplying Disbursements Under Poverty Reduction and Growth Facility and Poverty Reduction and Growth Trust Facilities—Provisions on Corrective Action

a. A noncomplying disbursement occurs when (i) the Trustee makes a disbursement to a member in accordance with the Instrument on the basis of a finding by the Trustee or the Managing Director that all applicable conditions established for that disbursement under the

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terms of the decisions on the disbursement have been observed, and (ii) that finding later proves to be incorrect. For the purposes of these provisions, a condition established under the terms of a decision on a disbursement means a condition specified in the arrangement for the relevant disbursement; in a decision approving the arrangement or approving an outright disbursement; or in a decision completing a review, or granting a waiver of applicability or for the nonobservance of a performance criterion under the arrangement.

b. Whenever evidence comes to the attention of the staff of the Trustee indicating that a member may have received a noncomplying disbursement, the Managing Director shall promptly inform the member concerned.

c. If, after consultation with the member, the Managing Director determines that the member did receive a noncomplying disbursement, the Managing Director shall promptly notify the member and submit a report to the Executive Board together with recommendations.

d. In any case where the noncomplying disbursement was made no more than four years prior to the date on which the Managing Director informed the member, as provided for in paragraph (b), the Executive Board may decide either (i) that the member will be called upon to make an early repayment, or (ii) that the nonobservance will be waived.

e. If the decision of the Executive Board is to call upon the member to make an early repayment as provided for in paragraph (d)(i), the member will be expected to repay an amount equivalent to the noncomplying disbursement, together with any interest accrued thereon, normally within a period of 30 days from the date of the Executive Board decision.

f. A waiver under paragraph (d)(ii) will normally be granted only if the deviation from the relevant performance criterion or other condition was minor or temporary, or if, subsequent to the disbursement, the member had adopted additional measures appropriate to achieve the objectives supported by the relevant decision on the disbursement.

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g. If a member fails to meet a repayment expectation under these guidelines within the period established by the Executive Board, (i) the Managing Director shall promptly submit a report to the Executive Board together with a proposal on how to deal with the matter, and (ii) interest shall be charged on the amount subject to the repayment expectation at the rate applicable to overdue amounts under Section II, Paragraph 4 of the Instrument.

h. For the purposes of this decision:

(i) whenever the Managing Director considers there is evidence indicating that a member may have received a noncomplying disbursement, but the nonobservance of the relevant performance criterion or other specified condition was de minimis in nature, as defined in paragraph 1 of Decision No. 13849, the communication referred to in paragraph (b) may be made by a representative of the relevant Area Department;

(ii) if the Managing Director determines that a member has received a noncomplying disbursement and considers that the nonobservance of the relevant performance criterion or other specified condition was de minimis in nature, as defined in paragraph 1 of Decision No. 13849, the notification referred to in paragraph (c) may be made by a representative of the relevant Area Department, and the report of the Managing Director contemplated in paragraph (c) shall, wherever possible, be included in a staff report on the relevant member that deals with issues other than the noncomplying disbursement and shall include a recommendation that the related nonobservance be considered to be de minimis in nature, and that a waiver for nonobservance be granted. In those rare cases when such a staff report cannot be issued to the Board promptly after the Managing Director concludes that a noncomplying disbursement has been made, the Managing Director shall consult Executive Directors and, if deemed appropriate by the Managing Director, a stand-alone report on the noncomplying disbursement will be prepared for consideration by the Executive Board, normally on a lapse-of-time basis; and

(iii) whenever the Executive Board finds that a noncomplying disbursement has been made but that the nonobservance of the relevant

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performance criterion or other specified condition was de minimis in nature as defined in paragraph 1 of Decision No. 13849, a waiver for nonobservance shall be granted by the Executive Board.

APPENDIX II

Procedures for Addressing Overdue Financial Obligations to the Poverty Reduction and Growth Trust

The following procedures aim at preventing the emergence or accumulation of overdue financial obligations to the Poverty Reduction and Growth Trust (the "Trust") and at eliminating existing overdue obligations. These procedures will be implemented whenever a member has failed to make a repayment of principal or payment of interest to the Trust ("financial obligation").

1. Whenever a member fails to settle a financial obligation on time, the staff will immediately send a cable urging the member to make the payment promptly; this communication will be followed up through the office of the Executive Director concerned. At this stage, the member's access to the Fund's resources, including Poverty Reduction and Growth Trust and HIPC resources, will have been suspended.

2. When a financial obligation has been outstanding for two weeks, management will send a communication to the Governor for that member stressing the seriousness of the failure to meet obligations to the Trust and urging full and prompt settlement.

3. The Managing Director will notify the Executive Board normally one month after a financial obligation has become overdue, and will inform the Executive Board of the nature and level of the arrears and the steps being taken to secure payment.

4. When a member's longest overdue financial obligation has been outstanding for six weeks, the Managing Director will inform the member concerned that, unless all overdue obligations are settled, a report concerning the arrears to the Trust will be issued to the Executive Board within two weeks. The Managing Director will in each

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case recommend to the Executive Board whether a written communication should be sent to a selected set of Fund Governors, or to all Fund Governors. If it were considered that it should be sent to a selected set of Fund Governors, an informal meeting of Executive Directors will be held to consider the thrust of the communication. Alternatively, if it were considered that the communication should be sent to all Fund Governors, a formal Board meeting will be held to consider a draft text and preferred timing.

5. A report by the Managing Director to the Executive Board will be issued two months after a financial obligation has become overdue, and will be given substantive consideration by the Executive Board one month later. The report will request that the Executive Board limit the member's use of Trust resources. A brief factual statement noting the existence and amount of arrears outstanding for more than three months will be posted on the member's country-specific page on the Fund's external website. This statement will also indicate that the member's access to the Fund's resources, including Poverty Reduction and Growth Trust and HIPC resources, has been and will remain suspended for as long as such arrears remain outstanding. A press release will be issued following the Executive Board decision to limit the member's use of the Trust resources. A similar press release will be issued following a decision to lift such limitation. Periods between subsequent reviews of reports on the member's arrears by the Executive Board will normally not exceed six months. The Managing Director may recommend advancing the Executive Board's consideration of the reports regarding overdue obligations.

6. The Annual Report and the financial statements will identify those members with overdue obligations to the Trust outstanding for more than six months.

Removal from the list of PRGT-eligible countries

7. When a member's longest overdue financial obligation has been outstanding for six months, the Executive Board will review the situation of the member and may remove the member from the list of PRGT eligible countries. Any reinstatement of the member on the list of PRGT eligible countries will require a new decision of the Execu-

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tive Board. The Fund shall issue a press release upon the decision to remove a member from the list of PRGT eligible countries. A similar press release shall be issued upon reinstatement of the member on the list. The information contained in such press releases, where pertinent, shall be included in the Annual Report for the year concerned.

Declaration of noncooperation with the Trust

8. A declaration of noncooperation with the Trust may be issued by the Executive Board whenever a member's longest overdue financial obligation has been outstanding for twelve months. The decision as to whether to issue such a declaration would be based on an assessment of the member's performance in the settlement of its arrears to the Trust and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Three related tests would be germane to this decision regarding (i) the member's performance in meeting its financial obligations to the Trust, taking account of exogenous factors that may have affected the member's performance; (ii) whether the member had made payments to creditors other than the Fund while continuing to be in arrears to the Trust; and (iii) the preparedness of the member to adopt comprehensive adjustment policies. The Executive Board may at any time terminate the declaration of noncooperation in view of the member's progress in the implementation of adjustment policies and its cooperation with the Fund in the discharge of its financial obligations. Upon a declaration of noncooperation, the Fund could also decide to suspend the provision of technical assistance. The Managing Director may also limit technical assistance provided to a member, if in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdues to the Trust. The Fund shall issue a press release upon the declaration of noncooperation and upon the termination of the declaration. The information contained in such press releases shall be included in the Annual Report(s) for the year(s) concerned.

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APPENDIX III

Assistance Under the Exogenous Shocks Facility (ESF)

Until April 7, 2010, assistance under the ESF shall be committed and made available to a qualifying member under an arrangement (hereinafter called an "ESF arrangement") in support of a macroeconomic and structural adjustment program presented by the member. The period for an ESF arrangement shall range from one to two years. In cases where the period of an ESF arrangement exceeds one year, the member shall present a detailed statement of the policies and measures it intends to pursue for at least the first twelve months of the arrangement, in line with the objectives and policies of the overall program, including a statement on how the program advances the member's poverty reduction and growth objectives. The ESF arrangement will prescribe the total amount of resources committed to the member and the phasing of disbursements during the period of the arrangement; provided that in cases where the period of an ESF arrangement exceeds one year, the arrangement may prescribe the amount to be made available only during the first year of the arrangement and the phasing of disbursements during that year. Disbursements may be phased (i) at semiannual intervals (one upon approval and at approximately six-monthly intervals thereafter) with semiannual performance criteria and with appropriate monitoring of key financial variables in the form of quarterly quantitative benchmarks and structural benchmarks for important structural reforms, or (ii) at quarterly intervals (one upon approval and at approximately three-monthly intervals thereafter) with quarterly performance criteria. The phasing of disbursements in any particular case shall be determined on the basis of an assessment by the Trustee taking into account factors such as the duration of the arrangement, the balance of payments need of the member, the volatility of its economic situation and its administrative capacity constraints.

The ESF arrangement shall also provide for reviews by the Trustee of the member's program to evaluate the macroeconomic and structural reform policies of the member and the implementation of its program and reach new understandings if necessary. In cases where the period of an ESF arrangement exceeds one year, the determination of the

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phasing of, and the conditions applying to, disbursements during the period of the arrangement following the first year may be made by the Trustee in the context of a review of the program with the member, and of a detailed statement presented by the member describing progress made under the program, and the policies it will follow during the remaining period of the arrangement to further the realization of the objectives of the program, with such modifications as may be necessary to assist it to achieve its objectives in changing circumstances. After the expiration of an ESF arrangement for an eligible member, or the cancellation of the ESF arrangement by the member, the Trustee may approve additional ESF arrangements for that member in accordance with the Instrument, including this Appendix III, provided that a member may not have more than one ESF arrangement for the same shock.

POVERTY REDUCTION AND GROWTH TRUST—REVIEW OF INTEREST RATE STRUCTURE

1. In accordance with Section II, paragraph 4(b), of the Instrument to Establish the Poverty Reduction and Growth Trust (PRGT Instrument), annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended, the Fund, as the Trustee of the Poverty Reduction and Growth Trust ("Trustee"), has reviewed the interest rates for loans under the Extended Credit Facility ("ECF"), Rapid Credit Facility ("RCF"), and the Standby Credit Facility ("SCF").

2. The Trustee decides that, in accordance with Section II, Paragraph 4(b)(i), for the period from January 1, 2012 through December 31, 2013 the interest rate on the outstanding balance of Trust loans shall be charged at the rate of zero percent per annum for loans under the ECF and the RCF, and at the rate of one quarter of one percent per annum for loans under the SCF.

3. …

4. …

Decision No. 15035-(11/116),
December 1, 2011

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The Chairman's Summing Up—
Macroeconomic and Operational Challenges in
Countries in Fragile Situations
Executive Board Meeting 11/72, July 7, 2011

Executive Directors welcomed the opportunity to review the Fund's engagement with countries in fragile situations. They recognized that these countries face unique challenges, including weak institutional capacity, high vulnerability to shocks, and a volatile political environment.

Directors were heartened that, overall, Fund engagement with countries in fragile situations has focused on the Fund's areas of expertise and helped strengthen macroeconomic frameworks, build up institutional and human capacity, and secure debt relief. However, they noted that program implementation has been uneven, owing in part to overly ambitious program targets in some cases. Against this background, Directors saw merit in considering some changes to the modalities of the Fund's engagement. They stressed, however, that—to be effective—efforts should remain focused on the Fund's core mandate and continue to be closely coordinated with the international community.

Most Directors supported, or were open to considering, a more flexible use of the Rapid Credit Facility (RCF) for low-income countries in fragile situations as a stepping stone to upper- credit-tranche (UCT) arrangements. Where needed, the approach could allow for a more gradual adjustment during the critical initial phases of the transition to a less fragile situation. Nevertheless, given the protracted balance of payments needs typically faced by countries in fragile situations, UCT arrangements should remain the main vehicle of Fund engagement. At the same time, some Directors were unconvinced, and asked for more evidence that the RCF in its current form is not sufficiently flexible to meet its objectives. Moreover, these Directors considered that, in cases of extremely weak governance and absorptive capacity, non-financial engagement by the Fund, such as staff-monitored programs combined with technical assistance, may be more appropriate.

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Many Directors saw merit in the proposal to establish an RCF-like non-concessional facility that would provide emergency assistance to middle-income in fragile situations. However, a number of other Directors remained unconvinced of the need for a new instrument, and considered that existing emergency facilities provide adequate venues for assistance to these countries.

Most Directors were open to considering the staff proposal to increase the cumulative access under the RCF, noting that better tailoring the pace of reforms to implementation capacity could help mitigate risks to the Fund. A few Directors suggested that a more ambitious increase would better meet the needs of members in fragile situations. Some Directors suggested exploring the appropriateness of higher annual access levels in specific cases. A number of Directors expressed concern, however, that a more protracted use of the RCF would expose the Fund to additional risks, and called for further reflection on how to maintain appropriate safeguards to the Fund.

Directors generally welcomed the call for greater flexibility in program design to better reflect the limited implementation capacity in states in fragile situations. At the same time, they underlined that the conditionality standards applicable to different financing facilities should be maintained. Directors stressed the importance of designing programs that both foster macroeconomic stability and deliver "quick wins" to populations, to spur support for reforms. They highlighted, however, that such "quick wins" often lay in areas outside the Fund's expertise, and close cooperation with the World Bank and other development partners is particularly important. More broadly, most Directors underscored the need to work more closely with donors, especially in the field.

Directors agreed that Fund financing should taper out over the medium term, and that the long-term financing needs of countries in fragile situations should largely be met by concessional donor resources. In this regard, many Directors noted that Fund engagement could catalyze budget support through country-specific Multi-Donor Trust Funds, and welcomed the proposal to link such assistance to performance under Fund-supported programs or Fund monitoring. A number of Directors, however, were unconvinced, pointing to the op-

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erational difficulties of such a proposal and emphasized the merits of a case-by-case approach.

Most Directors welcomed the staff's increased emphasis on the political and social context in countries in fragile situations, which could inform the assessment of the risks of Fund engagement. However, a few Directors cautioned that such political and social issues lay outside the Fund's expertise.

Directors stressed the importance of technical assistance (TA) in lifting countries out of fragile situations. In this regard, they saw the need for grounding Fund TA in realistic and adequately-supported medium-term plans, including reliance on resident advisors and continued training of country officials. They also took note of the important role played by regional technical assistance centers and topical trust funds.

Directors welcomed the staff proposal to prepare an operational guidance note for work on countries in fragile situations and some Directors called for the Fund to provide its own robust definition of fragile situations. They also looked forward to further discussions on concrete proposals to enhance Fund engagement with these countries, including a more flexible RCF and a possible new RCF-like facility for middle-income countries. A few Directors considered that the reformed instruments should also be accessible to states where fragility may emanate from their small size and extreme vulnerability to external shocks. Directors also saw merit in strengthening human resource policies to increase the attractiveness of working on countries in fragile situations.

BUFF/11/102,
July 12, 2011

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The Acting Chair's Summing Up—
Revisiting the Debt Sustainability Framework for
Low-Income Countries
Executive Board Meeting 12/16, February 15, 2012

Executive Directors welcomed the timely review of the debt sustainability framework (DSF) for low-income countries (LICs). They welcomed the use of the framework by country authorities in their borrowing decisions, and by a growing community of donors and lenders to help inform financing decisions. Directors noted that experience with the DSF to date suggests that it has performed relatively well and fulfilled its main objectives. They agreed nevertheless that some modest improvements are necessary in light of changing circumstances in LICs, to ensure that the framework remains robust and relevant. In doing so, Directors underscored the importance of maintaining cross-country comparability while also assessing country-specific circumstances adequately and evenhandedly. They also considered the framework as a critical tool for ensuring that LICs have access to the resources necessary to meet their development goals while preserving long-term debt sustainability.

Most Directors agreed that the indicative policy-dependent thresholds used in the framework remain broadly valid. While most supported lowering thresholds for debt service to revenue, a number of Directors cautioned that the more conservative thresholds could unduly constrain LICs' borrowing decisions. Many Directors endorsed a downward revision to the current export-based thresholds for countries with large remittance flows, to adjust for the inclusion of such flows in calculating a country's repayment capacity. However, some viewed such a downward revision as representing an unnecessary tightening of the framework, while some others were skeptical about including remittances explicitly in the DSF, pointing to the limited availability and volatility of data. Directors emphasized the need to exercise judgment when considering cases where remittances should be included, and when interpreting breaches of external debt thresholds more broadly. They endorsed the proposal to maintain all other thresholds at their current values, and recommended that revisions to the framework be explained to country authorities and communicated carefully to the public.

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Noting the growing role of domestic debt in some LICs, Directors generally saw scope for strengthening the analysis of total public debt and fiscal vulnerabilities, including from contingent liabilities, along the lines of the recommendations made in the staff paper on *Modernizing the Framework for Fiscal Policy and Public Debt Sustainability Analysis*. Most Directors supported the proposed benchmarks for total public debt to help determine when to conduct deeper analysis, including in the discussions with country authorities, while cautioning that such benchmarks should not be used mechanically. A few Directors noted that the lack of comprehensive and reliable data on domestic debt makes it difficult to derive benchmarks that could be used across LICs.

Most Directors considered that introducing an additional risk rating would usefully complement the assessment of external public debt, in cases where there are significant vulnerabilities related to domestic public debt or private external debt. The additional risk rating would inform the macroeconomic and structural policy dialogue with country authorities, while the assessment of the risk of external debt distress would continue to inform the financing decisions of the International Development Association. Some other Directors were not convinced of the need for the additional risk rating, on grounds of data limitations and the risk of weakening LICs' ability to attract foreign capital.

Directors agreed that country-specific information should be taken into account more systematically when assessing the risk of debt distress. They broadly supported more consistent use of judgment in this regard, although a few saw merit in calibrating country-specific thresholds. Directors welcomed the plan to develop clearer guidance for staff, and supported analytical work on alternative approaches to complement the current methodology.

Directors recognized the benefits of public investment for growth and development, which could extend beyond national boundaries. They stressed therefore that understanding the linkages between debt-financed investment and growth, including the positive externalities of regional projects, is critical to the quality of debt sus-

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tainability analyses (DSAs). Directors generally welcomed ongoing efforts by staff to develop models and analytical tools to strengthen the treatment of investment-growth linkages in DSAs. A number of Directors urged a cautious approach to this issue, including by using conservative assumptions, accounting for all the costs associated with the investments, and paying due regard to countries' absorptive capacity.

Directors saw merit in improving the assessment of dynamic linkages among macroeconomic variables. They endorsed the proposed methodological refinements of stress tests, on an experimental basis, to enrich the analysis while not having a formal role in determining the risk rating.

Directors generally welcomed efforts to simplify the DSA template, which would allow country authorities to produce their own DSAs more easily, gradually building up their capacity and enhancing the policy dialogue on debt issues. They also supported the proposal to produce full joint DSAs every three years, with lighter updates in the interim years, while maintaining the flexibility to prepare full DSAs if warranted by circumstances, including those prompting a request for use of Fund resources. Directors underscored the importance of ensuring that these changes do not undermine the quality of DSAs.

BUFF/12/18,
February 17, 2012

FACILITATING MOBILIZATION OF LOAN RESOURCES FOR CONCESSIONAL LENDING TO LOW-INCOME COUNTRIES

1. In the Instrument to establish the Poverty Reduction and Growth Trust (PRGT Instrument) that is annexed to Decision No. 8759-(87/176) PRGT, adopted December 18, 1987, as amended, Section I, paragraph 4, Section III, Section IV, paragraphs 5(d) and 6(b)(i), Sec-

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tion V, and Section VI shall be amended to read as set forth in Attachment I of SM/10/46, Supplement 1 (4/15/10).[1]

2. The Executive Board notes the form Note Purchase Agreement (NPA) set forth in Attachment II of this decision, and endorses it as the basis for NPAs that may be entered into by the Managing Director pursuant to the authority set forth in Section III, paragraph 2 of the PRGT Instrument following the effectiveness of the amendments set forth in paragraph 1 of this decision. The notes issued pursuant to such NPAs shall have terms and conditions that are substantially in the form of those included in the form General Terms and Conditions for PRGT Notes set forth in Attachment III of this decision.[2]

3. The amendments of the PRGT Instrument set forth in paragraph 1 of this decision shall become effective when all current lenders to the Loan Accounts of the PRGT have consented to these amendments.[3] (SM/10/46, Sup. 1, 4/15/10)

Decision No. 14593-(10/41),
April 28, 2010

POVERTY REDUCTION AND GROWTH FACILITY TRUST—
OTHER PROVISIONS

…

2. All the provisions applying to assistance under the Poverty Reduction and Growth Facility Trust Instrument, other than those amended or deleted pursuant to Part I[4] of this Decision, shall continue

[1] Ed. Note: The amendments in Attachment I of SM/10/46 referred to in paragraph 1 of this decision have been incorporated into Decision No. 8759-(87/176) PRGT, as amended.

[2] Ed. Note: Attachments II and III referred to in paragraph 2 are not included in this volume.

[3] Ed. Note: The relevant amendments became effective on June 1, 2010.

[4] Ed. Note: Part I amended Sections II and V of the PRGF Instrument and added Appendix I.

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to apply to assistance committed after November 20, 1998 under such Instrument, including the maturity of loans, which will continue to be repaid in ten equal semiannual installments beginning not later than five and a half years from the date of each disbursement and completed at the end of the tenth year after that date with regard to the ECF and the RCF and beginning not later than four years from the date of each disbursement and completed at the end of the eight year after that date with regard to the SCF.

3. The Managing Director shall not recommend, and the Fund shall not approve, a request by a member for the use of the Fund's general resources, Special Disbursement Account resources, or resources administered by the Fund as Trustee, whenever the member is in arrears, or is failing to meet a repayment expectation, to the Poverty Reduction and Growth Facility Trust.

4. Provision shall be made in Stand-By and Extended Arrangements for the suspension of further purchases whenever a member fails to meet a repayment obligation to the PRGF Trust or a repayment expectation to that Trust within the period established by the Executive Board pursuant to Section II, paragraph 3(c) of the PRGF-ESF Trust Instrument the provisions of Appendix I to the PRGF Trust Instrument.

Decision No. 11832-(98/119) ESAF,
November 20, 1998,
as amended by Decision. No. 13592-(05/99) ESF,
November 23, 2005,
effective January 5, 2006, and
14354-(09/79), July 23, 2009,
effective January 7, 2010

TRANSFORMATION OF THE ENHANCED STRUCTURAL ADJUSTMENT FACILITY

1. The name of the Enhanced Structural Adjustment Facility established by Decision No. 8757 (87/176) SAF/ESAF, adopted December 18, 1987, shall be changed to the "Poverty Reduction and Growth Facility."

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2. The following changes shall be made to the Enhanced Structural Adjustment Facility Trust established by Decision No. 8759-(87/176) ESAF, adopted December 18, 1987:

(a) The name of the Trust shall be changed to the "Poverty Reduction and Growth Facility Trust"; accordingly, Paragraph 1 of Decision No. 8759 and the Title and Introductory Section of the ANNEX to that Decision, containing the Trust Instrument, shall be amended by substituting "Poverty Reduction and Growth Facility Trust" for "Enhanced Structural Adjustment Facility Trust;"

(b) Section I, Paragraph 1 of the Trust Instrument shall be amended to read as follows:

> 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 durable growth, leading to higher living standards and a reduction in poverty.

3. The name of the "Trust for Special ESAF Operations for the Heavily Indebted Poor Countries and Interim ESAF Subsidy Operations" shall be changed to the "Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations." Accordingly,

(a) Paragraphs 1 and 2 of Decision No. 11436-(97/10), adopted February 4, 1997, and the title and Introductory Section of the ANNEX to that Decision containing the Trust Instrument, shall be amended by substituting "Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations" for "Trust for Special ESAF Operations for the Heavily Indebted Poor Countries and Interim ESAF Subsidy Operations."

(b) All references to "ESAF" in Section I, paragraphs 1(viii) and 1(ix), Section I, paragraph 2(b), Section III, Paragraphs 1(a) and 1(b), and Section III, Paragraph 2(c) of the Trust Instrument shall be changed to references to "PRGF."

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4. References in other Fund decisions, instruments, agreements or documents related to the Enhanced Structural Adjustment Facility, the Enhanced Structural Adjustment Facility Trust, or any of its Accounts, the ESAF, the ESAF Trust, the Trust for Special ESAF Operations for the Heavily Indebted Poor Countries and Interim ESAF Subsidy Operations, or the ESAF-HIPC Trust shall be understood to be to the Poverty Reduction and Growth Facility, the Poverty Reduction and Growth Facility Trust, or any of its Accounts, the PRGF, the PRGF Trust, the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations, or the PRGF-HIPC Trust, respectively.

5. This Decision shall become effective when all contributors to the ESAF Trust have consented to the changes.

Decision No. 12087-(99/118) PRGF,
October 21, 1999,
effective November 22, 1999

ESTABLISHMENT OF GENERAL POLICY TO CONDITION DECISIONS UNDER THE EXTENDED CREDIT FACILITY, STANDBY CREDIT FACILITY AND EXOGENOUS SHOCKS FACILITY ON ACCURACY OF INFORMATION REGARDING IMPLEMENTATION OF PRIOR ACTIONS

Any decision on the use of resources under the Extended Credit Facility, Standby Credit Facility and Exogenous Shocks Facility (including decisions approving an arrangement, completing a review, or granting a waiver either of applicability or for the nonobservance of a performance criterion) will be made conditional upon the accuracy of information provided by the member regarding implementation of prior actions specified in the decision.

Decision No. 12253-(00/77),
July 27, 2000,
as amended by Decision No. 14354-(09/79),
July 23, 2009,
effective January 7, 2010

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ESTABLISHMENT OF GENERAL POLICY TO CONDITION WAIVER DECISIONS UNDER THE POVERTY REDUCTION AND GROWTH TRUST ON ACCURACY OF INFORMATION REGARDING PERFORMANCE CRITERIA

Any decision granting a waiver for the nonobservance of a performance criterion under an arrangement under the a facility of the Poverty Reduction and Growth Trust will be made conditional upon the accuracy of data or other information provided by the member to assess observance of the performance criterion in question.

Any decision waiving the applicability of a performance criterion under an arrangement under a facility of the Poverty Reduction and Growth Trust will be made conditional upon (i) the accuracy of the member's representation that the information necessary to assess observance of the relevant performance criterion is unavailable, and (ii) the accuracy of data provided by the member to assess observance of the same performance criterion for a preceding period (if applicable for that period).

Decision No. 12254-(00/77),
July 27, 2000,
as amended by Decision No. 14354-(09/79),
July 23, 2009,
effective January 7, 2010

ACCESS LIMITS UNDER POVERTY AND GROWTH FACILITY—REVIEW

1. Pursuant to Decision No. 13463-(05/32), adopted April 1, 2005, as amended, the Fund as Trustee of the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust (PRGF-ESF Trust) has reviewed the maximum limit and the exceptional maximum limit on access to the PRGF resources of the PRGF-ESF Trust established by Decision No. 8759-(87/176), adopted 27 December 18, 1987, as amended, and decides that they remain appropriate in the present circumstances. The Fund shall review these limits no later than 2/21/2013. (EBS/08/15, 2/1/08)

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Decision No. 14065-(08/18),
February 22, 2008

CONTRIBUTIONS TO PRGF AND PRGF-HIPC TRUSTS—VALUE DATE FOR OPERATIONS AND TRANSACTIONS

All operations and transactions under borrowing agreements, administered accounts or in connection with any other form of contribution to the PRGF Trust and the PRGF-HIPC Trust shall be changed to a two business day valuation rule. (EBS/03/54, 4/18/03)

Decision No. 13004-(03/39) PRGF,
April 25, 2003

POVERTY REDUCTION AND GROWTH FACILITY TRUST—BORROWING FOR LOAN ACCOUNT—CONSULTATION WITH CREDITORS

The Managing Director, after having consulted with all creditors in accordance with Decision No. 12032-(99/87) PRGF, adopted August 2, 1999, is authorized to confirm that he does not intend to propose to the Executive Board borrowing of more than SDR 16 billion for the Loan Account of the Poverty Reduction and Growth Facility Trust except after consultation with all creditors regarding the justification for such additional borrowing and the adequacy of the Trust's Reserve in relation thereto. (EBS/01/132, 8/8/01)

Decision No. 12559-(01/85) PRGF, August 23, 2001,
effective September 23, 2001

The Chairman's Summing Up of the Discussion on the Enhancement of the Structural Adjustment Facility—Operational Arrangements
Executive Board Meeting 87/171, December 15, 1987

…

Let me summarize the agreed position on a number of important points.

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1. *Establishment of the enhanced adjustment facility and review of the existing facility*

Directors reviewed the existing Structural Adjustment Facility and agreed that it should continue to operate as in the past. The existing facility will continue to be available to eligible members that already have arrangements under the facility as well as to those that have not yet requested use of the facility's resources.

Directors agreed that a new lending facility—the Enhanced Structural Adjustment Facility—should be established and that it will operate concurrently with the existing Structural Adjustment Facility. The Enhanced Facility will be financed from two Fund-related sources—the Special Disbursement Account and the Enhanced Structural Adjustment Facility Trust—and will also include the possibility that other lenders might support enhanced structural adjustment arrangements through loans to qualifying members in association with loans under the enhanced facility. For a member qualifying for an arrangement under the enhanced facility, resources will be provided from the Special Disbursement Account to the extent that the member has not exhausted its potential access under the existing facility; resources made available in excess of these amounts will be provided from the Trust and from associated sources.

Until the cutoff date for commitment of resources, eligible members that have not yet made use of the resources of the Structural Adjustment Facility will have the option to request a full three-year arrangement under either the existing facility or the enhanced facility. Members currently making use of the resources of the existing facility may request a new three-year arrangement under the enhanced facility or continue their current arrangement to its conclusion. If a member currently using the resources of the Structural Adjustment Facility chooses to request a new three-year arrangement under the enhanced facility, that request should normally be made at the time of expiration of an annual arrangement under the existing facility. However, earlier replacement of an existing arrangement by a three-year arrangement under the enhanced facility could also be permitted in exceptional cases.

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2. *Terms and conditions of loans under the Enhanced Structural Adjustment Facility*

Commitments of resources under the enhanced facility will be made upon approval of a three-year arrangement. All commitments and disbursements will be subject to the availability of resources. Commitments may be made at any time until the cutoff date. Most Directors agreed, taking into account the limited period of time during which the resources would be made available by contributors, that the cutoff date should be November 30, 1989. At the same time, most Directors considered that the final date for disbursements should not now be extended beyond June 30, 1992, although it was recognized that maintenance of this date would imply that there would be little flexibility to accommodate delays under annual programs in arrangements that were agreed later in the commitment period. This matter will be kept under review as experience is gained with the facility.

Disbursements from the Special Disbursement Account in conjunction with enhanced structural adjustment arrangements will be provided under the financial terms applying to loans under the existing facility, as amended. To the extent possible, the financial terms applying to loans from the Enhanced Structural Adjustment Facility Trust will be the same as those under the existing facility. In particular, it was agreed that the maturities of loans will be five and a half to ten years. Most Directors also believed that it would be appropriate to set the initial interest rate charged on loans from the Trust at 0.5 percent per annum, even if the amount of firmly committed resources in the Subsidy Account was initially not fully sufficient for this purpose, but additional resources were confidently expected. These Directors indicated that if it appeared, because of inadequate contributions or future adverse developments in interest or exchange rates, that resources available or committed to the Subsidy Account were likely to be insufficient to maintain the rate of interest at 0.5 percent throughout the period of operation of the Trust, the Fund should seek the additional resources necessary to achieve this objective. This issue is to be kept under review, and the interest rate will be adjusted as necessary at the beginning of each six-month interest period whenever resources available to the Subsidy Account are judged insufficient to maintain a rate of 0.5 percent on loans under the enhanced facility.

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The intended terms for the Trust's lending, with which you have agreed, determine the essential features of the borrowing arrangements that will have to be concluded by the Fund as Trustee for the Enhanced Structural Adjustment Facility Trust and the lenders to it. These have been set out in a prototype circulated to potential lenders and annexed to EBS/87/245. While there will need to be comparability in substance among agreements, there will no doubt need to be alterations to the form and structure of this prototype to meet the particular legal and institutional requirements of individual lenders, and we will be flexible in meeting these requirements. There was further discussion of the security to be provided to the claims on the Trust. Directors accepted that the proposals that had been put forward to safeguard the resources lent to the Trust were adequate to provide the necessary assurance to potential creditors. Although noting the views of some Directors, I have repeated that the phrase "all such initiatives as might be necessary" had to be understood to include the possible use of gold.

I should also comment on a few specific financial issues raised in the papers. First, most Directors did not favor the inclusion of a provision on rescheduling because, inter alia, it was considered that this would create undue complications in light of the limited period for which resources were being committed by contributors and also because it was felt that such a provision could threaten the integrity of the Reserve that most contributors find to be an essential component of the facility. Second, most Directors did not find it appropriate to provide for temporary encashment of claims through the use of the Reserve, given the relatively small amounts that will be available in the early years and the importance of the Reserve as security for claims. Third, it appeared generally acceptable to most Directors that the provision for temporary suspension of calls should apply to all lenders. I should note in this connection that we appreciate the position of several contributors who are providing support to the enhanced facility, despite a very difficult balance of payments situation of their own.

3. *Framework for lending under the Enhanced Structural Adjustment Facility*

Resources to be made available under the enhanced facility will be committed upon Board approval of a three-year arrangement

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and disbursements will be made semiannually in accordance with the provisions specified in annual arrangements. The preparation of policy framework papers will be an essential element of the enhanced facility, and the policy framework process will be strengthened to reflect the summing up of the June 1987 review of the structural adjustment facility (EBM/87/93, 6/19/87), as well as continuing discussions with eligible recipient countries, the World Bank, and the interested donors.

Directors were in broad agreement that the *objectives* of programs under the enhanced facility should be to promote, in a balanced manner, both balance of payments viability and growth through mobilization of domestic and external resources, improvements in resource allocation, and the removal of structural impediments. Such programs should involve a substantial effort to strengthen the external payments position in a sustainable manner, and in particular to assure substantial progress during the three-year program period toward an overall position and structure of the balance of payments that is consistent with orderly relations with creditors and a reduction in restrictions on trade and payments, while permitting the timely servicing of obligations to the Fund.

Directors agreed that monitoring of enhanced programs supported by arrangement under the enhanced facility will be conducted through benchmarks. Most Directors favored the establishment of quarterly quantitative benchmarks for the key financial variables, and the use of structural benchmarks to monitor implementation of the most important structural policy measures. Most Directors supported the establishment of some benchmarks, including, where appropriate, some structural benchmarks, as semiannual *performance criteria* in all cases. In addition, midyear reviews will also be required in most cases. I have fully noted the reservations expressed by a number of Directors regarding the treatment of benchmarks as performance criteria, and I assure you that performance criteria will be limited in number and will generally involve only a subset of the benchmarks. Similarly, prior actions will be required sparingly, but when necessary to lay the basis for a long or difficult adjustment process, and particularly where arrangements involve a front-loading of disbursements. In the event of a substantial delay in completion of a midyear review or in agreeing on an annual program, the total amount of resources to be

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made available to a member could be reduced or rephased over the remaining period of the arrangement.

Most Directors agreed that *access* to the resources of the enhanced facility will be differentiated according to the strength of the member's adjustment program and its financing need. The structure of the member's external debt and its prospective debt service burden, along with the expected evolution of other macroeconomic aggregates, will be important elements in this assessment. Directors generally agreed that access under three-year enhanced structural adjustment arrangements will be subject to a maximum limit of 250 percent of quota. However, Directors stressed again that the access limits do not constitute entitlements, and they agreed that access should normally be below the maximum and that the guidelines should be applied so that the rate of access for all qualifying members would average about 150 percent of quota. It was also indicated that, in highly exceptional circumstances, the maximum could be exceeded, but it was not envisaged that access would exceed 350 percent of quota even in these cases. These access limits, along with the operation of both the enhanced facility and the existing facility, will be subject to review in light of experience and the utilization of the available resources.

Directors agreed that the amount of resources committed to an individual qualifying member under a three-year enhanced structural adjustment arrangement and the amounts for the second- and third-year arrangements will be reviewed at the time of consideration of each annual program. However, most Directors indicated that, subject to the availability of resources, the amounts committed to a member would not normally be reduced because of developments in its balance of payments. However, in the event that balance of payments developments were markedly more favorable than envisaged at the time of approval of the three-year arrangement, and particularly because of improvements in the external environment, it would be suggested that the member reduce voluntarily its use of enhanced resources, either by requesting lower access at the time of approval of an annual arrangement or by forgoing in whole or in part a midyear disbursement.

Directors agreed that *disbursements of* loans under enhanced structural adjustment arrangements will be made semiannually, upon

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approval of an annual arrangement, and subsequently, on the basis of observance of performance criteria and, in most cases, completion of a midyear review. A range of views was expressed regarding the possibility of a limited front-loading of disbursements in some cases. Nonetheless, there seems to be a consensus that, subject to the availability of resources, the guideline should be that a uniform distribution of disbursements would be preferable and that any front-loading should not result in first-year disbursements exceeding 40 percent of the total amount to be made available under the three-year enhanced structural adjustment arrangement. However, I take it that there may be scope for a higher first-year disbursement in some very exceptional cases. Existing policies regarding members with overdue obligations to the Fund will be retained; how best to deal with cases of large and protracted arrears is a question to which we will return soon, but in a different context.

4. *Relationship with other Fund facilities*

Directors noted that members qualifying for loans under the enhanced structural adjustment facility would retain eligibility for access to the Fund's general resources. Access to those resources will have to be examined carefully on a case-by-case basis, taking into account a range of factors envisaged in the present guidelines, including past performance and use of Fund resources, terms, the possible availability of financing from the enhanced facility and other sources, and the speed and time profile of the anticipated balance of payments adjustment.

The Chairman's Remarks at the Conclusion of the Discussion on the Enhancement of the Structural Adjustment Facility—Legal Documentation
Executive Board Meeting 87/176, December 18, 1987

…

Two issues of substance raised during this meeting deserve special mention. First, it was reconfirmed that lending to the ESAF Trust could be considered as part of a member's official reserves by the Fund. Second, it was explained that access to the Fund's general resources could be provided for members that had extended loans to the Trust and that needed liquidity in an amount not exceeding their

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claim. Purchases under these circumstances would be allowed if the member represented that it had a need, because of developments in its reserves in the sense of Article V, Section 3(*b*)(ii), and that the Fund agreed that the purchase was justified taking into account the amount of the requested purchase and the existence of a claim on the Trust. If the liquidity problem can be addressed on its own, there would be no need for an adjustment program to solve the balance of payments problem. Moreover, those purchases could be given certain characteristics by a decision to be taken when required. For instance, it could be decided, with respect to such purchases, to provide for special repurchase periods and for their exclusion from the definition of reserve tranche purchases. Those decisions would need to be adopted by an 85 percent majority. On the occasion on which this question was discussed, I heard no objections by an Executive Director to this approach, which had been suggested in the staff papers that have been discussed by the Board.

ESTABLISHMENT OF A TRUST FOR SPECIAL POVERTY REDUCTION AND GROWTH OPERATIONS FOR THE HEAVILY INDEBTED POOR COUNTRIES AND INTERIM ECF SUBSIDY OPERATIONS (PRG-HIPC TRUST)

1. The Fund adopts the Instrument to Establish a Trust for Special Poverty Reduction and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations, which is annexed to this decision.

2. The Fund shall conduct semi-annual reviews of the financing of the Trust for Special Poverty Reduction and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations.

Decision No. 11436-(97/10),
February 4, 1997,
as amended by Decision Nos.11492-(97/45), April 24, 1997,
11861-(98/131) ESAF, December 18, 1998,
12087-(99/118) PRGF, October 21, 1999,
effective November 2, 1999,
12132-(00/9) PRGF, January 27, 2000,

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12349-(00/118), December 1, 2000,
12561-(01/85) PRGF, August 23, 2001,
effective September 19, 2001,
12680-(02/17) PRGF, February 20, 2002,
12696-(02/27) PRGF, March 15, 2002,
12777-(02/65), June 20, 2002,
12874-(02/110), October 25, 2002,
13224-(04/33), April 1, 2004,
13367-(04/98) PRGF, October 18, 2004,
13373-(04/105) PRGF, November 9, 2004,
13588-(05/99) MDRI and 13590-(05/99) ESF, November 23, 2005,
effective January 5, 2006,
13775-(06/78), August 30, 2006,
13797-(06/88), October 13, 2006,
13849-(06/108), December 20, 2006,
14039-(08/3), January 14, 2008,
14354-(09/79), July 23, 2009, effective January 7, 2010,
15018-(11/112), November 21, 2011, and
15031-(11/115),
November 30, 2011

ANNEX

Instrument to Establish a Trust for Special Poverty and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations

Introductory Section

To help fulfill its purposes, and in furtherance of the purposes of the Poverty Reduction and Growth Trust ("PRGT") as described in the Instrument to Establish the Poverty Reduction and Growth Trust adopted by Decision No. 8759-(87/176) ESAF, December 18, 1987, as amended ("the PRGT Instrument"), the International Monetary Fund ("the Fund") has adopted this Instrument to Establish a Trust for Special Poverty Reduction and Growth Operations for the Heavily Indebted Poor Countries and for Interim ECF Subsidy Operations ("the Trust"), which shall be administered by the Fund as Trustee ("the Trustee"). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

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Section I. *General Provisions*

Paragraph 1. *Definitions*[1]

Wherever used in this Instrument, unless the context otherwise requires:

(i) "Initiative" means the program of action endorsed by the Fund, the International Bank for Reconstruction and Development and the International Development Association (hereinafter jointly referred to as "the Bank") in September 1996 and the enhancement of this program agreed in September 1999 for reducing the external debt burden of heavily indebted poor countries to a sustainable level;

(ii) "DSA" means a debt sustainability analysis jointly prepared by the staffs of the Fund and the Bank and the concerned member to provide the basis for determining the member's qualification for assistance under the Initiative;

(iii) "decision point" means the time when the Trustee decides whether a member qualifies for assistance under the Initiative, that is, normally at the end of the initial three-year performance period and decides on the amount of assistance to be provided under the Initiative;

[1] Ed. Note: Section A.5 of Decision No. No. 14354-(09/79), July 23, 2009, effective January 7, 2010, states: "Except as otherwise specifically provided, references in other Fund decisions, instruments, agreements or documents to the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust, PRGF, PRGF Trust, PRGF/ESF eligibility or PRGF/ESF Instrument shall be understood to be, respectively, references to the Poverty Reduction and Growth Trust, ECF, PRGT, PRGT eligibility and PRGT Instrument." Further, section B.6(c) of the same decision states: "Except as otherwise specifically provided, references in the PRG-HIPC Trust Instrument to 'interim PRGF' shall be understood to be references to 'interim ECF', and references to 'self-sustained PRGF' shall be understood to be references to "self-sustained ECF."

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(iv) "completion point" means the time when a decision will be taken by the Trustee to disburse remaining undisbursed assistance committed for a qualifying member, excluding any additional amount committed for a member pursuant to the second sentence of Section III, paragraph 3(e);

(v) "debt sustainability" means the achievement of a sustainable level of external debt which shall be 150 percent for the present value of debt-to-exports ratio calculated on the basis of data available at the decision point. In the special case of a country that has, at the decision point, (i) an exports-to-GDP ratio of at least 30 percent, and (ii) a fiscal revenues-to-GDP ratio of at least 15 percent, a "debt sustainability" target of below 150 percent for the present value of debt-to-exports ratio at the decision point may be set with the specific target determined so as to reduce the present value of debt-to-revenue ratio to 250 percent at the decision point. For the purposes of these calculations, amounts that are subject to an early repurchase or repayment expectation established under the Misreporting Guidelines shall not constitute external debt.

(vi) "traditional debt relief mechanisms" means the application of Naples terms by Paris Club creditors, including the assumption of a stock-of-debt operation, involving a 67 percent present value reduction of the eligible debt of a member at the decision point, and at least comparable treatment by other official bilateral and commercial creditors;

(vii) "interim PRGF subsidy operations" means operations to subsidize the interest rate on interim PRGF financing to be made following full commitment under PRGF arrangements of resources available under borrowing agreements for the current phase of PRGF operations which is expected by about December 31, 2001; interim PRGF operations are expected to take place during the period 2001/02–2014/15;

(viii) "self-sustained PRGF operations" means PRGF-type operations financed on a revolving basis from Special Disbursement Account (SDA) resources through the retransfer of resources from the PRGF Trust Reserve Account, when they are no

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longer needed to cover the total liabilities of the 1987 PRGF Trust to lenders;

(ix) "PRSP" means a Poverty Reduction Strategy Paper prepared by the member concerned in a participatory process involving a broad range of stakeholders and setting out a comprehensive three-year poverty reduction strategy; and

(x) "I-PRSP" means an Interim Poverty Reduction Strategy Paper prepared by the member concerned setting out a preliminary reduction strategy as a precursor to a full PRSP; and

(xi) "PRSP preparation status report" means a report prepared by the member concerning updating the preliminary poverty reduction strategy set out in an I-PRSP in anticipation of a full PRSP; and

(xii) "APR" means an Annual Progress Report prepared by the member concerned reporting on the implementation of a PRSP and updating it as appropriate; and

(xiii) "Joint Staff Advisory Note" means a document prepared by the staff of the Bank and the Fund containing an analysis of the strengths and weaknesses of the poverty reduction strategy of the member concerned and identifying priority action areas for strengthening the poverty reduction strategy during implementation; and

(xiv) "Misreporting Guidelines" means the Guidelines on Corrective Action for Misreporting and Noncomplying Purchases in the General Resources Account (Decision No. 12249-(00/77), adopted July 27, 2000), and the Provisions on Corrective Action for Misreporting and Noncomplying Disbursements in Arrangements under the Poverty Reduction and Growth Facility and the Exogenous Shocks Facility (Appendix I of the Instrument to Establish the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987).

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Paragraph 2. *Purposes*

The Trust shall assist in fulfilling the purposes of the Fund by providing balance of payments assistance to low-income developing members by:

(a) making grants ("Trust grants") and/or loans ("Trust loans") to eligible members that qualify for assistance under the terms of this Instrument for purposes of the Initiative; and

(b) subsidizing the interest rate on interim PRGF operations to PRGF-eligible members.

Paragraph 3. *Trust Account and resources*

The operations and transactions of the Trust shall be conducted through an account ("the Account"). Within the Account, the Trustee may establish such sub-accounts as it deems necessary for the administration of the resources in the Account.

The resources held in the Account shall consist of:

(a) grant contributions made to the Trust for the purposes of paragraph 2;

(b) loans, deposits and other types of investments made by contributors with the Trust to generate income to be used for the purposes of paragraph 2;

(c) transfers from the Special Disbursement Account for the purposes of paragraph 2; and

(d) net earnings from investment of resources held in the Account.

Paragraph 4. *Unit of account*

The SDR shall be the unit of account for commitments and all other operations and transactions of the Trust, provided that commitments for contributions may also be made in currency.

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Paragraph 5. *Media of payment of contributions and exchange of resources*

(a) Resources provided to the Trust may be received in any currency.

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

(c) Contributions 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 consent of the issuer of such currency.

Section II. *Contributions to the Trust*

The Trustee may accept contributions of resources for the Account on such terms and conditions as may be agreed between the Trustee and the respective contributors, subject to the provisions of this Instrument. For this purpose, the Managing Director of the Trustee is authorized to accept grants and enter into loan, deposit or other types of investment agreements with the contributors to the Trust.

Section III. *Trust Grants and Loans*

Paragraph 1. *Eligibility for assistance*

In order to be eligible for assistance from the Trust under Section I, paragraph 2(a) of this Instrument, a member shall meet the following requirements:

(a) the member is PRGF-ESF eligible, i.e., it is included in the list of members annexed to Decision No. 8240-(86/56) SAF, as amended;

(b) the member was pursuing a program of adjustment and reform by October 1, 1996, or the member shall have adopted such a program in the period beginning October 1, 1996 and ending December 31, 2006, that is either (i) supported by the Fund through ECF, SCF, PRGF, ESF or Extended Arrangements, or, on a case-by-case

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basis as determined by the Trustee, a Stand-By Arrangement, a decision on rights accumulation, or financial support under the Fund's emergency assistance policy in post conflict countries or under the Rapid Credit Facility or under the Rapid Financing Instrument; or (ii) monitored by the staff, in the circumstances specified in paragraph 2(c) below; and

(c) in support of the member's adjustment and reform program, the member shall have received or is eligible to receive assistance to the full extent available under traditional debt relief mechanisms.

(d) after the assumed full application of traditional debt relief mechanisms, the member's external debt situation, based on both end-2004 and end-2010 data, is unsustainable, as determined by the debt sustainability thresholds in Section I, Paragraph 1(v) of this Instrument.

Paragraph 2. *Qualification for assistance*

The Trustee shall determine whether an eligible member qualifies for assistance under the Initiative in accordance with the criteria set out below:

(a) At the decision point, the DSA shall indicate that the member's external debt situation, even after the assumed full application of traditional debt relief mechanisms, would not be sustainable. Moreover, the member shall have in place a satisfactory poverty reduction strategy set out in an I-PRSP, PRSP preparation status report, PRSP, or APR, that has been issued to the Executive Board normally within the previous 12 months but in any case within the previous 18 months, and has been the subject of an analysis in a Joint Staff Advisory Note also issued to the Executive Board.

(b) The member has not agreed on an exit operation with Paris Club creditors on Naples terms after September 1999.

(c) The member has established a track record of strong policy performance under programs covering macroeconomic policies and structural and social policy reforms. This requirement shall normally be satisfied by an initial three-year performance period leading up to the decision point, followed by a second performance period

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leading up to the completion point, which shall be satisfied when a member has satisfactorily implemented a set of predefined key policy reforms, has a stable macroeconomic position, and has kept on track with its Fund-supported program. In addition, the member country concerned shall have prepared a PRSP and implemented satisfactorily the strategy therein described for at least one year by the completion point as evidenced by an APR that has been issued to the Executive Board normally within the previous 12 months but in any case within the previous 18 months, and has been the subject of an analysis in a Joint Staff Advisory Note also issued to the Executive Board. In the case of the first three-year period, such programs shall be programs supported by ECF, SCF, PRGF, ESF, or Extended arrangements, or, on a case-by-case basis as determined by the Trustee, Structural Adjustment Facility (SAF) arrangements, Stand-By Arrangements, decisions on rights accumulations (RAPs), programs, programs supported by the Fund under the policy on emergency assistance for post-conflict countries, programs supported by the Fund under the Rapid Credit Facility or under the Rapid Financing Instrument, or programs monitored by the staff (SMPs) in cases where the Executive Board agrees with the staff's assessment that the macroeconomic and structural policies under the SMP meet the policy standards associated with programs supported by arrangements in the upper credit tranches or under the PRGT. For these purposes, an SMP will qualify as of the time of the Executive Board determination referenced in the preceding sentence (including determinations that precede the adoption of this provision), but will qualify only if (i) the member, if not eligible for a RAP, remains current with respect to all obligations to the Fund during the period of the SMP, and (ii) the member, if eligible for a RAP, remains current at least with respect to new obligations falling due to the Fund during the period of the SMP, except that a post-conflict RAP-eligible member that has severely limited payments capacity may, to the extent its payments capacity requires it, be allowed to accumulate new arrears to the Fund during the period of the SMP. In the case of the second performance period, such programs shall be programs supported by ECF, SCF, PRGF, ESF or Extended Arrangements. It is expected that the member shall have a track record of strong and sustainable policy performance when the completion point is reached. The required period shall be evaluated flexibly by the Trustee. Members could receive credit toward the decision point

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for programs that were underway prior to the adoption of the Initiative. (EBS/07/152, 12/21/07)

(d) Notwithstanding the provisions of subparagraph (c) above and paragraph 6 below, for a member that has reached a decision point or a completion point prior to January 27, 2000, a commitment of assistance under the revised provisions of this instrument, and delivery of that assistance, may be made by the Trustee on the basis of assessments by the Trustee regarding satisfactory adjustment and reform efforts and overall progress in poverty reduction that is broadly acceptable.

(e) All other creditors (holding debt claims above a de minimis amount) of the member shall have agreed to take action under the initiative.

Paragraph 3. *Amount of assistance*

(a) At the decision point, and in consultation with the Bank, the eligible member and its other creditors, the Trustee shall make a determination of the amount of resources that could be made available from the Trust to achieve a reduction in the present value of debt owed to the Fund by the member. The amount to be committed shall be confirmed by the Trustee in the context of satisfactory assurances regarding the exceptional assistance to be provided under the initiative by the member's other creditors.

(b) At the decision point, based on the external debt sustainability targets established for the member, the Trustee shall commit the amount to be provided from the Trust to a member to permit a reduction in the present value of debt owed by it to the Fund. The specific amount of assistance to be committed by the Trustee will be based on (i) the Fund's share in the present value of the multilateral debt of the member at the decision point; and (ii) the assistance to be provided by multilateral creditors, in terms of a reduction in the present value of the debt owed to them by the member sufficient to achieve the debt sustainability targets, taking into account the exceptional assistance to be provided by Paris Club creditors and at least comparable action by

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other official bilateral and commercial creditors under the Initiative.[1] The Trustee shall, subject to the conditions specified below, adjust the amount of assistance committed to a member under this provision, whether or not disbursed to the account established under paragraph 5 below, if the Trustee, on the basis of revised information, recalculates the member's debt sustainability position used for the purposes of reaching the decision point and determines that the recalculated amount of relief to be provided under the Initiative exceeds or falls short of the amount originally committed by more than one percentage point of the targeted net present value of debt as defined in section I paragraph 1(v) above. In such circumstances, the amount of the commitment shall be increased or reduced as necessary to reach the amount to which the member, on the basis of such recalculation, would be entitled under the terms of this Instrument. No such adjustment shall be made: (i) after the completion point; or (ii) in the case of an excess of more than one percentage point, if such excess is attributable to incorrect information on exports, gross domestic product, or fiscal revenues that was not provided by or at the behest of the member. If the amount already disbursed by the Trustee to the account established under paragraph 5 below for the benefit of the member exceeds the adjusted amount of assistance, the Trustee shall retransfer to the Trust any amount remaining in the account equivalent to such excess.

(c) In case of protracted delays by a member in reaching the completion point because of problems in policy implementation, the Trustee may reassess that member's eligibility and qualification for assistance, including the amount of assistance committed at the decision point.

(d) Following commitment of the assistance at the decision point, the Trustee may advance to the member as interim assistance a portion of such committed assistance not to exceed (i) 20 percent of the total assistance committed for each 12-month period following the decision point, and (ii) a maximum of 60 percent of the total assistance committed prior to the member reaching the completion point,

[1] Ed. Note: The remaining text of Paragraph 3(b) was added by Decision No. 12696-(02/27) and will only apply to commitments approved after March 15, 2002.

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provided that the amount of such assistance in any 12-month period does not exceed the amount of debt service falling due to the Fund during that period. In exceptional circumstances, interim assistance could be raised to 25 percent and 75 percent, respectively.[1] Where the Trustee has made a disbursement of resources under this paragraph to the account established under paragraph 5 below for the benefit of the member on the understanding that all performance-related conditions specified for such disbursement have been met and subsequently determines that any such condition was not met, the Trustee shall retransfer to the Trust any amount remaining in such account from such disbursement up to the total amount of such disbursement as well as all net investment income accrued on the amounts disbursed on the basis of incorrect information provided, however, that no retransfer shall be made if (i) the member's completion point has been reached, (ii) the Trustee decides that such disbursement remains appropriate in view of the member's record of policy implementation and its poverty reduction efforts, or (iii) in cases where the Executive Board finds the nonobservance of the relevant performance-related condition to be de minimis in nature as defined in paragraph 1 of Decision No. 13849 (hereinafter "de minimis"). The retransfer of these amounts will not affect the amount of commitment in NPV terms to the member as established at the decision point. Where the Managing Director or the Trustee, as the case may be, believes the nonobservance of a performance-related condition to be de minimis in nature, (i) any communications with the member respecting such nonobservance may be made by a representative of the relevant Area Department, and (ii) the Executive Board shall be informed of the misreporting in a staff report which deals with issues other than the misreporting; in those rare cases where such a staff report cannot be issued to the Executive Board promptly after the Managing Director concludes that misreporting has taken place, the Managing Director shall consult Executive Directors and, if deemed appropriate by the Managing Director, a stand-alone report on the misreporting will be prepared for consideration by the

[1] Ed. Note: The remaining text of Paragraph 3(d), except for the item (iii) and the rest of Paragraph 3(d), was added by Decision No. 12696-(02/27) and will apply to disbursements of interim assistance approved after March 15, 2002, including the disbursements made under existing commitments. Item (iii) and the rest of Paragraph 3(d) was added by Decision No. 13849-(06/108).

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Executive Board normally on a lapse-of-time basis. The Fund shall issue press releases on its decisions regarding the circumstances of a misreporting and the applicable remedies. except with respect to instances of misreporting involving the nonobservance of performance-related conditions which the Fund considers to be de minimis in nature.

(e) At the completion point, the Trustee shall disburse the amount committed to the member at the decision point, as such amount may have been subsequently adjusted on the basis of revised information on the member's debt sustainability position, less any disbursements made after the decision point. To the extent that the Trustee, in determining the amount committed to the member under paragraph 3(b) above, included in the member's external debt amounts that, after the decision point, were found to be subject to an early repurchase or repayment expectation under the Misreporting Guidelines, the Trustee shall recalculate and adjust the amount of its commitment, excluding from the member's external debt the amount that was subject to the repurchase or repayment expectation. The Trustee retains the right to commit additional assistance at the completion point, beyond that already committed, but only so as to bring the ratio of the net present value of debt-to-exports to 150 percent (or debt-to-fiscal revenue to 250 percent), if the deterioration in the member's debt sustainability is primarily attributable to a fundamental change in the member's economic circumstances due to exogenous factors. The disbursement of any such additional assistance shall be approved at the completion point or thereafter, whenever the assurances specified in subparagraph (f) below with respect to such assistance have been obtained.

(f) Approval of the disbursements shall be given in the context of satisfactory assurances regarding the exceptional assistance to be provided under the Initiative by the member's other creditors.

Paragraph 4. *Terms of assistance*

(a) The assistance to be provided by the Trust to a qualifying member shall be either through a Trust grant or a Trust loan, or both. The choice of a Trust grant, a Trust loan, or a combination thereof, shall be made by the Trustee on a case-by-case basis, taking into ac-

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count the objective of bringing the debt-service-to-exports ratio (after assistance under the Initiative from the Fund and other creditors) to the debt sustainability target agreed for the member at the decision point. The maturity of a Trust loan shall be determined by the Trustee on a case-by-case basis, subject to paragraph 4(c) below, taking into account the need to smooth the time profile of the member's total external debt service and its debt service to the Fund (after assistance under the Initiative from the Fund and other creditors). The schedule for using the proceeds of the Trust grant or the Trust loan by the member shall be agreed by the Trustee and the member taking into account the same criteria for deciding among a Trust grant, a Trust loan, or a combination thereof and the maturity of such loan.

(b) Trust grants and Trust loans (including any income from investment of their proceeds) advanced to a member as interim assistance shall be used to meet the member's debt service payments on its existing debt to the Fund as they fall due, in accordance with the schedule for using the proceeds of such grants and loans as determined under the provisions of (a) above. Trust grants and Trust loans (including any income from investment of their proceeds) disbursed to a member at the completion point, along with any amounts previously advanced to the member as interim assistance that remain unused at the completion point, shall be used to effect the early repayment of the member's qualifying debt to the Fund, in accordance with the schedule for using the proceeds of such grants and loans as determined under the provisions of (a) above. Notwithstanding paragraph 6 below, the preceding sentence shall also apply to Trust grants and Trust loans (including any income from investment of their proceeds) that, prior to January 5, 2006, had been disbursed to a member at the completion point or had been advanced to the member as interim assistance and remained unused at the completion point, once agreement is reached between the Trustee and the member on a modified schedule for using the proceeds of the Trust grant or Trust loan as provided for in (a) above.

(c) Trust loans shall be provided to members interest-free and shall have a maturity of no less than ten (10) years and up to twenty (20) years, including a grace period of no less than five-and-a-half (5½) years and up to ten-and-a-half (10½) years. The Trustee may not reschedule the repayment of Trust loans.

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Paragraph 5. *Disbursements*

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

(b) The proceeds of a Trust grant or Trust loan (or both) shall be paid into a separate account for the benefit of the member and administered by the Trustee. The Trustee shall use these proceeds (including any income from investments of such proceeds) in accordance with paragraph 4(b) above. The terms and conditions for the operation of such account shall be determined by the Trustee.

Paragraph 6. *Modifications*

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

Section III *bis*. *Subsidies for Interim PRGF Operations*

For purposes of Section I, paragraph 2(b) of this Instrument, and to the extent that resources in the ECF Subsidy Account and General Subsidy Account of the PRGT are insufficient for interim ECF subsidy operations, the Trustee shall transfer to the ECF Subsidy Account of the PRGT, as needed, resources in the Trust Account not earmarked for assistance under Section III of this Instrument. Any such transfers shall be limited to the amounts needed for subsidy payments.

Section IV. *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.

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(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, audits 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 the Annual Report the report of the audit committee on the Trust.

Paragraph 3. *Investment of resources*

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

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(b) Investments may be made in any of the following: (i) marketable obligations issued by international financial organizations 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 currency is involved, with the consent of the issuers of such currencies.

Section V. *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*

If the Trustee decides to wind up the operations of the Trust, the resources in the Account shall be used first to discharge all the liabilities of the Trust. Any amount remaining in the Account after the discharge of all the liabilities of the Trust shall be used first to reimburse the SDA for transfers made in accordance with Decision No. 11434-(97/10), adopted February 4, 1997, and any remaining amount shall then be made available for self-sustained PRGF operations, except that at the request of the contributor, its pro rata share in any unused resources contributed to finance the operations referred to in Section I, Paragraph 2(a) of this Instrument, after the completion of such operations, shall be distributed to the contributor.

Section VI. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except that any amendment of Section I, paragraph 2, Section IV, Section V and this Section shall require the consent of all contributors to the Trust.

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PRGF-HIPC TRUST INSTRUMENT—SUNSET CLAUSE ON ELIGIBILITY

1. The Fund decides not to extend further the sunset clause on eligibility set forth in Section 111, paragraph I (b) of the Instrument to Establish a Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations ("PRGF-HIPC Trust Instrument"), annexed to Decision No. 11436-(9711 O), adopted February 4, 1997. Accordingly, the sunset clause on eligibility shall take effect on December 31, 2006, as scheduled.

2. Notwithstanding paragraph 1 of this decision, the Fund decides to grandfather members that have been, or in the future are, included on the list of members assessed by the Executive Board to have met the end-2004 indebtedness criterion set forth in Section III, paragraph l(d) of the PRGF-HIPC Trust Instrument, and who have not yet met the policy performance criterion set forth in Section III, paragraph 1 (b) of the PRGF-HIPC Trust Instrument. Accordingly, such members could become eligible for assistance under the HIPC Initiative if they adopt, at any time, a program of adjustment and reform of the kind specified in Section III, paragraph 1 (b) of the PRGF-HIPC Trust Instrument. (SM/06/288, Sup. 2, 10/5/06)

Decision No. 13797-(06/88),
October 13, 2006

TRUST FOR SPECIAL ESAF OPERATIONS FOR HEAVILY INDEBTED POOR COUNTRIES AND INTERIM ESAF SUBSIDY OPERATIONS—TERMS AND CONDITIONS FOR ADMINISTRATION OF ACCOUNT PROVIDED UNDER SECTION III, PARAGRAPH 5(b) OF TRUST

Pursuant to Section III, Paragraph 5(b) of the Instrument to Establish a Trust for Special ESAF Operations for the Heavily Indebted Poor Countries and Interim ESAF Subsidy Operations (ESAF-HIPC Trust), the Fund, as Trustee of the ESAF-HIPC Trust, establishes the following terms and conditions for the administration of the Account provided for under that provision:

1. The resources of the Account shall consist of (i) the proceeds of grants and/or loans paid into the Account for the benefit of a mem-

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ber by the ESAF-HIPC Trust, and (ii) contributions by other donors to the reduction of a member's debt service payments on its existing debt to the Fund, and (iii) net earnings from the investment of resources held in the Account.

2. Within the Account, the Trustee shall establish a separate sub-account for the administration of the resources paid into the Account for the benefit of each member for which the resources have been paid. The Trustee shall establish a sub-account within the Account whenever the Fund as Trustee of the ESAF-HIPC Trust grants final approval of a Trust grant and/or Trust loan under the ESAF-HIPC Trust.

3. Following the establishment of a sub-account, the Fund, as Trustee, shall be authorized to use the resources of the sub-account (including any net income from the investment of such resources) to repay the member's existing debt to the Fund, in accordance with the Schedule for using the proceeds of grants and loans as determined under the provisions of Section III, Paragraphs 4(a) and 4(b) of the Instrument to Establish the PRGF-HIPC Trust.[1] The Trustee shall also be authorized to retransfer back to the Trust an amount equivalent to (i) resources disbursed from the Trust into a sub-account in excess of the amount needed to meet the Fund's share of debt reduction in accordance with Section III, paragraph 3(b) of the Instrument to Establish the PRGF-HIPC Trust, or (ii) resources disbursed as interim assistance from the Trust into a sub-account on the incorrect understanding that all performance-related conditions specified for such disbursement were met, in accordance with Section III, paragraph 3(d) of the Instrument to Establish the PRGF-HIPC Trust.

4. (a) Resources held in a sub-account of the Account and not immediately needed for operations shall be invested.

[1] Ed. Note: The remaining text of Paragraph 3 was added by Decision No. 12697-(02/27) ESAF and will apply to disbursements of interim assistance approved after March 15, 2002, including the disbursements made under existing commitments.

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(b) Investments may be made in any of the following: (i) marketable obligations issued by international financial organizations 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 currency is involved, with the consent of the issuers of such currencies. Earnings, net of any transactions costs, shall accrue to the sub-account and shall be available for the purposes of the sub-account.

(c) The Managing Director of the Trustee is authorized (i) to make all arrangements, including establishment of accounts in the name of the Trustee, with such depositories as may be necessary to carry out the operations of the Account, and (ii) to take all measures necessary to implement the provisions of this decision.

5. The SDR shall be the unit of account.

6. (a) Resources received into a sub-account may be in U.S. dollars or such other media as may be determined by the Trustee.

(b) Resources held in a sub-account may be currencies or currencies exchanged for SDRs in accordance with such arrangements as may be made by the Trustee for the holding and use of SDRs.

(c) The Trustee may exchange any of the resources held in a sub-account provided that any balance of a currency held in the sub-account may be exchanged only with the consent of the issuer of such currency.

(d) Payments made from a sub-account shall be made in U.S. dollars or such other media as may be determined by the Trustee.

7. Assets held in the Account shall be kept separate from the assets and property of all other accounts of, or administered by, the Trustee. The assets of the Account shall not be used to discharge or

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meet any liabilities, obligations, or losses incurred by the Trustee in the administration of such other accounts. The assets and property held in a sub-account of the Account shall not be used to discharge or meet any liabilities, obligations, or losses of the Trustee in the administration of any other sub-account of the Account.

8. Subject to the provisions of this decision, the Trustee, in administering the Account, shall apply, mutatis mutandis, the same rules and procedures as apply to the operations of the General Resources Account of the Fund.

9. No charge shall be levied for the services rendered by the Trustee in the administration, operation, and termination of the Account.

10. (a) The Trustee shall maintain separate financial records and prepare separate financial statements for the Account. Such records and statements will be maintained in accordance with generally accepted accounting principles. The financial statements for the Account shall be expressed in SDRs.

(b) The External Audit Committee selected under Section 20 of the Trustee's By-Laws shall audit the operations and transactions conducted through the Account. The audit shall relate to the financial year of the Trustee.

(c) The Trustee shall report on the resources and operations of the Account in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the External Audit Committee on the Account.

11. (a) The Account shall remain in effect for as long as is necessary, in the judgment of the Trustee, to conduct and to wind up the business of the Account. A sub-account for a particular member would be wound up when the resources of that sub-account have been exhausted in servicing the member's obligations to the Fund.

(b) Any balance remaining in a sub-account upon termination and after the discharge of all obligations of that sub-account shall

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be transferred promptly to the member for which the sub-account had been established.

Decision No. 11698-(98/38) ESAF,
April 1, 1998,
as amended by Decision Nos. 12697-(02/27) ESAF, March 15, 2002
and 13589-(05/99) MDRI, November 23, 2005,
effective January 5, 2006

The Chairman's Summing Up at the Conclusion of the Discussion on the Modalities for Special ESAF Operations in the Context of the HIPC Initiative and Other ESAF Issues
Executive Board Meeting 97/10, February 4, 1997

We have now established the structure and modalities for special ESAF operations under the HIPC Initiative, based on the agreement reached in the September Board meetings and the endorsement of the Interim and Development Committee meetings. The decisions to establish the ESAF-HIPC Trust will allow us to place to that account the resources that have already been accumulating for these purposes. The additional decision to allow an early transfer of Reserve Account resources to the Special Disbursement Account (SDA) for the financing of special ESAF operations—to the extent that sufficient resources for this purpose are not immediately available from other sources—responds to the Interim Committee's request to proceed quickly with the implementation of the HIPC Initiative. Together with consents to an early transfer from all ESAF Trust Loan Account creditors, which will be sought during the coming weeks, these decisions will permit the Fund to commit its resources as a participant in the Initiative, as the first countries reach their decision points and are judged to require assistance under the Initiative.

This exercise has been technically complex and has surfaced very genuine and legitimate differences of view regarding how best to provide the assistance needed by our poorest and most heavily indebted members. All of you want to assure that the resources used for this purpose produce the best results—and views can differ on how to accomplish that. I appreciate the spirit all of you brought to this and your willingness to compromise.

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In agreeing to the authorization for an early transfer of Reserve Account resources, some Directors stressed the need for maintaining a maximum effort by all to secure bilateral contributions and, if necessary, to consider the optimization of the management of the Fund's reserves for the financing of interim ESAF subsidies and special ESAF operations. We will certainly maintain this effort and the financing of the Trust will be kept under regular review.

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While some of the operational details will need to be developed on a case-by-case basis as specific country cases are presented to the Boards of the Fund and the Bank, a number of issues have been raised by Directors that will need to be taken into account when implementing the HIPC Initiative and the Fund's participation therein.

First, Directors considered that there should be a presumption that ESAF arrangements with HIPC-eligible countries, and especially arrangements during the second stage, would be among the stronger ESAF arrangements. This is appropriate in light of the seriousness of the problems confronting these countries, the need to progress as rapidly as possible with structural reform, and the need to protect Fund resources. We can thus expect to see more frontloading of policy reform and forceful action on critical structural measures in these arrangements.

Second, Directors emphasized that under the agreed framework endorsed by the Interim and Development Committees any shortening of the second stage would be on an exceptional basis for countries which have already sustained records of strong performance and for which the adjustment and reform effort has become firmly rooted. This matter would be decided on a case-by-case basis by the Boards of the Fund and the Bank.

Third, some Directors expressed the view that approval of more than two three-year ESAF arrangements, including for HIPCs having reached their completion points, should be on an exceptional basis. However, most Directors were of the view that the continued ESAF should in principle be open to all ESAF-eligible members, given the protracted nature of the problems faced by many of them, their vulnerability to external shocks, and the risk of a recurrence of problems even after a sustained period of successful adjustment. Directors

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stressed that the continuation of ESAF is intended to maintain the Fund's ability to respond to eligible members' needs as they arise, and not to provide a source of continuous financing for individual countries. Directors also agreed that countries having benefited from exceptional assistance under the HIPC Initiative at the completion point would in most cases be expected to have made major progress toward a viable balance of payments position or achieved it, although they were likely to remain dependent on development aid flows. I have also noted the interest expressed by some Directors in exploring the scope for precautionary ESAF arrangements and we will return to that matter.

Fourth, Directors agreed that any reduction at the completion point of the assistance committed to a member at the decision point, would be taken only in concert with all other creditors and only where a major windfall transforms the economic circumstances of the member concerned and not when the improvement in its circumstances is the result of more ambitious adjustment and reform efforts undertaken by the member.

Fifth, Directors discussed the vulnerability factors that should be taken into account at the decision point in determining the debt sustainability targets. These might include a range of factors in addition to those mentioned in the decision, including, as suggested by some Directors, the present value of external debt-to-GDP ratio.

Sixth, the reference to extended arrangements as satisfying the requirement of a track record of strong policy performance in the case of the second three-year period is intended only to cover the possibility that interim ESAF operations could take the form of extended arrangements in the General Resources Account.

Finally, regarding the amounts of Fund assistance under the HIPC Initiative, Directors reiterated the importance of one of the guiding principles of the Initiative, i.e., that the assistance provided by the Fund and other multilateral creditors should preserve the financial integrity of the institutions and their preferred creditor status. Directors emphasized that before deciding on commitments or disbursements, the Fund would need to have satisfactory assurances concerning the actions and decisions to be taken—on their own responsibilities and in accordance with their own procedures—by other

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involved creditors. It would not be productive to try to formulate these considerations in mechanical terms in the abstract, but we will have them clearly in mind in considering individual cases.

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Several Directors asked for an early report to the Board on progress on financing the ESAF/HIPC initiatives, including through bilateral contributions. The staff will discuss this issue in the context of a paper on the use of SCA-2 resources, to be presented to the Board in the coming weeks.

The Acting Chair's Summing Up—HIPC Initiative—Status of Implementation; Background Papers on the Achievement of Long-Term External Debt Sustainability and External Debt Management in HIPCs; and Update on Financing of PRGF and HIPC Operations and Subsidization of Post-Conflict Emergency Assistance
Executive Board Meeting 02/40, April 9, 2002

1. Directors considered the HIPC Initiative to be an important part of a comprehensive strategy to eradicate poverty. They therefore welcomed the steady progress that has been made to date under the enhanced HIPC Initiative, especially in bringing new countries to the decision point. They noted that 26 countries have reached their decision points, of which 4 countries have reached their completion points, by end-March 2002. The committed debt relief under the enhanced HIPC Initiative would lower the outstanding stock of external debt of these countries by two thirds. This relief would also lower, on average, debt-service payments during 2001–05, compared to 1998–99, by about one third relative to exports and by almost one half relative to government revenue thus allowing for significant increases in social and poverty-related spending. However, Directors emphasized that HIPC debt relief should not displace other forms of development aid, either to HIPCs or to non-HIPCs.

2. Directors urged the staff to continue to work with the remaining HIPCs, most of which are conflict-affected, to bring them to decision points as soon as conditions permit. Directors noted that progress has been slow in bringing countries that have reached their

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decision points to the completion point, when the remaining debt relief could be provided on an irrevocable basis. Directors underscored the need for these countries to remain on track with their economic reform and poverty reduction programs in order to reach their floating completion points, while acknowledging that this will require additional effort in the context of the current global economic slowdown and the decline in primary commodity prices.

3. Directors regretted that the participation so far in the delivery of HIPC Initiative assistance by non-Paris Club official and commercial creditors has been poor, and expressed concern about repeated attempts by some official bilateral creditors to sell their claims on HIPCs to the secondary market with attendant risk of litigation. They stressed that participation by all creditors is necessary for the successful implementation of the HIPC Initiative and urged the creditors that have not yet agreed to participate in the Initiative to do so as soon as possible. Directors called on the staff to take all possible measures, within the existing institutional constraints, to help secure a more effective participation of all creditors. In this regard, most Directors welcomed the new supplementary measures proposed by the staff. Some Directors expressed concern about the proposal that non-Paris Club creditors with Fund-supported programs be allowed to include the amount of their debt relief to HIPCs in their financing gaps.

4. Directors stressed that a track record of strong policy performance under Fund- and Bank-supported programs is central to the success of the HIPC Initiative. It was agreed, therefore, that the Bank and the Fund should retain the requirement of at least one-year of satisfactory PRSP implementation before the completion point under the HIPC Initiative (except as provided for in retroactive cases). Many Directors were of the view, however, that some flexibility in timing could be allowed in cases where there has been satisfactory progress in implementing the PRSP, the other completion point triggers have been met, and the financial cost of delaying the completion point is significant. In such cases, they considered that countries' completion point requests could be submitted for Board consideration without waiting for a full year of PRSP implementation; this would require an amendment of the HIPC Instrument. In interpreting the practical modalities of ascertaining the observance of the standard

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completion point condition on track record performance under a PRGF-supported program, most Directors agreed that, in the case of extended interruptions of policy performance (more than six months), a satisfactory track record in the form of the completion of one review of a PRGF-supported program covering a period of policy implementation of at least six months would be required immediately before the completion point. While agreeing that a satisfactory macroeconomic performance prior to the completion point is essential, many Directors felt that some flexibility should be applied in judging performance to take into account factors beyond the control of the authorities.

5. Directors expressed concern that the recent global slowdown, coupled with a significant decline in primary commodity prices, has weakened HIPCs' growth and export performance over the past two years and led to a deterioration of external debt indicators for many of them. Continued export volume growth in most HIPCs has moderated the slowdown in real GDP growth, and the overall impact of recent changes in the international economic environment has varied considerably across HIPCs. Of the four countries that have reached their completion points, two seem to be in a good position to maintain long-term debt sustainability, but the situation of the other two is more mixed. For the 20 countries that reached their decision points by end-2001, 8 to 10 are likely to have NPV of debt-to-exports ratios at the completion point above the 150 percent threshold; for 6 of these countries, such deviations were anticipated at the time of their decision points, but to a lesser degree. Directors recognized that these projections would necessarily be modified in the light of the actual developments in these countries before their completion points are attained.

6. Directors recalled that the enhanced HIPC Initiative provided for the consideration on a case-by-case basis of additional debt relief at the completion point in cases where exceptional exogenous shocks have caused fundamental changes in a country's economic circumstances. They stressed that the potential additional HIPC relief is not meant to compensate for slippages in policy reform and/or imprudent new external borrowing, nor could it be provided on an ongoing basis to deal with future economic shocks. In this context, they also noted the need for greater recognition of downside risks in debt sustainabili-

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ty analyses and in projections for growth and exports at the decision point. Directors recognized that any additional debt relief at the completion point would increase the overall costs of the HIPC Initiative. The financing implications of this would need to be explored in due course.

7. Overall, Directors noted that virtually all HIPCs are heavily dependent on primary commodities for their export earnings and government revenue, and, as a result, they would remain vulnerable to adverse developments in the external environment. Directors agreed that the objective of the enhanced HIPC Initiative is to achieve a lasting exit from unsustainable debt for eligible countries. But many emphasized that HIPC debt relief was not the only factor in ensuring debt sustainability. They emphasized that the achievement of long-term debt sustainability would require, on the one hand, a combination of continued policy reforms aimed at accelerating growth and diversifying the export base, as well as a strengthened external debt management capacity by the HIPCs themselves, and on the other hand, improved access for their exports to world markets and external financing on appropriate terms.

8. Directors underscored that given HIPCs' limited repayment capacity, almost all new financing should be in the form of highly concessional loans and grants. Directors encouraged HIPCs to significantly strengthen their debt management capacities during the HIPC process, especially in increasing transparency and accountability on new borrowing and on the use of borrowed resources. Directors stressed the importance for HIPCs, as well as the Fund and the Bank, to closely monitor HIPC country debt indicators in order to detect potential debt-servicing problems at an early stage.

9. Directors welcomed the progress made in securing financing for the interim ECF and the Fund's participation in the HIPC Initiative. They were pleased to note that new PRGF loan resources of SDR 4.4 billion had been pledged, of which SDR 4.1 billion are now available, and that nearly all the pledged bilateral subsidy contributions to the PRGF-HIPC Trust have become effective. Directors urged that the remaining bilateral contributions to the PRGF-HIPC

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Trust be made effective soon to ensure full funding of PRGF-HIPC operations.

10. Directors welcomed contributions by several countries to subsidize post-conflict emergency assistance and encouraged further pledges by other members to ensure that resources remain sufficient to subsidize charges by the poorest members beyond 2002.

11. Directors were in broad agreement with staff analysis that available and pledged loan and subsidy resources appeared sufficient to finance PRGF operations and the Fund's share of HIPC Initiative assistance. They also agreed that accumulated balances in the Reserve Account adequately protected providers of both current and new loans to the PRGF Trust. They noted, however, that consideration might need to be given to mobilizing additional loan and subsidy resources should the recent high demand for PRGF resources continue. Over the long term, the adequacy of the level of self-sustained PRGF operations would also need to be assessed. Directors also noted that any expansion of the list of eligible countries under the HIPC Initiative, or significant topping up at the completion points, if warranted, would increase the cost of the Fund's HIPC Initiative assistance, necessitating the mobilization of additional resources. Some Directors also called for a fuller assessment of the potential costs of topping up going forward. Directors looked forward to a further discussion later this year of the Fund's concessional assistance to low-income countries.

Summing Up by the Chairman—Enhanced Initiative for Heavily Indebted Poor Countries (HIPCs) and Poverty Reduction Strategy Papers (PRSPs)—Progress Reports and Review of Implementation
Executive Board Meeting 00/90, September 5, 2000

Executive Directors welcomed the HIPC and PRSP progress reports and, in particular, the enhanced cooperation between the Fund and the World Bank, reflected in the draft statement by the Managing Director and the President of the World Bank to the International Monetary and Financial Committee (IMFC) and the Development Committee (DC). They were pleased to note the progress made so far

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in implementing the HIPC Initiative, which—together with traditional debt relief mechanisms and with further action by bilateral creditors—is already reducing substantially the debt burden of a good number of poor countries.

Directors favored the measures being taken to accelerate the implementation of the enhanced HIPC Initiative and to progress further toward the objective of 20 countries reaching their decision points in 2000. In this regard, some Directors noted that an updated country-by-country status would be useful to provide the international community with an overview of the main factors that stand in the way of some countries reaching their decision point before end-2000.

Directors agreed that an overall track record of three years of Bank- and Fund-supported programs prior to the decision point should in general be maintained, but that this should be interpreted flexibly on a case-by-case basis. Most Directors also agreed that the track record requirements immediately preceding a decision point may need to be applied flexibly, especially for countries that have experienced significant program interruptions. They emphasized, however, that countries need to demonstrate strong commitment to reform programs, particularly in the areas of governance and accountability, and that the link between debt relief and poverty reduction should be clearly maintained. In this regard, Directors stressed the importance of establishing a clear framework for the tracking of public expenditure on poverty reduction. A few Directors favored the maintenance of a track record requirement under Fund-supported programs immediately prior to the decision point, particularly for the most difficult cases, to ensure a prospect for a durable resolution of countries' debt problems.

A number of Directors questioned the extent of floating completion point structural conditionality. They urged the staff to continue to focus floating completion point requirements on a key number of policy actions on poverty reduction, as well as requiring a stable macroeconomic position, and that the country has kept on track with its Fund-supported program.

Directors urged potential HIPC countries that have not yet embarked on IDA- and IMF-supported adjustment programs to do so expeditiously, and thus to begin to establish their eligibility for HIPC

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debt relief. In this context, most Directors favored that the current end-2000 sunset date for countries to enter into such programs and be eligible for assistance under the Initiative be extended by a further two years to end-2002.

Directors underscored the critical importance of pursuing prudent debt management and of securing adequate concessional financing for the successful implementation of the HIPC Initiative. Several Directors emphasized the importance for calculations of debt relief to take into account the impact of recent adverse terms of trade developments; it was noted that the existing framework is flexible in this regard. Directors agreed that debt relief is only one element of a comprehensive strategy to support poverty reduction in HIPC countries, and noted, in particular, that increased access to industrial country markets is also critical.

Directors welcomed the efforts of the staff to seek participation and contributions from all creditors, including non-Paris Club bilateral creditors. Some Directors noted the financing problems faced by non-Paris Club creditors, especially those that were themselves HIPC countries, and called on the international community for a more innovative and flexible solution for this category of creditors. They expressed their clear expectation that all donors will take the necessary steps to fulfill early pledges of contributions in a timely manner. The issue of Fund financing will be discussed separately on September 13th, 2000.

On PRSPs, Directors welcomed the progress that has been achieved to date. They were encouraged by the favorable response in countries engaged in preparing nationally owned poverty reduction strategy documents and the extent to which countries have drawn on their own prior experience. They noted that, in many cases, the information provided, the degree of participation and the level of political authority involved in the preparation of interim PRSPs was much higher than had been envisaged.

At the same time, Directors acknowledged the challenges facing countries as they move to preparing full PRSPs and attempt to develop well-specified and prioritized programs from what were, in some cases, only broad statements of intent in their interim PRSPs. These challenges include, inter alia, reliance on inadequate poverty

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data and limited institutional and analytical capacity on the part of both governments and civil society, and the need to ensure that broad-based participation does not undermine the authority of national parliaments and existing democratic processes. Directors therefore welcomed the current or planned involvement of multilateral and bilateral development partners in supporting countries' efforts to upgrade data and to build institutional capacity. They considered that efforts need to be redoubled to ensure that the views of the poor are taken into account in developing poverty reduction strategies. Further analytical work is also needed, particularly with regard to the link between growth and poverty reduction, and Directors noted with approval that the Bank and Fund staff are intensifying their research efforts in this area. They looked forward to the Board review of this work in the near future.

Directors recognized that there is a tension between, on one hand, accelerating debt relief and maintaining the pace of IDA and IMF concessional assistance and, on the other hand, ensuring that HIPC resources and concessional financing are linked to country-owned poverty reduction strategies. While the introduction of interim PRSPs and of interim assistance under the HIPC Initiative has proven to be helpful in this respect, Directors cautioned that this inherent tension will intensify as countries move to full PRSPs. Moreover, while the quality of PRSPs will develop and improve through successive cycles, a wide range should be expected for the first PRSPs. Directors welcomed the World Bank's intention to strengthen the links between PRSPs and IDA assistance through the use of a Poverty Reduction Support Credit.

Directors also recognized that there is a tension between country ownership and the requirements on the part of IDA and the IMF to assess whether the content of individual country strategies provide an adequate basis for the institutions' concessional lending. While concluding that the need to make such judgments is inescapable, they supported the approach outlined in the Board paper for amplifying guidance to staff on the assessment of the core content of poverty reduction strategies, and the participatory process, noting this guidance would enhance transparency without infringing on the principle of country ownership. However, they stressed that such guidance should not be overly prescriptive.

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Directors acknowledged that the originally envisaged one-year interval between discussion of an interim PRSP and completion of a full PRSP may be too short. They endorsed the staff's recommendation whereby countries unable to complete a full PRSP within a year of their initial interim PRSP could provide a progress report, accompanied by an updated Joint Staff Assessment, as a basis for obtaining continued access to concessional assistance and, where applicable, interim debt relief. A few Directors, however, favored a fuller update of the PRSP document, including progress being made with regard to the participatory process and where appropriate the planned use of HIPC debt relief resources.

Directors welcomed the background staff paper on the key features of PRGF-supported programs (SM/00/193). They endorsed it as providing useful guidance that will help ensure that macroeconomic policies and other aspects of a country's poverty reduction strategy are effectively integrated, and that PRGF-supported programs are formulated in ways that support increased national ownership. They looked forward to the changes described in the paper becoming increasingly included in new PRGF arrangements. They also welcomed the intention to make the paper publicly available, as a way of clarifying expectations and fostering public debate on the issues.

Summing Up by the Acting Chairman—Initiative for Heavily Indebted Poor Countries—Proposal for Streamlining Preliminary Documents
Executive Board Meeting 00/108, November 3, 2000

Directors considered the proposals for streamlining preliminary HIPC documents in EBS/00/207. They agreed that preliminary documents should be streamlined as proposed in paragraph 7 of the paper to focus on a few key issues, notably: eligibility; track record; summary debt sustainability analysis; timing of possible decision points; possible triggers for the floating completion point; and likely assistance under the Initiative. A number of Directors emphasized that streamlining should not be allowed to compromise the quality and coverage of the information presented to the Board. Some Directors considered that reaching a decision point before the end of the year may be premature for some of the country cases currently envisaged for consideration within that time frame. Accordingly, requests

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were made that the preliminary documents also include the rationale for the choice of completion point triggers, details on the debt service profiles before and after HIPC Initiative assistance, more information on expenditure tracking and monitoring of debt relief, plans for interim relief, and policies on transparency. Directors also stressed that adequate information on a country's performance under the PRGF, and the justifications for any shortening of the required track record—where appropriate—should be included. The staff will take these factors into account when preparing these papers.

Directors also supported the proposal that, for the remainder of this year, the streamlined preliminary documents be discussed by the Board on a case-by-case basis, after a review period of five working days.

Directors generally supported a review of the experience with these arrangements early in 2001.

The Acting Chair's Summing Up—Heavily Indebted Poor Countries (HIPC) Initiative—Status of Implementation Executive Board Meeting 05/78, September 9, 2005

Executive Directors reiterated their strong support for the Enhanced HIPC Initiative, and welcomed the continued progress being made under this Initiative in providing debt relief to the world's poorest countries. They noted that twenty-eight countries have reached their decision points and that eighteen of them have now reached the completion point. HIPC Initiative debt relief committed to the countries that have reached the decision point, together with additional debt forgiveness, represents a two-thirds reduction of their overall debt stock. As a result, debt-service payments for most HIPCs are expected to decline to less than 10 percent of exports—below the debt service ratio for non-HIPC low-income countries—and thus to help HIPCs to increase their poverty-reducing expenditures substantially. In the twenty-eight countries that have reached the decision point, such expenditures were almost four times as great as debt-service payments in 2004. Directors underscored that continued adherence to a strong policy framework and appropriate debt management remain essential after the completion point, for ensuring a lasting exit from unsustainable debt and maximizing the benefits for poverty reduction and attainment of the Millennium Development Goals.

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Notwithstanding these achievements, Directors recognized that many countries have yet to progress to the completion point. They noted that, for these countries in the interim period between the decision and completion points, progress toward reaching the completion point will depend on satisfactory performance under their PRGF arrangements and on the development and implementation of their poverty reduction strategies. Directors welcomed the new PRGF arrangements approved in recent months for a number of countries, and encouraged them to stay on track with their economic, social, and structural reform programs in order to reach their completion points without delay. Directors urged staff to continue to work with the authorities of the other HIPCs in the interim period to help them, where possible, build a satisfactory record of performance towards their completion points. In this regard, Directors attached high priority to assisting countries in improving their institutional capacity and policy processes. In particular, the importance of improved public expenditure management and adequate tracking of poverty outlays was emphasized.

Directors acknowledged that the majority of HIPCs' bilateral creditors have agreed to provide debt relief, but stressed that ensuring the full participation of non-Paris Club and commercial creditors remains an important challenge. They reiterated their call to creditors that have not yet joined the international community to do so, and to contribute their share toward reducing HIPCs' debt to sustainable levels. Directors regretted that a number of non-Paris Club creditors have withdrawn participation from the Initiative. While welcoming the contribution of IDA's Debt Reduction Facility to reduce commercial debt, Directors expressed concern over the increase in lawsuits initiated by private creditors against HIPCs. Underscoring the crucial importance of equitable participation and burden sharing in the HIPC Initiative, they strongly urged staff to take all possible measures, within the existing institutional constraints, to help increase creditor participation in the Initiative and facilitate cooperation between creditors and HIPCs. Directors' recommendations included actions to enhance the transparency of creditor participation, more explicit attention to these issues in Article IV consultations, targeted technical assistance to improve debt management systems, intensified moral suasion, and creditor education of the HIPC methodology. Some Directors also suggested that the staff explore further the legal possibili-

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ties of reducing litigation at an international level. Several Directors observed that some of the HIPCs themselves could do more to promote contacts with non-Paris Club creditors.

Directors welcomed the preliminary list provided by staff to identify countries that could be eligible for HIPC assistance under the extended sunset clause. They supported the methodological approach taken by staff in carefully reviewing available data before reaching firm conclusions on HIPC eligibility. Directors encouraged staff to advance this work promptly and looked forward to receiving the final list of potentially eligible countries early in 2006. A robust and reliable list was seen as particularly important, given the eligibility of new HIPC entrants for one hundred percent debt relief from the IMF, IDA, and AfDF under the G-8 debt cancellation proposal. Some Directors called for caution in publishing the list of eligible countries, given the implications for credit flows to these countries and the still preliminary nature of eligibility assessments. At the same time, financing these additional HIPC cases will also be critical.

Bringing eligible, or potentially eligible, HIPCs to the decision point will be a challenging goal, as these countries are mostly conflict-affected, and a number of them have substantial arrears to official creditors. Directors urged the staff to continue to work with the authorities in these countries, wherever possible, to develop strategies to move ahead. They encouraged eligible countries to establish a track record of policy performance and a satisfactory poverty reduction strategy so that they could qualify and begin receiving debt relief under the enhanced HIPC Initiative. Potentially eligible countries that have not had an IMF- or IDA-supported program in place since the beginning of the Initiative should make every effort to start one before the expiry of the sunset clause at end-2006 so as to become eligible for debt relief under the enhanced HIPC Initiative. At the same time, Directors reiterated the importance of ensuring the high quality of these programs and of preserving the key principles of the HIPC Initiative.

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The Acting Chair's Summing Up—2005 Review of the Poverty Reduction Strategy Approach—Balancing Accountabilities and Scaling Up Results—Synthesis
Executive Board Meeting 05/78, September 9, 2005

Executive Directors commended the staff of the Fund and the Bank for an excellent report that reflects in a comprehensive and balanced way the progress made under the poverty reduction strategy (PRS) approach during the past five years, while highlighting the remaining challenges. In particular, they welcomed the focus on cross cutting issues supported by wide-ranging case studies and extensive outreach efforts. Directors encouraged the Fund and Bank to continue incorporating the views and assessments of different stakeholders so as to identify best practices and recommendations that can be of relevance for all parties involved in the PRS process.

Directors welcomed the continued widening acceptance of the PRS approach by low-income countries and the donor community. They noted that several countries have already completed, or are in the process of completing, the revision of their original strategies. Directors encouraged countries that have not yet completed a poverty reduction strategy to do so.

Directors underscored that the core principles underlying the PRS approach—of country ownership, participation, results-orientation, and partnership—remain relevant and continue to provide a useful framework for further strengthening this approach and achieving sustainable results. They reiterated that developing countries themselves should continue to take the lead in the fight against poverty. The main responsibility of the international community, including the Fund and the World Bank, remains to support the countries' own efforts and to contribute to enhanced aid effectiveness, including through improved donor coordination. These actions were seen as particularly important as the international community steps up its efforts to provide development assistance and debt relief.

Directors agreed that the PRS approach should be strengthened in ways that reinforce the mutual accountability for development results embodied in the Monterrey Consensus. They considered that the proposed improvements in the PRS process would support a better balance between domestic and external accountabilities. The

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PRS approach should also provide the framework for scaled-up efforts to achieve the Millennium Development Goals (MDGs) at the country level.

Directors observed that the PRS approach continues to provide a useful operational framework for governments to set their development priorities, and to mobilize domestic and external support. They agreed that the priority going forward should be to renew the focus on the PRS core principles and ensure their even application. Directors stressed the importance of tailoring emerging good practice to individual country circumstances.

Directors supported the focus of the PRS approach on addressing country-specific constraints to development by strengthening domestic processes and systems. Domestic accountability would be reinforced by embedding the PRS process into existing domestic decision making processes and systems, including the annual budget; strengthening monitoring and evaluation systems; and engaging in an open discussion of national priorities with domestic stakeholders and external partners.

Directors stressed the importance of clearly defined and prioritized goals in the PRS, and of linking them to specific policy actions. These goals could be derived from a longer-term vision for development, such as the MDGs, appropriately customized to reflect the specific country circumstances. In this regard, several Directors noted that poverty reduction strategies often describe economic and political objectives in general terms without indicating specifically how these goals can be achieved. Directors agreed, therefore, that the PRSs should be made more operational, with clearer links between the goals and the policies intended to achieve them. These considerations point to the need for further analytical work to define these links. Given the long-term nature of many of the PRS's goals, Directors noted the importance of defining appropriate intermediate indicators to measure and evaluate progress, so that policies could be adapted and refined in implementation.

Directors considered that closer attention should be given to deepening the country-specific understanding of the sources of growth and its relationship to poverty reduction. They therefore welcomed the increasing centrality of growth in PRSs, and considered it

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important to sharpen the pro-poor focus of PRSs. Directors also called on countries to step up efforts to improve their national monitoring systems, particularly their statistical systems. Development partners, including the Fund, should provide well-coordinated support for building this capacity, as well as for filling analytical gaps.

Directors underscored the importance of linking the PRS to the medium-term expenditure framework and to the annual budget. This would help translate the goals of the PRS into concrete, monitorable, and prioritized public actions. Such linkages would also make the government's policy intentions clear to parliaments and to other domestic stakeholder groups, as well as to external development partners.

Directors welcomed the increasing involvement of parliaments in the PRS process. Their active engagement in all stages of the PRS process would contribute to a more active debate on national development objectives and policy priorities. Directors encouraged the country authorities to pursue efforts to involve other stakeholder groups more actively in the PRS process, including business and other private sector representatives.

Directors saw scope for broader dialogue and debate on macroeconomic issues and alternative policy options in PRSPs. Governments should establish an appropriate framework for dialogue on macroeconomic policy. Directors welcomed the increasing use of PSIAs to inform the debate on, and design of, macroeconomic policies. Together with their development partners, governments should work to strengthen the capacity of the public to understand policy constraints and formulate feasible alternatives.

Directors took note of continued progress in efforts to improve the effectiveness of aid and to align it with the objectives of PRSs. They called on donors to make firm and early commitments of their support, including where possible over the medium term, and to disburse their assistance in a predictable and timely manner. PRSPs should be strengthened as the framework for mobilizing external assistance and to enable closer donor alignment with country priorities. Countries should also take a strong leadership role in their relations with donors.

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Directors concurred that the PRS should provide the operational framework for scaling up efforts to reach the MDGs. At the same time, PRSs must be grounded in realism to be a useful basis for policy formulation and day-to-day implementation. Directors considered that the use of alternative scenarios in PRSs could bridge the gap between realism and ambition, and provide a credible framework for scaling up assistance at the country level. They concurred that Fund staff should help those countries that sought assistance in preparing such scenarios. Scaled up assistance heightens the importance of more predictable and coordinated aid from donor countries.

Directors stressed that effective scaling up would require improvements in the ability of countries to absorb more aid effectively. Donors would need to provide effective support for country efforts to overcome human, physical, and institutional capacity constraints. Directors considered that the Fund would play a critical role in helping countries to analyze this impact and adapt the macroeconomic framework appropriately to accommodate higher aid inflows.

Directors agreed that the PRS approach should be carefully tailored to the special requirements of fragile or conflict-affected states. In such countries, coordinated and sustained donor support would be critical, but capacity constraints would be particularly binding, as governments would have only limited capacity to organize participatory processes, and to formulate and implement prioritized PRSs. These countries would also need to integrate political, humanitarian, and security concerns into their PRSs. In tailoring their interventions to these specific circumstances, development partners should be careful not to create unsustainable dependencies and parallel structures.

Finally, Directors considered that further improvements are necessary to make PRSs a more effective framework for guiding country and donor efforts to foster growth and reduce poverty. They suggested that the important lessons from the present review and from previous reviews be taken on board in developing and refining PRSs. At the same time, Directors highlighted specific aspects of the PRS process that should be strengthened. In particular, good practices and lessons that emerge from PRS implementation across countries should be identified and applied more widely. Directors therefore considered that selective and targeted reviews of specific aspects of

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the PRS process would be of greater value for effective implementation than periodic comprehensive reviews of the PRS approach as a whole.

The Acting Chair's Summing Up—
Initiative for Heavily Indebted Poor Countries (HIPC) and
Multilateral Debt Relief Initiative (MDRI)—
Status of Implementation and
Proposals for the Future of the HIPC Initiative
Executive Board Meeting 11/115, November 30, 2011

Directors welcomed the progress that has been achieved under the Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) in reducing the debt burden of HIPCs. They also welcomed the increased poverty-related spending in these countries and commended low-income countries' efforts made toward poverty alleviation. Most HIPCs have qualified for debt relief and reached the completion point. Directors considered that the objectives of the initiatives have been largely achieved. Nevertheless many HIPCs continue to face other challenges in meeting the Millennium Development Goals, and several of them are still at high risk of debt distress.

Directors noted that some issues require continued attention in order to implement the initiatives fully. Sustained efforts are needed to bring the remaining seven countries,[1] particularly the pre-decision-point HIPCs, to the completion point. A number of Directors also highlighted the need for careful consideration, in due course, of the options for potential debt relief for Zimbabwe. Full participation of all creditors—particularly a number of smaller multilateral, non–Paris Club bilateral, and private creditors—is yet to be secured. Limiting the incidence and impact of commercial creditor litigation against HIPCs remains important. Finally, additional funds will need to be mobilized to ensure that there are adequate resources for debt relief to all remaining HIPCs, including those having protracted arrears to international financial institutions.

[1] Chad, Comoros, Côte d'Ivoire, Eritrea, Guinea, Somalia, and Sudan.

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Directors supported the proposal to streamline reporting of progress under the HIPC Initiative and MDRI. Most Directors agreed that the annual status-of-implementation report should be discontinued while some Directors wanted to retain a streamlined version of the report. Directors agreed that the core information—on debt service and poverty reducing expenditure, the cost of debt relief, creditor participation rates, and litigation against HIPCs—should continue to be made available and updated regularly on the IMF and World Bank websites.

Directors welcomed the proposal to enhance the monitoring of, and reporting on, the debt situation in all low-income countries, including HIPCs, through a periodic report, drawing on annual debt sustainability analyses and other pertinent information. They considered this important, in view of the significant share of low-income countries with elevated debt distress ratings and the increasing use of non-concessional borrowing in a number of them. In this context, Directors stressed the need for continued concessional financing to support countries' development agendas. Some Directors also called for further consideration of ways to finance low-income countries' growth-enhancing expenditures in the absence of sufficient concessional resources.

Directors agreed to add an end-2010 indebtedness criterion for eligibility for assistance under the HIPC Initiative, as well as to ring-fence further the list of eligible or potentially eligible countries based on that criterion. In supporting this proposal, most Directors considered that this limited change will reduce moral hazard and bring a further sense of closure to the HIPC Initiative. Directors noted that indication of intent not to take advantage of the HIPC Initiative is not a basis for declaring a country ineligible. At the same time, they observed that the expanded criteria will have the effect of eliminating from eligibility two countries whose authorities have indicated that they do not wish to avail themselves of assistance under the initiative, as well as one country whose external debt is well below the initiative's thresholds. No other country that has been identified as potentially eligible will be affected by this modification to the HIPC Initiative. Some Directors would have preferred maintaining the status quo,

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to allow countries that currently do not wish to avail themselves of HIPC assistance to retain the option to do so later. Directors recognized that the list of eligible or potentially eligible countries could be amended to include countries whose data are later verified to have met the indebtedness criterion both at end-2004 and end-2010.

Directors generally agreed with the proposal not to include remittances in considering the repayment capacity of HIPCs. They noted that such a change could possibly disqualify from assistance countries that would be eligible under current rules, or lower the amount of assistance to future HIPCs relative to what current post-completion-point HIPCs have received.

BUFF/11/152,
December 5, 2011

JOINT STAFF ADVISORY NOTES—AMENDMENTS TO STREAMLINE MODALITIES

…

3. Following a member's transmission to the Fund of a Poverty Reduction Strategy Paper (PRSP) or an interim Poverty Reduction Strategy Paper (I-PRSP) outside of the enhanced HIPC Initiative context, a Joint Staff Advisory Note (JSAN) shall be prepared and circulated for discussion to the Executive Board generally within four months of the transmission. For purposes of this decision, the terms PRSP, I-PRSP, and JSAN shall have the meaning given to each of them in Section I, Paragraph 1 of the PRGF-HIPC Trust Instrument (Annex to Decision No. 11436-(97/10), adopted February 4, 1997).

…

Decision No. 14253-(09/8),
January 27, 2009

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The Acting Chair's Summing Up—Multilateral Debt Relief Initiative and Exogenous Shocks Facility—Proposed Decisions Executive Board Meeting 05/99, November 23, 2005

Today's adoption by the Executive Board of the decisions to implement the Multilateral Debt Relief Initiative (MDRI) marks an important step in strengthening the Fund's ability to assist its poorest member countries in addressing their protracted balance of payments problems and reach the Millennium Development Goals (MDGs). In addition, today's adoption by the Executive Board of the decisions to establish an Exogenous Shocks Facility (ESF) within the PRGF Trust will enable the Fund to provide financing on more appropriate terms to low-income countries confronting sudden and exogenous shocks.

Directors reaffirmed the broad consensus reached on various elements of the MDRI at the last Executive Board meeting on the subject, including eligibility, qualification requirements, and financing arrangements. Directors noted that upon a determination of qualification of an eligible member for debt relief, the Fund would use resources from the applicable MDRI Trust to repay, on behalf of the qualifying member, its eligible debt to the Fund (including to the Fund as Trustee). Debt relief under the MDRI would only be provided to a qualifying member upon its request.

Directors discussed the conditions that non-HIPCs should meet to qualify for debt relief under the MDRI. They agreed that satisfactory performance in the same three key areas applicable to HIPCs should be a requirement. These areas are: (i) macroeconomic performance; (ii) implementation of a poverty reduction strategy or a similar framework; and (iii) the public expenditure management (PEM) system. The proposed specific qualification requirements will be: a track record of at least 6 months of sound macroeconomic policies and satisfactory implementation of a poverty reduction strategy (or equivalent framework) in the period immediately prior to the assessment, and an assessment that the quality of the PEM system would allow resources freed by debt relief to help meet the MDGs. Directors noted that, unlike HIPCs, for non-HIPCs no formal comprehensive assessment of their PEM systems has been undertaken. They underscored that performance in the area of PEM systems should be assessed drawing from a variety of sources to ascertain that

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PEM systems in these countries are, and are expected to remain, sufficiently strong to provide comfort that resources freed by MDRI debt relief will be used productively. Should a country fail that test, staff would propose remedial actions involving a sustained strengthening of its PEM system.

Directors also reaffirmed the consensus reached at the last Executive Board meeting on the purpose and modalities of the ESF, including with respect to eligibility, qualification, conditionality, access guidelines, and financing terms.

Directors agreed to rename the current PRGF Subsidy Account as the PRGF-ESF Subsidy Account. The resources in this account will be used flexibly to subsidize either PRGF or ESF loans. They noted that such a fungible use of resources in the new PRGF-ESF Subsidy Account will allow for an early activation of the ESF using existing resources. Directors supported the creation of two new subsidy accounts—one to receive earmarked contributions and provide subsidies for PRGF loans only, and the other to receive earmarked contributions and provide subsidies for ESF loans only. They agreed that the resources in the PRGF-ESF Subsidy Account will be used only if there are no resources in the PRGF Subsidy Account or in the ESF Subsidy Account, as the case may be.

Directors recognized that the use of PRGF Subsidy Account resources for the MDRI will require the consent of all contributors to such account, and that the amendments to the PRGF Trust to establish the ESF will also require the consent of such contributors and, in addition, the consent of all lenders to the Loan Account. To address the contingency that a contributor may refuse to consent to such amendments, Directors agreed to authorize the Managing Director to return the remaining resources attributable to such dissenting contributor in full. To that effect, it was understood that the letter requesting contributors' consents to the amendments should also elicit their consent for the Managing Director to take this action. Directors urged contributors and lenders to provide early consent, so that MDRI debt relief can be provided to qualifying countries in early January 2006 as planned.

Directors agreed that consistent with the current policy, members with arrears to the Fund in the GRA or to the Fund as Trus-

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tee will not be eligible for debt relief under the MDRI until such arrears are cleared. They looked forward to a follow-up paper on the issues related to the three protracted arrears cases (Liberia, Somalia, and Sudan).

MULTILATERAL DEBT RELIEF INITIATIVE (MDRI) AND RELATED HIPC INITIATIVE AMENDMENTS

1. Pursuant to Article V, Section 2(*b*), the Fund adopts the Instrument to Establish the Multilateral Debt Relief Initiative-I Trust ("MDRI-I Trust") that is annexed as Attachment I to this decision. The Fund shall conduct semi-annual reviews of the financing of the MDRI-I Trust.

2. Pursuant to Article V, Section 2(*b*), the Fund adopts the Instrument to Establish the Multilateral Debt Relief Initiative-II Trust ("MDRI-II Trust") that is annexed as Attachment II to this decision. The Fund shall conduct semi-annual reviews of the financing of the MDRI-II Trust.

3.[1]

4.[2]

5. Of the resources held in the Special Disbursement Account (SDA) as of January 5, 2006:

(a) the equivalent of SDR 530 million, which shall include all the proceeds from investment of the profits of the 1999/2000 gold sales held in the SDA as of January 5, 2006, shall be transferred to the HIPC subaccount of the PRGF-HIPC Trust Account and shall be used exclusively to provide debt relief from the Fund under the HIPC Initiative to members that qualify for such relief or, if not needed for such

[1] Ed. Note: Paragraph 3 revised Section IV, paragraph 6 of the PRGF Trust Instrument annexed to Decision No. 8759-(87/176).

[2] Ed. Note: Paragraph 4 rescinded Decision No. 12330-(00/118) and modified Decision No. 12063-(99/130).

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purpose, shall be used to replenish resources from other sources that have been used for such relief;

(b) the equivalent of SDR 1.5 billion shall be transferred to the MDRI-I Trust established pursuant to paragraph 1 of this decision, and shall be used exclusively to provide debt relief from the Fund in accordance with the provisions of the Instrument establishing that Trust; and

(c) the remaining balance shall be transferred to the Subsidy Account of the PRGF Trust.

6. In accordance with Article V, Section 12(*i*), the General Resources Account of the Fund shall be reimbursed annually by the MDRI-I Trust, from resources transferred to the MDRI-I Trust from the SDA, in respect of the expenses of administering SDA resources in the MDRI-I Trust, other than expenses already attributed to other accounts or trusts administered by the Fund or to the General Resources Account.

7.[1]

8. This decision shall become effective when all third party contributors to the Subsidy Account of the PRGF Trust have consented to the amendments set forth in paragraph 3 above, and the Trustee has received notifications of consent from contributors for transfers to the MDRI-II Trust for the equivalent of SDR 1.12 billion.

Decision No. 13588-(05/99) MDRI,
November 23, 2005,
effective January 5, 2006,
as amended by Decision No. 14649-(10/64),
June 25, 2010

[1] Ed. Note: Paragraph 7 revised Section III, paragraph 4(b) of the Instrument to Establish the PRGF-HIPC Trust annexed to Decision No. 11436-(97/10).

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Attachment I

Instrument to Establish the Multilateral Debt Relief Initiative-I Trust

Introductory Section

To help fulfill its purposes, the International Monetary Fund ("the Fund") has adopted this Instrument to Establish the Multilateral Debt Relief Initiative-I Trust ("the Trust"), which shall be administered by the Fund as Trustee ("the Trustee"). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

Section I. *General Provisions*

Paragraph 1. *Definitions*

Wherever used in this Instrument, unless the context otherwise requires:

(a) "decision point" and "completion point" shall have the meaning given to each of them in Section I, Paragraph 1 of the PRGF-HIPC Trust Instrument that is annexed to Decision No. 11436-(97/10), adopted February 4, 1997 ("the PRGF-HIPC Trust Instrument"); and

(b) "eligible or potentially eligible for HIPC Initiative assistance" means the relevant member either (i) meets the eligibility criterion set forth in Section III, paragraph 1(d) of the PRGF-HIPC Trust Instrument, or (ii) had reached a decision point under the HIPC Initiative as of December 31, 2004.

Paragraph 2. *Purposes*

The Trust shall assist in fulfilling the purposes of the Fund by providing balance of payments assistance to low-income developing members by making grants ("Trust grants") to eligible members that qualify for assistance under the terms of this Instrument.

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Paragraph 3. *Trust Account and resources*

(a) The operations and transactions of the Trust shall be conducted through an account ("the Account"). Within the Account, the Trustee may establish such sub-accounts as it deems necessary for the administration of the resources in the Account.

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

(i) transfers from the Special Disbursement Account in accordance with paragraph 5(b) of Decision No. 13588-(05/99) MDRI;

(ii) grant contributions made to the Trust for the purposes set forth in paragraph 2;

(iii) loans, deposits and other types of investments made by contributors with the Trust to generate income to be used for the purposes set forth in paragraph 2; and

(iv) net earnings from investment of resources held in the Account.

Paragraph 4. *Unit of account*

The SDR shall be the unit of account for commitments and all other operations and transactions of the Trust, provided that commitments for contributions may also be made in currency.

Paragraph 5. *Media of payment of contributions and exchange of resources*

(a) Resources provided to the Trust may be received in any currency.

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

(c) Contributions 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.

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(d) The Trustee may exchange any of the resources of the Trust, provided that any balance of a currency held in the Trust may be exchanged only with the consent of the issuer of such currency.

Section II. *Contributions to the Trust*

The Trustee may accept contributions of resources for the Account on such terms and conditions as may be agreed between the Trustee and the respective contributors, subject to the provisions of this Instrument. For this purpose, the Managing Director of the Trustee is authorized to accept grants and enter into loan, deposit or other types of investment agreements with the contributors to the Trust.

Section III. *Trust Grants*

Paragraph 1. *Eligibility for assistance*

In order to be eligible for assistance from the Trust under Section I, paragraph 2 of this Instrument, a member shall meet the following requirements:

(a) the member is PRGF-eligible (i.e., it is included in the list of members annexed to Decision No. 8240-(86/56) (SAF), adopted March 26, 1986;

(b) the member had an annual per capita income of US$380 or less on the basis of the 2004 gross national income (Atlas method) from the World Bank's Operational Manual as updated on July 21, 2005;

(c) the member had debt outstanding to the Fund, including to the Fund as Trustee, as of December 31, 2004; and

(d) in the case of a member that is eligible or potentially eligible for HIPC Initiative assistance, the member has reached the completion point under the HIPC Initiative.

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Paragraph 2. *Qualification for assistance*

The Trustee shall determine whether an eligible member qualifies for assistance under this Instrument in accordance with the criteria set out below:

(a) Each member eligible for assistance from the Trust that is also eligible or potentially eligible for HIPC Initiative assistance and that reaches the completion point on or after January 5, 2006, shall qualify for assistance under this Instrument when it reaches the completion point.

(b) Each member eligible for assistance from the Trust that is also eligible or potentially eligible for HIPC Initiative assistance and that reached the completion point prior to January 5, 2006, shall qualify for assistance under this Instrument when the Trustee determines that, since the member reached the completion point, its performance has not deteriorated substantially with respect to: (i) macroeconomic performance, (ii) implementation of a poverty reduction strategy or similar framework, and (iii) the state of its public expenditure management systems. A member will be deemed to have met the requirement set forth in (i) and (ii) of the preceding sentence if the member has a track record of satisfactory macroeconomic performance and satisfactory implementation of a poverty reduction strategy for the six month-period immediately preceding the determination of qualification.

(c) Each member eligible for assistance from the Trust that is not eligible or potentially eligible for HIPC Initiative assistance shall qualify for assistance under this Instrument when the Trustee determines that the member's performance is satisfactory with respect to: (i) macroeconomic performance, (ii) implementation of a poverty reduction strategy or similar framework, and (iii) the state of its public expenditure management systems. A member will be deemed to have met the requirement set forth in (i) and (ii) of the preceding sentence if the member has a track record of satisfactory macroeconomic performance and satisfactory implementation of a poverty reduction strategy for the six month-period immediately preceding the determination of qualification.

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Paragraph 3. *Amount and delivery of assistance*

(a) Upon a determination that a member qualifies for assistance pursuant to paragraph 2 above, the Trustee shall repay to the Fund, on behalf of the member, an amount equivalent to the member's eligible debt.

(b) For purposes of this paragraph 3, eligible debt is defined as that portion of a member's debt to the Fund (including to the Fund as Trustee) that was outstanding as of December 31, 2004 and that, as of the date of the Trustee's determination that the member qualifies for assistance pursuant to paragraph 2 above, (i) has not been repaid by the member or with assistance disbursed to the member under the HIPC Initiative, and (ii) is not scheduled to be repaid by assistance committed or disbursed to the member under the HIPC Initiative.

Paragraph 4. *Terms of assistance*

(a) The assistance to be provided by the Trust to a qualifying member shall be in the form of a Trust grant.

Paragraph 5. *Disbursements*

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

Paragraph 6. *Modifications*

Any modification of these provisions will affect only Trust grants made after the effective date of the modification.

Section IV. *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.

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(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, audits 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 external audit firm 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 the Annual Report the report of the external audit firm on the Trust.

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Paragraph 3. *Investment of resources*

(a) Any balance 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 international financial organizations 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 currency is involved, with the consent of the issuers of such currencies.

Section V. *Period of Operation Reduction of Balances 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. *Reduction of Balances*

Prior to the liquidation of the Trust in accordance with paragraph 3 below, the equivalent of SDR 280 million of the resources in the Account shall be transferred from the Account (through the Special Disbursement Account) to the Post-Catastrophe Debt Relief Trust established pursuant to Decision No. 14649.

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Paragraph 3. *Liquidation of the Trust*

If the Trustee decides to wind up the operations of the Trust, the resources in the Account shall be used first to discharge all the liabilities of the Trust. Any amount remaining in the Account after the discharge of all the liabilities of the Trust shall be distributed to the Fund and contributors that have provided resources to the Trust, in proportion to their contributions. The resources representing the Fund's share in such distribution shall be transferred to the SDA.

Section VI. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except that any amendment of Section I, paragraph 2, Section IV, Section V and this Section shall require the consent of all contributors to the Trust.

Attachment II

Instrument to Establish the Multilateral Debt Relief Initiative-II Trust

Introductory Section

To help fulfill its purposes, the International Monetary Fund ("the Fund") has adopted this Instrument to Establish the Multilateral Debt Relief Initiative-II Trust ("the Trust"), which shall be administered by the Fund as Trustee ("the Trustee"). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

Section I. *General Provisions*

Paragraph 1. *Definitions*

Wherever used in this Instrument, unless the context otherwise requires:

(a) "decision point" and "completion point" shall have the meaning given to each of them in Section I, Paragraph 1 of the PRGF-HIPC Trust Instrument that is annexed to Decision No. 11436-(97/10), adopted February 4, 1997 ("the PRGF-HIPC Trust Instrument"); and

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(b) "eligible or potentially eligible for HIPC Initiative assistance" means the relevant member either (i) meets the eligibility criterion set forth in Section III, paragraph 1(d) of the PRGF-HIPC Trust Instrument, or (ii) had reached a decision point under the HIPC Initiative as of December 31, 2004.

Paragraph 2. *Purposes*

The Trust shall assist in fulfilling the purposes of the Fund by providing balance of payments assistance to low-income developing members by making grants ("Trust grants") to eligible members that qualify for assistance under the terms of this Instrument.

Paragraph 3. *Trust Account and resources*

(a) The operations and transactions of the Trust shall be conducted through an account ("the Account"). Within the Account, the Trustee may establish such sub-accounts as it deems necessary for the administration of the resources in the Account.

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

(i) transfers from the Subsidy Account of the PRGF Trust in accordance with paragraph 3 of Decision No. 13588-(05/99) MDRI;

(ii) grant contributions made to the Trust for the purposes set forth in paragraph 2;

(iii) loans, deposits and other types of investments made by contributors with the Trust to generate income to be used for the purposes set forth in paragraph 2; and

(iv) net earnings from investment of resources held in the Account.

Paragraph 4. *Unit of account*

The SDR shall be the unit of account for commitments and all other operations and transactions of the Trust, provided that commitments for contributions may also be made in currency.

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Paragraph 5. *Media of payment of contributions and exchange of resources*

(a) Resources provided to the Trust may be received in any currency.

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

(c) Contributions 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 consent of the issuer of such currency.

Section II. *Contributions to the Trust*

The Trustee may accept contributions of resources for the Account on such terms and conditions as may be agreed between the Trustee and the respective contributors, subject to the provisions of this Instrument. For this purpose, the Managing Director of the Trustee is authorized to accept grants and enter into loan, deposit or other types of investment agreements with the contributors to the Trust.

Section III. *Trust Grants*

Paragraph 1. *Eligibility for assistance*

In order to be eligible for assistance from the Trust under Section I, paragraph 2 of this Instrument, a member shall meet the following requirements:

(a) the member is PRGF-eligible (i.e., it is included in the list of members annexed to Decision No. 8240-(86/56) SAF, adopted March 26, 1986);

(b) the member had an annual per capita income of more than US$380 on the basis of the 2004 gross national income (Atlas method) from the World Bank's Operational Manual as updated on July 21, 2005;

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(c) the member had debt outstanding to the Fund, including to the Fund as Trustee, as of December 31, 2004; and

(d) the member has reached the completion point under the HIPC Initiative.

Paragraph 2. *Qualification for assistance*

The Trustee shall determine whether an eligible member qualifies for assistance under this Instrument in accordance with the criteria set out below:

(a) Each member eligible for assistance from the Trust that reaches the completion point on or after January 5, 2006, shall qualify for assistance under this Instrument when it reaches the completion point.

(b) Each member eligible for assistance from the Trust that reached the completion point prior to January 5, 2006 shall qualify for assistance under this Instrument when the Trustee determines that, since the member reached the completion point, its performance has not deteriorated substantially with respect to: (i) macroeconomic performance, (ii) implementation of a poverty reduction strategy or similar framework, and (iii) the state of its public expenditure management systems. A member will be deemed to have met the requirement set forth in (i) and (ii) of the preceding sentence if the member has a track record of satisfactory macroeconomic performance and satisfactory implementation of a poverty reduction strategy for the six month-period immediately preceding the determination of qualification.

Paragraph 3. Amount and delivery of assistance

(a) Upon a determination that a member qualifies for assistance pursuant to paragraph 2 above, the Trustee shall repay to the Fund, on behalf of the member, an amount equivalent to the member's eligible debt.

(b) For purposes of this paragraph 3, eligible debt is defined as that portion of a member's debt to the Fund (including to the Fund as Trustee) that was outstanding as of December 31, 2004 and that, as of

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the date of the Trustee's determination that the member qualifies for assistance pursuant to paragraph 2 above, (i) has not been repaid by the member or with assistance disbursed to the member under the HIPC Initiative, and (ii) is not scheduled to be repaid by assistance committed or disbursed to the member under the HIPC Initiative.

Paragraph 4. *Terms of assistance*

(a) The assistance to be provided by the Trust to a qualifying member shall be in the form of a Trust grant.

Paragraph 5. *Disbursements*

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

Paragraph 6. *Modifications*

Any modification of these provisions will affect only Trust grants made after the effective date of the modification.

Section IV. *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

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(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, audits 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 external audit firm 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 the Annual Report the report of the external audit firm on the Trust.

Paragraph 3. *Investment of resources*

(a) Any balance 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 international financial organizations 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

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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 currency is involved, with the consent of the issuers of such currencies.

Section V. *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

If the Trustee decides to wind up the operations of the Trust, the resources in the Account shall be used first to discharge all the liabilities of the Trust. Any amount remaining in the Account after the discharge of all the liabilities of the Trust shall be transferred to the PRGF Trust for use in any current or future subsidy operations authorized for that Trust, except that at the request of a contributor, its pro rata share in any unused resources shall be distributed to the contributor.

Section VI. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except that any amendment of Section I, paragraph 2, Section IV, Section V and this Section shall require the consent of all contributors to the Trust.

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2011 AND FY 2012—MDRI-I TRUST REIMBURSEMENT FOR FY 2011

In accordance with paragraph 6 of Decision No. 13588-(05/99) MDRI, adopted November 23, 2005, effective January 5, 2006, the General Resources Account shall be reimbursed the equivalent of SDR 0.755 million by the MDRI-I Trust in respect of the ex-

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penses of administering SDA resources in the MDRI-I Trust during FY 2011. (EBS/11/53, 04/07/11)

Decision No. 14894-(11/37),
April 20, 2011

ADMINISTERED ACCOUNT TO SUBSIDIZE POST-CONFLICT EMERGENCY ASSISTANCE TO POVERTY REDUCTION AND GROWTH FACILITY ELIGIBLE MEMBERS—ESTABLISHMENT

Pursuant to Article V, Section 2(*b*), the Fund adopts the Instrument to Establish an Account ("The Post-Conflict Emergency Assistance Subsidy Account for PRGF-Eligible Members") to subsidize the rate of charge on post-conflict purchases made by PRGF-eligible members under Decision No. 12341-(00/117), November 28, 2000, which is annexed to this decision (EBS/01/63, 4/27/01).

Decision No. 12481-(01/45),
May 4, 2001,
as amended by Decision Nos. 12848-(02/94), September 6, 2002,
14354-(09/79), July 23, 2009,
effective January 7, 2010, and
14521-(10/3),
January 11, 2010

Instrument to Establish the Post-Conflict and Natural Disaster Emergency Assistance Subsidy Account for PRGF-Eligible Members

To help fulfill its purposes, the International Monetary Fund (the "Fund") has adopted this Instrument to establish an account in accordance with Article V, Section 2(*b*) (the "Account") which shall be governed by, and administered in accordance with, the following provisions:

Paragraph 1. *Purpose of the Account*

The purpose of the Account shall be the administration and disbursement of resources provided to the Account by Contributors for the subsidization of the rate of charge on postconflict and natural disaster emergency assistance purchases made by PRGF-eligible members under Decision No. 12341-(00/117), November 28, 2000

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("eligible purchases"). A member is PRGF-eligible if it is included in the list of members annexed to Decision No. 8240-(86/56) SAF.

Paragraph 2. *Sub-accounts*

(a) The Account shall have at least three separate sub-accounts to hold and administer

(i) resources contributed for the subsidization of the rate of charge on post-conflict emergency assistance only;

(ii) resources contributed for the subsidization of the rate of charge on natural disaster emergency assistance only; and

(iii) resources contributed for both the subsidization of the rate of charge on postconflict emergency and natural disaster emergency assistance.

(b) Further sub-accounts may be established to hold and administer resources for the purposes of the Account contributed for a specific eligible member. Resources contributed to subsidize post-conflict emergency assistance prior to [date of amendment] will be placed into the sub-account referred to under (i) of this paragraph, unless otherwise specified, by the Contributor, and used only for the subsidization of the rate of charge on post-conflict emergency assistance purchases by eligible members.

Paragraph 3. *Resources of the Account*

The resources held in the Account shall consist of:

(i) grant contributions made to the Account for the purposes of paragraph 1;

(ii) loans, deposits and other types of investments made by Contributors to the Account to generate income to be used for the purposes of paragraph 1; and

(iii) net earnings from the investment of resources held in the Account.

Paragraph 4. *Contributions to the Account*

The Fund may accept contributions of resources to the Account on such terms and conditions as may be agreed between the Fund and the respective Contributors, subject to the provisions of this

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Account. For this purpose, the Managing Director is authorized to accept grants and enter into loan, deposit or other types of investment agreements with the Contributors to the Account.

Paragraph 5. *Unit of Account*

The SDR shall be the unit of account.

Paragraph 6. *Media of payment of contributions and exchange of resources*

(a) Resources provided to the Account shall be in any freely usable currency or such other media as may be agreed by the Fund and the Contributor.

(b) Resources held in the Account may be currencies or currencies exchanged for SDRs in accordance with such arrangements as may be made by the Fund for holding and use of SDRs.

(c) The Fund may exchange any of the resources held in the Account provided that any balance of a currency held in the Account may be exchanged only with the consent of the issuer of such currency.

(d) Payments made from the Account shall be made in SDRs or such other media as may be determined by the Fund.

Paragraph 7. *Use of the Resources*

(a) The resources of the Account (including any net income from the investment of such resources) shall be used to provide grants to subsidize postconflict and/or natural disaster emergency assistance purchases under Decision No. 12341-(00/117) that have been made by PRGT-eligible members as of January 7, 2010 ("eligible recipients"), in order to subsidize to an annual rate of 0.25 percent the rate of charge payable to the Fund on the Fund's holdings of the members' currency resulting from those purchases. Only charges payable after the establishment of the Account will be eligible for subsidization. An otherwise eligible recipient will not be eligible for grants under this provision while in arrears to the General Resources Account, the Special Disbursement Account, the SDR Department, or to a Trust administered by the Fund as Trustee. Once arrears are cleared, only charges payable after such clearance will be eligible for

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subsidization. The subsidization of emergency natural disaster assistance will be provided upon request by eligible recipients.

(b) The grants will be made available to eligible recipients at the same time as quarterly charges on eligible purchases fall due, subject to the availability of adequate resources in the Account, in an amount sufficient to reduce that quarterly rate of charge to 0.25 percent on an annual basis. If, in any quarter, the resources of the Account are insufficient to subsidize the rate of charge on all eligible purchases to 0.25 percent for that quarter, the subsidy to each eligible recipient shall be pro-rated to bring the effective rate of charge paid after subsidization to the closest common percentage to 0.25 percent.

(c) Earmarked resources contributed to the Account shall be used in accordance with the terms agreed with the Contributor and shall not be taken into consideration in the determination of the grant subsidy under subparagraph (b) above. An eligible recipient beneficiary of earmarked resources shall not receive a lower grant subsidy than provided under subparagraph (b) above.

(d) Notwithstanding subparagraphs (a) through (c) of this Paragraph 7, for the period from January 7, 2010 through January 31, 2013, the resources of the Account (including any net income from the investment of such resources) shall be used to provide grants to subsidize postconflict and/or natural disaster emergency assistance purchases under Decision No 12341-(00/117) that have been made by PRGT-eligible members as of January 7, 2010, in order to subsidize to an annual rate of zero percent the rate of charge payable to the Fund on the Fund's holdings of the member's currency resulting from those purchases. For purposes of this subparagraph (d), "PRGT-eligible members" shall be those members on the list annexed to Decision No. 8240-(86/56) SAF, as amended, as such list may be amended from time to time. A PRGT-eligible member will not be eligible for grants under this subparagraph (d) while in arrears to the General Resources Account, the Special Disbursement Account, the SDR Department, or to a Trust administered by the Fund as Trustee. Once arrears are cleared, only charges payable after such clearance will be eligible for subsidization. The subsidization of emergency natural disaster assistance pursuant to this subparagraph (d) will be provided upon request by eligible recipients.

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Paragraph 8. *Authority to Invest Resources in the Account*

(a) Resources held in the Account and not immediately needed for operations of the Account shall be invested at the discretion of the Managing Director, subject to the provisions of subparagraph (c).

(b) The Managing Director is authorized (i) to make all arrangements, including the establishment of accounts in the name of the Fund, with such depositories as he deems necessary to carry out the operations of the Account, and (ii) to take all other measures he deems necessary to implement the provisions of this Instrument.

(c) 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.

Paragraph 9. *Administration of the Account*

(a) Assets held in the Account shall be kept separate from the assets and property of all other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet any liabilities, obligations or losses of the Fund incurred in the administration of the Account; nor shall the assets of the Account be used to discharge or meet any liabilities, obligations or losses incurred by the Fund in the administration of such other accounts.

(b) The Fund shall maintain separate financial records and prepare separate financial statements for the Account. The financial statements for the Account shall be expressed in SDRs and prepared in accordance with International Accounting Standards.

(c) The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions conducted

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through the Account. The audit shall relate to the financial year of the Fund.

(d) The Fund shall report on the resources and position of the Account in the Annual report of the Executive Board to the Board of Governors and shall include in that Annual report the audit report of the external audit firm on the Account.

(e) Subject to the provisions of this Instrument, the Fund, in administering the Account, shall apply, *mutatis mutandis,* the same rules and procedures as apply to operations of the General Resources Account of the Fund.

Paragraph 10. *Fees*

(a) No charge shall be levied in respect of the services rendered by the Fund in the administration, operation, and termination of this Account.

(b) All investment costs, including but not limited to costs associated with the exchange of currencies, purchase of securities, and hiring of external asset managers and custodian banks, shall be borne by, and deducted from, the Account.

Paragraph 11. *Termination*

(a) The Account may be terminated at any time by the Fund, and shall be terminated when there are no longer any Fund holdings of a member's currency resulting from postconflict and/or natural disaster emergency assistance purchases under Decision No 12341-(00/117) that had been made by eligible recipients as of January 7, 2010.

(b) Termination shall be effective on the date that all Contributors have received a notice of termination or on such later date, if any, as may be specified in the notice of termination.

(c) Any balance remaining in the Account on the date of its termination and after discharge of all obligations of the Account shall be transferred promptly to each of the Contributors in the proportion that the SDR equivalent of its respective contribution bears on the total contributions; except that

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(i) in the case of earmarked contributions that have been fully used no such transfer shall be made, and

(ii) a Contributor may instruct that its share or a specified portion thereof be utilized for such other purposes as may be mutually agreed between the Contributor and the Managing Director.

Paragraph 12. *Amendments*

The provisions of this Instrument may be amended by a decision of the Fund. Should the Fund amend the terms and conditions of this Instrument in a manner that changes the purpose for which contributions are to be used, each Contributor shall have the right to withdraw its individual unused contribution in the proportion that the SDR equivalent of its respective contribution bears to the total contributions.

Paragraph 13. *Settlement of Questions*

Any questions arising under this Instrument shall be settled by mutual agreement between the Fund and the Contributors. (EBS/05/4, 1/10/05)

ADMINISTERED ACCOUNT TO SUBSIDIZE POST-CONFLICT EMERGENCY ASSISTANCE TO POVERTY REDUCTION AND GROWTH FACILITY ELIGIBLE MEMBERS—USE OF SDRS

In accordance with Article XVII, Section 3, the Fund prescribes that (i) a participant or a prescribed holder, by agreement with a participant or a 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 Post-Conflict Emergency Assistance Subsidy Account for PRGF-Eligible Members" or in effecting a payment due to or by the Fund in connection with financial operations under "the Post-Conflict Emergency Assistance Subsidy Account for PRGF-Eligible Members," (ii) operations pursuant to these prescriptions shall be recorded in accordance with Rule P-9. (EBS/01/63, 4/27/01)

Decision No. 12482-(01/45) S,
May 4, 2001

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SECOND SPECIAL CONTINGENCY ACCOUNT (SCA-2)—
ESTABLISHMENT OF ADMINISTERED ACCOUNT

1. Pursuant to Article V, Section 2(*b*), the Fund adopts the Instrument to Establish the Post-SCA-2 Administered Account that is annexed to this decision [see Attachment].

2. The provisions of the Instrument may be amended by a decision of the Fund with the concurrence of the members that have transferred resources remaining in the account at the time of such decision. (EBS/99/215, 11/29/99)

Decision No. 12061-(99/130),
December 8, 1999

Attachment

Instrument to Establish the Post-SCA-2 Administered Account

To fulfill its purposes, the International Monetary Fund (the "Fund") has adopted this Instrument to establish an account in accordance with Article V, Section 2(*b*), which shall be governed and administered by the Fund in accordance with the terms and conditions of this Instrument.

1. The Fund hereby establishes an account ("the Account") for the temporary administration of resources transferred to the Account by a member following the termination of the SCA-2, while deciding on the final disposition of those resources.

2. The SDR shall be the unit of account. Transfers may be made in or exchanged for SDRs in accordance with such arrangements as may be made by the Managing Director for the holding and use of SDRs by the Account.

3. The resources of the Account shall be invested, and the proceeds of investments reinvested, at the discretion of the Managing Director. The Managing Director is authorized (i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, with such depositories of the Fund as

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may be necessary to carry out the operations of the account, and (ii) to take all measures necessary to implement the provisions of this Instrument.

4. The Fund shall transfer all or part of the resources received from a member, together with the member's pro rata share of the investment returns, to the PRGF-HIPC Trust, or otherwise in accordance with the member's instructions.

5. The assets held in the Account shall be kept separate from the assets and property of all other accounts of, or administered by, the Fund. The assets in the Account shall not be used to discharge or meet any liabilities, obligations, or losses incurred by the Fund in the administration of such other accounts.

6. Subject to the provisions of this Instrument, the Fund, in administering the Account, shall apply mutatis mutandis the same rules and procedures as apply to operations of the General Resources Account of the Fund.

7. No charge shall be levied on the members for the services rendered by the Fund in the administration, operation, and termination of this Account.

8. The Fund shall maintain separate financial records and prepare separate financial statements for the Account.

9. The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions of the Account. The audit shall relate to the financial year of the Fund.

10. The Fund shall report on the assets and property and on the operations and transactions of the Account in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the external audit firm and the External Audit Committee.

11. The Account shall be terminated upon completion of the transfers contemplated in paragraph 4.

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12. Any questions between a member and the Fund arising hereunder shall be settled by mutual agreement.

PROPOSAL FOR A POST-CATASTROPHE DEBT RELIEF TRUST FUND—ESTABLISHMENT AND RELATED MATTERS

1. Pursuant to Article V, Section 2(b), the Fund adopts the Instrument to Establish the Post-Catastrophe Debt Relief Trust ("PCDR Trust" or "Trust") that is annexed as Attachment I to this decision. It is expected that the Fund shall review the financing and operations of the PCDR Trust at least every five years.

2. Section V of the Multilateral Debt Relief Initiative Trust-I, annexed to Decision No. 13588-(05/99) MDRI, adopted November 23, 2005, shall be amended as follows:

(a) The title of Section V shall be revised to read: "Period of Operation, Reduction of Balances and Liquidation."

(b) Paragraph "2" shall become paragraph "3" and a new paragraph 2 shall be added to read as follows:

> Paragraph 2. Reduction of Balances: Prior to the liquidation of the Trust in accordance with paragraph 3 below, the equivalent of SDR 280 million of the resources in the Account shall be transferred from the Account (through the Special Disbursement Account) to the Post- Catastrophe Debt Relief Trust established pursuant to Decision No. 14649.

3. In accordance with Article V, Section 12(i), the General Resources Account of the Fund shall be reimbursed annually by the PCDR Trust, from resources transferred to the 8 PCDR Trust from the SDA, in respect of the expenses of administering SDA resources in the PCDR Trust, other than expenses already attributed to other accounts or trusts administered by the Fund, or to the General Resources Account.

4. In accordance with Article XVII, section 3, the Fund prescribes that:

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(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 (i) the PCDR Trust, or (ii) the Account and subaccounts established pursuant to Section III, paragraph 4(b) of the PCDR Trust Instrument; or in effecting a payment due to or by the Fund in connection with financial operations under the PCDR Trust or the referred accounts; and

(b) Operations pursuant to these prescriptions shall be recorded in accordance with Rule P-9. (SM/10/97, Sup. 1, 6/23/10) (SM/10/97, Sup. 1, 06/23/10)

Decision No. 14649-(10/64),
June 25, 2010

Attachment I

Instrument to Establish the Post-Catastrophe Debt Relief Trust

To help fulfill its purposes, the International Monetary Fund (the "Fund"), pursuant to Article V, Section 2(b) of the Fund's Articles of Agreement, has adopted this Instrument to Establish the Post-Catastrophe Debt Relief Trust (the "Trust"), which shall be administered by the Fund as Trustee (the "Trustee"). The Trust shall be governed by, and administered in accordance with, the following provisions:

Section I. General Provisions

Paragraph 1. Purposes

The Trust shall assist in fulfilling the purposes of the Fund by providing balance of payments assistance in the form of grants ("Trust grants") to eligible low-income members that qualify for assistance under the terms of this Instrument. Trust grants shall be used to deliver temporary relief of debt service payments (interest and principal) on such members' eligible debt ("debt flow relief") and, in appropri-

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ate cases, permanent debt relief on such debt ("debt stock relief"), subject to the terms of this Instrument, including the requirements set forth in Section III of this Instrument.

Paragraph 2. *Trust Account and resources*

(a) The operations and transactions of the Trust shall be conducted through an account ("the Account"). Within the Account, the Trustee may establish such sub-accounts as it deems necessary for the administration of the resources held in the Account.

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

(i) transfers from the Special Disbursement Account in accordance with Section V, paragraph 2 of the Multilateral Debt Relief Initiative-I Trust established pursuant to Decision No. 13588-(05/99) MDRI, as amended by Decision No. 14649-(10/64); (ii) grant contributions made to the Trust for the purposes set forth in Section I, paragraph 1; (iii) loans, deposits and other types of investments made by contributors with the Trust to generate income to be used for the purposes set forth in Section I, paragraph 1; and (iv) net earnings from investment of resources held in the Account.

Paragraph 3. *Unit of Account*

The SDR shall be the unit of account for commitments and all other operations and transactions of the Trust, provided that commitments for contributions may also be made in currency.

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

(a) Resources provided to the Account shall be in any currency.

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

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(c) Contributions 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 for other resources.

Section II. *Contributions to the Trust*

The Trustee may accept contributions of resources for the Account on such terms and conditions as may be agreed between the Trustee and the respective contributors, subject to the provisions of this Instrument. For this purpose, the Managing Director of the Trustee is authorized to accept grants and enter into loan, deposit, or other types of investment agreements with the contributors to the Trust.

Section III. *Trust Grants*

Paragraph 1. *Eligibility for assistance*

In order to be eligible for either debt flow relief or debt stock relief from the Trust, a member shall meet the following requirements:

(a) the member is PRGT-eligible (i.e., is included in the list of members annexed to Decision No. 8240-(86/56) SAF, as amended); and

(b) the member has an annual per capita gross national income, as assessed by the Trustee in accordance with paragraph 1(E) of Decision No. 14521-(10/3), that is below the International Development Association operational cut-off or, for a member qualifying as a "small country" under the definition set forth in paragraph 1(D) of that decision, is less than twice the International Development Association operational cut-off.

Paragraph 2. *Qualification for assistance*

The Trustee shall determine whether an eligible member qualifies under this Instrument for debt flow relief and, in appropriate cases,

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for debt stock relief, in accordance with the respective criteria set forth below:

(a) *Debt Flow Relief*

An eligible member shall qualify for debt flow relief when the Trustee determines that the member is experiencing a balance of payments need that arises from a Qualifying Catastrophic Disaster. For purposes of this Instrument, a Qualifying Catastrophic Disaster shall mean an exceptional natural disaster occurring any time after January 1, 2010 that the Trustee determines, based on available information, including preliminary estimates, has had the following effects on the member:

(i) a large portion of the member's population has been directly affected (i.e., deceased, injured, and/or displaced), such portion normally being at least one third of the population; and (ii) a large portion of the member's economy has been directly affected, as evidenced by either (I) the destruction of more than a quarter of the member's productive capacity measured by destroyed structures, impact on key economic sectors and public institutions, and other relevant early indicators, or (II) damage in an amount exceeding 100 percent of the member's GDP prior to the Qualifying Catastrophic Disaster.

(b) *Debt Stock Relief*

(i) An eligible member that qualifies for debt flow relief shall also qualify for debt stock relief when the Trustee determines, based on available information, that: (I) the member has substantial balance of payments needs that have been created or exacerbated by the Qualifying Catastrophic Disaster and the subsequent economic recovery efforts and are expected to persist beyond the period covered by debt flow relief; and (II) the resources that would be freed up by the debt stock relief would be critical for meeting these needs. For purposes of (II), resources would normally be considered critical for meeting the member's needs only if, based on an updated debt sustainability analysis conducted after the Qualifying Catastrophic Disaster, the member has a high level of debt in relation to GDP or exports prior to the delivery of any debt relief after the Qualifying Catastrophic Disaster, typ-

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ically resulting in an assessment that the member is in debt distress or has a high risk of debt distress.

(ii) Decisions on a member's qualification for debt stock relief will normally be adopted by the Trustee in the period beginning six months after the occurrence of the Qualifying Catastrophic Disaster and ending in all cases no later than twenty-four months after such disaster.

Paragraph 3. *Amount and delivery of assistance*

The Trustee shall deliver assistance to eligible members that it has determined qualify for debt flow relief or debt stock relief in accordance with the following terms:

(a) *Debt Flow Relief*

(i) Upon a determination that a member qualifies for debt flow relief pursuant to paragraph 2(a) above, the Trustee shall disburse to the subaccount established for the benefit of the member pursuant to paragraph 4(b) below a Trust grant in an amount equivalent to all payments on the member's eligible debt falling due within the period beginning on the date of the debt flow relief decision and ending two years after the occurrence of the Qualifying Catastrophic Disaster. For the purposes of this paragraph 3, eligible debt shall be defined as all of the member's debt to the Fund (including to the Fund as Trustee) that was outstanding as of the date of the Qualifying Catastrophic Disaster and in respect of which the member had made regular scheduled debt service payments (interest and principal) before the Qualifying Catastrophic Disaster, plus any disbursements by the Fund (including by the Fund as Trustee) to the member made normally within four months following such disaster, but shall exclude any debt to the Fund that is scheduled to be repaid with assistance under other debt relief trusts administered by the Fund.

(b) *Debt Stock Relief*

(i) Upon a determination that a member qualifies for debt stock relief pursuant to paragraph 2(b) above, the Trustee shall commit an amount up to which the Trust will disburse a Trust grant for debt stock relief

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to the member pursuant to subparagraph 3(b)(ii) below. The amount committed shall be the amount needed to effect the early repayment of the member's eligible debt that is outstanding as of the second anniversary of the occurrence of the Qualifying Catastrophic Disaster. The amount actually disbursed pursuant to subparagraph 3(b)(ii) below shall be the amount needed to effect the early repayment of the member's eligible debt that is outstanding as of the second anniversary of the occurrence of the Qualifying Catastrophic Disaster or on the date of the Trustee's decision to disburse debt stock relief, whichever is later.

(ii) The Trustee shall disburse debt stock relief in the amount specified in paragraph 3(b)((i) above to the subaccount established for the benefit of the member pursuant to paragraph 4(b) below as of the date the Trustee determines that: (I) a concerted effort exists within the international community to provide similar debt relief to the member, which shall be evidenced by satisfactory assurances regarding the debt relief to be provided by the member's other official sector creditors whose debts together account for at least eighty percent of the member's total sovereign external debt outstanding to official creditors (less amounts due to the Fund) at the time of the Qualifying Catastrophic Disaster, (II) the member has provided assurances that it will cooperate with the Trustee in an effort to find solutions to its balance of payments problems and will refrain from any inappropriate policies that could compound these problems, and (III) taking into account the member's implementation capacity after the Qualifying Catastrophic Disaster, the member has established a track record of adequate macroeconomic policies, normally for a period of at least six months immediately preceding the Trustee's decision to disburse debt stock relief.

Paragraph 4. *Disbursements*

(a) All disbursements of Trust grants shall be subject to the availability of resources to the Trust.

(b) The proceeds of Trust grants shall be paid into a subaccount for the benefit of the relevant member that is maintained within a separate account (the "Umbrella Account") established and administered

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by the Trustee pursuant to this subparagraph. The Trustee shall use the proceeds disbursed as debt flow relief (including any income from investments of such proceeds) to make payments on the member's eligible debt as they fall due within the period specified in paragraph 3(a)(i) above. The Trustee shall use the proceeds disbursed as debt stock relief promptly after such disbursement to effect the early repayment of the member's eligible debt as of the date specified in the last sentence of paragraph 3(b)(i) above. If the amounts disbursed by the Trustee to the subaccount exceed the amounts needed to effect payments falling due on, and early repayment of, the member's eligible debt pursuant to the terms of this Instrument, then the Trustee shall be authorized to retransfer to the Trust an amount equivalent to such excess. The terms and conditions for the operation of the Umbrella Account shall be determined by the Trustee.

Paragraph 5. *Modifications*

Any modification of these provisions will affect only Trust grants made after the effective date of the modification.

Section IV. *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

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(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, audits 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 in accordance with International Financial Reporting Standards.

(d) The external audit firm 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 the Annual Report the report of the external audit firm on the Trust.

Paragraph 3. *Investment of resources*

(a) Any balance 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 international financial organizations 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

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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.

Section V. *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*

If the Trustee decides to wind up the operations of the Trust, the resources in the Account shall be used first to discharge all the liabilities of the Trust. Any amount remaining in the Account after the discharge of all the liabilities of the Trust shall be transferred to the General Subsidy Account of the Poverty Reduction and Growth Trust established pursuant to Decision No. 8759-(87/176) ESAF, as amended, ("PRGT") for use in accordance with the provisions of the PRGT Instrument; provided that, at the request of a contributor that has provided resources to the Trust, its pro rata share of any such remaining resources in the Trust, or any portion of such share, shall be distributed to the contributor.

Section VI. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except that any amendment of Section I, paragraph 1, Section IV, Section V, and this Section shall require the consent of all contributors to the Trust.

PROPOSAL FOR A POST-CATASTROPHE DEBT RELIEF TRUST FUND—UMBRELLA ACCOUNT—ESTABLISHMENT OF ACCOUNT AND TERMS AND CONDITIONS

Pursuant to Section III, paragraph 4(b) of the Instrument to Establish the Post-Catastrophe Debt Relief Trust ("PCDR Trust"), the

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Fund, as Trustee of the PCDR Trust, (a) establishes the PCDR Trust Umbrella Account provided for under Section III, paragraph 4(b) of the PCDR Trust Instrument, and (b) adopts the terms and conditions for the administration of the PCDR Trust Umbrella Account that are set forth in Attachment A to this decision. (SM/10/97, Sup. 1, 06/23/10)[1]

Decision No. 14650-(10/64),
June 25, 2010

[1]Ed. Note: Attachment A is not included in this volume.

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Article V, Section 3(*a*), (*b*), and (*c*)

Use of Fund Resources

General Decisions

INTERPRETATION OF ARTICLES OF AGREEMENT

The Executive Directors of the International Monetary Fund interpret the Articles of Agreement to mean that authority to use the resources of the Fund is limited to use in accordance with its purposes to give temporary assistance in financing balance of payments deficits on current account for monetary stabilization operations.

Pursuant to Decision No. 71-2,
September 26, 1946

USE OF FUND'S RESOURCES FOR CAPITAL TRANSFERS

After full consideration of all relevant aspects concerning the use of the Fund's resources, the Executive Directors decide by way of clarification that Decision No. 71-2 does not preclude the use of the Fund's resources for capital transfers in accordance with the provisions of the Articles, including Article VI.

Decision No. 1238-(61/43),
July 28, 1961

USE OF FUND'S RESOURCES: MEANING OF "CONSISTENT WITH THE PROVISIONS OF THIS AGREEMENT" IN ARTICLE V, SECTION 3

The phrase "consistent with the provisions of this Agreement" in Article V, Section 3, means consistent both with the provisions of the Fund Agreement other than Article I and with the purposes of the Fund contained in Article I.

Decision No. 287-3,
March 17, 1948

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USE OF FUND'S RESOURCES: MEANING OF ARTICLE V, SECTION 3(*b*)(ii)

The word "represents" in Article V, Section 3(*a*)(i),[1] means "declares." The member is presumed to have fulfilled the condition mentioned in Article V, Section 3(*a*)(i), if it declares that the currency is presently needed for making payments in that currency which are consistent with the provisions of the Agreement. But the Fund may, for good reasons, challenge the correctness of this declaration, on the grounds that the currency is not "presently needed" or because the currency is not needed for payment "in that currency," or because the payments will not be "consistent with the provisions of this Agreement." If the Fund concludes that a particular declaration is not correct, the Fund may postpone or reject the request, or accept it subject to conditions. The phrase "presently needed" cannot be defined in terms of a formula uniformly applicable to all cases, but where there is good reason to doubt that the currency is "presently needed," the Fund will have to apply the phrase in each case in the light of all the circumstances.

Decision No. 284-4,
March 10, 1948

GUIDELINES ON CONDITIONALITY

A. Principles

1. Basis and purpose of conditionality. Conditions on the use of Fund resources are governed by the Fund's Articles of Agreement and implementing decisions of the Executive Board. Conditionality—that is, program-related conditions—is intended to ensure that Fund resources are provided to members to assist them in resolving their balance of payments problems in a manner that is consistent with the Fund's Articles and that establishes adequate safeguards for the temporary use of the Fund's resources.

[1] Ed. Note: Corresponds to Article V, Section 3(*b*)(ii) of the Articles of Agreement after the Second Amendment.

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2. Early warning and prevention. Conditionality is one element in a broad strategy for helping members strengthen their economic and financial policies. Through formal and informal consultations, multilateral surveillance including the World Economic Outlook and discussions of capital market developments, advice to members on the voluntary adoption of appropriate standards and codes, and the provision of technical assistance, the Fund encourages members to adopt sound economic and financial policies as a precaution against the emergence of balance of payments difficulties, or to take corrective measures at an early stage of the development of difficulties.

3. Ownership and capacity to implement programs. National ownership of sound economic and financial policies and an adequate administrative capacity are crucial for successful implementation of Fund-supported programs. In responding to members' requests to use Fund resources and in setting program-related conditions, the Fund will be guided by the principle that the member has primary responsibility for the selection, design, and implementation of its economic and financial policies. The Fund will encourage members to seek to broaden and deepen the base of support for sound policies in order to enhance the likelihood of successful implementation.

4. Circumstances of members. In helping members to devise economic and financial programs, the Fund will pay due regard to the domestic social and political objectives, the economic priorities, and the circumstances of members, including the causes of their balance of payments problems and their administrative capacity to implement reforms. Conditionality and program design will also reflect the member's circumstances and the provisions of the facility under which the Fund's financing is being provided. The causes of balance of payments difficulties and the emphasis to be given to various program goals may differ among members, and the appropriate financing, the specification and sequencing of policy adjustments, and the time required to correct the problem will reflect those and other differences in circumstances. The member's past performance in implementing economic and financial policies will be taken into account as one factor affecting conditionality, with due consideration to changes in circumstances that would indicate a break with past performance.

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5. Approval of access to Fund resources. The Fund will ensure consistency in the application of policies relating to the use of its resources with a view to maintaining the uniform treatment of members. A member's request to use Fund resources will be approved only if the Fund is satisfied that the member's program is consistent with the Fund's provisions and policies and that it will be carried out, and in particular that the member is sufficiently committed to implement the program. The Managing Director will be guided by these principles in making recommendations to the Executive Board with respect to the approval of the use of Fund resources by members.

6. Focus on program goals. Fund-supported programs should be directed primarily toward the following macroeconomic goals:

(a) solving the member's balance of payments problem without recourse to measures destructive of national or international prosperity; and

(b) achieving medium-term external viability while fostering sustainable economic growth.

7. Scope of conditions. Program-related conditions governing the provision of Fund resources will be applied parsimoniously and will be consistent with the following principles:

(a) Conditions will be established only on the basis of those variables or measures that are reasonably within the member's direct or indirect control and that are, generally, either (i) of critical importance for achieving the goals of the member's program or for monitoring the implementation of the program, or (ii) necessary for the implementation of specific provisions of the Articles or policies adopted under them. In general, all variables or measures that meet these criteria will be established as conditions.

(b) Conditions will normally consist of macroeconomic variables and structural measures that are within the Fund's core areas of responsibility. Variables and measures that are outside the Fund's core areas of responsibility may also be established as conditions but may require more detailed explanation of their critical importance. The

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Fund's core areas of responsibility in this context comprise: macroeconomic stabilization; monetary, fiscal, and exchange rate policies, including the underlying institutional arrangements and closely related structural measures; and financial system issues related to the functioning of both domestic and international financial markets.

(c) Program-related conditions may contemplate the member meeting particular targets or objectives (outcomes-based conditionality), or taking (or refraining from taking) particular actions (actions-based conditionality). The formulation of individual conditions will be based, in particular, upon the circumstances of the member.

8. Responsibility of the Fund for conditionality. The Fund is fully responsible for the establishment and monitoring of all conditions attached to the use of its resources. There will be no cross-conditionality, under which the use of the Fund's resources would be directly subjected to the rules or decisions of other organizations. When establishing and monitoring conditions based on variables and measures that are not within its core areas of responsibility, the Fund will, to the fullest extent possible, draw on the advice of other multilateral institutions, particularly the World Bank. The application of a lead agency framework, such as between the Fund and the Bank, will be implemented flexibly to take account of the circumstances of members and the overlapping interests of the two institutions with respect to some aspects of members policies. The Fund's policy advice, program design, and conditionality will, insofar as possible, be consistent and integrated with those of other international institutions within a coherent country-led framework. The roles of each institution, including any relevant conditionality, will be stated clearly in Fund-related program documents.

B. Modalities

9. Nature of Fund arrangements. A Fund arrangement is a decision of the Executive Board by which a member is assured that it will be able to make purchases or receive disbursements from the Fund in accordance with the terms of the decision during a specified period and up to a specified amount. Fund arrangements are not international agreements and therefore language having a contractual connotation

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will be avoided in arrangements and in program documents. Appropriate consultation clauses will be incorporated in all arrangements.

10. Members program documents. The authorities policy intentions will be described in documents such as a Letter of Intent (LOI), or a Memorandum on Economic and Financial Policies (MEFP) that may be accompanied by a Technical Memorandum of Understanding (TMU). These documents will be prepared by the authorities, with the cooperation and assistance of the Fund staff, and will be submitted to the Managing Director for circulation to the Executive Board. The documents should reflect the authorities policy goals and strategies. In addition to conditions specified in these documents, members requesting the use of Fund resources may in exceptional cases communicate confidential policy understandings to the Fund in a side letter addressed to the Managing Director and disclosed to the Executive Board. In all their program documents, the authorities should clearly distinguish between the conditions on which the Fund's financial support depends and other elements of the program. Detailed policy matrices covering the broader agenda should be avoided in program documents such as LOIs and MEFPs unless they are considered necessary by the authorities to express their policy intentions.

11. Monitoring of performance. The implementation of the member's understandings with the Fund may be monitored, in particular, on the basis of prior actions, performance criteria, program and other reviews, and other variables and measures established as structural benchmarks or indicative targets.

(a) Prior actions. A member may be expected to adopt measures prior to the Fund's approval of an arrangement, completion of a review, or the granting of a waiver with respect to a performance criterion when it is critical for the successful implementation of the program that such actions be taken to underpin the upfront implementation of important measures. In reaching understandings on prior actions, the Fund will also take into account the strain that excessive reliance upon such actions can place on members implementation capacity. The Managing Director will keep Executive Directors informed in an appropriate manner of the progress of discussions with the member.

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(b) Performance criteria. A performance criterion is a variable or measure whose observance or implementation is established as a formal condition for the making of purchases or disbursements under a Fund arrangement. Performance criteria will apply to clearly-specified variables or measures that can be objectively monitored by the staff and are so critical for the achievement of the program goals or monitoring implementation that purchases or disbursements under the arrangement should be interrupted in cases of nonobservance. The number and content of performance criteria may vary because of the diversity of circumstances and institutional arrangements of members.

(c) Reviews. Reviews are conducted by the Executive Board.

(i) Program reviews. Program reviews provide a framework for an assessment of whether the program is broadly on track and whether modifications are necessary. A program review will be completed only if the Executive Board is satisfied, based on the member's past performance and policy understandings for the future, that the program remains on track to achieve its objectives. In making this assessment, the Executive Board will take into consideration, in particular, the member's observance of performance criteria, indicative targets, and structural benchmarks, and the need to safeguard Fund resources. The elements of a member's program that will be taken into account for the completion of a review will be specified as fully and transparently as possible in the arrangement. Arrangements will provide for reviews to take place at a frequency appropriate to the member's circumstances. Reviews are expected to be held every six months, but substantial uncertainties concerning major economic trends or policy implementation may warrant more frequent monitoring. In cases of major delays in the completion of a review, the Managing Director will inform Executive Directors in an appropriate manner.

(ii) Financing assurances reviews. Where the Fund is providing financial assistance to a member that has outstanding sovereign external payments arrears to private creditors or that, by virtue of the imposition of exchange controls, has outstanding non-sovereign external payments arrears, the Executive Board will conduct a financing assurances review to determine whether adequate safeguards remain in

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place for the further use of the Fund's resources in the member's circumstances and whether the member's adjustment efforts are undermined by developments in creditor-debtor relations. More specifically, every purchase or disbursement made available after the approval of the arrangement will, while such arrears remain outstanding, be made subject to the completion of a financing assurances review. Financing assurances reviews may also be established where the member has outstanding arrears to official creditors.

(d) Other variables and measures. In monitoring the implementation of a member s program, the Fund may also examine variables and measures established as indicative targets and structural benchmarks. The same principles governing the scope of conditions set out in paragraph 7 apply to these variables and measures as well as to other program-related conditions.

(i) Indicative targets. Variables may be established as indicative targets for the part of an arrangement for which they cannot be established as performance criteria because of substantial uncertainty about economic trends. As uncertainty is reduced, these targets will normally be established as performance criteria, with appropriate modifications as necessary. Indicative targets may also be established in addition to performance criteria as quantitative indicators to assess the member's progress in meeting the objectives of a program in the context of a program review.

(ii) Structural benchmarks. A measure may be established as a structural benchmark where it cannot be specified in terms that may be objectively monitored or where its non-implementation would not, by itself, warrant an interruption of purchases or disbursements under an arrangement. Structural benchmarks are intended to serve as clear markers in the assessment of progress in the implementation of critical structural reforms in the context of a program review.

12. Waivers. The Fund will grant a waiver for nonobservance of a performance criterion only if satisfied that, notwithstanding the nonobservance, the program will be successfully implemented, either because of the minor or temporary nature of the nonobservance or because of corrective actions taken by the authorities. The Fund will

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grant a waiver of the applicability of a performance criterion only if satisfied that, notwithstanding the unavailability of the information necessary to assess observance, the program will be successfully implemented and there is no clear evidence that the performance criterion will not be met.

13. Floating tranches. Conditions will normally apply to specified dates or continuously. However, when the Fund judges that the member will need to implement a particular structural measure or meet a particular performance target during the program period but not necessarily by a specific date, and when flexibility in timing would promote national ownership, the arrangement may provide for the purchase or disbursement of Fund resources to be made available whenever the measure is implemented or the target observed. These floating tranches are expected to apply primarily to structural performance criteria that are included because of their importance for medium-term external sustainability and growth.

C. Evaluation and Review

14. Program evaluation. The staff will prepare an analysis and assessment of the performance under programs supported by use of the Fund's resources in connection with Article IV consultations and as appropriate in connection with further requests for use of the Fund's resources.

15. Periodic review. The Fund will review the application of this Decision at intervals of five years and at such other times as consideration of it is placed on the agenda of the Executive Board.[1] These reviews will evaluate the consistency of conditionality with these guidelines, the appropriateness and implementation of programs, and the effectiveness of policy instruments.

16. Decision No. 270-(53/95), adopted December 23, 1953, Stand-By Arrangements, as amended, Decision No. 6056-(79/38),

[1] Ed. Note: Pursuant to Decision No. 13814-(06/98), the next review of the Conditionality Guidelines is scheduled to take place by December 31, 2010.

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adopted March 2, 1979, Guidelines on Conditionality, and Decision No. C-3220-(01/24), adopted March 9, 2001, Concluding Remarks by the Chairman—Conditionality in Fund-Supported Programs, are repealed. (SM/02/276, Rev. 1, 9/23/02)

Decision No. 12864-(02/102)
September 25, 2002,
as amended by Decision No. 13814-(06/98),
November 15, 2006

CONDITIONALITY GOVERNING THE USE OF FUND RESOURCES

The Fund decides that, effective May 1, 2009, it shall no longer establish structural performance criteria as a modality for monitoring performance under any type of Fund arrangement. (SM/09/69, Sup. 2, 03/24/09)

Decision No. 14280-(09/29),
March 24, 2009

The Acting Chair's Summing Up—
GRA Lending Toolkit and Conditionality—Reform Proposals
Executive Board Meeting 09/29
March 24, 2009

The Executive Board has adopted a number of decisions to reform the Fund's GRA lending and conditionality frameworks to ensure that the Fund is well-equipped to fully meet the needs of its membership. While many Directors expressed some reservations on certain elements of these reforms, Directors generally considered the overall package to be a satisfactory compromise that balances the diverse interests of the membership.

Modernizing Conditionality

Most Directors noted that structural performance criteria are perceived as reducing national ownership of Fund-supported programs, while being difficult to define objectively. Accordingly, they agreed that structural performance criteria would be replaced under all Fund

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arrangements, including those under facilities designed for low-income countries, with a review-based approach to monitoring the implementation of structural reforms in Fund-supported programs. A few of these Directors supported replacing structural benchmarks and prior actions, as well. For existing arrangements, a few Directors would have preferred a faster transition to review-based conditionality, by automatically discontinuing all structural performance criteria in upcoming program reviews. Some Directors, however, wanted to retain structural performance criteria for macro-critical measures, while a few Directors would have also supported adoption of a review-based approach for quantitative variables.

Flexible Credit Line (FCL)

Directors supported the creation of the FCL to enable very strong-performing members to have high and front-loaded access to Fund resources. The FCL could be used for contingent or actual financing needs stemming from all types of balance of payments problems. Directors broadly agreed with the FCL's key design elements. Directors stressed that the assessment of a member's FCL qualification should be undertaken confidentially and only at the request of the member. In emphasizing the importance of transparency, Directors agreed that the Managing Director should generally not recommend that the Executive Board approve a request to use the FCL unless the member had consented to publication of the associated papers. Some Directors, however, considered that publication should always take place in FCL cases. It was agreed that the Board will revisit this issue in the context of its review of the Fund's transparency policy later this year.

A number of Directors remained concerned that the FCL could induce large precautionary use of Fund resources, crowding out lending for crisis resolution. Directors agreed that the FCL should be reviewed in two years, or earlier if commitments under the FCL reach SDR 100 billion, while a few Directors preferred reviewing the FCL in three years. Some Directors would have preferred an access limit to help safeguard Fund resources and to ensure even-handedness and predictability of Fund lending, but welcomed staff's expectation that access would not normally exceed 1,000 percent of quota. A few Di-

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rectors reiterated their concern that ex-ante conditionality might not provide adequate safeguards for the use of Fund resources.

Directors called for rigorous and even-handed application of the FCL's qualification framework, as further elaborated in Annex I of the staff paper, to ensure that only members with very strong macroeconomic fundamentals and policy frameworks, sustained track records of implementing very strong polices, and a commitment to maintaining such policies, would have access to FCL financing. A number of Directors stressed the importance of relying on Executive Board assessments of members' policies in the context of recent Article IV consultations. These Directors expected that a member that qualifies for the FCL would normally have held the most recent Article IV consultation in accordance with the standard cycle for such consultations. A few Directors considered that qualification assessments should also be informed by a recent FSAP or FSAP update.

Enhancing Stand-By Arrangements

Directors supported making high-access precautionary SBAs (HAPAs) available on a more regular basis. In addition, all SBAs, including HAPAs, could be designed flexibly—including with respect to phasing and frontloading of access, and frequency of performance criteria test dates and Board reviews—in recognition of members' varying circumstances. At the same time, a few Directors expected that quarterly phasing would continue to be used in cases of large access to Fund resources. Directors looked forward to a future staff paper addressing the "black-out period" problem under SBAs, which currently blocks members from making purchases during certain periods when data for performance criteria assessments are unavailable.

Access Policies

Directors agreed to double normal GRA access limits to 200 percent of quota annually and 600 percent of quota cumulatively. They also supported the modification of the four substantive exceptional access criteria so as to allow exceptional access for potential and actual BOP needs stemming from both capital and current account crises, and to eliminate rigidities and ambiguities in the criteria. Some Directors felt

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that aspects of the modifications could weaken this policy, but welcomed the preservation of the procedural aspects of the policy, which they considered to be an essential part of Fund risk management.

Surcharges and Fees

Directors supported the proposed simplification of the current level-based surcharge structure, the introduction of a new time-based surcharge, and the elimination of the time-based repurchase expectations policy. They considered the proposals to strike a balance between simplifying the cost and repayment structures for Fund lending, and mitigating credit risks and encouraging timely repayment of Fund resources.

In discussing the staff's proposal, a few Directors reiterated their preference to align the threshold for the level-based surcharges with the new normal access limits. A few other Directors expressed concern that the alignment of the Extended Fund Facility (EFF) and SBA time-based surcharges would make high access under the EFF unduly costly for low-income members. It was recognized, however, that high access would not normally be expected under the EFF, as the SBA would be a better instrument for such purpose. A few Directors also requested an early review of the burden-sharing mechanism.

Directors concurred that the new upward-sloping commitment fee structure will discourage unnecessarily high precautionary access, helping to contain risks to the Fund's liquidity. While supporting the decision, some Directors also felt that fees were too high, while some other Directors believed that fees should have been higher.

Eliminating Special Facilities

Directors agreed to abolish the Compensatory Financing Facility, the Supplemental Reserve Facility, and the Short-Term Liquidity Facility, which have been seldom or not used. Directors supported retaining the EFF, particularly given its usefulness to low-income countries.

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BUFF/09/50,
March 27, 2009

ELIMINATION OF CERTAIN SPECIAL FACILITIES

1. The following decisions are hereby repealed:

(a) Decision No. 14184-(08/93), adopted 10/29/08, establishing the Short-Term Liquidity Facility;

(b) Decision No. 11627-(97/123), adopted 12/17/97, as amended, establishing the Supplemental Reserve Facility; and

(c) Decision No. 8955-(88/126), adopted 8/23/88, as amended, establishing the Compensatory Financing Facility.

2. References in other Fund decisions to the Short-Term Liquidity Facility, the Supplemental Reserve Facility, and the Compensatory Financing Facility are hereby deleted. (SM/09/69, Sup. 2, 03/24/09)

Decision No. 14282-(09/29),
March 24, 2009

USE OF FUND RESOURCES—SIDE LETTERS

Confidentiality

1. The existence and content of side letters will be treated with the utmost confidentiality by management, Fund staff, and Executive Directors.

Definition of side letters

2. A side letter is a letter or other written communication from a member's authorities to Fund management or staff containing confidential policy understandings complementary to or elaborating upon those in new or currently applicable letters of intent supporting a request for the use of Fund resources.

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3. Understandings contained in side letters will not contradict or detract from those contained in the applicable letters of intent.

Use of side letters

4. Members requesting the use of Fund resources are encouraged to include all policy undertakings in letters of intent. Side letters will be used sparingly and only in those circumstances which the authorities consider, and management agrees, require such exceptional communication.

5. The use of side letters to keep certain understandings confidential can be justified only if their publication would directly undermine the authorities' ability to implement the program or render implementation more costly. Accordingly, their use will normally be limited to cases in which the premature release of the information would cause adverse market reaction or undermine the authorities' efforts to prepare the domestic groundwork for a measure.

6. While there is no presumption that particular kinds of measures would be conveyed in a side letter rather than a letter of intent, some matters that could in some cases be considered for inclusion in side letters would be: (i) exchange market intervention rules; (ii) bank closures; (iii) contingent fiscal measures; and (iv) measures affecting key prices.

Communication of side letters to the Executive Board

7. Fund staff will advise members' authorities of this decision pertaining to the communication of side letters to the Executive Board before the authorities send side letters.

8. The Executive Board will consider any side letter in a restricted session soon after the relevant letter of intent is issued to the Board. At this session, each Executive Director's constituency will be represented by only one person. A numbered copy of the side letter will be made available to each such representative and, at the end of the meeting, each copy will be returned. Staff will be present to an-

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swer any questions, including questions about the circumstances that justified the use of the side letter.

9. In principle, the full text of a side letter will be communicated to the Executive Board. However, at the request of the authorities, the Managing Director may delete from the copies to be communicated to the Board information of such specificity that:

(i) it is substantially immaterial to Executive Directors' consideration of the request for the use of Fund resources; and

(ii) disclosure would: (a) seriously hamper the authorities' capacity to conduct economic policy; or (b) confer an unfair market advantage upon persons not authorized to have knowledge of the information.

10. Information that might in specific cases be deleted under paragraph 9 above includes: figures regarding foreign exchange markets (e.g., exchange rate intervention triggers or amounts of intervention), names of specific banks or companies, or specific dates for the introduction of certain policy measures.

Communications about side letters by Executive Directors to members' authorities

11. Executive Directors who decide to communicate information about a side letter to their respective authorities should: (i) limit the recipients to those who have a strict need to know; (ii) inform the recipients of the need to treat the information as highly confidential; and (iii) inform the recipients about the procedures that apply to the communication of side letters to the Executive Board under this decision.

12. Executive Directors that communicate information about a side letter to their respective authorities will inform promptly the Managing Director and the Executive Director for the member that sent the side letter of such communication.

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Review

13. This decision will be reviewed by the Executive Board within one year, provided, however, that it will be reviewed promptly before that time if the confidentiality of any side letter has not been observed. (SM/99/236, 9/15/99)

Decision No. 12067-(99/108),
September 22, 1999

Summing Up by the Acting Chair—Review of Side Letters and the Use of Fund Resources
Executive Board Meeting 02/59, June 12, 2002

Directors welcomed the review of side letters. They agreed that, in general, the policy on side letters has achieved its objective of enhancing accountability to the Board while at the same time the number of side letters had declined. Furthermore, the procedures set out in the side letters policy have maintained the confidentiality required by members' authorities. Directors noted that the policy areas covered by side letters have appropriately focused on highly market-sensitive issues or understandings where premature release of information would undermine the authorities' ability to implement their economic program or increase the costs of implementation. They also noted that resort to oral understandings between the Fund and national authorities has been rare, and should continue to be discouraged as such understandings lack transparency and are difficult to monitor. In the highly exceptional cases in which oral understandings would be used, the Board will be informed in an appropriate manner.

Directors stressed the need for systematic reporting to the Board on the implementation of understandings in side letters. In general, implementation will continue to be summarized in staff reports while maintaining the confidentiality of the original understanding, but information on the implementation of prior actions and performance criteria will, in all cases, be specifically reported to the Board. Some Directors suggested that this information be communicated to the Board in staff reports, which would be issued with a higher level of confidentiality than normal Board documents in cases where the

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information is still sensitive. However, most Directors agreed that, to better safeguard confidentiality, reporting to the Board on specific implementation of prior actions and performance criteria should follow the existing side letter procedures. Experience with the agreed reporting procedure will be monitored carefully and reviewed as appropriate.

MISREPORTING AND NONCOMPLYING PURCHASES IN THE GENERAL RESOURCES ACCOUNT—GUIDELINES ON CORRECTIVE ACTION

In some cases, it has been found that a member has made a purchase in the General Resources Account that it was not entitled to make under the terms of the arrangement or other decisions governing the purchase (a "noncomplying purchase"). The purchase was permitted because, on the basis of the information available to it at the time, the Fund was satisfied that all performance criteria or other conditions applicable to the purchase under the terms of the relevant decision had been observed, but this information later proved to be incorrect. When such a case arises in the future, the member will be called upon to take corrective action regarding a noncomplying purchase, to the extent that it is still outstanding, either by repurchase or by the use of its currency in transactions and operations of the Fund, unless the Fund decides that the circumstances justify the member's continued use of the purchased resources. Steps should also be taken to improve the accuracy and completeness of the information to be reported to the Fund by the member in connection with its use of the Fund's general resources, and to define performance criteria and other applicable conditions in a manner that would facilitate accurate reporting. The Fund adopts the following guidelines, which shall apply to purchases made after the date of this decision:

1. Whenever evidence comes to the attention of the staff indicating that a performance criterion or other condition applicable to an outstanding purchase made in the General Resources Account may not have been observed, the Managing Director shall promptly inform the member concerned.

2. If, after consultation with the member, the Managing Director finds that, in fact, the performance criterion or other condition was

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not observed, the Managing Director shall promptly notify the member of this finding. At the same time, the Managing Director shall submit a report to the Executive Board together with recommendations.

3. In any case where the noncomplying purchase was made no more than four years prior to the date on which the Managing Director informed the member, as provided for in paragraph 1, the Executive Board may decide either (a) that the member shall be expected to repurchase from the Fund the outstanding amount of its currency resulting from the noncomplying purchase normally within a period of 30 days from the date of the Executive Board decision, or (b) that the nonobservance will be waived pursuant to paragraph 5.

4. Instead of repurchasing from the Fund the outstanding amount of its currency resulting from the noncomplying purchase as provided for in paragraph 3(a), the member may request the Fund to use an equivalent amount of its holdings of the member's currency in the Fund's transactions and operations, but if such use cannot be made within 20 days from the date of the Executive Board decision the member shall be expected to make a repurchase in accordance with paragraph 3(a).

5. A waiver under paragraph 3(b) will normally be granted only if the deviation from the relevant performance criterion or other condition was minor or temporary, or if, subsequent to the purchase, the member had adopted additional policy measures appropriate to achieve the objectives supported by the relevant decision.

6. If a repurchase pursuant to the expectation under paragraph 3(a) has not been effected, the Managing Director shall submit promptly a report to the Executive Board accompanied by a proposal on how to deal with this matter, in which the Managing Director may recommend that the Fund initiate action under Article V, Section 5 of the Articles.

7. Provision shall be made in Fund arrangements for the suspension of further purchases under an arrangement whenever a mem-

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ber fails to meet a repurchase expectation pursuant to these guidelines.

8. Nothing in these guidelines shall limit the power of the Fund to take, in cases of noncomplying purchases, other action that could be taken pursuant to the Fund's Articles and Rules.

9. For the purposes of this decision:

(i) whenever the Managing Director considers there is evidence indicating that a member may have made a noncomplying purchase, but the nonobservance of the relevant performance criterion or other specified condition was de minimis in nature, as defined in paragraph 1 of Decision No. 13849, the communication referred to in paragraph 1 may be made by a representative of the relevant Area Department;

(ii) if the Managing Director determines that a member has made a noncomplying purchase and considers that the nonobservance of the relevant performance criterion or other specified condition was de minimis in nature, as defined in paragraph 1 of Decision No. 13849, the notification referred to in paragraph 2 may be made by a representative of the relevant Area Department, and the report of the Managing Director contemplated in paragraph 2 shall, wherever possible, be included in a staff report on the relevant member that deals with issues other than the noncomplying purchase and shall include a recommendation that the related nonobservance be considered to be de minimis in nature, and that a waiver for nonobservance be granted. In those rare cases when such a staff report cannot be issued to the Board promptly after the Managing Director concludes that a noncomplying purchase has been made, the Managing Director shall consult Executive Directors and, if deemed appropriate by the Managing Director, a stand-alone report on the noncomplying purchase will be prepared for consideration by the Executive Board, normally on a lapse-of-time basis; and

(iii) whenever the Executive Board finds that a noncomplying purchase has been made but that the nonobservance of the relevant performance criterion or other specified condition was de minimis in

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nature as defined in paragraph 1 of Decision No. 13849, a waiver for nonobservance shall be granted by the Executive Board.

Decision No. 7842-(84/165),
November 16, 1984,
as amended by Decision Nos. 12249-(00/77), July 27, 2000,
and 13849-(06/108),
December 20, 2006

MAKING THE MISREPORTING POLICIES LESS ONEROUS IN DE MINIMIS CASES

1. In order to address cases of misreporting that are considered to be de minimis in nature, the following amendments are hereby made to the decisions referred to below. To be considered de minimis, a deviation from a performance criterion, assessment criterion or other specified condition would be so small as to be trivial with no impact on the assessment of performance under the relevant member's program, as illustrated by the examples set out in Table 1 of EBS/06/86.

. . .[1]

Decision No. 13849-(06/108),
December 20, 2006

ESTABLISHMENT OF GENERAL POLICY TO CONDITION DECISIONS IN THE GENERAL RESOURCES ACCOUNT ON ACCURACY OF INFORMATION REGARDING IMPLEMENTATION OF PRIOR ACTIONS

Any decision on the use of resources in the General Resources Account (including decisions approving an arrangement or an outright purchase, completing a review, or granting a waiver either of applicability or for the nonobservance of a performance criterion) will

[1] Paragraphs 2–7 of this decision contain amendments that have been inserted into the respective amended decisions (i.e., Decision Nos. 7842-(84/165), 11832-(98/119) ESAF, 13561-(05/85), 11436-(97/10), 13564-(05/85), and 13183-(04/10).

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be made conditional upon the accuracy of information provided by the member regarding implementation of prior actions specified in the decision.[1] (EBS/00/121, 6/29/00)

Decision No. 12250-(00/77),
July 27, 2000

ESTABLISHMENT OF GENERAL POLICY TO CONDITION WAIVER DECISIONS IN THE GENERAL RESOURCES ACCOUNT ON ACCURACY OF INFORMATION REGARDING PERFORMANCE CRITERIA

Any decision granting a waiver for the nonobservance of a performance criterion under an arrangement will be made conditional upon the accuracy of data or other information provided by the member to assess observance of the performance criterion in question.

Any decision waiving the applicability of a performance criterion under an arrangement will be made conditional upon (i) the accuracy of the member's representation that the information necessary to assess observance of the relevant performance criterion is unavailable, and (ii) the accuracy of data provided by the member to assess observance of the same performance criterion for a preceding period (if applicable for that period). (EBS/00/121, 6/29/00)

Decision No. 12251-(00/77),
July 27, 2000

[1] Ed. Note: See also the *Concluding Remarks by the Acting Chairman—Strengthening the Application of the Guidelines on Misreporting,* EBM/00/77, July 27, 2000, where Directors also supported establishing as normal practice that all prior actions must be carried out at least five working days before the Board discussion to which they relate.

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Summing Up by the Acting Chairman on Strengthening Safeguards on the Use of Fund Resources and Misreporting of Information to the Fund—Policies, Procedures, and Remedies—Preliminary Considerations[1]
Executive Board Meeting 00/32, March 23, 2000

Reliable information is essential to every aspect of the Fund's work—surveillance, financing, and technical assistance—and is particularly important in ensuring that the Fund's resources are used for their intended purposes. As has been the practice over many years, the Fund must depend primarily on trust in members' readiness to provide the information needed and to use the Fund's resources for the purposes envisaged.

While known incidents of misreporting and misuse of the Fund's resources have been rare, many Directors noted recent instances involving allegations of misuse of Fund resources and cases of misreporting, and emphasized the importance of preserving the integrity of the Fund's reputation as a careful and prudent provider of financial assistance to members. Directors agreed that these events further underscore the need to strengthen the Fund's existing safeguards on the use of its resources.

The September 1999 Interim Committee emphasized the importance of strengthening governance at the national and international levels, and in this context called on the Fund to perform an authoritative review of its procedures and controls in order to identify ways to strengthen safeguards on the use of its funds and to report on this review at its next meeting.

In considering strengthened safeguards for the use of Fund resources, Directors noted the importance of the safeguards already in place, in particular program design, conditionality and monitoring, the availability of technical assistance, the transparency and governance initiatives, including the establishment and monitoring of codes and standards, and the recent use of special audits and the SDR-account

[1] Ed. Note: Sections on misreporting have been deleted from this summing up in light of subsequent amending decisions on misreporting (Decision Nos. 12252-(00/77), July 27, 2000 and 12249-(00/77), July 27, 2000).

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mechanism in selected cases. They stressed that these areas of Fund operations should continue to play a central role in promoting public sector integrity and accountability, thereby contributing to the safeguarding of Fund resources. Directors also noted that policies on noncomplying purchases are ex post in nature, in that they rely on the disincentives of actions taken by the Fund after the fact of misreporting has been established, and they welcomed this opportunity to review relevant aspects of the Fund's legal framework governing misreporting of information to the Fund.

Directors also welcomed the opportunity to consider an approach to assessing the adequacy of member countries' framework of safeguards that could help, ex ante, to prevent the possible misuse of Fund resources and misreporting of information. In considering the staff's proposals, Directors expressed their gratitude to the panel of six eminent outside experts, drawn from the private and public sectors, who had independently assessed these proposals. In light of these proposals, the Board has decided on a number of steps to strengthen key aspects of the Fund's framework for dealing with these issues.

Ex Ante Safeguards

Directors generally concurred that the proposed two-stage approach to safeguards assessments could provide an appropriate mechanism to strengthen existing safeguards by assessing a central bank's compliance with a series of desirable practices, rules and regulations regarding internal control procedures, financial reporting, and audit mechanisms. Safeguards assessments of central banks have the objective of providing reasonable assurance to the Fund that the central bank's control, accounting, reporting, and auditing systems in place to manage resources, including Fund disbursements, are adequate to ensure the integrity of operations. However, Directors remarked that safeguards assessments would not prevent misuse of resources by a willful override of controls or manipulation of data. They noted the view of the panel of experts that safeguards assessments will greatly enhance the ability of central banks to improve their controls, efficiency, and effectiveness, as well as their view that the assessment framework addresses the protection of member share-

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holders' resources without threatening the cooperative nature of the Fund.

Directors generally endorsed the framework for the conduct of safeguards assessments and, in particular, the focus on member countries' central banks. They agreed that the safeguards framework would include an assessment of the accountability and transparency of foreign reserves management operations assumed by agencies outside the central bank, which is sometimes the case when the fiscal agent for the Fund is not the central bank. Some Directors, however, emphasized the importance of strengthening controls and financial reporting in the government sector, and took note, in this regard, especially of the need to strengthen the quality and reliability of fiscal data and of other information related to performance criteria used in Fund-supported programs. They noted management's intention to strengthen the approach to handling data in the Fund, to which I will refer later.

Directors endorsed the proposal that an important principle of the strengthened safeguards framework become a standard requirement for Fund financial support, namely, that central banks of member countries making use of Fund resources publish annual financial statements independently audited by auditors external to the central banks in accordance with internationally accepted audit standards. In noting their agreement with the staff proposal on external audits based on international quality standards, several Directors underscored the importance of sound risk and reserve management practices, including transactions on an arm's length basis with related parties. They also endorsed the general principle of basing benchmarks on the Fund's Code of Good Practices on Transparency in Monetary and Financial Policies.

A number of Directors noted that, although they agree in principle with the staff's proposals, country-specific circumstances would need to be taken into account in the conduct of safeguards assessments. In this context, Directors stressed the importance of technical assistance in the implementation of recommendations arising from the safeguards assessments.

In the first stage of the assessment process, the authorities of a member seeking a new Fund arrangement would be expected to fur-

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nish the Fund with the documents listed in the attachment to this summing up as early as possible, and grant permission for Fund staff to hold discussions with their independent auditors. The staff would review this information to arrive at a preliminary judgment about the adequacy of the central bank's internal control systems, reporting, and internal and external audit mechanisms.

Directors supported the view that if, based on this information, the staff reaches the conclusion that the central bank's control, reporting, and auditing mechanisms appeared adequate for safeguarding Fund resources, no further steps would be undertaken. In other cases, and as a second stage, an on-site review would be undertaken by a multidisciplinary team prior to presentation of the arrangement for Board approval, or in any case no later than the first review.

On the modalities of this second stage, Directors considered that multidisciplinary teams were needed, including experts from central banks and private accounting firms. They generally concurred that the teams should be led by the staff to ensure consistency of the approach and to help achieve a continuous improvement of the assessment methodology. Directors emphasized the importance of confidentiality and the need for close monitoring and guidance of outside experts. They also recognized the confidential nature of safeguards assessment reports and, in this regard, generally agreed that the results of safeguards assessments be made available to the Executive Board in a summary form. At the same time, if requested by Board members, information referred to in the summary reports would be made more fully available by management to the Executive Board in an appropriate format and forum.

Directors considered that the introduction of safeguards assessments requires a differentiation between new and current users of Fund resources. For Fund arrangements approved after June 30, 2000, two requirements would be applied: (i) member countries' central banks would be subject to the two-stage assessment approach described above, with the expectation that in many cases the first stage would suffice, and (ii) as part of the safeguards, central banks would publish annual financial statements independently audited by auditors external to the central banks in accordance with internationally accepted audit standards.

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For Fund arrangements in effect before June 30, 2000, Directors endorsed the view that, as a transitional arrangement to minimize resource costs, the two-stage assessment approach would not be applied. However, an important part of the safeguards framework would apply—the audit arrangements in place at central banks would be assessed to determine whether the central banks publish annual financial statements independently audited by auditors external to the central banks in accordance with internationally accepted audit standards. Members with possible disbursements subject to program reviews after September 30, 2000 would be required to furnish the Fund with the documents listed in points (1) to (3) of the attachment three months before the first program review after September 30, 2000. The staff would review this information to assess the adequacy of the external audit arrangements and report its findings to management. Where improvements were deemed necessary, these and the authorities' response would be reported to the Board in the documentation for the first program review after September 30, 2000.

The resource implications of safeguards assessments would be kept under review and Directors noted management's intention to return to the Board should the resource requirements exceed those available under the Fund's current fiscal year 2001 budget proposals.

Most Directors expressed the view that safeguards assessments should be carried out on an experimental basis and that a review of the Fund's experience with this approach should be undertaken with the involvement of the outside panel of experts within 12–18 months.

…

List of Information/Documents to Obtain from Member Country Central Banks

1. Copies of audited (or unaudited if no audit is performed) financial statements for the past three years, together with related audit reports.

2. Copies of all management letters issued by the external auditors in connection with their audit of the financial statements for the past three years.

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3. Copies of all audit reports (including agreed-upon procedures engagements) issued by the external auditors during the past three years.

4. A description of the central bank's management structure, including the organizational reporting structure.

5. A description of the organizational structure and reporting lines of the internal audit department, including details of the senior management staff in the department and a summary of staff resources (experience and qualifications).

6. A summary of high-level internal controls in place for the banking, accounting, and foreign exchange departments of the central bank.

7. Listing of all reports issued by the internal audit department in the past three years and a summary description of findings. Potentially, copies of reports dealing with operational and financial controls during the same period.

8. Details of the full legal names of any subsidiaries of the central bank, and a description of their business and the nature of their relationship with the central bank. A listing of all correspondent banks.

9. A listing of all accounts held by government agencies with the central bank.

10. Copies of current legislation governing the central bank.

Failure to Meet a Repurchase Expectation and
Use of Fund's General Resources
Executive Board Meeting 85/26, February 20, 1985

...

The Executive Board agreed … that, if a member were failing to meet a repurchase expectation pursuant to the Guidelines on Corrective Action with respect to a noncomplying purchase, the Fund

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would not negotiate or approve either a stand-by or extended arrangement for the member or the use of the Fund's general resources outside an arrangement, as in the case of an overdue financial obligation to the Fund.

...

OVERDUE FINANCIAL OBLIGATIONS—AMENDED DECISIONS

1. References in Fund decisions to Decision No. 7842-(84/165) on the guidelines on corrective action in cases of misreporting and noncomplying purchases in the General Resources Account shall be understood to be references to Decision No. 12249-(00/77), July 27, 2000.

2. Decision No. 7931-(85/41), March 13, 1985, and Decision No. 7999-(85/90), June 5, 1985 are hereby abrogated. (EBS/01/122, 7/23/01)

Decision No. 12548-(01/84),
August 22, 2001

The Acting Chair's Summing Up—Safeguards Assessments—
Review of Experience and Next Steps
Executive Board Meeting 02/26, March 14, 2002

Directors considered the safeguards policy, which was adopted on an experimental basis in March 2000 as an ex ante mechanism to strengthen the IMF's framework of measures to safeguard the use of Fund resources and minimize the possibility for misreporting, to be an unqualified success. The policy has been widely accepted by central banks, and has helped improve their operations and accounting procedures while enhancing the Fund's reputation and credibility as a prudent lender. Directors, therefore, supported the staff proposal that the policy be adopted as a permanent feature of Fund operations. They expressed their gratitude to the panel of experts for their contribution in shaping the safeguards policy.

Despite improvements in central banks' safeguards over the past few years, Directors noted that the safeguards assessments com-

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pleted to date have revealed significant vulnerabilities in the controls employed by a number of central banks of borrowing member countries, which could lead to possible misreporting to the Fund or misuse of central bank resources, including Fund disbursements. In particular, safeguards assessments have revealed that (i) a substantial number of central banks' financial statements are not subject to an independent and external audit conducted in accordance with internationally accepted standards; (ii) several central banks have poor controls over foreign reserves and data reporting to the IMF; and (iii) a number of central banks have adopted an unclear financial reporting framework and inadequate accounting standards.

Directors noted that these findings indicated that significant, but avoidable, risks to Fund resources may exist in the cases concerned. Accordingly, some of the findings have warranted corrective measures under program conditionality, ranging from prior actions to policy commitments in letters of intent. Directors stressed, however, that Fund conditionality in these cases should be limited to areas highly relevant to safeguarding the use of Fund resources. They welcomed the fact that central banks have generally embraced the staff recommendations and that many have already taken steps to implement them. Directors advised the staff to tailor the assessments and remedial measures to the specific circumstances of individual countries.

Directors agreed that the coverage of safeguards assessments should extend to countries that augment an existing Fund arrangement or that have a Rights Accumulation Program, and a number favored its extension to countries with stand-alone CFFs and to countries with outstanding obligations to the Fund that do not currently have a Fund-supported program. Some Directors also favored its extension to countries with staff-monitored (SMPs), but others felt otherwise since these cases do not involve the use of Fund resources. Most Directors agreed that countries under an SMP should be encouraged to undergo safeguards assessments on a voluntary basis, as in many cases these programs are followed by formal arrangements with the Fund. While recognizing that the safeguards assessments constitute part of the Fund's broader efforts to improve transparency in member countries, Directors stressed that safeguards assessments should not be converted to an institution-building exercise, but should remain narrowly

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focused on safeguarding use of Fund resources. Most Directors agreed that safeguards assessments should not be applied to fiscal issues and other public agencies, since that would require a new mandate for the staff. Many Directors also urged the staff to raise safeguards issues in the context of Article IV consultations with countries that were not subject to a safeguards assessment, but have current outstanding obligations to the Fund, while recognizing that countries would have to voluntarily agree to discuss these issues.

Moving forward, Directors supported the shift of focus of the safeguards policy, during the next three or four years, from initial assessments to the monitoring of past commitments. They welcomed the improvements to external communications during the safeguards process proposed by the staff, and the closer coordination of corrective actions with past and ongoing technical assistance. Directors also underscored the need to strengthen internal communications among Fund staff to ensure consistency in the application of the safeguards policy.

Directors stressed that a key consideration moving forward is the modalities for monitoring the implementation of the remedies proposed by safeguards assessments. They noted that commitments made by the authorities to implement safeguards recommendations would be monitored in conjunction with overall program conditionality and that the main focus of future safeguards work would, therefore, be on the efficacy of implementation. To facilitate the monitoring of recommendations, Directors agreed that central banks should provide annually to Fund staff their annual audited financial statements and related audit reports, including management letters and special audit reports, for as long as Fund credit remains outstanding. They also agreed that the periodicity of monitoring would be influenced by the timing for implementing past recommendations and that, in some cases, on-site monitoring would be necessary.

Directors agreed that the modalities for future safeguards assessments would be broadly similar to existing procedures, except for improvements resulting from the lessons learned during the experimental period to narrow the focus and improve the effectiveness of the assessment. Therefore, all member countries receiving a new arrangement from the IMF after June 30, 2000, would be subject to a full safeguards assessment. However, the nature and extent of a safe-

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guards assessment for new arrangements where a previous assessment had already been conducted would be based on known risk factors, including the findings and date of the previous assessment, the results of the safeguards monitoring process, and possible new developments at the central bank. Also, the distinction between Stage One (off-site) and Stage Two (on-site) assessment reports would no longer apply—a single, confidential safeguards assessment report would be prepared for all new arrangements.

Directors noted the importance of deadlines for the completion of safeguards assessments and indicated that, in principle, the assessment should be completed prior to the Executive Board's approval of a new arrangement. They recognized, however, that various factors may delay the completion of a safeguards assessment and agreed to retain the deadline for completion of the assessment by no later than the first program review under the arrangement. Where the deadline is not met, either due to external factors or as a result of deliberate recommendation by the staff, Directors noted that a staff report recommending completion of a review under the arrangement would contain, in the appraisal, an explicit statement to this effect and the reasons for proposing completion of the review despite the delay in the safeguards assessment. Several Directors suggested that the current policy be augmented so that key weaknesses are addressed as soon as possible and prior to the second review under any program, although the administrative capacity of the country must be taken into account. In view of the importance of safeguards assessments to the integrity of the Fund and the benefits to members, and to minimize delays, many Directors supported the allocation of more staff resources to this task, although a number of them preferred that this be done through redeployment. Some Directors also encouraged the continued use of technical experts from central banks.

Directors concurred that safeguards assessment reports should remain confidential documents and requested that the Executive Board be kept informed on safeguards issues by (i) a summary of findings and recommendations identified by safeguards assessments in staff reports; and (ii) periodic summary reports to the Executive Board on safeguards assessments findings in general. However, a few Directors believed that countries that wish to publish their reports should be allowed to do so. Directors supported publication of the

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staff report after deletion of references to individual countries. They agreed that a review of the safeguards policy should take place in three years, if not earlier,[1] and suggested the involvement of external experts in the review process.

BUFF/02/43,
March 20, 2002, Revised April 1, 2002

The Acting Chair's Summing Up
Safeguards Assessments—Review of Experience;
The Safeguards Policy—Independent Panel's Advisory Report
Executive Board Meeting 10/76, July 23, 2010

Executive Directors welcomed the opportunity to conduct this review, which marks the 10th anniversary of the Fund's safeguards assessment policy. They noted that the policy, which was introduced in March 2000 and adopted as a permanent feature of Fund operations in March 2002, continues to be widely welcomed and yield positive results in an ever-changing central banking environment. Directors expressed their appreciation to the panel of experts for providing an independent appraisal of the safeguards process and noted the panel's conclusions and recommendations.

Directors reiterated the continued effectiveness of the safeguards policy in helping mitigate the risks of misreporting and misuse of Fund resources, and maintaining the Fund's reputation as a prudent lender. They observed the positive impact of the policy on central bank operations, evidenced by a continuing trend towards enhanced transparency and improved control systems by central banks assessed. Directors also noted that the policy has played an important role in the detection and resolution of cases involving misreporting and governance abuse, but stressed that safeguards assessments alone cannot be a panacea for governance abuse and control overrides.

[1] Ed. Note: Pursuant to Decision No. 13814-(06/98), November 15, 2006, future reviews will be conducted on an "as needed" basis. The expectation going forward is that "as needed" would generally mean a lag of at least five years between any such reviews.

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Directors agreed that the existing framework for assessing and monitoring central banks' operations remains broadly appropriate, and that the process of improving the safeguards policy needs to be continuous and sufficiently flexible to reflect evolving circumstances. Directors welcomed the panel's recommendations to update the existing framework through a sharper focus on governance and risk management in the ELRIC framework that is used in conducting safeguards assessments and enhance collaboration with stakeholders, and broadly endorsed staff's proposals in these areas. Directors also welcomed staff's suggestions to increase information sharing and encouraged central banks to make further efforts to increase their self-assessments, where feasible.

Directors affirmed that existing policy requirements for the publication of financial statements that have been independently audited by high-quality firms in accordance with international standards and the deadline of the first program review for completion of a safeguards assessment remain broadly appropriate and should continue to be applied consistently. Directors welcomed the conclusion of the panel that the risk-based safeguards monitoring framework, introduced following the previous review, has been effective. Noting the importance of continued cooperation by central banks and their external auditors for maintaining the effectiveness of the monitoring framework, Directors agreed that instances of non-receipt of monitoring information be explicitly flagged in staff reports.

Directors noted that the current framework is focused solely on central banks and that replicating safeguards assessments across the whole of government for budget financing cases remains challenging. Against the backdrop of an increasing number of such cases recently, Directors welcomed the steps taken to ensure that an appropriate framework between the central bank and the state treasury is in place for timely servicing the member's financial obligations to the Fund, and endorsed their application as a standard procedure under the existing safeguards framework. Many Directors encouraged staff to highlight fiscal safeguards risks in the staff reports involving budget financing, drawing on a variety of available diagnostic sources such as ROSC and PEFA reports. A number of Directors cautioned that

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this may not go far enough and encouraged exploration of a possible, more ambitious approach to conduct targeted safeguards assessments at the level of state treasuries, which would require a parallel assessment mandate and product.

Directors considered the confidentiality of safeguards assessment reports and options for dissemination of safeguards findings. They observed that the existing confidentiality of safeguards reports had served the due diligence aspects of the policy well, and should be retained. Directors broadly agreed that there is scope for wider dissemination of safeguards findings and welcomed the staff's proposals to adapt the existing reporting format in safeguards and staff reports and to expand the annual activity reports to the Board. Directors also agreed that confidential briefings could be provided to donors, if requested, and with the consent of the central bank, and encouraged central banks to make their own efforts in disseminating safeguards findings.

BUFF/10/115,
July 29, 2010

Summing Up by the Chairman—Emergency Financing Mechanism
Executive Board Meeting 95/85, September 12, 1995

Directors welcomed the opportunity to consider the elements of a proposed "emergency financing mechanism" (EFM) which would strengthen the ability of the Fund to respond rapidly in support of members facing a crisis in their external accounts and seeking Fund assistance. Although the wording "emergency financing mechanism" suggests a more ambitious purpose, Directors in fact considered that the topic under discussion was an emergency procedure rather than a new financing mechanism.

Directors agreed that the essence of an emergency financing mechanism was to provide for exceptional procedures that, in the event a member faced a crisis, would facilitate rapid approval of Fund support while assuring the conditionality necessary to warrant such support. In this connection, Directors generally agreed that there was not

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necessarily a link between exceptional procedures to facilitate a rapid response on the part of the Fund, on the one hand, and exceptional access, or the need for supplementary financing, on the other. However, Directors noted that, in addition to a rapid response to an emergency, the Fund may need to provide potentially large and front-loaded access, which possibly would imply the need to call upon the supplementary resources. Issues related to possible expansion of the GAB and/or the supplementary borrowing arrangements, and their modalities and criteria for activation, remain open for further consideration, and we may need to return to the question of linkages to the EFM as those discussions evolve. For the moment, however, I believe there is broad agreement among Directors on the main aspects of what would constitute emergency procedures.

While noting the staff's assurances regarding "moral hazard" and other issues raised during the Board discussion of the role of the Fund in August, most Directors stressed the importance of ensuring that the use of the emergency procedures would be limited to truly exceptional circumstances and that the Fund's role, in the context of such use, would remain catalytic. Further, use of emergency procedures would not be a guarantee against sovereign default. With regard to the key features of these emergency procedures, many Directors underscored the critical importance of strengthened Fund surveillance, and close cooperation between the Fund and the members, in order to help avoid a financial crisis and to facilitate a rapid response should a crisis occur. In that context, it was stressed by several Directors that it was a member's responsibility to come to the Fund early with a strong and comprehensive economic program in order to prevent a potential crisis from emerging and to limit the cost of repair.

There was very broad support for the circumstances and conditions under which emergency financing procedures could be initiated, and for the procedures themselves, as suggested and clarified by the staff. Some Directors expressed concern about the lack of objective criteria to identify in advance what kind of financial crisis would require and warrant a rapid Fund response, but others noted that it would be difficult to define beforehand the characteristics that would constitute such a crisis. A number of Directors would prefer to limit the use of emergency procedures to situations involving significant

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spillover or contagion effects, but most noted that such an approach would unduly restrict the availability of emergency procedures. Some Directors pointed to the lack of consensus on the meaning, in particular, of the concept of systemic effects.

In their comments, a number of Directors have emphasized the importance of continuous and substantive involvement of the Executive Board in the utilization of emergency procedures. I fully agree and have assured you that management would inform the Board immediately of its intention to activate the emergency procedures. Close communication and consultation would be maintained throughout the process, about which I will have more to say later in this summing up, and I agree on the importance of ensuring early and broad-based support in any activation of emergency procedures.

With reference to the specific elements of emergency procedures, I would list them as follows so that there is clarity for members, the staff, management, and the Board.

- The emergency procedures would be expected to be used only in rare circumstances that represented or threatened to give rise to a crisis in a member's external accounts requiring immediate response from the Fund. Identification of such an emergency would be based on an initial judgment by management, in consultation with the Executive Board, that the member was faced with a truly exceptional situation threatening its financial stability, and that a rapid Fund response in support of strong policies was needed to forestall or to contain significant damage to the country itself or to the international monetary system, it being understood that the potential for spillover effects would be an important element of the Board's final judgment.

- The conditions for activation of emergency procedures would include the readiness of the member to engage immediately in accelerated negotiations with the Fund, with the prospect of early agreement on—and implementation of measures sufficiently strong to address the problem. Prior actions normally would be expected. The member's past cooperation with the Fund, in particular its record of reporting and responding to the Fund's policy advice in the context of regular consultations and continuing surveillance, would have a strong

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bearing on the speed with which the Fund itself could assess the situation and agree on necessary corrective measures. Our important operating principle—the stronger the program, the stronger the Fund's support would also apply here.

- The Executive Board would be informed immediately by management of the intention to activate emergency procedures, the nature of the emergency and the initial outlines of the planned responses by the member and the Fund, and the likely timetable for Executive Board discussion of a proposed arrangement. Strict confidentiality would need to be maintained, and public statements should be careful not to prejudge the Board's exercise of its responsibility to take the final decision.

- A short written report would be circulated to the Executive Board as soon as feasible, describing the member's current economic situation.

- During the negotiations with the member, the Executive Board would be briefed regularly on economic and financial developments, the progress of negotiations, the likely key parameters of the program (including the level and phasing of access), the likely impact on the Fund's liquidity and the possible need to activate borrowing arrangements, and any changes in the initially envisaged timetable for Executive Board discussion of the arrangement. These briefings would provide the Board with opportunity to give guidance to management and the staff on the country's policies and the contemplated Fund assistance.

- In instances where support from other creditors is likely to be important, consultations with key creditors would be initiated at the outset of the emergency. The Executive Board would be informed of relevant developments in this area, in the context of the regular informal briefings.

- Once agreement had been reached on a program, documents would be circulated as soon as possible. The staff would aim to do this within, say, five days. The Executive Board would be prepared to consider the request for an arrangement as early as 48 to 72 hours

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after circulation of the documentation. Decisions regarding key parameters, including access and phasing, would be taken in the context of the Executive Board's consideration of the arrangement, in accordance with the existing rules and practices of the Fund.

- The early involvement and high frequency briefing of the Executive Board would be a centerpiece of the procedures facilitating a rapid Fund response. Similarly, after approval of the arrangement, and during a period of very close monitoring by the staff to allow early and continuing assessment of the effectiveness of the member's policy response, the Executive Board would continue to be involved closely in monitoring progress until the emergency was definitively resolved. In most cases, it could be expected that the full review of the initial policy response and the reaction of markets to these policies would be conducted within one to two months of the approval of the arrangement, with the aim of allowing modifications to policies as necessary in light of the evolving situation.

- Directors agreed that there would be an understanding, rather than a legal obligation, that the member would make early repurchase of the resources made available under emergency procedures, provided the member overcame its crisis quickly.

I conclude from today's meeting that Directors agree that we should strengthen the Fund's ability to act quickly in crisis situations. Directors have endorsed the broad outlines of the proposed features of what could constitute emergency procedures. I will plan to report to the Interim Committee on this basis. Of course, there are issues related to supplementary financing arrangements still under discussion, and we will consider any implications of such arrangements for the emergency financing mechanism in due course.

POST-PROGRAM MONITORING

1. If outstanding credit to a member from the Fund's General Resources Account (GRA), or from the Fund as Trustee of the Poverty Reduction and Growth Facility Trust (PRGF Trust), or a combination thereof, exceeds a threshold of 200 percent of quota, and the member does not have a program supported by a Fund arrangement or

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is not implementing a staff monitored program with reports issued to the Executive Board, or the member does not have a program supported by a Policy Support Instrument ("PSI"), the member will be expected to engage in Post-Program Monitoring (PPM) with the Fund of its economic developments and policies upon the recommendation of the Managing Director. Where the above criteria are met, the Managing Director shall recommend PPM to the Executive Board, unless, in the view of the Managing Director, the member's circumstances (in particular, the strength of the member's policies, its external position, or the fact that a successor arrangement or a staff monitored program is expected to be in place within the next six months) are such that the process is unwarranted. PPM will normally cease when the member's outstanding credit falls below the threshold of 200 percent of quota.

2. The Managing Director may also propose PPM to the Executive Board in cases where outstanding credit as defined above is below the above-specified threshold if, in the view of the Managing Director, there are developments that suggest the need of such a process, particularly, where developments call into question the member's progress toward external viability.

3. For members subject to PPM, there will normally be two PPM Board discussions in a twelve-month period. One such discussion will normally coincide with the Article IV consultation. The member will be expected to engage in discussions with staff on its policies, which shall include a quantified macroeconomic framework. The staff will report to the Executive Board on the member's policies, the consistency of the macroeconomic framework with the objective of medium-term viability, and the implications for the member's capacity to repay the Fund.

4. The Executive Board's discussion of a PPM paper will be reflected in a Public Information Notice (PIN). The publication of the PIN will follow the normal PIN procedure, including the requirement of the member's consent.

Decision No. 13454-(05/26),
March 14, 2005,

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as amended by Decision Nos. 13563-(05/85), October 5, 2005, 14184-(08/93), October 29, 2008, and 14284 (09/29), March 24, 2009

The Acting Chair's Summing Up—
Conclusions of the Task Force on Prolonged Use of Fund Resources
Executive Board Meeting 03/28, March 24, 2003

...

Directors supported a strengthening of the IMF's "due diligence" in cases of prolonged use, through systematic *ex post* assessment and strategic forward planning in the context of Article IV surveillance. An interdepartmental staff team will prepare such an assessment and planning exercise prior to the Article IV consultation mission to a country identified as a prolonged user. The assessment will reflect input from the World Bank and, in some cases, might also draw on outside experts. The exercise will cover an analysis of the economic problems facing the country, a critical and frank review of progress during the period of Fund-supported programs, and a forward-looking assessment that takes into account lessons learned and presents a strategy for future Fund engagement. Where appropriate, the assessment will present an explicit "exit strategy;" some Directors expected this to be the normal procedure. This strategy may include, in some cases, an approach to help countries identify the steps to be taken to widen their options for external financing, for example by fostering access to foreign direct investment or to international capital markets. Following the consultation discussions with the authorities, the results of this exercise will be presented to the Executive Board in the Article IV staff report. Directors considered that such an approach could also prove useful in the case of some countries that were not identified as prolonged users. In addition, the staff report for the final review under any Fund-supported program will include a concise description of the degree to which the program has achieved its initial objectives. A few Directors also called for further consideration of how best to ensure effective Board discussions of country cases where programs appear to be off-track and an Article IV Consultation is not scheduled.

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Most Directors saw the definition of prolonged use proposed by the task force and building on the IEO's recommendations as an appropriate way to identify countries for the process of *ex post* assessments and strategic planning. A country will be considered a prolonged user when it has spent 7 or more of the last 10 years under upper credit tranche stand-by or extended arrangements including precautionary arrangements, or a mix of GRA and PRGF or ESAF resources. Most Directors also supported the proposal that, for countries using the Fund's concessional resources, the new assessment process be triggered when a country has gone through two or more multi-year arrangements under the PRGF or ESAF (through either completion of the arrangements, or expiration without making all of the scheduled purchases, or cancellation). Some Directors would have preferred to come back to this issue on the occasion of the forthcoming discussion of the Fund's role in low-income countries. Directors emphasized that the inclusion of a country in this new process should not be viewed as an indication of program failure, and that, in each case, the staff will need to be clear about its assessment of program implementation and achievements. A number of Directors considered that precautionary arrangements should be excluded from the definition of prolonged use. Directors agreed to a gradual phasing in of the new assessment process in line with the existing staff resource envelope, particularly in the case of low-income countries.

...

The Acting Chair's Summing Up—Review of Ex Post Assessments and Issues Related to the Policy on Longer-Term Program Engagement Executive Board Meeting 06/46, May 15, 2006

Executive Directors welcomed the first opportunity to review the policy on Longer-Term Program Engagement (LTPE) in light of the experience gained since its introduction in 2003. As highlighted in the Report of the Independent Evaluation Office (IEO) on Prolonged Use of Fund Resources, in some cases, LTPE may signal that there has been inadequate progress in dealing with members' economic problems, and that LTPE might hinder the development of domestic institutions and could adversely affect the Fund's credibility, as well as the availability of its resources to support other members. At the

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same time, LTPE could be appropriate under certain circumstances, particularly when economic and structural problems are deep-seated and require many years to resolve.

Directors noted that ex post assessments (EPAs) have become an integral component of the Fund's overall strategy to minimize inappropriate LTPE. Underpinned by an explicit definition of LTPE, EPAs strengthen the Fund's due diligence for members identified as having long-term program relationships with the Fund. In addition to EPAs, Directors emphasized that sound program design and well-specified, targeted conditionality are key elements in ensuring that Fund-supported arrangements can meet their objectives. Effective surveillance, access policy, the Fund's charge structure, and early repurchase policies all have a role to play in ensuring the revolving character of Fund resources.

Directors welcomed the recent decline in the incidence of LTPE among countries using GRA resources. While this reflects partly the positive worldwide economic conditions, Fund policies are also an important contributing factor. Directors observed that the large majority of members having LTPE are low-income countries—where LTPE has been the norm rather than the exception. Although this should not necessarily be perceived as a serious problem, given the long-term needs of these countries for Fund support in undertaking macroeconomic and structural adjustments, Directors stressed the importance of ensuring that both GRA and PRGF resources are used in the most effective manner.

Directors had a fruitful discussion of the summary findings from the 32 EPA reports included in the exercise. They took note that, in most cases, EPAs found that the design of policies in Fund-supported programs had been consistent with the multiple macroeconomic and structural challenges that LTPE members faced, and that Fund involvement had not undermined members' institutional development. Directors noted, however, that several EPAs had been critical of the design of structural reforms, in terms of both the scope and the number of structural conditions. They underscored that, notwithstanding recent progress, efforts should continue to streamline conditionality, focusing on measures that are critical to the program's success. They emphasized that one of the key priorities of EPAs is to draw lessons on program design, including the appropriate balance between

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adjustment and financing, to help guide future Fund engagement. Directors also noted that issues related to ownership and Bank-Fund collaboration remain important factors affecting program implementation.

Directors considered that, by and large, EPAs have served their purpose and have delivered balanced reflections on the Fund's longer-term program relations with its members, explaining the macroeconomic and structural issues that confronted members over the review period, and presenting a medium-term policy program and a plan for continued Fund engagement. Directors took note that country authorities, with a few exceptions, thought that EPAs described past policies and programs accurately, drew the right conclusions, and provided valuable lessons for future policies.

Noting that EPAs remain an important institutional mechanism to distill lessons and to enhance the learning culture of the Fund, Directors supported continuing the practice of preparing them. They nevertheless saw scope for some operational modifications, with a view to enhancing their quality, credibility, and effectiveness as a policy tool for the Fund and to improving their usefulness for country authorities, while at the same time streamlining the process. Directors noted that EPAs enable the staff, management, and the Executive Board to step back from the more immediate demands of program operations and assess the effectiveness of the Fund's program engagement. However, their quality and effectiveness have been uneven. Directors agreed that the value of EPA reports could be enhanced by better selectivity and focus on a few critical issues. This would improve the analytical content of the reports and also shorten them. Directors also suggested that systematic discussions in EPAs of the reasons for program success or failure and of potential exit strategies would provide further useful lessons. They generally agreed that, the Fund's budget situation permitting, the staff should expand efforts to reach out and consult with donors, outside experts, and country authorities, taking account of the specific country situation. In this context, consideration could be given to allowing the EPA-team leader to visit the country before the report is finalized on a need basis, and, in selected cases, to hiring an external consultant, while safeguarding the confidentiality of information.

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Directors generally supported the proposed two changes in the definition of LTPE. First, Directors agreed that, to ensure uniform treatment of members, the definition of LTPE should be unified for PRGF and GRA users: members will qualify as having LTPE if they have spent seven out of ten years under Fund-supported programs. Second, Directors broadly agreed that time spent under precautionary arrangements that remain undrawn would not count toward LTPE, parallel to the treatment of members using the Policy Support Instrument. They considered that most precautionary arrangements have been used to signal authorities' commitment to a strong policy framework; being defined as having LTPE may undermine that signal. Directors agreed that, if the member draws upon a precautionary arrangement, then the period during which the arrangement is effective would count toward LTPE. The view was expressed, however, that precautionary arrangements constitute contingent liabilities and, if repeated and prolonged, raise issues regarding the revolving character of the Fund's resources.

Noting that the preparation of EPAs had been more resource intensive than originally expected, Directors discussed steps to increase their cost effectiveness. They considered that frequent EPAs on a single country are less likely to offer new insights, and therefore supported introducing an interval of at least five years between EPAs, with a few regarding this as a benchmark rather than a rule. Reducing the size of an EPA team was also suggested as another cost-saving measure.

Directors emphasized the important role EPAs should play in providing an independent and fresh perspective on Fund operations in program countries. Most Directors considered that EPAs should be a stand-alone document, prepared by an interdepartmental team, and that the team should be led by a mission chief from a department other than the home area department, while being mindful of the need to contain the cost of the overall EPA process. These Directors viewed this approach as providing the greatest insights into program design and enhancing the independence of EPAs—a view supported by empirical evidence. However, a number of Directors, pointing to the potential cost saving, agreed with the staff proposal to give discretion to area departments and management to decide whether to prepare stand-alone EPA reports—where a reassessment of policies is

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needed—or to merge them with Article IV or program review reports—where Fund-supported programs have largely achieved their objectives.

Based on this discussion, the staff will prepare revised guidelines for implementation of the policy on longer-term program engagement. These guidelines will be circulated to the Board in due course.

Credit Tranche Policies— Stand-By, Extended, Flexible Credit Line, and Precautionary Credit Line Arrangements

STAND-BY ARRANGEMENTS

1. A representation of need by a member for a purchase requested under a stand-by arrangement will not be challenged by the Fund.

2. The normal period for a stand-by arrangement will range from 12 to 18 months. If a longer period is requested by a member and is considered necessary by the Fund to enable the member to implement its adjustment program successfully, the stand-by arrangement may extend beyond this range, up to a maximum of three years.

3. Phasing and performance clauses will be omitted in stand-by arrangements within the first credit tranche. They will be included in all other stand-by arrangements but will apply only to purchases outside the first credit tranche. For an arrangement within the first credit tranche, a member may be required to describe the general policies it plans to pursue, including its intention to avoid introducing or intensifying exchange and trade restrictions.

Decision No. 12865-(02/102),
September 25, 2002,
as amended by Decision No. 14283-(09/29),
March 24, 2009

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GENERAL POLICIES ON USE OF THE FUND'S RESOURCES: TRANCHE POLICIES

…

The Fund's attitude to requests for transactions within the "first credit tranche"… is a liberal one, provided that the member itself is making reasonable efforts to solve its problems. Requests for transactions beyond these limits require substantial justification.

Annual Report of the Executive Directors,
1963, page 16 [1]

Summing Up by the Acting Chair—Lessons from the Real-Time Assessments of Structural Conditionality
Executive Board Meeting 02/36, April 3, 2002

Executive Directors welcomed the opportunity to take stock of the ongoing review of conditionality by reviewing recent experience with the interim guidelines that have been in effect since September 2000. They generally agreed that this experience is broadly positive, while pointing to some areas where implementation could be further strengthened. The central objectives of the review—streamlining and focusing conditionality on measures that are critical for achieving the program objectives, and fostering national ownership of Fund-supported programs for the purpose of enhancing the success and effectiveness of programs—continue to serve as useful benchmarks for assessing progress and for gleaning lessons from the application of conditionality in a variety of cases.

Directors reaffirmed that the purpose of streamlining conditionality is to enhance the success and effectiveness of programs by concentrating on those conditions that are critical to achieving the program's macroeconomic objectives. Directors welcomed the increased focus of conditionality on the core areas of fiscal, financial, and exchange rate policies, and stressed in particular the importance of retaining structural conditions in the fiscal domain, especially on improving expenditure management and enhancing revenue performance. Financial sector conditions, centered on strengthened su-

[1] Ed. Note: See also *Annual Reports* 1953, 1955, 1959, 1961, and 1962.

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pervision, were also seen as important, with real-time assessments highlighting the need to ensure that such measures are internally consistent and aimed at an overall strengthening of the financial system.

Directors agreed that some structural conditionality will likely remain necessary outside the Fund's core areas, when justified by the magnitude of its impact on the fiscal and external balances. In this context, they noted that measures in a variety of areas, such as privatization, governance, and public enterprise and civil service reform, had been covered by Fund conditionality, based on their critical impact on restoring the soundness of a country's public finances. Against this background, a number of Directors saw scope for further streamlining, especially in non-core areas, but a member of other Directors considered it to be preferable to err on the side of caution to ensure that all important measures are adequately covered. In discussing how best to balance the need for inclusion of critical conditionality in non-core areas with the goal of parsimony, Directors stressed that the reasons for including structural conditionality beyond the Fund's core areas should be clearly explained and clearly justified in every case in relation to the goals of the program, while noting that these goals may vary from one case to the next.

In this context, Directors agreed that, in PRGF arrangements, structural measures oriented primarily toward achieving growth and poverty reduction objectives can be considered macro-critical. The need for more work in defining and promoting sources of growth in PRGF countries, including the scope for stronger emphasis on financial sector development, was highlighted in this regard. Some Directors considered that growth-enhancing policies may also be macro-critical to restoring medium-term balance-of-payments viability and debt sustainability in the context of stand-by and extended arrangements. Directors agreed that in countries suffering sudden and massive outflows of private capital, a critical mass of frontloaded reform may be required to restore market confidence. They stressed that conditionality should nevertheless be focused on reforms that tackle the root of the crisis, and a number of Directors cautioned against overloading the program with numerous conditions that could undermine implementation capacity.

Directors noted that the need to take account of differences in country-specific circumstances has been the most important reason

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for variation in the scope and coverage of conditionality among countries in applying the interim guidelines thus far. These circumstances have typically included a possible need to establish a track record of strong policy implementation or achieve a critical mass of front-loaded reforms, or the need to take into account limitations in administrative capacity. Most Directors considered that experience thus far pointed to a broadly satisfactory use of the modalities of conditionality. It was noted, however, that, in the context of the overall review of conditionality guidelines, it would be useful to clarify the appropriate use of prior actions in light of today's discussion and the understandings reached by Directors on this issue at their meeting on January 28. While recognizing that variation in the extent of conditionality is the consequence of the wide and unique circumstances of member countries, Directors noted, however, that the inclusion or exclusion of conditions was not always clearly linked to these circumstances. A number of Directors suggested that further progress in narrowing variation among country experiences to ensure greater uniformity of treatment would be desirable, although the difficulty of developing more specific guidelines toward that end was recognized. Some Directors emphasized that a numerical approach to gauge how conditionality is being applied is less important than an approach that stresses the application of the right conditionality in individual cases.

The determination of whether any specific action is critical to the success of a particular program is inherently a matter of judgment. Directors emphasized that staff reports should, in any event, provide enough information to facilitate such judgments. In most cases, the magnitude of the fiscal impact is likely to be a key factor, suggesting that the weaker and less direct a measure's impact is on the fiscal accounts, the stronger will be the need to justify its inclusion in the program's conditionality. Directors also suggested various ways to further improve the flow of information on program conditionality in staff reports and at Executive Board meetings, and to guide judgments on the appropriateness of including or excluding certain measures.

While welcoming progress, Directors stressed that further strengthening and clarification of the collaboration with the World Bank will be key to effective streamlining of conditionality. They looked forward to undertaking a more detailed review of that process this summer, and also agreed that it would be useful to address this

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issue in the Joint Board Committee on Bank/Fund Collaboration. Directors underscored that Fund-supported programs should be consistent with an overall country-led framework, which would often require support from the World Bank and other agencies in addition to the Fund. The nature and extent of collaboration would necessarily be more extensive in PRGF countries, but, in all cases, the appropriate coverage of conditionality could be assessed only by taking proper account of the role of each agency that is involved.

A number of Directors expressed concern that the Fund's initiative in streamlining and focusing conditionality might not result in an overall reduction in conditionality when all international financial institutions were considered, and they asked for further careful assessment and monitoring of this aspect. At the same time, a number of Directors were concerned that areas no longer covered by Fund conditionality might not be adequately covered by other agencies, particularly the World Bank. To ensure that such concerns can be adequately addressed, Directors stressed the need for careful documentation in staff reports on the division of labor between the Fund and the Bank, the structure and timing of Bank conditionality, the progress achieved, and the implications for the fiscal situation and the program in general.

Directors agreed that it would be useful to consolidate the progress that has been made in this review, and, in that context, to next consider the development of new guidelines on conditionality. Building on the Interim Guidance Note of September 2000 and the experience gained since then, these guidelines would provide a framework that will enable the Fund to apply conditionality parsimoniously and consistently, based on national ownership, with the objective of enhancing the effectiveness of Fund-supported programs. Directors also looked forward to periodic reviews of the evolving experience with Fund conditionality to ensure the consistent implementation of the guidelines over time, as well as their contribution to greater program effectiveness.

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RELATIONSHIP BETWEEN PERFORMANCE CRITERIA AND PHASING OF PURCHASES UNDER FUND ARRANGEMENTS—OPERATIONAL GUIDELINES

1. The number of purchases and corresponding performance criteria in Fund GRA arrangements will depend on the circumstances of the member, provided however that there would be a minimum of two purchases (in addition to the initial purchase) and two sets of corresponding performance criteria during each 12-month period of an arrangement.[1] In considering a member's circumstances, the member's policies, and the likely timing of its balance of payments needs, and the external economic environment will be taken into account. For members facing an actual balance of payments crisis that may involve fast moving developments or an uncertain external economic environment, more frequent monitoring on a quarterly basis could be expected. In all cases, the purchase dates and the test dates for performance criteria would be expected to be distributed as evenly as possible throughout the period of the arrangement. In the case of performance criteria, the date of the first performance test would not normally be earlier than the date on which the arrangement becomes effective, and the date of the last performance test would not be earlier than three months from the end of the arrangement in cases where purchases are phased quarterly.

2. Every effort should be made to include performance criteria initially for as much of each 12-month period of a Fund GRA arrangement as possible. However, it may not always be possible to establish in advance one or more performance criteria for each 12-month period of the arrangement because of substantial uncertainties about major economic trends and normal time lags between the completion of program discussions and Executive Board discussion. Performance criteria should normally be included initially which would govern

[1] Ed. Note: Paragraph 13 of Decision No. 15017-(11/112), November 21, 2011 states: "Decision No. 7925-(85/38), adopted March 8, 1985, as amended, on the relationship between performance criteria and phasing under GRA arrangements, shall not apply to PLL arrangements."

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purchases over a period of at least six months of an arrangement. Indicative targets would normally be included at the outset for that part of each 12-month period of an arrangement for which performance criteria are yet to be established.

3. Access under a Fund GRA arrangement may be frontloaded as appropriate, taking into account a member's actual or potential need for resources from the Fund, the likely timing of the member's balance of payments need, the member's policies, the external economic environment, the sequencing of financing from other sources, and the desirability of maintaining a reasonable level of reserves.

4. Every effort should be made to: (i) limit to a minimum the lag between the beginning of a member's program and the date of discussion by the Executive Board of the member's request for a Fund arrangement; and (ii) limit the period between the approval by Fund management of the member's request and the Executive Board discussions of the request to no more than three months. Should the period in (ii) above be exceeded, the staff would confirm that the program as originally proposed remains generally appropriate. In cases where a delay indicates a significant slippage in the implementation of the agreed program, the program would be renegotiated, including the performance criteria and phasing of purchases.

5. Lags between the reporting of data relating to performance criteria should be minimized in order to preserve the reliability of data. All members are expected to limit such reporting lags to two months. Where reporting lags exceed two months, the staff will explain the reasons for such lags as well as the steps being taken to reduce them. (SM/09/69, Sup. 2, 03/24/09)

Decision No. 7925-(85/38),
March 8, 1985,
as amended by Decision Nos. 8887-(88/89), June 6, 1988, and
14281-(09/29), March 24, 2009, and
15017-(11/112),
November 21, 2011

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DEBT LIMITS IN FUND-SUPPORTED PROGRAMS—PROPOSED NEW GUIDELINES

1. Decision No. 6230-(79/140) on Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements, adopted August 3, 1979, as amended, shall be amended to read as set forth in the Attachment to this decision.

2. This decision shall become effective on December 1, 2009. Any performance criteria on external debt that are in place when this decision becomes effective shall continue to apply in accordance with their terms unless and until such criteria are amended consistent with the revised Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements.

3. It is expected that the Fund will review the implementation of the revised Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements by December 1, 2011. (SM/09/215, Sup. 2, 8/31/09) (SM/09/215, Sup. 2, 08/31/09)

Decision No. 6230-(79/140),
August 3, 1979,
as amended by Decision Nos. 11096-(95/100), October 25, 1995,
12274-(00/85), August 24, 2000, and
14416-(09/91),August 31, 2009,
effective December 1, 2009

Attachment

Guidelines on Performance Criteria with Respect to External Debt in Fund Arrangements

1. When the size and the rate of growth of external indebtedness is a relevant factor in the design of an adjustment program, a performance criterion establishing a limit on official and officially guaranteed external debt will be included in Fund arrangements in the upper credit tranches or under the PRGF-ESF Trust.

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2. For purposes of this performance criterion, the concept of "external" debt may be defined on the basis of the residency of the creditor or the currency of denomination of the debt. The residency of the creditor would normally be used as a criterion for defining external debt in the case of members with relatively closed capital accounts or very limited financial integration with the rest of the world. Each external debt performance criterion will specify which of these two criteria is being used for purposes of the definition of debt in the particular performance criterion.

3. As specified in further detail in paragraph 9 of these guidelines, the external debt performance criterion will include all forms of debt, including loans, suppliers' credits and leases, that constitute current, i.e., not contingent, liabilities, which are created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which require the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments discharge the principal and/or interest liabilities incurred under the contract.

4. The external debt performance criterion will include external debts with maturities of over one year, and, in appropriate cases and where specifically provided, other financial instruments that have the potential to create substantial external liabilities for governments.

5. The external debt performance criterion will usually be formulated in terms of debts contracted or authorized. However, in appropriate cases, it may be formulated in terms of net disbursements or net changes in the stock of external official and officially guaranteed external debt.

6. Flexibility will be exercised to ensure that the establishment of an external debt performance criterion will not discourage capital flows of a concessional nature, particularly for members to whom such concessional flows would normally be available, including members eligible for assistance under the PRGF-ESF Trust.

7. Normally, the external debt performance criterion will include a subceiling on external debt with maturities of over one year and up to

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five years; additional subceilings may also be included on debt with specified maturities beyond five years.

8. In accordance with these guidelines, the following considerations will apply when establishing an external debt performance criterion in Fund arrangements:

a. These guidelines will be applied with a reasonable degree of flexibility while safeguarding the principle of uniformity of treatment among members. These guidelines should be interpreted in the light of the Guidelines on Conditionality (Decision No. 12864-(02/102), adopted September 25, 2002, as amended.

b. The external debt performance criterion will be established in a manner that is mindful of the need to ensure consistency between external debt management policies and domestic financial policies. Where external debt per se is not a matter for concern, but adjustment programs have as a main objective to reduce excess demand pressures and restore overall balance to the public sector finances, arrangements may include a performance criterion on total debt, i.e., both domestic and foreign financing of the overall public sector deficit.

c. Normally the external debt performance criterion will relate to official and officially guaranteed external debt and will include all public enterprises and other official sector entities unless an explicit exclusion is made, as well as private debt for which official guarantees have been extended and which, therefore, constitute a contingent liability of the government. An explicit exclusion could be made for specific public enterprises or other official sector entities that are assessed to be in a position to borrow without a guarantee of the government and whose operations pose limited fiscal risk to the government.

d. In cases where the member's external debt management policy covers private sector debt without official guarantee and there is an established regulatory mechanism to control such debt, the external debt performance criterion should be adapted accordingly.

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e. The external debt performance criterion should include short-term debt of a maturity of less than one year, while allowing some flexibility in light of the different institutional reporting procedures employed by members and the statistical difficulties of recording that category.

f. The appropriate level and composition of external debt for purposes of the external debt performance criterion will be determined based on an assessment of existing and prospective developments in the member's external payments situation, the member's external debt vulnerabilities as assessed in debt sustainability analyses and its macroeconomic and public financial management capacity.

g. For members to whom concessional financing would normally be available, the following specific considerations shall apply in establishing the external debt performance criterion, taking into account the assessment and classification methodologies set forth in SM/09/215 (August 7, 2009):

(i) For members with lower capacity and higher debt vulnerabilities, the performance criterion would generally preclude any accumulation of nonconcessional external debt. Concessional external debt would be excluded from coverage of the performance criterion. For these purposes, concessional debt is defined as debt with a grant element of at least 35 percent, although a higher grant element may be required on a case-specific basis for members in this category. Concessionality would generally be determined on a debt-by-debt basis, using currency-specific discount rates based on the OECD commercial interest reference rates. Decision No. 11248-(96/38), adopted April 15, 1996, shall apply for purposes of determining the method of calculation of the discount rate.

(ii) For members with lower capacity and lower debt vulnerabilities, the performance criterion would generally set a ceiling on the accumulation of nonconcessional external debt. Concessional external debt would be excluded from coverage of the performance criterion. For these purposes, concessional debt is defined as debt with a grant element of at least 35 percent, and would be determined as specified in subparagraph (g)(i) above.

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(iii) For members with higher capacity and higher debt vulnerabilities, the performance criterion would generally be set on the present value (PV) of external debt.

(iv) For members with higher capacity and lower debt vulnerabilities, the performance criterion would generally be set on the average concessionality of new external debt, based on the most recent debt sustainability analysis.

(v) For members covered under subparagraph (g)(iii) or (g)(iv) above that also have a strong track record of macroeconomic and public financial management, significant market access, and experience in dealing with nonconcessional financing, the performance criterion could be set on nominal external debt.

h. The external debt performance criterion in arrangements of members for whom concessional financing would normally not be available will not distinguish between concessional and nonconcessional debt, but rather would be set on nominal external debt.

i. Notwithstanding subparagraphs (g)(iii) and (g)(iv) above, for a transitional period of three years following the effective date of Decision No. 14416-(09/91), targets on the PV of external debt or on the average concessionality of new external debt may be established as annual indicative targets, rather than as performance criteria.

j. In principle, a performance criterion on external debt will incorporate by reference the definition of debt set forth in point No. 9 below. Financial instruments that are not covered under the definition but have the potential to create substantial external liabilities for governments will be included in the performance criterion where appropriate, in which case they would be explicitly specified.

9. (a) For the purpose of this guideline, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (in-

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cluding currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

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GUIDELINES ON PERFORMANCE CRITERIA WITH RESPECT TO FOREIGN BORROWING—CHANGE IN IMPLEMENTATION OF REVISED GUIDELINES

For purposes of implementation of the Guidelines on Performance Criteria with Respect to Foreign Borrowing, as amended (Decision No. 6230-(79/140), the Executive Board endorses the revised method of calculation of the discount rate described in SM/96/86 (4/8/96).

Decision No. 11248-(96/38),
April 15, 1996

SM/96/86

…

Hence, the staff proposes that under arrangements approved from May 1, 1996 onwards, the average of CIRRs over the last ten years should be used as the discount rate for assessing the concessionality of loans of a maturity of at least 15 years. One effect of this change will be that some loans from multilateral development banks and from some bilateral creditors, including OECF of Japan, will be treated as concessional and excluded from borrowing limits in Fund arrangements. This should alleviate some operational problems that have arisen in the treatment of these loans.

Similar problems of frequent classification changes arise in assessing the concessionality of loans with shorter maturities. For these loans, it is proposed that instead of current CIRRs, the average CIRRs of the preceding six-month period (February 15 to August 14 or August 15 to February 14) be used in assessing the concessionality. This approach would follow more closely that used by the OECD and would reduce the frequency of changes in assessments of concessionality.

To both the ten-year and six-month averages, the same margins for differing repayment periods as those used by the OECD would continue to be added (0.75 percent for repayment periods of less than 15 years, 1 percent for 15 to 19 years, 1.15 percent for 20 to 29 years, and 1.25 percent for 30 years or more). Table 1 shows cur-

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rent CIRRs, six-month average CIRRs, and the ten-year averages of CIRRs at end-1995.[1]

The staff proposes to follow this approach as an interim methodology to ensure that frequent changes in the assessment of concessionality are minimized and that longer term multilateral and bilateral loans are not subject to the borrowing limits in Fund arrangements in a way that was not intended by the Board. This issue would be reviewed in the context of the review of borrowing limits envisaged before the end of the year referred to above.[2] Accordingly, the attached decision is proposed for adoption by the Executive Board on a lapse-of-time basis.

…

EXTENDED FUND FACILITY

I.

(i) The Executive Directors have been considering the establishment of an extended facility for members that would enable the Fund to give medium-term assistance in the special circumstances of balance of payments difficulty that are indicated in this decision. The facility, in its formulation and administration, is likely to be beneficial for developing countries in particular.

(ii) The Executive Directors have noted the studies prepared by the staff, including SM/74/58 ("Extended Fund Facility," March 8, 1974), and especially paragraphs 12 to 16 of that memorandum, in which certain situations to which an extended facility could apply, are described as follows:

> (a) an economy suffering serious payments imbalance relating to structural maladjustments in production and trade and where prices and cost distortions have been widespread;

[1] Where a CIRR is not available for a given currency or time period, a rate based on five-year government bond yields in the currency concerned is used as a proxy in Table 1 (not included in this volume).

[2] It is intended to use the 10-year averages at end-1995 throughout 1996.

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(b) an economy characterized by slow growth and an inherently weak balance of payments position which prevents pursuit of an active development policy.

(iii) The Executive Directors have noted the support for an extended facility by the Committee of the Board of Governors on the Reform of the International Monetary System and Related Issues.

(iv) Taking into account the considerations set forth above, and in particular the exceptional problems faced by some members, the Executive Directors have decided to establish a facility in accordance with the terms set forth in Section II of this decision for the purpose of giving such members medium-term assistance, consistently with Article I(v) and the other purposes of the Fund, under extended arrangements.

II.

1. The Fund will be prepared to give special assistance to members to meet balance of payments deficits for longer periods and in amounts larger in relation to quotas than has been the practice under existing tranche policies. Such assistance will be given in the form of extended arrangements in support of comprehensive programs that include policies of the scope and character required to correct structural imbalances in production, trade, and prices when it is expected that the needed improvement in the member's balance of payments can be achieved without policies inconsistent with the purposes of the Fund only over an extended period. The Fund will pay particular attention to the policy measures that the member intends to implement in order to mobilize resources and improve the utilization of them and to reduce reliance on external restrictions, the time required for these measures to have the intended effect on the balance of payments, and such other factors as the Fund considers relevant to the member's circumstances.

2. A member that contemplates making a request for an extended arrangement should consult the Managing Director before making a request under this decision. A request by a member for an extended arrangement in order to deal with a problem of the kind re-

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ferred to in this decision will be met, subject to paragraphs 3 and 4 below, if the Fund is satisfied that

(a) the solution of the member's balance of payments problem will require a longer period than the period for which the resources of the Fund are available under existing tranche policies, and

(b) the member has presented:

(i) a program, setting forth the objectives and policies for the whole period of the extended arrangement, and adequate for the solution of the member's problem; and

(ii) a detailed statement of the policies and measures for the first 12 months constituting an initiation of the program referred to in (i) considered substantial in the member's circumstances,

with the understanding that, for each subsequent 12-month period, the member will present to the Fund a detailed statement of the progress made, and the policies and measures as in (ii) that will be followed, to further the realization of the objectives of the program referred to in (i) with such modifications in the member's policies as might reasonably be considered necessary to assist it to achieve its objectives in changing circumstances.

3. Extended arrangements under this decision will be for periods not exceeding three years; where appropriate, and at the request of the member, the period of an existing extended arrangement may be lengthened up to four years. Each arrangement will prescribe the total amount, and the annual installments within the total, available in accordance with the original or any modified terms of the arrangement. Purchases in respect of each installment will be phased over the period in which it is available and will be subject to suitable performance clauses related to the implementation of those policies that are necessary for achieving the objectives of the program that the member has adopted as the basis for an extended arrangement.

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4. (a) …[1]

(b) In order to carry out the purposes of this decision, the Fund will be prepared to grant any waiver of the conditions of Article V, Section 3(*a*)(iii)[2] when necessary to permit purchases under this decision or to permit purchases under other policies that would raise the Fund's holdings of a member's currency above the limits referred to in that provision because of purchases outstanding under this decision.

5. A member that has obtained an extended arrangement under this decision will make repurchases corresponding to purchases under the extended arrangement to the extent that such purchases are still outstanding, as soon as its balance of payments problems have been overcome and, in any event, within an outside range of four to ten years after each purchase. Not later than four years after the first purchase under the extended arrangement the member will propose to the Fund a schedule of repurchases for all purchases outstanding under the extended arrangement. Normally, schedules under this paragraph will provide for repurchases in respect of each purchase of 12 equal six-monthly installments.

6. When purchases are made under extended arrangements granted pursuant to this decision, the Fund will so indicate in an appropriate manner.

7. The Fund will levy charges on holdings of a member's currency resulting from purchases outstanding under this decision in accordance with Executive Board Decision No. 4378-(74/114), adopted September 13, 1974.

8. Except as otherwise provided in this or in any subsequent related decisions, extended arrangements shall be subject to the Fund's decisions and policies on stand-by arrangements.

[1] Ed. Note: This paragraph was deleted by Decision No. 10182-(92/132), November 3, 1992.

[2] Ed. Note: Corresponds to Article V, Section 3(*b*)(iii) of the Articles of Agreement after the Second Amendment.

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9. The Fund will review this decision in the light of experience and developing circumstances when the total amount of purchases that could be made under extended arrangements is equivalent to two billion special drawing rights, and in any event not later than July 31, 1976.

Decision No. 4377-(74/114),
September 13, 1974,
as amended by Decision Nos. 6339-(79/179), December 3, 1979,
6830-(81/65), April 22, 1981, effective May 1, 1981,
8885-(88/89), June 6, 1988,
10182-(92/132), November 3, 1992,
10186-(92/132), November 3, 1992,
12343-(00/117), November 28, 2000, and
14287-(09/29),
March 24, 2009, effective April 1, 2009

REDUCTION OF BLACKOUT PERIODS IN GRA ARRANGEMENTS

1. This decision shall apply to all stand-by and extended arrangements approved by the Fund.

2. A member may purchase any amount available under the phasing provisions of an arrangement without having to demonstrate observance of any periodic performance criterion specified for the most recent relevant test date if:

(i) the purchase is requested within 45 days of the most recent test date;

(ii) the member is meeting all other conditions applicable to purchases under the arrangement;

(iii) the member has either met or been granted a waiver for nonobservance of each periodic performance criterion for the relevant test date immediately preceding the most recent test date, provided that in cases where a purchase is subject to periodic performance criteria specified for more than one test date, this paragraph (iii) shall not apply to performance criteria specified for the earlier of such test dates

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where the data is unavailable and the 45-day period referred to in paragraph 2(i) of this Decision for that earlier test date has not elapsed;

(iv) the member has met all data reporting deadlines applicable to each periodic performance criterion for the most recent relevant test date set forth in the Technical Memorandum of Understanding ("TMU");

(v) with respect to any periodic performance criterion for the most recent relevant test date for which data are available or for which the reporting deadline set out in the TMU has passed, the member has either met or been granted a waiver for nonobservance of that performance criterion; and

(vi) with respect to any performance criterion for the most recent relevant test date for which data are unavailable and the reporting deadline set out in the TMU has not passed, the member represents that such data are unavailable.

3. Any purchase made pursuant to Paragraph 2 above shall, for the purposes of the Guidelines on Corrective Action for Misreporting and Noncomplying Purchases in the General Resources Account set out in Decision No. 7842-(84/165), adopted November 16, 1984, as amended (hereinafter the "Misreporting Guidelines"), be deemed to have been made subject to a condition that any representation made by the member under Paragraph 2(vi) above is accurate.

4. When a purchase is made under Paragraph 2 in circumstances where the Misreporting Guidelines do not apply, and it is subsequently determined that the member did not observe a performance criterion for which a representation was made under paragraph 2 (vi), the Managing Director shall promptly inform Executive Directors in such manner as he deems appropriate.

5. Accordingly, to implement this Decision, the following amendments shall be made to the standard forms of the stand-by and extended arrangements set out, respectively, in Attachments A and B to Decision No. 10464-(93/130), September 13, 1993, as amended:

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(a) The first sentence of Paragraph 3 (a) of the standard form of the Stand-By Arrangement shall be modified as follows:

"Subject to paragraph 2 of Decision No. 14407, during any period in which the data at the end of the preceding period indicate that: …"

(b) The first sentence of Paragraph 3 (a) of the standard form of the extended arrangement shall be modified as follows:

"Subject to paragraph 2 of Decision No. 14407, during any period in which the data at the end of the preceding period indicate that: …"

6. This Decision is expected to be reviewed no later than three years after the date of its adoption. (SM/09/226, Sup. 1, 10/23/09)

Decision No. 14407-(09/105),
October 26, 2009

STAND-BY AND EXTENDED ARRANGEMENTS—STANDARD FORMS

The Executive Board approves the standard forms of stand-by and extended arrangements contained in Attachments A and B to SM/93/207 (9/3/93), and the standard clauses contained in Attachment C to SM/93/207, to be added to those arrangements in cases of requests for (i) a decision on external contingency financing under the compensatory and contingency financing facility in association with an arrangement, or (ii) set-asides in support of operations involving debt reduction.

Decision No. 10464-(93/130),September 13, 1993,
as amended by Decision Nos. 14287-(09/29), March 24, 2009,
effective April 1, 2009, and
14407-(09/105),
October 26, 2009

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Attachment A

Form of Stand-By Arrangement

Attached hereto is a letter [, with annexed memorandum,] dated _____ from (Minister of Finance and/or Governor of Central Bank) requesting a stand-by arrangement and setting forth:

(a) the objectives and policies that the authorities of (member) intend to pursue for the period of this stand-by arrangement;

(b) the policies and measures that the authorities of (member) intend to pursue the [first year] of this stand-by arrangement; and

(c) understandings of (member) with the Fund regarding [a] review[s] that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of (member) will pursue for the remaining period of this stand-by arrangement.

To support these objectives and policies the International Monetary Fund grants this stand-by arrangement in accordance with the following provisions:

1. [For a period of _____ years from _____] [For the period from _____ to _____] (member) will have the right to make purchases from the Fund in an amount equivalent to SDR _____ million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this stand-by arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR _____ million, provided that purchases shall not exceed the equivalent of SDR _____ million until _____, and the equivalent of SDR _____ million until _____.

(b) The right of (member) to make purchases during the remaining period of this stand-by arrangement shall be subject to such phasing as shall be determined.

(c) None of the limits in (a) or (b) above shall apply to a purchase under this stand-by arrangement that would not increase the

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Fund's holdings of (member's) currency subject to repurchase beyond 25 percent of quota.

3. (Member) will not make purchases under this stand-by arrangement that would increase the Fund's holdings of (member's) currency subject to repurchase beyond 25 percent of quota:

(a) Subject to paragraph 2 of Decision No. 14407, during any period in which the data at the end of the preceding period indicate that:[1]

(i) [the limit on net international reserves of [Central Bank] described in paragraph ___ of the attached [letter] [memorandum]], or

(ii) [the limit on the net domestic borrowing of the public sector described in paragraph ___ of the attached [letter] [memorandum]], or

(iii) [the limit on the net domestic assets of the Central Bank described in paragraph ___ of the attached [letter] [memorandum]], or

(iv) [these provisions would incorporate other [quantitative or structural] performance criteria monitored at the end of the preceding period]

[specified in [Tables 1, 2, 3, and 4] [paragraphs .....], respectively, of the [letter] [memorandum] is not observed; or

(b) [if at any time during the period of the arrangement] [while]

(i) [the limit on the contracting and guaranteeing of external public debt with original maturity of ___ described in paragraph ___ of the attached [letter] [memorandum]], or

(ii) [the limit on external payments arrears described in paragraph ___ of the attached [letter] [memorandum]], or

[1] The performance criteria enumerated here are examples only.

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(iii) [these provisions would incorporate other [quantitative or structural] performance criteria continuously monitored]

[specified in [Tables 5, 6, and 7] [paragraphs ___], respectively, of the [letter] [memorandum] is not observed, or

(c) after _____ and _____, until the respective review[s] contemplated in paragraph ___ of the attached [letter] [memorandum] is [are] completed, or

(d) if at any time during the period of the stand-by arrangement, (member)

(i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or

(ii) introduces or modifies multiple currency practices;[1] or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When (member) is prevented from purchasing under this stand-by arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. (Member) will not make purchases under this stand-by arrangement during any period in which (Member): (i) has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation in respect of a noncomplying purchase pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action, or (ii) is

[1] Ed. Note: As per Decision No. 8648-(87/104), July 17, 1987, the phrase "multiple currency practices" in decisions of the Fund relating to the use of the Fund's resources does not, except as otherwise provided, include multiple currency practices applying solely to capital transactions.

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failing to meet a repayment obligation to the PRG Trust established by Decision No. 8759-(87/176) PRGT, as amended, or a repayment expectation to that Trust pursuant to the provisions of Appendix I to the PRG Trust Instrument.

5. (Member's) right to engage in the transactions covered by this stand-by arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibilty of (member). When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

6. Purchases under this stand-by arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of (member), the Fund agrees to provide SDRs at the time of the purchase.

7. (Member) shall pay a charge for this stand-by arrangement in accordance with the decisions of the Fund.

8. (a) (Member) shall repurchase the amount of its currency that results from a purchase under this stand-by arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as (member's) balance of payments and reserve position improves.

(b) Any reductions in (member's) currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the stand-by arrangement member) shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to (mem-

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ber) or of representatives of (member) to the Fund. (Member) shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of (member) in achieving the objectives and policies set forth in the attached letter [and annexed memorandum].

10. In accordance with paragraph ____ of the attached letter, (member) will consult the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 above have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while (member) has outstanding purchases in the upper credit tranches, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning (member's) balance of payments policies.

Attachment B

Form of Extended Arrangement

Attached hereto is a letter [, with annexed memorandum,] dated _____ from (Minister of Finance and/or Governor of Central Bank) requesting an extended arrangement and setting forth:

(a) the objectives and policies that the authorities of (member) intend to pursue for the period of this extended arrangement;

(b) the policies and measures that the authorities of (member) intend to pursue during the first year of this extended arrangement; and

(c) understandings of (member) with the Fund regarding reviews that will be made of progress in realizing the objectives of the program and of the policies and measures that the authorities of (member) will pursue for the second and third years of this extended arrangement.

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To support these objectives and policies the International Monetary Fund grants this extended arrangement in accordance with the following provisions:

1. For a period of [three years] from _____ (member) will have the right to make purchases from the Fund in an amount equivalent to SDR _____ million, subject to paragraphs 2, 3, 4, and 5 below, without further review by the Fund.

2. (a) Purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR_____ million until _____, the equivalent of SDR_____ million until _____, the equivalent of SDR_____ million until _____, and the equivalent of SDR_____ million until _____.

(b) Until (end of second year) purchases under this extended arrangement shall not, without the consent of the Fund, exceed the equivalent of SDR _____ million.

(c) the right of (member) to make purchases during the second and third years shall be subject to such phasing as shall be determined.

3. (Member) will not make purchases under this extended arrangement:

(a) Subject to paragraph 2 of Decision No. 14407, during any period in which the data at the end of the preceding period indicate that:[1]

(i) [the limit on net international reserves of [Central Bank] described in paragraph ___ of the attached [letter] [memorandum]], or

(ii) [the limit on net domestic borrowing of the public sector described in paragraph ___ of the attached [letter] [memorandum]], or

[1] The performance criteria enumerated here are examples only.

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(iii) [the limit on the net domestic assets of the Central Bank described in paragraph ___ of the attached [letter] [memorandum]], or

(iv) [these provisions would incorporate other [quantitative or structural] performance criteria monitored at the end of the preceding period]

[specified in [Tables 1, 2, 3 and 4] [paragraphs ____], respectively, of the [letter] [memorandum] is not observed; or

(b) [if at any time during the period of the arrangement] [while]

(i) [the limit on the contracting or guaranteeing of external public debt with original maturity of ____ described in paragraph ___ of the attached [letter] [memorandum]], or

(ii) [the limit on external payments arrears described in paragraph ___ of the attached [letter] [memorandum]], or

(iii) [these provisions would incorporate other [quantitative or structural] performance criteria continuously monitored]

[specified in [Tables 5, 6 and 7] [paragraphs ___], respectively, of the [letter] [memorandum]], is not observed, or

(c) after ____ and ____, until the review[s] contemplated in paragraph ___ of the attached [letter] [memorandum] is [are] completed, or

(d) if at any time during the period of the extended arrangement, (member)

(i) imposes or intensifies restrictions on the making of payments and transfers for current international transactions, or

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(ii) introduces or modifies multiple currency practices;[1] or

(iii) concludes bilateral payments agreements which are inconsistent with Article VIII, or

(iv) imposes or intensifies import restrictions for balance of payments reasons.

When (member) is prevented from purchasing under this extended arrangement because of this paragraph 3, purchases will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

4. (Member) will not make purchases under this extended arrangement during any period in which (Member): (i) has an overdue financial obligation to the Fund or is failing to meet a repurchase expectation in respect of a noncomplying purchase pursuant to Decision No. 7842-(84/165) on the Guidelines on Corrective Action, or (ii) is failing to meet a repayment obligation to the PRG Trust established by Decision No. 8759-(87/176) PRGT, as amended, or a repayment expectation to that Trust pursuant to the provisions of Appendix I to the PRG Trust Instrument.

5. (Member's) right to engage in the transactions covered by this extended arrangement can be suspended only with respect to requests received by the Fund after (a) a formal ineligibility, or (b) a decision of the Executive Board to suspend transactions, either generally or in order to consider a proposal, made by an Executive Director or the Managing Director, formally to suppress or to limit the eligibility of (member). When notice of a decision of formal ineligibility or of a decision to consider a proposal is given pursuant to this paragraph 5, purchases under this arrangement will be resumed only after consultation has taken place between the Fund and (member) and understandings have been reached regarding the circumstances in which such purchases can be resumed.

[1] Ed. Note: As per Decision No. 8648-(87/104), July 17, 1987, the phrase "multiple currency practices" in decisions of the Fund relating to the use of the Fund's resources does not, except as otherwise provided, include multiple currency practices applying solely to capital transactions.

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6. Purchases under this extended arrangement shall be made in the currencies of other members selected in accordance with the policies and procedures of the Fund, unless, at the request of (member), the Fund agrees to provide SDRs at the time of the purchase.

7. (Member) shall pay a charge for this extended arrangement in accordance with the decisions of the Fund.

8. (a) (Member) shall repurchase the amount of its currency that results from a purchase under this extended arrangement in accordance with the provisions of the Articles of Agreement and decisions of the Fund, including those relating to repurchase as (member's) balance of payments and reserve position improves.

(b) Any reductions in (member's) currency held by the Fund shall reduce the amounts subject to repurchase under (a) above in accordance with the principles applied by the Fund for this purpose at the time of the reduction.

9. During the period of the extended arrangement (member) shall remain in close consultation with the Fund. These consultations may include correspondence and visits of officials of the Fund to (member) or of representatives of (member) to the Fund. (Member) shall provide the Fund, through reports at intervals or dates requested by the Fund, with such information as the Fund requests in connection with the progress of (member) in achieving the objectives and policies set forth in the attached letter [and annexed memorandum].

10. In accordance with paragraph ___ of the attached letter, (member) will consult with the Fund on the adoption of any measures that may be appropriate at the initiative of the government or whenever the Managing Director requests consultation because any of the criteria in paragraph 3 above have not been observed or because the Managing Director considers that consultation on the program is desirable. In addition, after the period of the arrangement and while (member) has outstanding purchases under this arrangement, the government will consult with the Fund from time to time, at the initiative of the government or at the request of the Managing Director, concerning (member's) balance of payments policies.

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COMPLETION OF REVIEWS UNDER STAND-BY AND EXTENDED ARRANGEMENTS

The Fund shall not complete a review under a stand-by or extended arrangement unless and until all other conditions for the availability of an associated purchase have been met or waived (EBS/00/172, 8/18/00).

Decision No. 12278-(00/86),
August 25, 2000

FLEXIBLE CREDIT LINE (FCL) ARRANGEMENTS

1. The Fund decides that resources in the credit tranches may be made available under a Flexible Credit Line (FCL) arrangement, in accordance with the terms and conditions specified in this Decision.

2. An FCL arrangement shall be approved upon request in cases where the Fund assesses that the member (a) has very strong economic fundamentals and institutional policy frameworks, (b) is implementing—and has a sustained track record of implementing—very strong policies, and (c) remains committed to maintaining such policies in the future, all of which give confidence that the member will respond appropriately to the balance of payments difficulties that it is encountering or could encounter. In addition to a very positive assessment of the member's policies by the Executive Board in the context of the most recent Article IV consultations, the relevant criteria for the purposes of assessing qualification for an FCL arrangement shall include: (i) a sustainable external position; (ii) a capital account position dominated by private flows; (iii) a track record of steady sovereign access to international capital markets at favorable terms; (iv) a reserve position that is relatively comfortable when the FCL is requested on a precautionary basis; (v) sound public finances, including a sustainable public debt position; (vi) low and stable inflation, in the context of a sound monetary and exchange rate policy framework; (vii) the absence of bank solvency problems that pose an immediate threat of a systemic banking crisis; (viii) effective financial sector supervision; and (ix) data transparency and integrity.

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3. In light of the qualification criteria set out in paragraph 2 of this Decision, and except for the review requirement specified in paragraph 5 of this Decision, FCL arrangements shall not be subject to performance criteria or other forms of ex-post program monitoring.

4. There shall be no phasing under FCL arrangements and, accordingly, the entire amount of approved access will be available to the member upon approval of an FCL arrangement. A member may make one or more purchases up to the amount of approved access at any time during the period of the FCL arrangement, subject to the provisions of this Decision. The Fund shall not challenge a representation of need by a member for a purchase requested under an FCL arrangement.

5. (a) The Fund may approve a member's request for an FCL arrangement of either one year or two years duration. For FCL arrangements with a two-year duration, no purchase shall be made after one year has elapsed from the date of the approval of the FCL arrangement until an Executive Board review of the member's policies has been completed. Such a review will assess the member's continued adherence to the qualification criteria specified in paragraph 2 of this Decision, and would be scheduled with the objective of completion by the Executive Board immediately prior to the lapse of the one-year period referred to above.

(b) An FCL arrangement will expire upon the earlier of: (i) the expiration of the approved term of the arrangement; (ii) the purchase by a member of the entire amount of approved access under the FCL arrangement; or (iii) the cancellation of the FCL arrangement by the member. Upon expiration of an FCL arrangement, the Fund may approve additional FCL arrangements for the member in accordance with the terms of this Decision.

6. (a) The following procedures and arrangements for consultations with the Executive Board will apply following a member's expression of interest in an FCL arrangement:

(i) Staff will conduct a confidential preliminary assessment of the qualification criteria set forth in paragraph 2.

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(ii) Where support from other creditors is likely to be important in helping a member address its balance of payments difficulties, staff will consult with key creditors as appropriate.

(iii) Once management decides that access to Fund resources under this Decision may be appropriate, it will consult with the Executive Board promptly in an informal meeting. For this purpose, Executive Directors will be provided with a concise staff note setting out the basis on which approval could be recommended under this Decision, including (I) a rigorous assessment of the member's actual or potential need for Fund resources and repayment capacity, and (II) an assessment of the impact of the arrangement on Fund liquidity in cases where it is contemplated that access would exceed 1000 percent of quota or SDR 10 billion, whichever is lower.

(iv) When the Managing Director is prepared to recommend approval of an FCL arrangement, the relevant documents, including (I) a written communication from the member requesting an FCL arrangement and outlining its policy goals and strategies for at least the duration of the arrangement as well as its commitment, whenever relevant, to take adequate corrective measures to deal with shocks that have arisen or that may arise, and (II) a staff report that assesses the member's qualification for financial assistance under the terms of this Decision, will be circulated to the Board. An assessment of the impact of the proposed FCL arrangement on the Fund's finances and liquidity position will be included in the staff report.

(v) The minimum periods applicable to the circulation of staff reports to the Executive Board shall apply to requests under this Decision, provided that the Executive Board will generally be prepared to consider a request within 48 to 72 hours after the circulation of the documentation in exceptional circumstances, such as an urgent actual balance of payments need.

(b) A member requesting an FCL arrangement would not be subject to the Fund's policy on safeguards assessments for Fund arrangements. However, at the time of making a formal written request for an FCL arrangement, such a member requesting an FCL arrangement

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will provide authorization for Fund staff to have access to the most recently completed annual independent audit of its central bank's financial statements, whether or not the audit is published. This will include authorizing its central bank authorities and the central bank's external auditors to discuss the audit findings with Fund staff, including any written observations by the external auditors regarding weaknesses observed in internal controls. The member will be expected to act in a cooperative manner during such discussions with the staff. For as long as Fund credit is outstanding under this Decision, the member will also provide staff with copies of annual audited financial statements and management letters, together with an authorization to discuss audit findings with the external auditor.

7. The Emergency Financing Mechanism (EFM) procedures set forth in BUFF/95/102, 9/21/1995 shall not apply to requests for FCL arrangements.

8. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.

9. Paragraph 1 of Decision No. 12865-(02/102), adopted September 25, 2002, shall be deleted, and Paragraph 2, 3 and 4 of the Decision shall be renumbered as Paragraph 1, 2 and 3, respectively.

10. [Deleted][1]

Decision No. 14283-(09/29),
March 24, 2009.
as amended by Decision No. 14714-(10/83),
August 30, 2010

[1] Ed. Note: Paragraph 10 was deleted by Decision No. 14714-(10/83), August 20, 2010.

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THE FUND'S MANDATE—FLEXIBLE CREDIT LINE (FCL) ARRANGEMENTS

1. …[1]

2. All FCL arrangements with a twelve-month duration that are in effect as of the date of this Decision are amended to eliminate the requirement that the Executive Board conduct a review of the member's policies six months from the date of approval of these arrangements. (SM/10/162, Sup. 4, 8/31/10)

Decision No. 14714-(10/83),
August 30, 2010

THE FUND'S MANDATE—REVIEW OF DECISIONS ON FCL ARRANGEMENTS AND PCL ARRANGEMENTS

The decision on Flexible Credit Line Arrangements, Decision No. 14283-(09/29), adopted March 24, 2009, as amended, and the decision on Precautionary Credit Line Arrangements, Decision No. 14715, adopted August 30, 2010, shall be reviewed jointly by the Fund no later than two years after the date of adoption of this decision, or whenever aggregate outstanding credit and commitments under these two decisions reach SDR 100 billion, whichever is earlier. (SM/10/162, Sup. 4, 8/31/10)

Decision No. 14717-(10/83),
August 30, 2010

[1] Ed. Note: Paragraph 1 amended Sections 5(a) and 6(b)(iii) and deleted Section 10 of Decision No. 14283-(09/29), March 24, 2009.

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The Chairman's Summing Up—Review of the Flexible Credit Line and Precautionary Credit Line; The Fund's Financing Role—Reform Proposals on Liquidity and Emergency Assistance
Executive Board Meeting 11/112, November 21, 2011

The Executive Board today adopted decisions to further strengthen the Fund's General Resources Account (GRA) lending toolkit, by establishing the Rapid Financing Instrument (RFI) and the Precautionary and Liquidity Line (PLL), the latter in place of the Precautionary Credit Line (PCL). The decisions were informed by the first review of the Flexible Credit Line (FCL) and PCL, which was also completed by Executive Directors today.

Review of the FCL and PCL

Most Directors endorsed the main findings of the review of the FCL and PCL. They welcomed, in particular, that these instruments have provided valuable insurance and helped boost market confidence during a period of heightened risks. The limited use of these instruments reflects in part a preference for self-insurance, remaining perceptions of stigma associated with Fund financing, and concerns over perceived lack of flexibility. Directors welcomed staff recommendations that could help address these concerns.

Directors supported the staff's proposals to enhance transparency in the assessments of access under FCL and PLL arrangements, which would facilitate comparison and evenhandedness across arrangements. At the same time, they recognized that there would need to be a degree of judgment in determining the level of access, with due consideration of country-specific factors. In this context, Directors saw merit in linking the assessment of balance of payments needs in each case more closely with adverse scenarios, which would, among others, help guide reserve use assumptions—carefully anchored on measures of reserve needs that are relevant for the particular country.

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With regard to qualification, Directors generally supported the proposed greater focus on qualitative and forward-looking factors embedded in the FCL/PLL qualification frameworks, including through increased reliance on the most recent Article IV consultations and Financial Sector Assessment Program assessments. Directors also noted that in-house vulnerability analyses could provide a useful input into the process, and called for care to be taken to ensure transparency and clarity in the qualification analysis.

Directors noted that access under the FCL and PLL instruments is a temporary supplement to reserves during periods of heightened risks. They reaffirmed the normal expectation of reduced access under successor FCL arrangements as set forth BUFF/10/125, and agreed that the same expectation would also be applicable to successor PLL arrangements. Discussing the country's external risks and exit expectations in staff reports requesting FCL and PLL arrangements should help promote timely exit. A number of Directors nevertheless preferred more clearly articulated exit strategies, while a few others cautioned that excessive rigidity could undermine the objectives of these instruments. A number of Directors saw scope for considering stronger price-based incentives to discourage prolonged and large precautionary arrangements, with some requesting that staff develop concrete proposals for Board consideration.

Rapid Financing Instrument

Directors supported the establishment of the RFI, replacing the current emergency assistance policy for post-conflict situations and natural disasters with a streamlined and more flexible instrument within the credit tranches, consistent with the spirit of the recent GRA reforms. They underscored that, in the absence of a requirement for upper credit tranche-quality policies, the safeguards embedded in the RFI's design would need to be strictly implemented. Directors confirmed that members could obtain RFI financing to address urgent balance of payments needs that, if not addressed, would result in an immediate and severe economic disruption, so long as the other requirements for RFI financing were met. They noted that they would expect this instrument to be used mainly to address exogenous shocks, and in post-conflict and other fragile situations.

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Directors noted that, despite the repeal of Emergency Natural Disasters Assistance (ENDA) and Emergency Post-Conflict Assistance (EPCA), existing holdings of the member's currency resulting from purchases under these instruments would remain subject to their current financing terms. Some Directors expressed concern about the potential impact on vulnerable members of credit tranche surcharges that could be applied when access under the RFI is combined with large access under another instrument or facility, whereas surcharges were not applicable to purchases under the ENDA and EPCA. They welcomed the intention to monitor and address this issue, if necessary, at the time of the first review of the RFI decision.

Precautionary and Liquidity Line

Directors considered the PLL proposal to allow Fund financing of members with an actual balance of payments need at the time of approval of the arrangement, and allow six-month arrangements to meet short-term balance of payments needs. A range of views were expressed, including on the limited experience with the PCL, the risk of tiering of the Fund's membership, the appropriate access levels, and the similarity to Stand-By Arrangements. Nevertheless, in a spirit of compromise, most Directors viewed the reform as a practical step to enhance the flexibility, usefulness, and coherence of the toolkit, while preserving adequate safeguards.

Directors underlined the importance of appropriate ex ante and ex post conditionality. They emphasized that the specific type of ex post conditionality under a PLL arrangement with a duration of one year or longer should be determined on a case-by-case basis in accordance with the Guidelines on Conditionality, taking into account the country's remaining vulnerabilities.

Directors urged careful qualification assessments, including explicit consideration of the suitability of the duration of the arrangement relative to the member's balance of payments need and remaining vulnerabilities. With regard to six-month arrangements, the requirement is that the 250 percent access limit would not be exceeded except in exceptional circumstances where the member faces a

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balance of payments need that is of a short-term nature and results from the impact of exogenous shocks, including heightened regional or global stress conditions whose occurrence would be expected to be rare. Directors noted that determining, as well as communicating, the impact of heightened stress conditions would require extra care. A few Directors also noted that a member drawing on a six-month PLL arrangement would be expected normally, as its balance of payments and reserve position improves, to effect an early repayment of these drawings. Directors welcomed the procedures for early Board involvement that would be applicable to all PLL arrangements, irrespective of access or duration.

Directors noted the staff's assessment that the proposed reforms may increase upfront calls on Fund resources, but that the net effect is likely to be relatively limited. They looked forward to a timely discussion of the adequacy of Fund resources and greater clarity on the Fund resource envelope that would be required to meet potential financing needs across the membership.

BUFF/11/148,
December 2, 2011

OMNIBUS PAPER ON EASING WORK PRESSURES

Decision A. Lapse of Time Procedures for Completion of Program Reviews

The Fund decides to approve the lapse of time procedures for completion of program reviews set forth in the Attachment to this Decision. The presumption set forth in paragraph 2 of the Attachment will come into effect for program reviews for which a Policy Consultation Meeting is held after the date of this Decision. The provisions of Decision No. 14003-(07/107), December 6, 2007, shall continue to apply to cases where a Policy Consultation Meeting was undertaken prior to the date of this Decision but where the relevant review has yet to be completed. Decision No. 14003-(07/107) shall lapse upon the earlier of the completion of the last review to which Decision No. 14003-(07/107) applies or January 31, 2010.

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Attachment to Decision A

Lapse of Time Completion of Program Reviews

1. The completion of a program review under a Fund arrangement on a lapse of time basis may be proposed by the Managing Director with the approval of the Executive Director for the member concerned, or by the Executive Director for the member concerned, in accordance with the procedures set forth herein.

2. **Eligibility:** Completion of a program review on a lapse of time basis will be presumed where all of the following conditions apply**:** (i) the relevant arrangement does not involve exceptional access; (ii) the most recent program review under the relevant arrangement was not concluded on a lapse of time basis; (iii) the review to be completed does not raise general policy issues requiring Board discussion; (iv) all prior actions for the review have been met; (v) the review does not introduce major changes in the objectives or design of the program, including but not limited to, an augmentation of access, major changes in conditionality for future reviews, the combination of future reviews envisaged under the arrangement, or the rephasing of disbursements; and (vi) performance under the member's program does not raise concerns as to whether the review should be completed, in particular as a result of deviations, other than minor deviations, from the quantitative performance criteria and structural benchmarks. Where these conditions are not met, a program review would not be eligible for completion on a lapse of time basis.

3. Procedures for Proposing Lapse of Time:

(a) By the Managing Director: The Managing Director's proposal for completion of a program review on a lapse of time basis will be made at the time of circulation of the staff paper for the review to the Executive Board. The cover memorandum for the circulated staff paper will: (i) include a deadline for Executive Directors to object to a proposal by the Managing Director for lapse of time completion that is consistent with paragraph 4 below; (ii) specify the date upon which the decision will become effective if no objection to the proposal for lapse of time completion is received; (iii) specify a reserved date,

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consistent with minimum circulation periods for program reviews, for discussion if an Executive Director objects to the proposal for lapse of time consideration; and (iv) explain the reasons why lapse of time completion is warranted. Should the Managing Director judge that a member meets the lapse of time criteria, but the Executive Director for the member concerned does not approve, the cover memorandum circulating the staff paper would include a notation to this effect.

(b) By the Executive Director for the Member Concerned: The Executive Director for the member concerned may propose the completion of a program review on a lapse of time basis no more than two business days after the issuance of the staff paper for the program review to the Executive Board, and preferably, as soon as possible after the circulation of the staff paper. A notification from the Executive Director for the member concerned proposing lapse of time completion of a program review will be issued to the Executive Board and shall: (i) include a deadline for Executive Directors to object to the proposal for lapse of time completion that is consistent with paragraph 4 below; (ii) specify the date upon which the decision will become effective if no objection to the proposal for lapse of time completion is received; (iii) specify a reserved date, consistent with minimum circulation periods for program reviews, for discussion if an Executive Director objects to the proposal for lapse of time consideration; and (iv) set out the reasons presented by the Executive Director for the member concerned as to why lapse of time completion is warranted

4. **Objections:** An Executive Director may object to a proposal for lapse of time completion of a program review no later than five business days after the issuance of the staff paper for the program review to the Executive Board, and need not state the reason for such objection. Whenever an Executive Director objects to completion of a program review on a lapse of time basis, the staff paper for the program review shall be discussed by the Executive Board on the date that has been reserved for discussion, consistent with the minimum circulation guidelines for staff papers for program reviews.

5. **Effective Date of Review:** If no objection is received to a proposal for a lapse of time completion of a program review during the period

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in which such objections may be made, the proposed decision(s) associated with the program review will be approved with effect on the date of effectiveness stated in the cover note described in paragraph 3 above. (SM/09/213, Sup. 3, 08/31/09)

Decision B. Ex-Post Evaluations

The Fund decides, with effect from the date of this decision, to approve the proposal to allow multi-country ex-post evaluations, as set forth in paragraph 6 of SM/09/213, August 5, 2009.

Paragraph 6 of SM/09/213

> "6. **It is proposed that ex post evaluations be conducted on a multi-country basis where feasible (e.g., after a global shock), thus also facilitating cross-country comparison.** These assessments would involve cross-country analyses of whether justifications presented at the outset of the programs were consistent with Fund policies and review performance under the programs.[1] Consistent with the current guidelines, the cross-country analyses would also assess the appropriateness of the policy response—including the mix of financing and adjustment—based on the outturn. In line with BUFF/02/159, these assessments would be completed—approved by management for circulation to the Board—within a year of the end of the arrangements."

Decision C. Ex-Post Assessments

The Fund decides, with effect from the date of this decision, to approve the proposals on ex-post assessments set forth in paragraphs 9 and 10 of SM/09/213, August 5, 2009.

[1] See SM/02/246, 7/30/02.

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Paragraphs 9 and 10 of SM/09/213

"9. **EPA updates**. A second EPA report ("EPA update") will soon be required for several member countries. Under current guidelines, these updates have the same depth of coverage as the first report for the country, requiring therefore as many resources:[1] Hence, two proposals:

• **Streamlined EPA updates.** A streamlined EPA format—focusing on lessons identified in the first EPA and performance since then—would be adopted by default, as permitted under the revised operational guidelines mentioned above. A comprehensive EPA update would only be needed if, during the period relevant for the update, a program has been canceled or interrupted for more than six months. The Executive Board would be informed of the upcoming preparation of a streamlined EPA at the penultimate review of the current arrangement—or at an informal country matters session, if no current arrangement exists—up to six months in advance of the required EPA, affording Directors the opportunity to request a comprehensive EPA on a case-by-case basis.

• **One year suspension.** Given the crisis-related demands on staff resources, the requirement for an EPA update for members with LTPE if the original report was issued more than five years earlier would be suspended for a year.[2] For members covered by this suspension, staff would be expected to prepare an EPA after the suspension period ends. If a country approached the Board with a request for a successor arrangement during this period, the request would be expected to include a discussion of progress made in

[1] The last review of EPA (SM/06/115) estimated that an average EPA required six staff months to prepare, with estimates ranging 0.2 to 1.1 staff years.

[2] The Executive Board had earlier approved a temporary suspension of the EPA requirement until September 2009 (SM/09/154).

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meeting the objectives of past arrangements (e.g., a box in the staff report).

10. **Cross-country EPAs:** As for EPAs, the option should be open for staff to undertake cross-country EPAs, where feasible and where they see cases with significant cross-cutting themes."

Decision D. Procedural Deadlines for Completing Article IV Consultations

The last sentence of paragraph 17 of Decision No. 13919-(07/51), June 15, 2007 shall be amended to read as follows:

"It is expected that no later than sixty-five days after the termination of discussions between the member and the staff, the Executive Board will reach conclusions and thereby complete the consultation under Article IV, except in the case of consultations with members eligible for financing under the Poverty Reduction and Growth Facility identified in Decision No. 8240- (86/56), SAF, adopted March 26, 1986, as amended, where it is expected that the Executive Board will reach conclusions no later than three months from the termination of discussions between the member and the staff."

Decision E. Procedural Deadlines for Completing Policy Reviews

The Fund decides, with effect from the date of this decision, to approve the proposal to convert mandatory deadlines for the completion of policy reviews into expectations, as set forth in paragraph 16 of SM/09/213, August 5, 2009. Accordingly, reviews of Fund policies shall henceforth be expected to be completed by the deadlines specified in relevant Executive Board decisions. These decisions are hereby amended accordingly.

Paragraph 16 of SM/09/213

"16. **Deadlines for policy papers.** It is proposed to extend the proposal to policy papers, eliminating the need for formal decisions in the event papers are not discussed by the original deadline. While formal decisions on the timing of policy reviews give the Board

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some confidence that a certain timeframe will be respected, they do entail a nonnegligible administrative cost. Often, the delay is minor or results from a request from the Board. In practice, the Board has never refused to grant such extensions. Further, the monthly meetings on the calendar now give more control to the Board over the work program, such that casting deadlines as expectations rather than obligations would seem to have few, if any, downsides."

Decision F: Review of Experience

It is expected that the experience with the Decisions set forth in SM/09/213, Sup. 3 will be reviewed by no later than August 27, 2011. (SM/09/213, Sup. 3, 8/31/09)

Decision A-13207 (08/28/09),
August 28, 2009,
as amended by Decision No. 14766-(10/115),
November 29, 2010

Liquidity and Emergency Assistance

THE FUND'S FINANCING ROLE—REFORM PROPOSALS ON LIQUIDITY AND EMERGENCY ASSISTANCE—RAPID FINANCING INSTRUMENT (RFI)

1. The Fund decides that resources in the credit tranches may be made available under the Rapid Financing Instrument (RFI), in accordance with the terms and conditions specified in this Decision.

2. The Fund will approve a member's request for resources under the RFI only where it is satisfied that:

(a) the member is experiencing an urgent balance of payments need that, if not addressed, would result in an immediate and severe economic disruption;

(b) the member either (i) has a balance of payments need that is expected to be resolved within one year with no major policy adjustments being necessary, or (ii) is unable to design or implement an

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upper credit tranche-quality economic program given the urgent nature of the balance of payments need or due to its limited policy implementation capacity; and

(c) the member will cooperate with the Fund in an effort to find, where appropriate, solutions for its balance of payments difficulties. Where warranted, the Managing Director may request that the member implement upfront measures before recommending that the Fund approve a purchase under this Decision.

3. If a member has made a purchase under this Decision within the preceding three years, any additional purchases under this Decision may be approved only if the Fund is satisfied that (a) the member's urgent balance of payments need was caused primarily by an exogenous shock; or (b) the member has established a track record of adequate macroeconomic policies over a period of at least six months immediately prior to the request.

4. A member requesting assistance under this Decision shall describe in a letter the general policies it plans to pursue to address its balance of payments difficulties, including its intention not to introduce or intensify exchange and trade restrictions and other measures or policies that would compound these difficulties. The member shall also commit to undergoing a safeguards assessment, provide staff with access to its central bank's most recently completed external audit reports and authorize its external auditors to hold discussions with Fund staff. The timing and modalities for the safeguards assessment for a member that has received assistance under the RFI would be determined on a case-by-case basis, but normally the safeguards assessment would need to be completed before Executive Board approval for the member of any subsequent arrangement to which the Fund's safeguards assessment policy applies.

5. Assistance under this Decision shall be made available to members in the form of outright purchases. Access by members to resources under this Decision shall be subject to (a) an annual limit of 50 percent of quota, and (b) a cumulative limit of 100 percent of quota, net of scheduled repurchases.

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6. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.

7. It is expected that the Fund will review this Decision one year after the date of adoption of this Decision.

8. Decision No. 12341-(00/117), adopted November 28, 2000, which established the special GRA policy on emergency assistance, is hereby repealed. (SM/11/284, Sup. 3, 11/22/11)

Decision No. 15015-(11/112),
November 21, 2011

THE FUND'S FINANCING ROLE—REFORM PROPOSALS ON LIQUIDITY AND EMERGENCY ASSISTANCE—PRECAUTIONARY AND LIQUIDITY LINE (PLL) ARRANGEMENTS

1. The Fund decides that resources in the credit tranches may be made available under a Precautionary and Liquidity Line (PLL) arrangement, in accordance with the terms and conditions specified in this Decision.

2. (a) A PLL arrangement shall be approved upon request in cases where the Fund assesses that the member (i) has sound economic fundamentals and institutional policy frameworks, (ii) is implementing—and has a track record of implementing—sound policies, and (iii) remains committed to maintaining such policies in the future, all of which give confidence that the member will take the policy measures needed to reduce any remaining vulnerabilities and will respond appropriately to the balance of payments difficulties that it is encountering or might encounter.

(b) In addition to requiring a generally positive assessment of the member's policies by the Executive Board in the context of the most recent Article IV consultations, a member's qualification for a

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PLL arrangement shall be assessed in the following areas (with the member being expected to perform strongly in most of these areas and not to substantially underperform in any of them): (i) external position and market access, (ii) fiscal policy, (iii) monetary policy, (iv) financial sector soundness and supervision, and (v) data adequacy.

(c) Notwithstanding paragraph 2(b) above, the Fund shall not approve a PLL arrangement for a member facing any of the following circumstances: (i) sustained inability to access international capital markets, (ii) the need to undertake a large macroeconomic or structural policy adjustment (unless such adjustment has credibly been launched before approval), (iii) a public debt position that is not sustainable in the medium term with a high probability, or (iv) widespread bank insolvencies.

3. (a) The Fund may approve a member's request for a PLL arrangement (i) with a duration of one to two years, or (ii) with a duration of six months in circumstances where the member has an actual or potential short-term balance of payments need such that it can generally be expected to make credible progress in addressing its vulnerabilities during the six-month period of the arrangement.

(b) PLL arrangements with a duration of one to two years shall have conditionality that includes indicative targets, as well as the standard performance criteria related to trade and exchange restrictions, bilateral payments arrangements, multiple currency practices and non-accumulation of external debt payments arrears as specified in paragraphs 3(d) and 3(b)(ii), respectively, of Attachment A of Decision No. 10464-(93/130), adopted September 13, 1993 as amended. The conditionality under these PLL arrangements may also include other performance criteria, prior actions and structural benchmarks where warranted under the Guidelines on Conditionality set forth in Decision No. 12864-(02/102), adopted September 25, 2002, as amended. PLL arrangements with a duration of one to two years shall provide for six-monthly reviews by the Executive Board to assess whether the member's PLL-supported program remains on track to achieve its objectives based on relevant factors such as the member's observance of performance criteria, indicative targets and structural

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benchmarks, as applicable; its continued adherence to the PLL qualification standard set forth in paragraphs 2(a) and 2(b) of this Decision; and its policy understandings for the future. Such reviews would be scheduled with the objective of completion by the Executive Board immediately prior to the lapse of each six-month period referred to above.

(c) The conditionality under PLL arrangements with a six-month duration shall include the standard performance criteria specified in paragraph 3(b) above and may also include prior actions where warranted under the Guidelines on Conditionality, but shall not include reviews or other forms of ex post conditionality.

4. (a) Subject to paragraphs 4(b) and 4(c) of this Decision, access to Fund resources under the PLL instrument shall be subject to a cumulative cap of 1000 percent of quota, net of scheduled repurchases, which shall apply to all PLL arrangements regardless of duration.

(b) In addition to the PLL instrument access cap specified in paragraph 4(a) above, access under PLL arrangements with a duration of one to two years shall be subject to an annual access limit of 500 percent of quota (net of scheduled repurchases) applicable at the time of approval of such arrangements, and shall be subject to the following additional considerations:

(i) For one-year PLL arrangements approved for members not having an actual balance of payment need at the time of approval of the arrangement, the entire amount of approved access shall be available upon approval of the arrangement and shall remain available throughout the arrangement period, subject to completion of a six-monthly review as specified in paragraph 3(b) of this Decision. For PLL arrangements with a duration of one to two years approved for members not having an actual balance of payment need at the time of approval of the arrangement, purchases shall be phased, with an initial amount not in excess of 500 percent of quota being available upon approval of the arrangement and the remaining amount being made available at the beginning of the second year of arrangement, subject to completion of the relevant six-monthly reviews specified in para-

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graph 3(b) of this Decision.

(ii) For PLL arrangements with a duration of one to two years approved for members that are facing an actual balance of payments need at the time of approval of the arrangement, purchases shall be phased, with an initial amount being available upon approval of the arrangement and the remaining amounts being made available at semi-annual intervals, subject to completion of the relevant six-monthly reviews specified in paragraph 3(b) of this Decision.

(c) In addition to the PLL instrument access cap specified in paragraph 4(a) above, the following access limits and additional considerations shall apply to six-month PLL arrangements:

(i) A per arrangement limit of 250 percent of quota, net of scheduled repurchases, shall normally apply to six-month PLL arrangements, with the entire amount of approved access being available to the member upon approval of the arrangement and remaining available throughout the arrangement period.

(ii) A per arrangement limit of 500 percent of quota, net of scheduled repurchases, shall apply to six-month PLL arrangements in exceptional circumstances where a member is experiencing or has the potential to experience short-term balance of payments needs that exceed the 250 percent of quota limit specified in paragraph 4(c)(i) above due to the impact of exogenous shocks, including heightened regional or global stress conditions. Accordingly, the Fund may in these circumstances, and on a case-by-case basis, approve a new six-month PLL arrangement or augment access under an existing six-month PLL arrangement up to this higher limit, with the entire amount of approved access being available to the member upon approval of the arrangement or, in the case of augmentations, upon completion of an ad hoc review under paragraph 4(d) below, and remaining available throughout the arrangement period.

(iii) Total access to Fund resources under all six-month PLL arrangements shall in no event exceed a cumulative six-month PLL arrangement access limit of 500 percent of quota, net of scheduled repurchases.

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(d) Subject to the PLL instrument access cap specified in paragraph 4(a) above and, for six-month PLL arrangements, subject to the limits specified in paragraph 4(c) above, the Fund will stand ready to consider a member's request to make additional amounts available under any PLL arrangement. The Fund will also stand ready to rephase access under PLL arrangements with a duration of one to two years. Such augmentation or rephasing of access shall be considered in the context of a scheduled or ad hoc review in which the Fund assesses the member's actual or potential need for Fund resources and the extent to which the PLL-supported program remains on track to achieve its objectives based on the factors specified for six-monthly reviews in paragraph 3(b) of this Decision.

5. (a) A PLL arrangement will expire upon the earlier of: (i) the expiration of the approved term of the arrangement, (ii) the purchase by a member of the entire amount of approved access under the PLL arrangement, or (iii) the cancellation of the PLL arrangement by the member.

(b) Upon the expiration of a PLL arrangement, the Fund may on a case-by-case basis approve additional PLL arrangements with a duration of one to two years for the member in accordance with the terms of this Decision, including the provisions on qualification and use of prior actions where warranted.

(c) Following the expiration of a six-month PLL arrangement, the Fund may on a case-by-case basis approve additional six-month PLL arrangements for the member in accordance with the terms of this Decision, including the provisions on qualification and use of prior actions where warranted, if either (i) at least two years have elapsed since the approval of the most recent six-month PLL arrangement, or (ii) the member's balance of payments need is longer than originally anticipated due to the impact of exogenous shocks, including heightened regional or global stress conditions, provided that not more than one additional six-month PLL arrangement may be approved under the circumstances specified in this clause (ii).

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6. The following procedures and arrangements for consultations with the Executive Board will apply following a member's expression of interest in any PLL arrangement:

(a) Staff will conduct a confidential preliminary assessment of the qualification criteria set forth in paragraph 2 of this Decision.

(b) Once management decides that access to Fund resources under this Decision may be appropriate, it will consult with the Executive Board promptly in an informal meeting. For this purpose, Executive Directors will be provided with a concise note setting out the basis on which approval could be recommended under this Decision, including a preliminary assessment of the member's qualification for the PLL, an initial discussion of the key policy areas where policy actions might be sought and an assessment of the member's actual or potential need for Fund resources and repayment capacity.

7. A member may make one or more purchases up to the amount available under a PLL arrangement, subject to the provisions of this Decision. The Fund shall not challenge a representation of need by a member for a purchase requested under a PLL arrangement.

8. Phasing and performance clauses shall be omitted in any PLL arrangement in the first credit tranche. They will be included in other PLL arrangements where specified under the terms of this Decision, but will apply only to purchases outside the first credit tranche.

9. In requesting a PLL arrangement, the member shall submit a concise written communication outlining its policy goals and strategies for at least the duration of the arrangement as well as measures aimed at addressing its remaining vulnerabilities, together with a quantified macroeconomic framework. Where PLL arrangements with a duration of one to two years are requested, such a framework shall be underpinned by a streamlined set of indicative targets, and where warranted, structural benchmarks and performance criteria. For six-month PLL arrangements, the member shall commit to undergo a safeguards assessment, provide staff with access to its central bank's most recently completed external audit reports and authorize its external auditors to hold discussions with Fund staff. The timing and

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modalities for the safeguards assessment for members with a six-month PLL arrangement would be determined on a case-by-case basis, but normally the safeguards assessment would need to be completed before Executive Board approval for the member of any subsequent arrangement to which the Fund's safeguards assessments policy applies.

10. In order to carry out the purposes of this Decision, the Fund will be prepared to grant a waiver of the limitation of 200 percent of quota in Article V, Section 3(b)(iii), whenever necessary to permit purchases under this Decision or to permit other purchases that would raise the Fund's holdings of the purchasing member's currency above that limitation because of purchases outstanding under this Decision.

11. All arrangements under Decision No. 14715-(10/83), adopted August 30, 2010 on Precautionary Credit Line Arrangements, that are in force on the effective date of this Decision shall be renamed Arrangements under the Precautionary and Liquidity Line, and shall be subject to the terms of this Decision.

12. The term "PCL" in Decision No. 14064-(08/18), adopted February 22, 2008, as amended, on access policy and limits in the credit tranches, is revised to read "PLL"; and the terms "Precautionary Credit Line" and "PCL" in Decision No. 14745-(10/96), adopted September 28, 2010 on Article IV consultation cycles, are revised to read "Precautionary and Liquidity Line" and "PLL," respectively.

13. Decision No. 7925-(85/38), adopted March 8, 1985, as amended, on the relationship between performance criteria and phasing under GRA arrangements, shall not apply to PLL arrangements.

14. Decision No. 14715-(10/83), adopted August 30, 2010 on Precautionary Credit Line Arrangements is hereby repealed. (SM/11/284, Sup. 3, 11/22/11)

Decision No. 15017-(11/112),
November 21, 2011

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THE FUND'S FINANCING ROLE—REFORM PROPOSALS ON LIQUIDITY AND EMERGENCY ASSISTANCE—REVIEW OF DECISIONS ON FCL ARRANGEMENTS AND PLL ARRANGEMENTS

1. It is expected that the decision on Flexible Credit Line Arrangements, Decision No. 14283-(09/29), adopted March 24, 2009, as amended, will be reviewed by the Fund no later than three years after the date of the adoption of this Decision.

2. It is expected that the decision on Precautionary and Liquidity Line Arrangements, Decision No. 15019-(11/112), adopted November 21, 2011, will be reviewed by the Fund no later than one year after the date of the adoption of this Decision.

3. Notwithstanding Paragraphs 1 and 2 above, the decision on Flexible Credit Line Arrangements, Decision No. 14283-(09/29), adopted March 24, 2009, as amended, and the decision on Precautionary and Liquidity Line Arrangements, Decision No. 15019-(11/112), adopted November 21, 2011, will be reviewed jointly by the Fund whenever aggregate outstanding credit and commitments under these two Decisions reach SDR 150 billion. (SM/11/284, Sup. 3, 11/22/11)

Decision No. 15019-(11/112),
November 21, 2011

Concluding Remarks by the Chairman—
Emergency Assistance—Natural Disasters
Executive Board Meeting 82/16, February 10, 1982

The Chairman … made his final concluding remarks:

I think the best thing we can do at this stage is to note the support for the flexible practices that have been used in the past and have been incorporated in the language of Section III of the paper….

One of the advantages of the method already in use is that the management is allowed to exercise discretion and judgment on what constitutes a disaster serious enough to make a country eligible for emergency assistance from the Fund. The staff and management might miss some of the important points, but close contact with the

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Executive Directors concerned would enable them to receive good guidance on whether a given series of events crosses the threshold of disaster. Judgments will have to be made on the gravity of the situation, on the impact on the balance of payments, and on the type of help the Fund can offer the country in question. Such judgments would not fit easily into a set of rigid guidelines. The present language of Section III [below] seems appropriate, because it gives the staff and management general guidance while leaving them the necessary flexibility. In any event, it is the Board that will decide on each particular case. I am sure that the Board will be happy to have, not a legal document, but some guidelines to use as yardsticks in reaching those decisions.

SM/82/7

…

III. *Issues for Consideration by the Executive Board*

The review of experience suggests that effective emergency assistance can continue to be provided to members afflicted by natural disasters through a flexible application of the existing policies on use of Fund's resources. There is, therefore, no need in the staff's judgment for establishing a new facility specifically addressed to cases of emergency. Executive Directors may wish to consider the following broad guidelines for the provision of emergency assistance to members afflicted by natural disasters.

(a) In most cases in which a member is afflicted by a natural disaster, effective assistance would continue to be provided by purchases under the compensatory financing facility or by stand-by and extended arrangements. However, in those cases where a member cannot meet its immediate financing needs arising from a major disaster, such as flood, earthquake, or hurricane, without serious depletion of its external reserves, emergency assistance in the form of quick outright purchases would continue, as in the past, to be provided under a flexible application of tranche policies.

(b) Emergency assistance is designed to provide only limited foreign exchange required for immediate relief. In the past, outright purchases for emergency situations were provided for relatively moderate amounts. In half of the cases, such purchases amounted to

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25 percent of quota; in the remaining half, purchases ranged from 42–50 percent of quotas. On the basis of experience, the amount of resources would continue to be limited to the equivalent of one credit tranche, though larger amounts could be made exceptionally available. When need for additional financing is present, it would be best provided under the compensatory financing facility and within the framework of stand-by and extended arrangements.

(c) The amount of an emergency purchase would be taken into account in determining the size of any additional support under a subsequent stand-by or extended arrangement. Moreover, in order to avoid double compensation in cases where a member requests a CFF purchase subsequent to an emergency purchase, a determination would be made at the time of the CFF request of the part of export shortfall on which the CFF request is based that has already been compensated by the emergency purchase. In accordance with the procedures suggested in the Appendix, that part would be deducted from the calculated shortfall and an equivalent amount of the emergency purchase would be reclassified as a CFF purchase.

(d) In emergency situations, timing is crucial; quick assistance from the Fund can both provide relief and encourage financing from other sources. While in most instances, balance of payments difficulties will be transitory, understandings are needed to ensure that inappropriate policies do not compound the problems caused by the disaster. As in the past, a flexible and pragmatic approach will be followed to take into account the particular circumstances of the country, the nature and the extent of the disaster and the need to safeguard the revolving character of Fund resources.

(e) For purposes of emergency assistance requests, a member would be required to describe the general policies it plans to pursue, including its intention to avoid introducing or intensifying exchange and trade restrictions. The request will be granted when the Fund is satisfied that the member will cooperate with the Fund in an effort to find, where appropriate, solutions for its balance of payments difficulties. Frequently, at the time of the request of emergency assistance, members expressed an intention to devise adjustment programs in consultation with the Fund, but this intention was seldom carried out. To strengthen this aspect of the Fund's emergency assistance, the member's cooperation with the Fund in designing and adopting, when

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appropriate and as soon as circumstances permit, necessary adjustment measures would be one of the elements to be considered in the assessment of the requirement of cooperation associated with CFF purchases in the upper tranche. Such an approach would be applied so as to allow the assessment of cooperation to continue to be made on a pragmatic basis in the light of the nature of the difficulties and the circumstances of the member.

Summing Up by the Chairman—Fund Involvement in Post-Conflict Countries
Executive Board Meeting 95/82, September 6, 1995

Directors in their majority endorsed the staff's views on coordination among the various agencies and bilateral donors and creditors involved in assisting countries in post-conflict situations, and endorsed the suggestion to expand the scope of the present guidelines on emergency assistance to include such situations. However, a number of Directors expressed the need for great caution given the limited role the Fund can play in such circumstances.

Directors welcomed the early provision by the Fund of technical assistance and policy advice in its areas of expertise. In assessing the post-conflict cases reviewed in the paper, they noted that, in general, the Fund had been able to provide financial support at a relatively early stage, bearing in mind the need for adequate safeguards for use of the Fund's resources.

Looking to the future, Directors emphasized the need for the Bretton Woods institutions, the regional development banks, the UN, and bilateral donors and creditors to coordinate closely in supporting countries emerging from conflict situations. They observed that, in the post-conflict cases reviewed, the process of coordination had benefited from the leadership of a single agency or bilateral partner, and that different agencies or countries had performed this role effectively in the various cases. Directors concurred that the institutional flexibility that has prevailed to date remained appropriate. While it was important that a lead be taken by one institution or donor, most Directors would not expect the Fund to be the lead institution. Directors were in broad agreement that coordination would be facilitated through an early preparation, where possible, by the affected member and the

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lead agency, in consultation with other relevant agencies and bilateral donors and creditors, of a framework paper for organizing technical assistance and financial support. Such a report could be similar to a policy framework paper, but less comprehensive, and with a shorter time horizon.

Most Directors thought that the Fund's existing financial instruments were adequate to deal with some post-conflict situations, but that they may not be fully suitable, or available, in all cases that could merit Fund financial support. A majority of Directors endorsed the idea of expanding the scope of the present policy on emergency assistance to include carefully defined post-conflict situations. However, a number of other Directors saw no need for new policies in this area. In their view, experience had shown that the Fund was able to provide financial assistance when conditions were appropriate

Regarding the operational aspects related to the proposed expansion of the scope of emergency assistance, most Directors were disposed to endorse those proposed by the staff in post-conflict situations: where the country's institutional and administrative capacity was disrupted as a result of the conflict, so that the member was not yet able to develop and implement a comprehensive economic program that could be supported by a Fund arrangement, but where there was nonetheless sufficient capacity for planning and policy implementation and a demonstrated commitment on the part of the authorities; where there was an urgent balance of payments need to help rebuild reserves and meet essential external payments and a role for the Fund in catalyzing support from other official sources; and where Fund support would be part of a concerted international effort to address the aftermath of the conflict situation in a comprehensive way.

Directors agreed that access to Fund resources in such cases should generally be limited to one credit tranche, and that the access policy under the existing emergency assistance guidelines provided sufficient flexibility to handle exceptional needs. Directors supported having a tranching of total resources in some instances to help ensure the effective use of Fund resources and provide an incentive to develop a comprehensive economic program. Most Directors agreed that the proposed Fund financial assistance for post-conflict countries be made available only if the member intended to move within a relatively short time frame to an upper credit tranche stand-by or ex-

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tended arrangement, or to an arrangement under the enhanced structural adjustment facility (ESAF). Indeed, the use of emergency assistance should be framed in such a manner as to pave the way toward the adoption of a program that could be supported by such an arrangement.

For ESAF-eligible members, Directors recognized that concessional resources would be appropriate. For these members, most speakers indicated that they would favor the approach of seeking interest subsidies from bilateral donors on a case-by-case basis when Fund resources were provided under the emergency policy. Others, however, expressed caution about this approach.

Directors agreed that Fund assistance, and its conditionality, should be tailored to individual country circumstances, and should address the need to rebuild the administrative and institutional capacity required to put a comprehensive economic program in place. Accordingly, conditions would include a statement of economic policies; a quantified macroeconomic framework, to the extent possible; and a statement by the authorities of their intention to move as soon as possible to an upper credit tranche stand-by or extended arrangement, or to an ESAF arrangement. Part of the response must be a comprehensive technical assistance program, including institution-building aspects, and provision for its financing.

Overall, this has been a productive discussion of Fund involvement in post-conflict cases in which Directors have agreed on the fundamental—but generally not the leading—role of the Fund, regarding both cooperation with other international agencies and the parameters for Fund financial involvement through an expansion of the scope of the present policy on emergency assistance. While noting the caution expressed by a number of Directors, I would propose that we proceed to expand the scope of the emergency assistance policy on the basis outlined above. This summing up will provide the guidelines for this approach, it being understood that Fund support under an arrangement is the approach to be followed wherever this is possible, while, in the other cases, emergency assistance would be tailored to pave the way in this direction. Except as noted above, the provisions of the existing guidelines on emergency assistance will apply in post-conflict situations.

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Summing Up by the Acting Chairman—Fund Assistance to Post-Conflict Countries
Executive Board Meeting 99/38, April 5, 1999

Directors welcomed the opportunity to discuss ways to enhance Fund financial assistance to post-conflict countries, including those with arrears to international financial institutions, as requested by the Interim and Development Committees.

Most Directors observed that the existing policy guidelines have generally served Fund members well. In this regard, they noted that the Fund had provided technical assistance and macroeconomic policy advice at an early stage, and expressed satisfaction that the Fund's financial assistance has been provided relatively quickly and had played a catalytic role in concerted international assistance efforts.

Directors therefore reaffirmed that the basic approach of the post-conflict emergency assistance policy continues to be a sound basis for the Fund's involvement in post-conflict countries. Nevertheless, they noted that, within this framework, every effort should be made to enhance such assistance, and they welcomed the opportunity to consider the proposals put forward by the staff for this purpose. At the same time, Directors emphasized that, to be effective, any possible new steps by the Fund should be considered in the framework of substantially strengthened efforts on the part of the international community as a whole to ensure the maintenance of peace and to assist in the orderly transition from conflict to conditions conducive to stabilization and high quality growth. A few Directors suggested that enhanced assistance should also be available to countries struck by natural disasters.

Regarding the terms of emergency post-conflict assistance, Directors agreed that financial assistance on concessional interest rates would be more appropriate for low-income post-conflict countries than the General Resources Account (GRA) charges that currently apply to such assistance. In considering the four possible approaches discussed by the staff, Directors expressed a range of views.

Directors agreed that under any approach that involved the use of GRA resources, it would be essential to seek interest subsidies

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from bilateral donors on a case-by-case basis, with intensified efforts to mobilize these funds. In this regard, Directors called for an early indication of members' readiness to contribute to subsidies, and endorsed the idea of establishing an administered account at the Fund.

While a new special facility within the GRA would deal with the maturity issue and would effectively address the concessionality issue if accompanied by a decision to lower charges or an agreement by donors to provide subsidies. There is not sufficient support for the establishment of such a facility. However, some Directors asked the staff to continue examining this approach, including the possibility of using income from purchases under the SRF to help subsidize the rate of charge on use of GRA resources.

There was support for the approach that would provide for early replacement of GRA resources by resources provided under the ESAF, when the member is in a position to obtain an ESAF arrangement. This would be an effective way of providing more financial support on appropriate terms to low-income post-conflict countries, as it would address both the concessionality and maturity issues. Directors also agreed that this would be consistent with the present purposes, structure, and conditionality of the ESAF as well as the prudential interest of ESAF creditors. They stressed that this procedure should not result in a weakening of ESAF conditionalities or a rationing of ESAF resources.

Most Directors considered that the provision of emergency assistance under the ESAF would represent an undesirable modification of the structure of the ESAF.

On access and length of the program period, Directors noted that most of the countries that have used emergency post-conflict assistance have been able to move to a Fund arrangement with upper credit tranche conditionality within a year or so of the approval of emergency assistance. However, such a rapid move may not always be possible or desirable, especially if economic and political conditions remain particularly fragile.

Hence, Directors agreed that in situations in which the rebuilding of institutions and reestablishing of policy implementation capacity is slow, despite the efforts of the authorities, and the member is not in a position to implement a Fund arrangement after about a

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year under a program supported by emergency assistance, and when there is sufficient evidence of the authorities' commitment to reform and capacity to implement policies, additional access of up to another 25 percent of quota in the form of outright purchases could be provided. The additional 25 percent of quota would normally be tranched. A few Directors would have preferred smaller and/or more back-loaded disbursements, and a few would have preferred a larger initial amount. Directors noted that each purchase would need Board approval and would continue to be subject to satisfactory progress by the member in the rebuilding of capacity and macroeconomic stability. They emphasized that there should be continued stress on the catalytic role of the Fund, and that the Fund would be involved only as part of a concerted international effort, including technical support from other multilateral and bilateral agencies.

Directors indicated that the most difficult issue to address in considering the Fund's post-conflict assistance policy was the situation of post-conflict countries that have large, protracted arrears to the Fund. At present, there are a small number of countries that could fall into this category. Special efforts to accelerate the provision of financial assistance by the Fund in such cases poses particular difficulties in relation to the Fund's arrears strategy and could, if not carefully circumscribed, pose issues of moral hazard and undermine the Fund's preferred creditor status.

In this regard, most Directors considered that, while there are a number of attractive features in the proposals put forward by the World Bank staff for post-conflict assistance for heavily indebted poor countries that are in arrears to multilateral institutions, they need to be considered from the perspective of the key issues for the Fund's arrears policy: the principle of uniformity of treatment; payments to the Fund in the pre-arrears clearance period; length of the track record prior to arrears clearance; and the arrears clearance process and procedures for financing.

As to uniformity of treatment, Directors indicated that while it would be possible to make modifications to the arrears policy that could be applied to countries meeting specified post-conflict criteria, the application of those modifications could not discriminate among members by income level. Regarding the Fund's approach of requiring a member to establish a strong track record of sound policy and

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adequate payments to the Fund at a minimum, remaining current on obligations falling due to the Fund and making every effort to reduce its arrears to the Fund. They generally believed that this approach had been effective in reducing the total amount of arrears and arrears cases, and in restoring normal relations with countries in a wide range of situations.

At the same time, Directors recognized that, in the pre-arrears clearance stage, competing claims from multilateral institutions for payments from heavily indebted post-conflict countries in arrears to these institutions may not be sustainable. In this regard, they supported the staff's recommendation that the Fund consider relaxing its calls for payments as a test of cooperation, provided that the member is judged to be cooperating on policies and that all other multilaterals to which the member is in arrears take at least comparable action. Judgment as to the level of payment needed to sustain cooperation would be made on a case-by-case basis, taking into account the member's debt servicing capacity.

Directors stressed that a solid track record is important to provide assurances that a member's policy framework and commitment to sound policies are strong enough to ensure timely payments to the Fund in the future. In this light, it was generally agreed that a drastic shortening or elimination of the track record would not be desirable for the Fund or the international community more generally and that the current policy allows for sufficient flexibility in determining the appropriate length of the track record for post-conflict arrears countries.

With respect to arrears clearance, Directors stressed the need for consultation and coordination among creditors and donors in dealing with post-conflict cases. However, since the situations of these countries can vary widely, they endorsed a continuation of the case-by-case approach, which allows for sequential clearance of arrears to the international financial institutions in appropriate circumstances and the development of arrears clearance plans in individual cases, in coordination with other creditors.

In the absence of concessional financing for arrears clearance or rights encashment, Directors noted that arrears could likely be cleared through a bridge to a new arrangement in the GRA. They

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strongly reconfirmed their earlier views against the idea of the Fund matching rescheduling operations of the Paris Club or any other group of creditors, as being inconsistent with the monetary character of the Fund. Directors recognized, nonetheless, that there may be circumstances in which the Fund may need to consider exceptionally the use of the provisions of the Articles relating to postponement of repurchases and/or payment of GRA charges in domestic currency. This would need to be assessed as the countries neared the point at which arrears clearance operations would be appropriate and in the light of the circumstances of each case, including the financing requirements and financing possibilities available at that time.

Directors recognized that arrears clearance operations, through a bridge to a new arrangement in the GRA or postponement of repurchases and payment of charges in domestic currency, would not by themselves result in sustainable debt service positions for the heavily indebted post-conflict arrears countries. Hence, following clearance of arrears and the establishment of a satisfactory track record, the countries' debt to the Fund and other creditors would be subject to action under the HIPC Initiative. This underscores the critical importance of marshaling concessional resources for the ESAF and the HIPC Initiative.

In light of today's discussion, the staff will come back to the Board with proposals for appropriate modifications of existing policies, and with proposed decisions as necessary to give effect to the agreements on enhancing the Fund's assistance to post-conflict countries. In the meantime, a joint Bank-Fund report will be prepared for the Interim and Development Committees on the status of the institutions' consideration of these issues.

The Acting Chair's Summing Up—The Fund's Role in Low-Income Member Countries—Considerations on Instruments and Financing
Executive Board Meeting 04/32, March 31, 2004

...

Directors welcomed the proposed changes for Emergency Post Conflict Assistance (EPCA), which would allow for both a long-

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er duration for a member emerging from a conflict to build capacity with the support of EPCA, prior to moving to a Fund-supported program, and more frequent assessments of the member country's policy performance.

...

SM/04/53

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Steps that might help achieve the right balance include:

- Amending the wording of the 1999 policy to indicate that a second tranche of 25 percent of quota could be made available when "the member is not in a position to implement a Fund arrangement after about a year or more under a program supported by emergency assistance."
- Extending the length of EPCA-supported programs, in total, to as long as three years with as much as 50 percent of quota (although no more than 25 percent of quota per year). Where it is expected that it will take a long time to rebuild capacity, there could be a stronger presumption that access to both the first and second phases of 25 percent of quota would be divided into two (or more) purchases over a longer program period and perhaps tapered over time.
- To help foster program implementation and to strengthen assurances to donors, supporting each purchase by a clear assessment of political commitment and the member's progress in increasing its ability to implement a program and rebuilding administrative capacity.
- Consistent with a shift to more phased EPCA financing, extending the policy on safeguards assessments to cover members making use of EPCA resources.
- In cases where progress under the EPCA has proved to be insufficient for the member to move to a position where it is able to implement a PRGF arrangement, explicit consideration, in the next Article IV consultation following the expiration of the EPCA-supported program, of the appropriateness of (i) a staff-monitored program, or (ii) an explicit shift to a surveillance rather than program or pre-program relationship.

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- For those that have achieved sufficient progress and are able to design and implement PRGF-supported programs, consideration should continue to be given to early replacement of emergency post-conflict assistance by concessional resources provided under the PRGF (by adjusting access appropriately). At an earlier discussion,[1] Executive Directors stressed that this would be an effective way of providing more financial support on appropriate terms to low-income post-conflict countries, as it would address both the concessionality and maturity issues.

The Chairman's Summing Up—
The Role of the Fund in Low-Income Countries
Executive Board Meeting 08/6, July 23, 2008

This has been a useful and constructive discussion. It has allowed us to take stock of the valuable contribution that the Fund has made to the progress of many low-income countries (LICs) toward macroeconomic and financial stability, which is central to sustained growth and poverty reduction. Our discussion has reconfirmed a broadly shared vision on the need for a continued close Fund engagement with its low-income member countries that is tailored to their changing needs and emerging new challenges. The Fund's work on LICs will be shaped by its broader refocusing, and build on close collaboration with partner institutions.

…

Most Directors considered that the proposed mission statement outlines useful guiding principles for the Fund's engagement in LICs. The statement affirms that the Fund aims to help LICs achieve the macroeconomic and financial stability needed to raise sustainable growth and have a durable effect on poverty reduction. While recognizing that the Fund's mandate is similar in all member countries, many Directors suggested that the mission statement should better reflect the fact that at times different instruments and approaches are

[1] Ed. Note: See *Summing Up by the Acting Chairman—Fund Assistance to Post-Conflict Countries* (BUFF/99/48, 04/09/99).

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required when working with LICs given the particular characteristics of this group of countries. Many Directors considered that the objective of achieving strong, sustained growth should be an integral part of the policies which the Fund is helping LICs put in place, while others felt that the emphasis should rather be on stability as the platform upon which sustainable growth can be achieved. Directors agreed that the main channels for the Fund's engagement will continue to be macroeconomic policy advice, capacity-building assistance, and concessional balance of payments support. On the latter, some Directors noted that the Fund is not a donor agency, and that its financing is relatively less concessional. A few Directors reiterated the view that LICs should not have to pay for capacity building assistance. As in other member countries, the Fund will focus on its core areas of expertise, namely, macroeconomic stabilization and fiscal, monetary, financial, and exchange rate policies, and the underlying institutions and closely related structural policies. The Fund's work will draw on country-owned development strategies, and its advice and engagement will be tailored to the specific characteristics of countries. We will need to reflect further on how to take forward the issuance of a mission statement in light of the comments as well as suggestions for further refinement that were made today.

…

Directors welcomed the planned reviews of the Fund's instruments to ensure that they continue to meet the evolving needs and priorities of LICs. The immediate priority will be to modify the Exogenous Shocks Facility (ESF), which has so far not been used, to make it a more effective instrument in helping LICs cope with shocks, including those arising from food and fuel price increases. Today's discussion has raised a number of complex issues, on which we need to reflect further as we seek to adapt our instruments. This will involve careful examination of the merits of increasing the flexibility of the PRGF as the primary instrument for Fund financial engagement with LICs facing protracted balance of payments problems, including with respect to repayment schedules and the possibility of creating a precautionary window. The review of Fund facilities will also address proposals for increasing the fungibility of concessional resources across the Fund's toolkit, and for a possible Stand-By-type

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instrument to support short-term stabilization in LICs. Most Directors did not see a role for Fund financing to offset shortfalls in aid.

…

BUFF/08/127,
August 1, 2008

Arrears to Creditors and Debt Strategy

ARREARS TO CREDITORS AND DEBT STRATEGY

The Executive Board has reviewed the Fund's policy with respect to payments arrears. The Fund shall be guided by the approach in the conclusions set forth in SM/70/139, 7/6/70.

Decision No. 3153-(70/95),
October 26, 1970

SM/70/139

Conclusions

…[1]

4. Fund financial assistance to members having payments arrears should be granted on the basis of performance criteria or policies with respect to the treatment of arrears similar to the criteria or policies described in the preceding paragraph for the approval of the payments restrictions. In general, the understandings should provide for the elimination of the payments arrears within the period of the stand-by arrangement. Such understandings should be based on the concept of a given level of payments arrears and should be reflected in the performance criteria included in stand-by arrangements in the higher credit tranches. To support the policies designed to deal with arrears the letter of intent should include a statement that there would be no imposition of new restrictions or increase in the level of delayed payments. Where Fund financial assistance is being provided, but only through the first credit tranche, the adoption of a viable program

[1] Ed. Note: See p. 597 for paragraphs 1 through 3.

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directed toward the elimination of the payments arrears should be an important factor in considering whether the country was making reasonable efforts to redress its international financial situation.

Review of Fund Policies and Procedure on Payments Arrears
Executive Board Meeting 80/154, October 17, 1980

...

Returning to the conclusions in EBS/80/190, [the Acting Chairman] observed that paragraph 3 seemed to be acceptable to Directors except for the final sentence, which could be changed to state that, depending on the member's circumstances and the length of the program, it might not be feasible in the early stages of the program to go beyond an understanding that the member would try to avoid any further increase in outstanding arrears. As for the remainder of paragraph 3, Executive Directors appeared to agree that the staff should continue to be guided by the approach set forth in the Executive Board Decision No. 3153-(70/95).

...

EBS/80/190

…

The Fund's policies on payments arrears are also concerned with their treatment in the context of stabilization programs supported by use of the Fund's resources. In these programs, member countries are expected to take steps to reduce and eventually eliminate payments arrears relating to capital transactions as well as to payments and transfers for current international transactions. In formulating policy guidelines in these programs, the staff will continue to be guided by the approach set forth in the Executive Board decision of 1970 (Decision No. 3153-(70/95)), as quoted on page 12. This approach will also be followed with respect to payments arrears arising from default. The technique chosen by a member to reduce outstanding arrears will reflect its institutional arrangements, as well as the magnitude of the arrears and the severity of the balance of payments problem. When payments arrears are large in relation to a member's available foreign exchange resources, it may not be possible to aim at the elimination of the arrears within the program period. Special ar-

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rangements may be needed for the renegotiation of outstanding debt obligations when debt problems are particularly severe. Depending on the member's circumstances and the length of the program, it may not be possible, in the early stages of a program, to reach an understanding with the member that goes beyond requiring the avoidance of any further increase in arrears.

Summing Up by the Chairman—
Fund Involvement in the Debt Strategy
Executive Board Meeting 89/61, May 23, 1989

…

Directors stressed that in promoting orderly financial relations, every effort must be made to avoid arrears, which could not be condoned or anticipated by the Fund in the design of programs. … The Fund's policy of nontoleration of arrears to official creditors remains unchanged. The debtor member would be expected to continue to treat creditors on a nondiscriminatory basis. …

…

Summing Up by the Acting Chairman—Fund Policy on Arrears
to Private Creditors—Further Considerations
Executive Board Meeting 99/64, June 14, 1999

Directors welcomed the opportunity to reexamine the criteria set out earlier for Fund lending into arrears to private creditors stemming from sovereign defaults and from the imposition of exchange controls that lead to an interruption in debt-service payments by nonsovereign borrowers.

Directors emphasized that the modification of the financing assurances and arrears policies to permit lending into arrears is an adaptation of existing policies to changing circumstances, and is intended to reinforce the Fund's ability to promote effective balance of payments adjustment while providing adequate safeguards for the use of the Fund's resources.

Directors concurred that the criteria set out earlier for the case of sovereign arrears may be too restrictive and could lead to instances in which creditors particularly bondholders could exercise a de facto

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veto over Fund lending. They also considered that the criteria set out earlier for the case of nonsovereign arrears are too restrictive, as they may not take adequate account of the possibility that, even when both creditors and debtors are willing to participate in collaborative negotiations, the process of debt renegotiation may be protracted. Directors noted that in the case of nonsovereign arrears to private creditors, it would be important to ensure that appropriate steps are taken to protect creditors' interests. One suggestion to staff in this regard was to consider the establishment of an escrow account into which debt-service payments in local currency to nonresident creditors would be made. Against the background of variations in institutional arrangements and members' capacity, however, Directors considered that it would be difficult to specify as a criterion for lending into nonsovereign arrears the implementation of specific mechanisms to protect creditors' interests; instead, this judgment would need to be made on a case-by-case basis.

Directors agreed that Fund lending into sovereign arrears to private creditors (including bondholders and commercial banks) should be on a case-by-case basis and only where:

(i) prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and

(ii) the member is pursuing appropriate policies and is making a good faith effort to reach a collaborative agreement with its creditors.

Directors agreed that Fund lending into nonsovereign arrears stemming from the imposition of exchange controls should be on a case-by-case basis and only where:

(i) prompt Fund support is considered essential for the successful implementation of the member's adjustment program; and

(ii) the member is pursuing appropriate policies, is making a good faith effort to facilitate a collaborative agreement between private debtors and their creditors, and a good prospect exists for the removal of exchange controls.

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In both cases, all purchases by the member would be subject, as provided at present, to financing reviews to bring developments at an early stage to the attention of the Executive Board, and to provide an opportunity for the Board to consider whether adequate safeguards remain in place for further use of the Fund's resources in the member's circumstances. Specifically, such reviews would provide a basis to assess whether the member's adjustment efforts are considered to be undermined by developments in creditor-debtor relations.

Directors noted that the policy outlined above supersedes all previous policies regarding lending into arrears to private creditors.

Finally, Directors noted that it would be important to monitor experience with lending into arrears and to keep the policy outlined above under review, so as to ensure that it achieves its objectives.

BUFF/99/71,
June 18, 1999

The Acting Chair's Summing Up—Fund Policy on Lending into Arrears to Private Creditors—Further Consideration of the Good Faith Criterion
Executive Board Meeting 02/92, September 4, 2002

Directors agreed that the Fund's policy on lending into sovereign arrears to private creditors continues to provide a useful tool enabling the Fund to support a member's adjustment efforts before it has reached agreement with its private creditors on a debt restructuring. The pillars of this policy are first, that the timely support of the member's adjustment program is considered essential to help limit the scale of economic dislocation and preserve the economic value of investors' claims; and second, that the debtor engages its creditors in an early and constructive dialogue to help secure a reasonably timely and orderly agreement that would help the country regain external viability.

Directors welcomed the opportunity to review the application of the criterion requiring a member to make good faith efforts to reach a collaborative agreement with its creditors, in light of the experience with bond restructurings since the introduction of the "good faith" criterion in 1999. They observed that this experience, although

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limited, suggests that notwithstanding the ability of debtors to reach restructuring agreements with their creditors, the restructuring processes have in some cases been protracted, reflecting the complexity of each individual case, as well as different perspectives and concerns among debtors and creditors.

Against this backdrop, Directors agreed that greater clarity about the good faith dialogue between a debtor and its creditors during the restructuring process could help provide better guidance about the application of the lending into arrears policy and, more generally, promote a better framework for the engagement of debtors and creditors in the restructuring of sovereign debt. Greater clarity concerning the framework for possible debt restructuring would strengthen the capacity of investors to assess recovery values under alternative scenarios, thereby facilitating the pricing of risk and improving the functioning of the capital markets. At the same time, however, Directors stressed the need for continued flexibility in applying the "good faith" criterion to accommodate the characteristics of each specific case; to avoid putting debtors at a disadvantage in the negotiations with creditors; and to avoid prolonged negotiations that could hamper the ability of the Fund to provide timely assistance. Indeed, any clarification of the "good faith" criterion should serve primarily to support the difficult judgments that will continue to have to be made in each case, and should be made operational in a manner that does not impair market discipline.

Directors considered that the following principles would strike an appropriate balance between clarity and flexibility in guiding the dialogue between debtors and their private external creditors.

• First, when a member has reached a judgment that a restructuring of its debt is necessary, it should engage in an early dialogue with its creditors, which should continue until the restructuring is complete.

• Second, the member should share relevant, non-confidential information with all creditors on a timely basis, which would normally include:

- an explanation of the economic problems and financial circumstances that justify a debt restructuring;

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- a briefing on the broad outlines of a viable economic program to address the underlying problems and its implications on the broad financial parameters shaping the envelope of resources available for restructured claims; and
- the provision of a comprehensive picture of the proposed treatment of all claims on the sovereign, including those of official bilateral creditors, and the elaboration of the basis on which the debt restructuring would restore medium-term sustainability, bearing in mind that not all categories of claims may need to be restructured.

• Third, the member should provide creditors with an early opportunity to give input on the design of restructuring strategies and the design of individual instruments.

In discussing the various approaches that would best clarify the content of a member's good faith efforts in the context of the lending into arrears policy, Directors emphasized that the modalities guiding the debtor's dialogue with its creditors will need to be tailored to the specific features of each individual case. Most Directors considered that the third approach suggested in the staff paper for refining the good faith criterion provides an appropriate basis for the implementation of the Fund's policy, while retaining sufficient flexibility to address the diversity of individual situations. Although, as a general premise, the form of the dialogue would be left to the debtor and its creditors, under this approach a member in arrears would be expected to initiate a dialogue with its creditors prior to agreeing on a Fund-supported program consistent with the principles discussed above. In cases in which an organized negotiating framework is warranted by the complexity of the case and by the fact that creditors have been able to form a representative committee on a timely basis, there would be an expectation that the member would enter into good faith negotiations with this committee, though the unique characteristics of each case would also be considered. This formal negotiating framework would include, inter alia, the sharing of confidential information needed to enable creditors to make informed decisions on the terms of a restructuring (subject to adequate safeguards), and the agreement to a standstill on litigation during the restructuring process by creditors represented in the committee. By the same token, in less complex cases, where creditors have not organized a representative

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committee within a reasonable period, or where for other reasons a formal negotiation framework would not be effective, the member would be expected to engage creditors through a less structured dialogue. Directors stressed that, in going forward with the suggested approach, it would be crucial to strike the appropriate balance between the need to promote effective communication between a debtor and its creditors, and the need to retain flexibility to address the diversity of individual country circumstances.

Directors discussed a variety of factors that would need to be considered in making the proposed framework operational. They emphasized that in assessing whether the member is making good faith efforts to negotiate, judgments would continue to be required in a number of important areas. These include a consideration of the complexity of the restructuring case, the extent to which a creditor committee is sufficiently representative, and whether a reasonable period has elapsed to allow for the formation of a representative committee. Directors viewed the considerations laid out in the staff paper as useful inputs for helping to make such judgments, which would need to be made flexibly. They also noted that to the extent that negotiations become stalled because creditors are requesting terms that are inconsistent with the adjustment and financing parameters that have been established under a Fund-supported program, the Fund should retain the flexibility to continue to support members notwithstanding the lack of progress in negotiations with creditors. In this connection, it was stressed that decisions on an adequate macroeconomic framework that could form the basis for the Fund's lending into arrears will remain in the sole purview of the Fund.

Directors recognized that there may be circumstances where, following a default, the debtor enters into good faith discussions with creditors prior to the approval of a Fund arrangement. In these circumstances, creditors are likely to express views as to the appropriate dimensions of the program's adjustment and financing parameters. While such input would be welcome, Directors emphasized that it would be inappropriate for private creditors to be given a veto over the design of the financing plan or the design of the adjustment program.

All purchases made while a member has outstanding arrears to private creditors will continue to be subject to financing reviews,

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which will provide an opportunity for the Fund to monitor relations between a debtor and its creditors, and for the Board to be kept informed about developments in this area at an early stage. Going forward, a number of Directors also underscored the importance of strengthening debtor-creditor dialogue in good times, as this will provide a good base for advancing the required negotiation framework in times of stress.

BUFF/02/42,
September 9, 2001

FUND'S POLICY ON LENDING INTO ARREARS

…

5. The Fund decides that the deadline for the next review of the Fund's policy on lending into arrears prescribed by Decision No. 13814-(06/98), adopted November 15, 2006, shall be extended to end-December 2008. (SM/07/394, 12/21/07)[1]

Decision No. 14036-(08/01),
December 27, 2007

Summing Up by the Chairman—
Management of the Debt Situation
Executive Board Meeting 91/48, April 3, 1991

…

Turning to the modalities of Fund support for debt operations, Directors saw no need for substantial modifications to the guidelines which, implemented in close collaboration with the World Bank, continue to provide the required versatility. They noted, however, the need to strengthen existing safeguards to ensure that linkages to Fund arrangements in commercial bank agreements do not adversely affect

[1] Decision No. 14235-(09/1), December 31, 2008, provided that reviews of the Fund's policy of lending into arrears shall have no deadline; they are to be completed "as needed" as defined in the Streamlining Decision.

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the interests of member countries or the Fund. In this regard, they observed that "condition precedent" clauses, linking bank disbursements to purchases from the Fund, should be discouraged where feasible and accepted only when necessary to obtain satisfactory bank financing agreements in concerted financing cases. In addition, they stressed that "mandatory prepayment" clauses in future bank agreements should be structured so as clearly to avoid linking bank prepayments to early repurchases made pursuant to expectations or obligations established by the Fund. Directors emphasized that these safeguards should be taken into account by member countries as early as possible in their negotiations with bank creditors. In that connection, a number of Directors observed that debtors and creditors should be aware of what the Fund can accept and, in the same vein, that members should inform the staff at an early stage, and well ahead of agreement with bank creditors, about envisaged linkages to Fund arrangements in bank packages.

The Acting Chairman's Summing Up on the Role of the Fund in the Settlement of Disputes Between Members Relating to External Financial Obligations
Executive Board Meeting 84/99, June 22, 1984

…

There was a strong consensus on three general matters relating to the use of the Fund's good offices. First, in the light of the Fund's primary responsibilities concerning the international monetary system and of its specific authority under the Articles to provide financial and technical services, management and staff should stand ready to use their good offices in helping members engaged in a particular dispute over an external financing obligation. Second, such good offices should, however, be limited in scope and frequency, although in that connection there were differences in emphasis among Directors. Some felt that the Fund should be more active, others that the Fund must be quite cautious. In short, the use of good offices should be consistent with available resources and should be substantially technical. Third, all Directors attached great importance to the Fund's remaining neutral in issues of debt dispute. It should be clearly understood that the Fund's good offices were meant to bring the parties to a dispute together. Fourth, there was agreement that the

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Fund should act in such cases only if both parties wished to have the Fund provide its good offices.

Access Policy

ACCESS POLICY AND LIMITS IN THE CREDIT TRANCHES AND UNDER THE EXTENDED FUND FACILITY AND ON OVERALL ACCESS TO THE FUND'S GENERAL RESOURCES, AND EXCEPTIONAL ACCESS POLICY—REVIEW AND MODIFICATION

1. The Fund has reviewed the guidelines and the limits for access by members to the Fund's general resources set forth in Decision No. 14064-(08/18), adopted February 22, 2008, as amended, and decides as follows.

2. The overall access by members to the Fund's general resources shall be subject to (i) an annual limit of 200 percent of quota; and (ii) a cumulative limit of 600 percent of quota, net of scheduled repurchases; provided that these limits will not apply in cases where a member requests a Flexible Credit Line arrangement in the credit tranches, although outstanding holdings of a member's currency arising under such arrangements will be taken into account when applying these limits in cases involving requests for access under other Fund facilities.

3. Subject to paragraph 4 below, the Fund may approve access in excess of the limits set forth in this Decision in exceptional circumstances, provided the following four substantive criteria are met:

(a) The member is experiencing or has the potential to experience exceptional balance of payments pressures on the current account or the capital account, resulting in a need for Fund financing that cannot be met within the normal limits.

(b) A rigorous and systematic analysis indicates that there is a high probability that the member's public debt is sustainable in the medium term. However, in instances where there are significant uncertainties that make it difficult to state categorically that there is a high probability that the debt is sustainable over this period, excep-

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tional access would be justified if there is a high risk of international systemic spillovers. Debt sustainability for these purposes will be evaluated on a forward-looking basis and may take into account, inter alia, the intended restructuring of debt to restore sustainability. This criterion applies only to public (domestic and external) debt. However, the analysis of such public debt sustainability will incorporate any potential contingent liabilities of the government, including those potentially arising from private external indebtedness.

(c) The member has prospects of gaining or regaining access to private capital markets within the timeframe when Fund resources are outstanding.

(d) The policy program of the member provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

4. When exceptional access is approved under a PLL arrangement pursuant to paragraph 3, such access, combined with the member's access to the Fund's resources under other PLL arrangements, shall in no event exceed a cumulative limit of 1000 percent of quota, net of scheduled repurchases

5. Unless otherwise specified in a general decision of the Executive Board, the procedures set forth in BUFF/02/159 (9/20/02), BUFF/03/28 (3/5/03), and BUFF/05/68 (4/13/05) shall apply to all cases involving access in excess of the limits set forth in this Decision.

6. The guidelines for access, the access limits set forth in this Decision, and the experience with access in amounts exceeding these limits shall be reviewed no later than March 29, 2014, on the basis of all relevant factors, including the magnitude of members' balance of payments problems and developments in the Fund's liquidity.

Decision No. 14064-(08/18),
February 22, 2008,
as amended by Decision Nos. 14184-(08/93), October 29, 2008,

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14284-(09/29), March 24, 2009,
BUFF/10/56, May 9, 2010,
14716-(10/83), August 30, 2010, and
15017-11/112),
November 21, 2011

EBS/83/233

II. *Considerations Governing Amount of Access*

Under the decision on enlarged access, a request for the Fund's resources will be met only if the Fund is satisfied that the payments imbalance that the member faces is large in relation to its quota, that the member's financing need from the Fund exceeds the amount available to it in the credit tranches or under the Extended Fund Facility and that its problem requires a relatively long period of adjustment and a period of repurchases longer that three to five years. The decision further states that the period of a stand-by arrangement involving enlarged access will normally exceed one year and may extend to three years, and the period of an extended arrangement will be normally three years. In practice the Fund has considered successive one-year stand-by arrangements, formulated within a medium-term strategy of steady progress toward a sustainable balance of payments position to be consistent with this decision, when the amount of the arrangement is greater than that available in the credit tranches.

The considerations that need to be taken into account in determining the amount of access in individual arrangements and current practice on access have been discussed in recent staff papers, in particular in EBS/83/132 (6/27/83), and may be briefly recapitulated here. The first important consideration is the member's actual or potential need for resources from the Fund, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves; in no circumstances can access be greater than this need. The second important consideration stems from the need to preserve the revolving character of the resources that the Fund provides, i.e., the ability of the member to service its indebtedness to the Fund. In determining the case for Fund support and the amount involved, the timing and extent of the expected improvement in the member's balance of payments are relevant factors. It follows that adjustment

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policies in support of which the Fund's resources are to be used must be designed and implemented in such a manner as to lead to a strengthening of the balance of payments by the time the repurchases begin to fall due and of a sufficient extent to allow the member to make the repurchases without strain. Finally, the amount of the member's outstanding use of Fund credit and its record in using Fund resources in the past must enter into the judgment on the appropriate scale of further use of the Fund.

Under the policy on enlarged access, repurchases of borrowed resources begin three and one half years after the purchase, whether under a stand-by or extended arrangement. Repurchases of ordinary resources under a stand-by arrangement must be made during the regular three- to five-year period after the purchase, while repurchases of ordinary resources under an extended arrangement must be made during a four- to ten-year period after the purchase. For stand-by arrangements, it should therefore be expected that substantially all adjustment measures would be implemented at an early stage and there would be significant progress to balance of payments viability by the end of the three years, in order that repurchases could be made as scheduled.

To ensure that the program allows repurchases to be made, a balance of payments projection well into the repurchase period must show that progress toward a viable balance of payments position is being achieved. This can be indicated by a diminishing need for exceptional finance in general, and that to be provided by the Fund in particular, over the period. The policy measures already in place or being introduced must be commensurate with those needed to continue this progress at the required rate. This subject is discussed in the recent paper reviewing upper credit tranche stand-by arrangements and conditionality (EBS/83/215, 10/4/83).

These basic principles have to be applied in a flexible way because of the great variety of the member's circumstances and the uncertainties that attend economic projections and programming. Access at or close to the annual limit of 102 percent of quota is justified where the member's outstanding use of the Fund's resources is not large, where the member has undertaken a comprehensive adjustment program adequate to bring about a rapid turnaround in the balance of payments, and where the Fund is satisfied that on the basis

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of the member's past record and its present circumstances, it has the ability and willingness to implement the program. The Fund support might appropriately be given in the form of an extended arrangement in some of these cases. Substantial Fund financing may frequently be a critical element in restoring confidence of the international financial community in the policies of the country and thus reviving capital flows.

In these cases where the member has an especially large need for financing from the Fund, and where, based on all relevant information, the strength of the adjustment effort is such that the balance of payments improvement will be quick, sufficient, and durable, Fund financing could exceed the 102 percent limit and reach up to the 125 percent limit. Moreover, as reaffirmed by the Interim Committee, the Fund should have the flexibility in exceptional cases of going beyond the latter limit.

The Fund has recognized that even full implementation of a program or programs may not necessarily guarantee the achievement of the desired balance of payments outcome; moreover, even if the outcome were to turn out to be fully as planned, new problems could arise before repurchases were completed, calling for a supplementary adjustment effort. The Fund should continue to have the flexibility to provide financial support in these circumstances, even though this might prolong the period of use of its resources by a member. This policy approach is implicit in the fact that the cumulative limit allows additional Fund financing even when a member has obtained the maximum possible amount of support for a period of three years.

There are also circumstances where it is clear at the outset that the adjustment period will have to be stretched beyond three years. In these cases Fund support should normally be in the form of successive shorter-term stand-by arrangements, each arrangement being formulated within the framework of a medium-term strategy of balance of payments adjustment. In view of the possible association of the Fund over a number of years, Fund financing in each individual year should be in moderate amounts, that is, well below the limit of 102 percent. Moreover, such support must be associated with the prospect of a significant reduction in balance of payments pressures within a reasonable period so that the member will be in a position to

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make the repurchases on schedule and in less straitened circumstances than when the corresponding drawings were made.

In a quite different category are situations where the Fund's role is likely to be primarily that of a catalyst. The weakness of a member's balance of payments may be such that it is questionable whether a sustainable position not requiring exceptional finance can be achieved over the medium term. A principal factor causing this weakness is often the existing burden of debt service. In some of these cases the debt service problem may be due in part to the large outstanding use of the Fund by the member and further substantial purchases from the Fund would only aggravate the difficulties. In other cases, a substantial improvement in the balance of payments may call for fundamental economic changes which cannot be achieved within a medium-term time frame. In all these situations Fund financing on a limited scale is justified if the member is taking appropriate steps to deal with its situation and such support will maintain the confidence of other creditors. The great bulk of the external financing must normally be provided on appropriate terms from sources other than the Fund. If sufficient external financing cannot be obtained, the Fund cannot be the residual source of finance, and there would thus be no basis for the Fund to support the adjustment program. The amount of the financing need that can be met from the Fund must be closely related to the expected rate of improvement in the overall balance of payments, and there should be a clear prospect of the member making net repurchases with a view to restoring its credit tranche position, thus preventing the use of Fund resources acquiring a semipermanent character.

Summing Up by the Acting Chair—Access Policy in Capital Account Crises
Executive Board Meeting 02/94, September 6, 2002

Directors welcomed the opportunity to consider elements of a strengthened framework for the policy on exceptional access to the Fund's resources—i.e., access that exceeds the limits under the credit tranches and the Extended Fund Facility (EFF). Our discussion today has focused particularly on access policy and crisis resolution in cases where a combination of adjustment and financing is likely to be sufficient to put a country on a stable medium-term path. In some other

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cases, a restructuring of private claims may be necessary. Our work on ways to strengthen the framework for debt restructurings—including the sovereign debt restructuring mechanism and the contractual approach—and clarifying the lending into arrears policy are separate strands for developing the crisis resolution strategy. Access policy is also closely related to our ongoing discussions on the size of the Fund, and the Twelfth General Review of Quotas, with a number of Directors noting that progress on this issue, including on the distribution of quotas, would help to address some of the concerns about exceptional access.

Directors discussed the exceptional access policy in the context of the Fund's response to the challenges arising from the increasing integration of global financial markets in the last decade. This integration has helped to support a rapid expansion of investment and activity in many emerging market countries, but has also exposed these countries to crises caused by rapid reversals of capital flows. The Fund has responded to the challenges posed by these modern capital account crises by strengthening its crisis prevention capabilities and, in some cases, by helping meet members' unusually large financing needs. Directors agreed that exceptional access will sometimes be necessary if the Fund is to provide meaningful assistance to members facing a capital account crisis, but that the policies on such access need to be strengthened to ensure that it remains exceptional. In this context, some Directors noted that the exceptional circumstances clause may continue to be needed occasionally also for balance of payments problems in the current account.

Our discussion today has been informed by the experience gained in past exceptional access cases, beginning with Mexico's Stand-By Arrangement (SBA) in 1995. Several of the programs supported by exceptional access have been quite successful in helping the member achieve external viability, resume growth with limited vulnerability, and regain access to private markets, although more slowly than at first expected. In other countries, however, the combination of adjustment and exceptional access in the context of the associated political and external environment was not sufficient to avoid a restructuring of obligations. It was noted, however, that in all cases the borrowing members have remained current on their repayment obligations to the Fund. From a broader perspective, Directors also noted

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that, while some moral hazard is bound to be present in Fund lending, there is little evidence that the use of exceptional access in general has had large effects on moral hazard by increasing investor or country risk-taking.

Directors agreed that more clearly defined criteria regarding the appropriate use of exceptional access in capital account crises are needed to help shape the expectations of members and markets, provide a benchmark for difficult decisions regarding program design and access, safeguard Fund resources, and ensure uniformity of treatment of members. Directors generally considered that (at a minimum) the following criteria would need to be met to justify exceptional access for members facing a capital account crisis:

(i) The member is experiencing exceptional balance of payments pressures on the capital account resulting in a need for Fund financing that cannot be met within the normal limits;

(ii) A rigorous and systematic analysis indicates that there is a high probability that debt will remain sustainable;

(iii) The member has good prospects of regaining access to private capital markets within the time Fund resources would be outstanding, so that the Fund's financing would provide a bridge; and

(iv) The policy program of the member country provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

In discussing the aforementioned criteria, Directors emphasized in particular the importance of rigorous debt sustainability analyses to support requests for exceptional access. Several Directors saw scope for further strengthening the criteria so as to ensure their strict application. Directors underscored the importance of involving the private sector for program success, and a number of them expressed the view that the member's best efforts to secure private sector involvement in program financing should be an important consideration for justifying exceptional access.

A few Directors suggested further narrowing the definition of capital account crises that could warrant exceptional access by establishing a formal criterion relating to problems of contagion or the po-

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tential for systemic effects. Many other Directors, however, considered that such a criterion could create a bias toward higher access for larger members, which could not be reconciled with the principle of uniformity of treatment. Directors recognized that the Fund should be prepared to provide access above the normal limits in cases where the member's problems have regional or systemic implications, when the other criteria are met.

Directors concurred that the member's balance of payments needs remain a key criterion in determining access in individual cases, while recognizing that measurement of need in financial crises is subject to an unusual degree of uncertainty. Stocks of financial claims can be very large, and can potentially translate into a large balance of payments need. In this context, several Directors highlighted the limitations of the gross financing needs variable, which is a commonly reported measure of need in Fund-supported programs.

A number of Directors noted that, in capital account crises, access in percent of quotas has varied widely, partly because, for some members, the quota may not reflect the relative size of the economy and/or their integration into international capital markets. Most Directors considered, nevertheless, that quotas should remain the fundamental metric for access. Many Directors recognized that alternative metrics, such as GDP, exports, gross reserves, and calculated quotas, could provide additional perspectives on the scale of access in individual cases, even though they would not give unequivocal guidance. In this light, a few Directors recommended that further work be done to support assessments of the appropriate scale of access in more detail.

Most Directors agreed that even when the need was large, Fund financing in exceptional access cases had in practice covered only a portion of the gross financing need, with financing from the private sector and from other official sources filling the balance. Directors emphasized that efforts to involve private sector creditors in program financing should be continued, but it was also recognized that concerted or involuntary action by such creditors could be associated with a slow return of confidence and market access. Several Directors encouraged further consideration of the role of private sector involvement in exceptional access cases.

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Directors supported strengthening the procedures for decision making on access proposals above the normal access limits to provide additional safeguards and enhance accountability, and the Board agreed to the following measures:

(i) *Raising the burden of proof required in program documents as set out in the staff paper.* This would include thorough discussion of need and the proposed level of access, a rigorous analysis of debt sustainability, and an assessment of the risks to the Fund arising from the exposure and its effect on liquidity;

(ii) *Formalizing requirements regarding early Board consultation on the status of negotiations in exceptional access cases.* The modalities of the Board's involvement will be further worked out, building on the practice under which the Board has confidential briefings on the broad strategy of the program and the case for access above normal limits before negotiations are concluded; and

(iii) *Requiring an ex post evaluation by the staff of programs supported by exceptional access within a year after the end of the arrangement, with a number of Directors suggesting that the Independent Evaluation Office also consider conducting such evaluations.*

Directors also considered the possibility of establishing a presumption of public disclosure of Fund staff reports on programs supported by exceptional access. A majority of the Board held the view that, in particular in these cases, there would be a high premium on increasing public understanding and credibility of the program strategy. Many other Directors, however, were concerned that moving to a presumption of publication of such staff reports might not be easily reconcilable with the need for frank assessments of the risks involved. Directors agreed to return to this issue on the occasion of the next review of the Fund's transparency policy in June 2003.

Directors discussed the possibility of requiring a supermajority of Board votes to approve exceptional access. They generally agreed that such a fundamental change to the governance structure of the Fund—which would necessitate a change in the Articles of Agreement—should not be pursued at this time. A few Directors were in favor of separating Board decisions on exceptional access from the approval of the program. Several Directors noted, however, that the merits of the access proposal could not be considered independently

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from the program, and cautioned against procedures that could slow the approval process. Directors discussed the possibility of introducing a presumptive limit on cumulative exceptional access to provide an additional restraint on the use of the Fund's resources. Directors were opposed to the establishment of such a limit, noting that it could not preclude access above this limit without fundamentally constraining the Fund's capacity to respond to crises in its member countries where access above the high limit might be justified. They also pointed to a number of difficult practical hurdles that a limit or norm on exceptional access would raise, in particular, the problem of choosing the right level for a high limit, and the complexity of rules that would need to be defined around a two-tier system of access limits. Furthermore, some Directors were concerned that a presumptive access limit or norm would only be credible to the extent that it was adhered to. Past decisions on high access above the limits considered would make it more difficult to establish credibility.

Turning to prudential considerations regarding exceptional access cases, Directors agreed that more systematic and comprehensive information regarding the member country's capacity to repay the Fund and the Fund's exposure to the member country is needed to underpin judgments about the appropriateness of the proposed access levels in individual cases. In this context, Directors also considered setting a maximum absolute exposure level for a single member above which additional precautionary balances would immediately be accumulated through the burden-sharing mechanism. While a few Directors saw merit in such a proposal, most Directors opposed this idea, as it would raise difficult issues regarding the uniformity of treatment of members in terms of access. They were also concerned that using the burden-sharing mechanism could signal a lack of confidence of the Fund in the member country's economic program and ability to repay the Fund. Some Directors called for an increase in quotas to provide the Fund with adequate resources to deal with the new type of crises.

Directors also had a preliminary discussion of possible changes in the terms and conditions of Fund lending above the limits to affect incentives that apply to exceptional access cases. Most Directors agreed that the scope for increasing the rate of charge to discourage exceptional access appears limited. A number of Directors

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were of the view that, since some capital account crises are unlikely to reverse as quickly as foreseen in the Supplemental Reserve Facility (SRF), lending at somewhat longer maturities should be available if the Fund is to contribute effectively in some of these cases. Other Directors, however, cautioned that such proposals could blur the distinction between SRF and SBA resources, and would warrant a fuller review. Many Directors also expressed interest in further considering the establishment of a presumption that SRF resources would be used when the cumulative access exceeds the limits under the credit tranches and the EFF. A few Directors also noted the importance of the policy on early repurchases in this context.

The current discussion has been fruitful in developing consensus in a number of areas. Staff will prepare a follow-up paper before the end of the year on how best to put this new framework in place, including procedures for early Board consultation in cases where exceptional access is considered, and issues related to private sector involvement in these cases. This paper will also include further consideration of the appropriate maturity of Fund lending in capital account crises, and of the related issue of the mix between SRF and SBA resources. At that discussion, the Board will also conduct the regular review of access policy under the credit tranches and the EFF.

The Acting Chair's Summing Up—Review of Access Policy Under the Credit Tranches and the Extended Fund Facility, and Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Follow-Up Issues Related to Exceptional Access Policy
Executive Board Meeting 03/16, February 26, 2003

Directors welcomed the opportunity to review the recent application of the Fund's access policy, as well as proposals to make operational the Fund's new strengthened framework for exceptional access in capital account crises. Together with the summing up of our discussion on September 6, 2002, this summing up will provide a new framework that will help ensure that exceptional access remains exceptional, while retaining the Fund's flexibility to provide adequate assistance to members facing a capital account crisis. The Board also decided to maintain the current access limits in the credit tranches.

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Access Policy in Capital Account Crises—Modifications to the Supplemental Reserve Facility and Issues Related to Exceptional Access Policy

Regarding the policy on access in capital account crises, Directors discussed a number of operational aspects of the new framework whose building blocks were endorsed at their discussion on September 6, 2002. As noted at that time, the new framework establishes four substantive criteria guiding decisions on when exceptional access may be appropriate in capital account crises—events characterized by a sharp loss of investor confidence and large and disorderly outflows of capital. Directors stressed that the effectiveness of the exceptional access policy will critically depend on the consistent and rigorous application of these criteria. Directors took note of the further staff papers planned on the capacity of countries to access financial markets after debt restructuring, and on initial experience with the debt sustainability analysis.

The new framework also sets out stronger procedures for decision making on exceptional access proposals. These procedures include increasing the burden of proof in program documentation, early and more formal Board consultations on program negotiations in exceptional access cases, and, as a rule, ex post evaluation of programs with exceptional access within one year of the end of the arrangement. Directors agreed that these procedures would apply to any exceptional access (i.e., access under any facility that exceeds the limits applying in the credit tranches and the Extended Fund Facility), even when the member is not experiencing a capital account crisis.

Directors saw a more formal process for Executive Board consultation at the early stages of program discussions as helpful for reinforcing careful and systematic decision making on exceptional access cases. At the same time, however, they recognized the constraints imposed by the special circumstances under which exceptional access programs are negotiated. In particular, these programs are frequently negotiated over a very short time with a backdrop of a worsening crisis, where new information and developments may require substantial changes in the program at very short notice. Directors also agreed that management and staff should have sufficient flexibility and discretion in coming to an agreement in crisis situations without undue delay. The need to move very quickly in some

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situations was emphasized by several Directors. Recognizing that these constraints will affect different cases differently, Directors agreed on the following policy regarding procedures for early consultation to be followed in all cases involving access above the limits.

Once management decides that new or augmented exceptional access to Fund resources may be appropriate, it will consult with the Board promptly in an informal meeting. Directors will be provided with a concise note that sets out the following as fully as possible: (i) a tentative diagnosis of the problem; (ii) the outlines of the needed policy measures; (iii) the basis for a judgment that exceptional access may be necessary and appropriate, with a preliminary evaluation of the four substantive criteria[1] applying in capital account crises, and including a preliminary analysis of external and sovereign debt sustainability; and (iv) the likely timetable for discussions. Staff will circulate this note to Executive Directors at least two hours prior to the informal session, to give Directors some time to absorb the material before meeting. This meeting will provide the basis for consultation with capitals and the issues that emerge would be addressed in a further informal session.

Additional consultations with Executive Directors will normally be expected to occur between the initial informal meeting and the Board's consideration of the staff report. The briefings will aim to keep the Board abreast of program-financing parameters, including assumed rollover rates, economic developments, progress in negotiations, any substantial changes in understandings, and any changes to the initially envisaged timetable for Board consultation. The staff will provide the Board with a separate report evaluating the case for exceptional access based on further consideration of the four substantive criteria, including debt sustainability. To the extent that program parameters are not yet agreed, this report will clearly be tentative. Where time permits, this report will be provided to the Board in ad-

[1] The four criteria are exceptional balance of payments pressures in the capital account; debt-sustainability analysis; expectation of reentry to capital markets; and strong program design and implementation prospects. The full language of the criteria is given in *Summing Up by the Acting Chair—Access Policy in Capital Account Crises* (BUFF/02/159, 9/20/02).

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vance of the circulation of program documents. In all cases, this report will be included in the program documents.

Management will consult with the Board specifically before concluding discussions on a program and before any public statement on a proposed level of access.

Strict confidentiality will need to be maintained, and public statements by members, staff and management should take special care not to prejudge the Board's exercise of its responsibility to take the final decision.

As the Board agreed in September, the staff report for an arrangement proposing exceptional access will include: a consideration of each of the four substantive criteria for exceptional access in capital account crises (including a rigorous analysis of debt sustainability); a thorough discussion of need and the proposed level of access; an assessment of the risks to the Fund arising from the exposure and its effect on liquidity; and systematic and comprehensive information on the member's capacity to repay the Fund.

Directors highlighted the unusual uncertainty and risk that is often associated with the projections of private capital flows and the difficulty this poses for program design. In such cases, it is especially important to be explicit and cautious about the assumptions underlying the projections for financing and their sensitivity to shocks. A number of Directors requested that further information be provided to the Board discussing private sector involvement in program financing. There will normally be a range of potentially applicable approaches for sustaining private sector financial flows, including voluntary efforts to overcome collective action problems among creditors, that could help meet the objectives of the program. Directors agreed that discussions of these issues would be expected to be part of the Board consultations for exceptional access cases set out above.

Directors also agreed to include in the program documentation a standard table that would gauge proposed access levels against a broader set of metrics, and complement quota based metrics. While Fund access would not be constrained to, or evaluated against, any of the indicators proposed in the paper, these indicators would provide useful additional perspective and help ensure uniformity of treatment

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among members. Directors agreed that a table along the lines proposed in the staff paper should be included in all requests for exceptional access with the possible inclusion of additional indicators as might be needed.

Directors considered possible changes to the maturity of repurchases under the Supplemental Reserve Facility (SRF), as well as the appropriate mix of Fund resources in capital account crises. They observed that the experience with capital account crises has shown a greater variance in the duration of countries' balance of payments need than originally expected. Most Directors expressed concern about the increased use of so-called "blends" of credit tranche and SRF resources. The Board has decided to lengthen the maturity of SRF expectations by one year and obligations by six months, and to strengthen the presumption that exceptional access in capital account crises should be provided under the SRF. A number of Directors stressed that there should be a strong presumption to use only SRF resources in all cases where exceptional access is used in capital account crises.

Directors also had an initial exchange of views about the implementation of the Fund's access policy in situations where a debt restructuring is needed. They stressed that difficult and well-informed assessments will be required to deal with financial challenges and needs that are fundamentally different from those of countries with a sustainable debt burden. In particular, the substantive criteria for exceptional access in capital account crises will generally not be met and the conditions for the use of the SRF will not apply. Directors generally agreed that access in such cases would normally be expected to be within the access limits, although there could be rare circumstances warranting exceptional access. A few Directors were hesitant to allow for any possibility of exceptional access in debt restructuring cases.

Directors agreed that the consistent implementation of the new framework for access policy will be an important contribution to the Fund's ongoing efforts to heighten the degree of clarity and predictability for both members and markets about the Fund's response in crisis resolution. They welcomed the proposal for a stock taking on the operation of this framework after one year.

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Summing Up by the Acting Chair—Review of Exceptional Access Policy
Executive Board Meeting 04/36, April 14, 2004

Directors welcomed the opportunity to take stock of the experience with the new framework for exceptional access to Fund resources. This framework was put in place about one year ago, and has informed the Board's decisions to provide exceptional access for Argentina and Brazil. Today's discussion has covered issues relating to the application of the four substantive criteria for exceptional access. In addition, the Board has reviewed the new procedures for early Executive Board involvement in the run-up to formal Board discussions on exceptional access requests and the additional information and documentation that are now required. Directors also discussed the staff's analysis of the strategies and circumstances that lead to a reduction in high levels of outstanding Fund credit in the countries that have recently benefited from exceptional access. The Board will further discuss issues related to exceptional access in a precautionary setting, including as part of an exit strategy, in the context of the upcoming discussion on precautionary arrangements scheduled for July 2004.

Directors noted that the exceptional access framework has helped to improve the clarity and predictability of the Fund's response to capital account crises for both members and markets. They underlined that the strengthened decision making procedures agreed to in February 2003 should continue to apply to all requests for exceptional access. Most Directors felt that the exceptional access criteria remain appropriate and, given the limited experience with the framework, considered that it would be premature to change the exceptional access criteria at this point in time. Stressing that cases of exceptional access should be kept few in number in order to safeguard Fund resources, these Directors were in favor of maintaining the requirement that every request for exceptional access be justified in light of the four substantive criteria. Some Directors highlighted the need to define exceptional access based on a more economically relevant set of metrics rather than in terms of a member's quota, with a few noting that a size and distribution of quotas that reflect more accurately the relative position of member countries in the world economy might have resulted in fewer exceptional access cases.

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Directors noted that the exceptional access criteria were designed for members facing capital account crises. They acknowledged that in rare circumstances a need for exceptional access could arise in situations other than a capital account crisis, and that in those cases a member could not be expected to meet all four criteria. Directors took note of the flexibility to grant access under the exceptional circumstances clause.

Most Directors were not in favor of the staff proposal set out in paragraph 13 of the staff report for dealing with exceptional access arising in situations where the member has a pre-existing high exposure to the Fund and does not face a capital account crisis. They believed that the proposed principles could be seen as a weakening of the policy on exceptional access that could lead to an inappropriate increase in the number of exceptional access cases, with risks to the Fund's financial position. A number of other Directors, however, thought that the current criteria have not provided sufficient guidance in recent requests for exceptional access, and are unlikely to do so for future requests.

Most Directors expressed preliminary views on the merits of exceptional access in the context of a precautionary arrangement. While many of these Directors were willing to consider the possibility of exceptional access in precautionary arrangements, a few of them felt that precautionary exceptional access would be warranted only in a situation where a member has pre-existing exceptional access exposure, as part of an exit strategy to phase out the use of Fund resources. A number of other Directors, however, did not support use of the concept of "potential need" for exceptional access. They expressed concerns about the provision of Fund financing as "insurance" against potential problems, as this could create problems of moral hazard, diminish the role of conditionality, and lead to market expectation of augmentation of exceptional access.

Most Directors noted the importance of incentives for members to repay the Fund as their balance of payments improves, and reiterated the strong presumption that exceptional access should be provided on SRF terms. A number of these Directors stressed that, as a principle, exceptional access should always be subject to SRF-type charges. However, many Directors noted that the maximum maturity of the SRF obligations may sometimes be too short relative to the du-

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ration of the balance of payments need, including, in some cases, where the member has high preexisting use of Fund resources and where portfolio shifts may be longer-lasting. Further, the restrictive circumstance test for the SRF would, unless amended, preclude use of that facility outside of capital account crises and in precautionary settings. Directors agreed to continue discussion of the applicability of the SRF to precautionary settings in July 2004. The Board will have the opportunity to review issues related to charges and maturity of the SRF and other facilities at a date to be determined.

In connection with exit strategies, and based on the experience in earlier cases where the Fund was repaid, Directors observed that a member's capacity to make repurchases and reduce its large Fund exposure will depend on improvements to both the current account and the capital account of the balance of payments. In this context, Directors recognized that some of the features of the current exceptional access cases, particularly the high debt levels, will require the relevant members to sustain high primary fiscal surpluses into the medium term. Given that the balance of payments difficulties of the countries currently with exceptional access appear to be of a medium-term nature, Directors could not rule out the possibility of continued Fund financing for some of these countries for a period of time.

Directors agreed that the procedures for early Board involvement and for the provision of additional information have worked well in supporting an effective decision making process. Early informal Board meetings on Argentina and Brazil were helpful in providing the Board with information on the progress of negotiations and alerting staff to Directors' concerns on key aspects of the program. Directors also welcomed the additional information provided in the context of requests for exceptional access—in particular, the documents evaluating exceptional access based on the four substantive criteria, and the rigorous assessment of the financial risks to the Fund arising from the proposed access, its effect on liquidity, and the member's capacity to repay the Fund. They considered that the framework would be strengthened by the inclusion, in documents presenting future requests for exceptional access, of more in-depth scenario analyses of the financial impact on the Fund and explicit recognition of costs to borrowers and creditors of members incurring arrears to the Fund. In this context, some Directors called for clarification of the

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Fund's lending into arrears policy, particularly with regard to the good-faith criterion. In addition, a few Directors requested that the normal circulation period for staff reports prior to the Board not be shortened unless a rapid decision is essential.

Directors noted that the Fund has provided a very high share of total official financing in recent exceptional access arrangements. While financing from other official sources will continue to be decided on a case-by-case basis, some Directors considered that, as members proceed toward graduating from use of Fund resources, it would be appropriate for financing from other official bilateral and multilateral sources to increase. A view was expressed, however, that the Fund should remain the primary source of official financing.

Directors took note of the circumstances in which Fund resources have addressed an underlying balance of payments need that was related to fiscal imbalances. While Fund resources can only be used to meet a balance of payments need, on occasion purchases have in effect been used as a source of budget financing, particularly where the resources have been made available directly to the government rather than retained by the central bank. Several Directors noted that such use increases financial risks to the Fund, including the risk that the associated repurchases become subject to a budget appropriation process, and some Directors recommended that such arrangements be avoided in the future. Several Directors requested a more detailed assessment in the period ahead of the rationale for, and the risks associated with, the use of Fund financing as a source of budget finance.

Directors agreed that future reviews of the exceptional access policy should be undertaken at the same time as regular reviews of access policy in the credit tranches and under the EFF. The next review is scheduled to take place in late 2004.

The Chairman's Summing Up—Crisis Prevention and Precautionary Arrangements—Status Report
Executive Board Meeting 04/90, September 24, 2004

Executive Directors welcomed the opportunity to discuss the status report on Crisis Prevention and Precautionary Arrangements. The Board has discussed the possible use of precautionary arrangements in capital account crisis prevention on several occasions. Direc-

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tors reiterated their strong support for the main elements of the Fund's crisis prevention strategy. This is focused on promoting the early adoption by members of sound policy frameworks as the first line of defense against vulnerability to sudden capital outflows. In addition, the Fund provides assurances to its members of its readiness to provide financial support, including above the normal access limits where warranted, in support of an appropriate policy response should a crisis occur.

Directors continue to support specific elements of the Fund's toolkit for crisis prevention. They agree that the overall experience with normal access precautionary arrangements has been positive. They support the exceptional access criteria, which are designed to provide clarity to both members and markets on the conditions for Fund financial assistance in the event of a capital account crisis, and to facilitate the rapid provision of such assistance. Also, they concur that the wide range of measures taken to improve the Fund's surveillance mechanisms has enhanced the capacity to advise members on emerging vulnerabilities at an early stage.

Against this background, Directors continued their debate on the need for, and desirability of, a new policy that would clarify the use of exceptional access under precautionary arrangements. On the one hand, many Directors take the view that existing Fund policies are adequate. Their view is based on the following considerations: first, that Fund membership itself provides sufficient insurance to members; second, that regular precautionary arrangements—that is, within the normal access limits—can, and do, provide support for members' strong policies; third, that innovations to Fund surveillance and efforts to increase transparency are bearing fruit; and fourth, that a new policy could undermine incentives to undertake reforms or to assess risk fully. Directors holding this view also note that the Fund can augment the resources it provides fairly quickly if the need arises. Furthermore, most Directors noted that exceptional access could be used in precautionary settings as part of an exit strategy for countries with outstanding Fund resources above the normal limits, under the flexibility provided by the exceptional circumstances clause.

Several Directors suggested that the Supplemental Reserve Facility be modified to allow its use in precautionary arrangements. The Board will have the opportunity to come back to this at a later

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stage in the context of the review of charges and maturities of Fund facilities.

The alternative view, held by many other Directors, remains that there is a gap in the Fund's toolkit left by the expiration of the Contingent Credit Lines in late 2003. These Directors stress that, even if a country is a Fund member and maintains strong domestic policies under Fund surveillance, a capital account crisis can occur as a result of exogenous factors. A new policy that would provide ex ante assurances of appropriate financial support can help strengthen the Fund's role in crisis prevention. Such a policy would: first, provide increased assurances of the conditions under which Fund resources would be made available in a crisis; second, provide access to Fund resources more in line with the potential need of a member with capital account vulnerabilities or contagion risk; third, enhance incentives for members to adopt strong policies before capital account pressures emerge; and fourth, help to boost market confidence and hence reduce the probability of a costly crisis. Directors holding this view feel that regular precautionary arrangements—while useful in cases where pressures are likely to emerge in the current account—are not an effective tool of crisis prevention for members that pursue sound policies but still remain exposed to exogenous shocks and contagion. They regret the lack of progress in designing a policy on exceptional access under precautionary arrangements, and urge that this issue remain a high priority on the Fund's agenda.

Directors have expressed a variety of views on the alternative areas that could be explored to improve country insurance against capital account shocks. Some Directors have stressed that future research should not send a signal that the Fund is turning away from the objective of finding an effective means of assisting member countries in their efforts to prevent capital account crises, while some others have cautioned that the staff's work program should not be pursued with the aim of finding justifications for use of exceptional access in precautionary arrangements. There are differences of emphasis with respect to the orientation of our future work as proposed in the staff report. Today's discussion has brought out further ideas that could be explored. The staff will keep Directors informed, in the context of the work program discussion and at other opportunities, of how its work will be advanced, taking account of all the suggestions made.

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Trade-Related Balance of Payments Adjustment—Fund Support

TRADE INTEGRATION MECHANISM

1. The Fund is prepared to provide financial assistance to members that are experiencing balance of payment difficulties as a result of trade liberalization measures undertaken by other countries. Such assistance shall be made available: (i) in the upper credit tranches under a Stand-By Arrangement, (ii) under the Extended Fund Facility, or (iii) under arrangements under the Poverty Reduction and Growth Trust, and shall be subject to the general access limits established from time to time under such policies. Liberalization measures undertaken by other members would normally be limited to measures introduced either (i) under a WTO agreement or (ii) on a nondiscriminatory basis.

2. Financing under this decision may be provided to address the existing or anticipated balance of payments difficulties identified in paragraph 1 either at the time of the approval of an arrangement or completion of a program review under such an arrangement, upon the Fund's determination that the member is implementing economic adjustment policies that are designed to address the identified balance of payments problems.

3. When making a request for financing under paragraph 2 above, the member may also request that the Fund indicate its willingness to consider providing additional financing if the balance of payments difficulties identified in paragraph 1 above that may arise during the course of the arrangement are larger than anticipated at the time of the approval of the original request under paragraph 2 above. This additional financing, which shall not exceed 10 percent of quota, may be requested by the member and be provided at any time during the period of the arrangement upon a determination by the Fund, in the context of a special review under the arrangement, that: (i) the member's adjustment program is broadly on track and (ii) the additional financing is justified by unanticipated balance of payments difficulties of the type identified in paragraph 1.

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4. Nothing in this decision shall be understood as preventing a member from requesting Fund financial assistance outside this decision to address the balance of payments problems identified in paragraph 1.

5. This decision shall be reviewed no later than December 31, 2007.[1]

Decision No. 13229-(04/33),
April 2, 2004,
as amended by Decision Nos. 13814-(06/98), November 15, 2006,
14354-(09/79),
July 23, 2009,
effective January 7, 2010

[1] Ed. Note: Pursuant to Decision No. 13814-(06/98), November 15, 2006, future reviews will be conducted on an "as needed" basis. The expectation going forward is that "as needed" would generally mean a lag of at least five years between any such reviews.

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Article V, Section 3(d) and (f)

Media of Payment

ASSESSMENT OF STRENGTH OF MEMBER'S BALANCE OF PAYMENTS AND GROSS RESERVE POSITION FOR THE PURPOSES OF DESIGNATION PLANS, OPERATIONAL BUDGETS AND REPURCHASES UNDER ARTICLE V, SECTION 7(*b*)

This decision sets forth guidelines for the assessment of the strength of the balance of payments and gross reserve position of a participant under Article XIX, Section 5(*a*)(i) (designation plans), and of the balance of payments and reserve position of a member under Article V, Section 3(*d*) (operational budgets) and, in accordance with Executive Board Decisions No. 5704-(78/39) and No. 6172-(79/101), under Article V, Section 7(*b*) (early repurchases).

1. Assessments of strength for the purposes of Article V, Sections 3(*d*) and 7(*b*) will be based on a member's balance of payments and gross reserve position, and shall take into account developments in the exchange markets.

2. A member's "balance of payments and gross reserve position" is a combined concept, under which strength in one element may compensate for moderate weakness in the other.

3. In the Fund's assessment whether a member's balance of payments and gross reserve position is sufficiently strong for the purposes of the designation plans, operational budgets, and early repurchases, all relevant factors and data on the member's position shall be considered, including the following: recent and prospective movements in gross reserves, balance of payments developments, the relationship of gross reserves to a member's imports and Fund quota, and developments in exchange markets. To the extent that recent data on changes in a member's net reserves are available, these shall be taken into account as an indicator of the member's balance of payments position.

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4. If a member has outstanding purchases in the General Resources Account, the assessment of its balance of payments and gross reserve position will include judgments on whether the member's position shows an improvement in comparison with the position at the time it made its last purchase from the Fund, on the extent of the improvement, and on whether it is likely to be sustained in the foreseeable future. Special attention will be given to the recent and prospective evolution in the various components of the member's balance of payments, including developments in the member's net reserves to the extent that data are available.

Decision No. 6273-(79/158) G/S,
September 14, 1979

TRANSFERS OF SDRS UNDER ARTICLE V, SECTION 3(*f*)

Pursuant to Article V, Section 3(*f*), the Fund shall provide SDRs instead of the currencies of other members to a participant making a purchase in accordance with decisions on the operational budgets taken under Rule O-10. For this purpose, the Executive Board shall keep under review the amount of the Fund's holdings of SDRs in the General Resources Account in the light of all relevant considerations, including the relationship of SDR holdings to its other assets, and will determine from time to time the approximate range within which the Fund will aim to maintain these holdings.

Decision No. 6275-(79/158) G/S,
September 14, 1979

PROCEDURES FOR THE SALE OF CURRENCIES AT THE REQUEST OF MEMBERS WITH OUTSTANDING PURCHASES

Pursuant to paragraph 2 of the Executive Board Decision No. 6274-(79/158), the Executive Board approves the procedures set out in SM/79/277 (11/29/79).

Decision No. 6352-(79/183),
December 12, 1979

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SM/79/277

Procedures

1. Executive Board Decision No. 6274-(79/158) on the selection of currencies by the Fund contains the following paragraph.

> 2. Under procedures to be adopted, the currency of a member with outstanding purchases subject to repurchase, whose balance of payments and gross reserve position is judged sufficiently strong for the purposes of operational budgets and designation plans, normally will be sold by the Fund under Article V, Section 3(*d*) only if the member and the Fund agree.

…

5. … [T]he following procedural guidelines are suggested. They place stress on consultations between the Managing Director and the member concerned prior to the submission by the Managing Director to the Executive Board of a proposal agreed with the member on a maximum amount of sales of its currency and on the way in which these sales would be integrated in the operational budget. The guidelines are intended to provide a reasonable degree of flexibility for the Managing Director to make proposals that would be acceptable both to the member that wished its currency to be sold and to the Executive Board.

a. As far as practicable, a member with outstanding purchases that wishes its currency to be sold by the Fund would be expected to consult with the Managing Director before the end of the second month of the quarterly period prior to the beginning of the period in which the currency would be sold. This will enable a proposal for the sale of the currency to be incorporated in the next operational budget. However, the Managing Director might also propose an amendment to an existing budget. The qualification "as far as practicable" is included in order to provide some flexibility; one reason for this is that a member may not know that its balance of payments and reserve position is judged "sufficiently strong" for the purposes of the

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next designation plan and operational budget until the relevant documents are circulated to the Executive Board.

b. Following the consultation, and with the agreement of the member concerned, the Managing Director will make a proposal to the Executive Board in accordance with paragraph (c) below that the currency be included in the operational budget. The Managing Director's proposal will cover the way in which the sales of the currency will be integrated with the sales of other currencies and SDRs in the execution of the operational budget. While in each case the decision on sales of a currency would rest with the Executive Board, there would be a reasonable presumption that a proposal made in accordance with these guidelines would be accepted.

c. Proposals by the Managing Director for sales of a currency of a member with purchases outstanding would be guided by the following considerations:

(i) Proposals would not normally be made for sales of currencies if such sales would give rise to repayments of borrowing by the Fund, or if they would be attributed by the member to repurchase obligations falling due within the quarterly period of the budget.

(ii) The amounts of currency involved should not be such as to detract significantly from the promotion of balanced positions in the Fund or the aim of maintaining the SDR holdings of the General Resources Account within a particular range.

OPERATIONAL BUDGET—REVIEW OF GUIDELINES FOR ALLOCATION OF CURRENCIES

1. Pursuant to Decision No. 11386-(96/107), adopted December 2, 1996, the Fund has reviewed the guidelines for the use of currencies in the General Resources Account approved by Decision No. 10279-(93/19), adopted February 10, 1993. The Executive Board approves the new guidelines set out below:

2. Currencies to be used for transfers in the operational budget will be allocated in proportion to members' quotas.

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3. Currencies to be used for receipts in the operational budget will be allocated in such a way as to promote over time-balanced positions in the Fund in relation to quotas. Receipts in currencies will be allocated to members with positions in the Fund above the average of all members included in the operational budget. The amount allocated in each currency shall be in proportion to the difference between the member's position in the Fund and the projected average of all members included in the operational budget, expressed as a percent of quota, at the end of the budget period.

4. A member's "position in the Fund" shall be defined as its reserve tranche position plus any outstanding loans to the Fund by the member or an institution of the member under credit arrangements that are judged by the Fund to provide it, on a continuing basis, with the ability to finance uses of its resources by members on terms comparable to those applicable to the Fund's use of its currency holdings for this purpose.

5. The Fund's holdings of a member's currency in terms of quota resulting from allocations of currencies for transfers shall not be reduced below a floor of one-half of the projected average level, in percent of quota, of the Fund's holdings of usable currencies at the end of the budget period.

6. The Fund will seek to maintain adequate working balances of each member's currency included in the operational budget for transfers of not less than 10 percent of the quotas of these members.

7. These guidelines will enter into effect with the operational budget for the period December 1998–February 1999. Their operation will be reported to the Executive Board in the context of the quarterly operational budgets.

8. The guidelines will be reviewed by the Executive Board not later than December 31, 2000 (EBS/98/194, 11/17/98).

Decision No. 11837-(98/121),
November 30, 1998

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SELECTION OF CURRENCIES BY THE FUND

This decision sets forth guidelines for the selection of currencies in purchases under Article V, Section 3(*d*), in repurchases under Article V, Section 7(*i*), and in transfers of SDRs by the Fund under Article V, Section 6(*b*) pursuant to decisions adopted prior to the date of this decision.

1. Normally, the Fund will select a member's currency for use in the operations and transactions of the General Resources Account in amounts that result in a net reduction of the Fund's holdings of the currency only if the member's balance of payments and gross reserve position is judged to be sufficiently strong. Accordingly this will not preclude the possibility that the Fund will make net reductions in its holdings of the currency of a member with a strong reserve position even though it has a moderate balance of payments deficit.

2. (a) Under procedures to be adopted, the currency of a member with outstanding purchases subject to the guidelines on early repurchase, whose balance of payments and gross reserve position is judged sufficiently strong for the purposes of operational budgets and designation plans, normally will be sold by the Fund under Article V, Section 3(*d*) only if the member and the Fund agree.

(b) If the outstanding purchases of a member judged sufficiently strong are not subject to the guidelines on early repurchase, and the member agrees with the Fund that its currency shall be sold, the amounts of its currency to be sold shall be calculated in accordance with the procedures set out in the Annex to this decision.

3. If the currency of a member whose balance of payments and gross reserve position is not judged sufficiently strong in accordance with paragraph 1 above can be accepted in repurchase under Article V, Section 7(*i*), the Fund, at the request of the member, will give special emphasis to the use of that currency for repurchases.

4. The guidelines in this decision will be applied in a manner that will allow the Fund to retain the flexibility necessary to ensure that (i) the use of currencies can be adapted to the needs and circumstances of members and of the Fund, and (ii) the transactions and oper-

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ations of the Fund can be executed expeditiously and in a manner that pays due regard to the convenience of members. Considerations that are relevant under (i) may include the need for members to purchase certain currencies in order to stabilize exchange markets, the effects of the use or receipt of currencies on the Fund's financial position, the Fund's liquidity, and the fact that in respect of the issuer of a reserve currency the ratio of its Fund position to its gold and foreign exchange holdings may not provide an appropriate measure of the amounts of the currency that might be used by the Fund. Considerations under (ii) may include the need to avoid the use of an excessive number of currencies in single transactions and operations. (SM/81/37, Sup. 1, 3/4/81)

Decision No. 6774-(81/35),
March 5, 1981

ANNEX

Sales of Currencies of Members Indebted to the Fund

a. There are some members indebted to the Fund that are judged sufficiently strong but to whose outstanding purchases the guidelines on early repurchase do not apply. It was agreed that the Fund would not insist on its right to sell the currency of such a member and such sales would take place only if there was agreement between the member and the Fund. In such cases the Managing Director, is authorized, under procedures agreed by the Executive Board, to approach any of these members in a particularly strong position with a view to the member reducing its indebtedness to the Fund in amounts calculated in accordance with the guidelines. In order to facilitate sales of such members' currencies, the rule of attribution is changed to give a member with outstanding indebtedness under excluded facilities financed by borrowing (other than the GAB) the option to apply the consequent reduction in the Fund's holdings of its currency to an enlargement of its reserve tranche position rather than to the discharge of its outstanding obligations to the Fund.

b. The Fund will calculate the amounts of the currencies of the members referred to in (a) above, included for sales in an operational budget, in accordance with the guidelines on early repurchase.

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In addition, if any other debtor member whose outstanding purchases were neither under excluded facilities financed by borrowings nor subject to the guidelines on early repurchase agreed with the Fund on the sale of its currency, the Fund would calculate the amounts to be sold in the same manner. However, at the request of the member, the calculated amounts would be reduced for the first two successive budget periods. The calculation of the amount of sales of a debtor member's currency for any quarterly period would no longer be made in accordance with the guidelines on early repurchase, or would be reduced from the calculated amount, when sales of the currency equal the outstanding indebtedness of the member to the Fund.

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Article V, Section 5

Ineligibility to Use the Fund's General Resources

USE OF FUND'S RESOURCES: LIMITATION AND INELIGIBILITY UNDER ARTICLE V, SECTION 5

The Fund has, in the case of a member which has had a previous exchange transaction with the Fund, power to declare the member ineligible or limit its use of the resources of the Fund if the member is, in the opinion of the Fund, using the resources of the Fund in a manner contrary to the purposes of the Fund.

Decision No. 284-3,
March 10, 1948

USE OF FUND'S RESOURCES: POSTPONEMENT AND LIMITATION UNDER ARTICLE V, SECTION 5

If the Fund receives a request from a member to purchase exchange and either, (1) the Fund is considering sending the member a report pursuant to Article V, Section 5 or (2) the Fund finds when the request is before it that action pursuant to that Section should be considered, then the Fund has the authority, pursuant to Article V, Section 5 of the Fund Agreement, to postpone the transfer as permitted under the provisions of Rules and Regulations G-3[1] for such time as may reasonably be necessary to decide the question of applying Article V, Section 5, and, if it decides to apply it, to prepare and send to the member a report and subject its use of the Fund's resources to limitations. Under such circumstances the limitations imposed will

[1] Ed. Note: Corresponds to Rule G-4 of the Rules and Regulations adopted April 29, 1981, effective May 1, 1981.

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apply to the pending request for the purchase of exchange as well as to future requests.

Decision No. 286-1,
March 15, 1948

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Article V, Section 6

Sales of SDRs by the Fund

SALES OF SDRS BY THE FUND

1. Pursuant to Article V, Section 6 (*b*) and (*c*), the Fund shall provide a member at its request with SDRs from the General Resources Account in exchange for an equivalent amount of the currencies of other members to enable the member to pay SDRs in order to increase its quota under Board of Governors Resolution No.34-2 on the Seventh General Review of Quotas or in accordance with the provisions of that Resolution.

2. The amount of SDRs a member may receive under this decision shall not exceed the difference between the amount of the member's SDR holdings and the amount of its quota payment due in SDRs at the time of payment.

Decision No. 6663-(80/160) S,
October 31, 1980

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Article V, Section 7

Repurchases

GUIDELINES FOR EARLY REPURCHASE

Members that make purchases in the General Resources Account are expected normally to repurchase as their balance of payments and reserve position improves. The Fund affirms the continued need for this general policy on early repurchase under the first sentence of Article V, Section 7(*b*) following the introduction in November 2000 of time-based repurchase expectations for purchases in the credit tranches and under the Extended Fund Facility and the Compensatory Financing Facility. The Fund encourages members to make voluntary advance repurchases in lieu of or in addition to early repurchases under this general policy.

The following provisions set forth guidelines for members regarding early repurchase under the first sentence of Article V, Section 7(*b*) when the balance of payments and reserve position of members improves. The guidelines apply to the Fund's holdings of currency that result from the purchases under Article V, Section 3 that are subject to repurchase under the provisions of the Articles and policies of the Fund.

1. A member's balance of payments and reserve position will be deemed normally to have improved sufficiently for early repurchases to be expected in accordance with these guidelines if the member's balance of payments and reserve position is judged sufficiently strong for the purposes of a quarterly designation plan and financial transactions plan as determined by the Fund from time to time in the light of the relevant factors. A member that makes a purchase in the credit tranches or under a special policy of the Fund will not be expected, however, to make early repurchases within six months of a purchase.

2. During the quarter following the decisions adopting the designation plan and financial transactions plan, it will be expected that

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a specified amount of the Fund's holdings of the member's currency will be repurchased.

3. Subject to paragraphs 4 and 5 below, the specified amount for the expected quarterly repurchase will be 1.5 percent of the member's gross reserves plus (minus) 5 percent of the increase (decrease) in gross reserves over the latest six-month period for which data are available ("latest gross reserves"). The quarterly amount will be subject to a limit of 4 percent of the member's latest gross reserves. A quarterly repurchase will be limited to an amount that will not (i) reduce the member's latest gross reserves below 250 percent of the member's quota, and (ii) exceed, together with the member's early repurchases during the preceding three quarters, 10 percent of these reserves.

4. The specified amount in accordance with paragraph 3 above will represent the minimum reduction in the Fund's holdings of the member's currency expected during the quarter. Repurchases by the member during the quarter will be included in calculating the reductions for this purpose. If the member's repurchases made during a quarter in advance of repurchase maturities exceed the minimum reduction expected during that quarter, the excess will give rise to a credit that will meet pro tanto the expectations of early repurchase for the next five quarters. At the end of a quarter the credit will be reduced by the larger of (i) the repurchase expectation for the quarter that is deemed to be satisfied by the credit, and (ii) the repurchase obligations that would have matured during the quarter but have been discharged by the advance repurchase.

5. If, during the two quarters prior to the date when a member is added to the list of members whose positions are considered sufficiently strong for the purposes of the quarterly designation plan and financial transactions plan, the member's repurchases in advance of maturity exceed the minimum reduction expected during those two quarters, a credit will be given in accordance with paragraph 4 above. Any credit still available when a member's balance of payments and reserve position is no longer considered sufficiently strong for the

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purposes of a quarterly designation plan and financial transactions plan will continue to apply in accordance with paragraph 4 above.

6. In each financial transactions plan the Managing Director will report on the observance by members of the guidelines for early repurchase.

7. This decision will be reviewed from time to time in light of experience. (SM/79/136, Sup. 1, 6/25/79)

Decision No. 6172-(79/101),
June 2, 1979
as amended by Decision No. 12425-(01/14),
February 9, 2001

REPURCHASE

1. Repurchases of the outstanding amount of a member's currency that results from a purchase under the credit tranches and is subject to charges under Article V, Section 8(*b*), or under the decision on Compensatory Financing of Export Fluctuations (Decision No. 4912-(75/207), as amended) or the decision on the Problem of Stabilization of Prices of Primary Products (Decision No. 2772-(69/47), as amended), or the decision on Compensatory Financing of Fluctuations in the Cost of Cereal Imports (Decision No. 6860-(81/81), as amended), or the decision on the Compensatory Financing Facility (Decision No. 8955-(88/126), as amended), or the decision on Emergency Assistance (Decision No. 12341-(00/117)), shall be completed, pursuant to Article V, Section 7(*c*), five years after the date of the purchase, provided that the repurchase shall be made in equal quarterly installments during the period beginning three years and ending five years after the date of the purchase unless the Fund approves a different schedule.

2. Decisions with respect to the timing of repurchases shall be understood to permit a member to combine all repurchases to be made within a calendar month and to complete them not later than the last business day of the month, provided however that the maximum pe-

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riod for use of the Fund's resources according to the policy under which a repurchase is to be made shall not be exceeded.

3. If a member that has an outstanding obligation to pay gold in repurchase has made an equivalent repurchase with special drawing rights in discharge of a commitment the member shall be regarded as having discharged its obligation in accordance with Schedule B, paragraph 2.

4. If a member that has an outstanding obligation to pay gold in repurchase has made an equivalent repurchase with currencies of other members in discharge of a commitment, the member shall be regarded as having discharged its obligation in accordance with Schedule B, paragraph 2, provided that if the currencies paid are not acceptable in repurchase as of the date of the Second Amendment, the member shall substitute an equivalent amount of the currencies of other members specified by the Fund in accordance with Article V, Section 7(*i*).

5. If a member that has an outstanding obligation to pay gold in repurchase has not made an equivalent repurchase with special drawing rights or with the currencies of other members in discharge of a commitment, within two months after the date of the Second Amendment of the Articles of Agreement, the member shall make a repurchase equivalent to the outstanding obligation in gold with special drawing rights or, at its option, with the currencies of other members specified by the Fund in accordance with Article V, Section 7(*i*). The repurchase shall be regarded as a discharge of the member's obligation in accordance with Schedule B, paragraph 2.

6. The dates for the payment of special drawing rights or currencies of other members in discharge of any obligation to pay gold to the Fund in repurchase, and for any substitution under paragraph 5 above, after the date of the Second Amendment of the Articles of Agreement shall be determined in accordance with Schedule B, paragraph 1.

7. Repurchase under Schedule B, paragraph 4 shall be completed four years after the date of the Second Amendment of the Ar-

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ticles of Agreement. If the Fund's holdings of a member's currency that are subject to paragraph 4(ii) are in excess of 10 percent of the member's quota on the date of the Second Amendment, the member shall be requested to agree to make the repurchase in four equal installments beginning not later than one year after that date.

Decision No. 5703-(78/39),
March 22, 1978, effective April 1, 1978,
as amended by Decision Nos. 6862-(81/81), May 13, 1981,
8955-(88/126), August 23, 1988,
12342-(00/117),November 28, 2000, and
14287-(09/29),
March 24, 2009,
effective April 1, 2009

ATTRIBUTION OF REDUCTIONS IN FUND'S HOLDINGS OF CURRENCIES

1. (a) Subject to paragraphs (b), and (e) below a member shall be free to attribute a reduction in the Fund's holdings of its currency (i) to any obligation to repurchase, and (ii) to enlarge its reserve tranche.

(b) If the reduction results from the sale of a member's currency or from operational payments by the Fund, an attribution may not be made to an obligation to repurchase financed from borrowed resources unless the Fund is obligated or entitled immediately to repay the lender on the occasion of such attribution. A member would be able to combine an attribution under this decision to an obligation to repurchase financed with ordinary resources with a repurchase of an outstanding obligation financed with borrowed resources, provided this repurchase and the attribution would result in a joint reduction of repurchase obligations as required under Decision No. 5508-(77/127) and Decision No. 6783-(81/40).

(c) [Repealed]

(d) [Repealed]

(e) A reduction resulting from a repurchase made pursuant to a repurchase expectation under paragraph 10(a) of Decision No. 4377-(74/114) shall be attributed to the member's repurchase ob-

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ligation arising from the same purchase three years after the original date on which that repurchase expectation was to be met.

2. A reduction attributed to a reserve tranche position will not discharge an expectation of repurchase under the Guidelines for Early Repurchase.

3. If the member when asked does not make an attribution in accordance with 1 above, it will be deemed to be discharging the first maturing repurchase obligation.

…

Decision No. 6831-(81/65),
April 22, 1981,
effective May 1, 1981,
as amended by Decision Nos. 7059-(82/23), February 22, 1982,
12345-(00/117), November 28, 2000, and
14287-(09/29),
March 24, 2009,
effective April 1, 2009

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Article V, Sections 8 and 9

Charges and Remuneration

FUTURE CHANGES IN CHARGES ON FUND'S HOLDINGS OF MEMBERS' CURRENCIES IN EXCESS OF QUOTA

Changes in any schedule of charges levied under Article V, Section 8(*c*), (*d*), and (*e*)[1] shall apply to all holdings subject to the schedule that are obtained by the Fund after the date of this decision. (EBS/74/138, 5/24/74; and Cor. 1, 6/13/74)

Decision No. 4239-(74/67),
June 13, 1974

SURCHARGE ON PURCHASES IN CREDIT TRANCHES AND UNDER EXTENDED FUND FACILITY

1. Effective August 1, 2009, the rate of charge under Article V, Section 8(b) on the Fund's combined holdings of a member's currency in excess of 300 percent of the member's quota in the Fund resulting from purchases in the credit tranches and under the Extended Fund Facility shall be 200 basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing; provided that the rate of charge in any case where such holdings in excess of 300 percent of quota are outstanding for more than three years after August 1, 2009 shall include an additional 100 basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing.

2. (a) Notwithstanding paragraph 1 of this Decision, and except as otherwise specified in paragraph 3 of this Decision, a member with credit outstanding in the credit tranches or under the Extended

[1] Ed. Note: Corresponds to Article V, Section 8(*c*), (*d*), and (*e*) of the Articles of Agreement after the Second Amendment.

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Fund Facility on, or with an effective arrangement approved before, August 1, 2009 shall have the option to elect whether the rate of charge on such existing holdings of the member's currency, and on holdings of the member's currency arising from future purchases under such an existing arrangement, shall be computed:

(i) pursuant to paragraph 1 of this Decision or;

(ii) pursuant to the framework for surcharges on purchases in the credit tranches and under the Extended Fund Facility that was in effect from November 28, 2000 until the date of this Decision (as set out in the Annex to this Decision).

(b) A member with an election option under paragraph 2(a) of this Decision shall notify the Fund by July 29, 2009 whether it elects to have the rate of charge computed pursuant to paragraph 2(a)(i) or paragraph 2(a)(ii) of this Decision. A member failing to provide such notification by July 29, 2009 shall have the rate of charge computed pursuant to paragraph 2(a)(i) of this Decision.

3. When the Fund approves a new arrangement on or after August 1, 2009 for a member that has elected to have the rate of charge computed pursuant to paragraph 2(a)(ii) of this Decision, such election shall cease to apply as of the date of the approval of such an arrangement and the rate of charge under this Decision on all holdings of the member's currency in the credit tranches or under the Extended Fund Facility shall be computed pursuant to paragraph 1 of this Decision; provided that the additional 100 basis points charge referred to in the proviso of paragraph 1 shall apply only in cases where the combined holdings of a member's currency remain in excess of 300 percent of the member's quota for more than three years after the date of approval of the new arrangement.

4. This Decision shall be reviewed in accordance with Decision No. 13814-(06/98), adopted November 15, 2006 on implementing streamlining of policy reviews. (SM/09/69, Sup. 2, 3/24/09)

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Decision No. 12346-(00/117),
November 28, 2000,
as amended by Decision No. 14285-(09/29),
March 24, 2009

ANNEX

For purposes of paragraph 2(a)(ii) of Decision No. 14285, the framework for surcharges on purchases in the credit tranches and under the Extended Fund Facility that was in effect from November 28, 2000 until the date of Decision No. 14285 is as follows: "The rate of charge under Article V, Section 8(b) on the Fund's combined holdings of a member's currency in excess of 200 percent of the member's quota in the Fund resulting from purchases in the credit tranches and under the Extended Fund Facility made after November 28, 2000 shall be 100 basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing, provided that the rate on such holdings in excess of 300 percent of the member's quota shall be 200 basis points per annum above the rate of charge referred to in Rule I-6(4) as adjusted for purposes of burden sharing." (SM/09/69, Sup. 2, 03/24/09)

MEDIA OF PAYMENT IN GENERAL RESOURCES ACCOUNT

1. A member whose holdings of SDRs are insufficient for the payment of the total of estimated charges due and payable by it within the next thirty days may:

(a) obtain SDRs from the General Resources Account up to a reasonable estimate of the balance of SDRs needed for the payment; or

(b) pay the balance of the charges in the currencies of other members.

2. A member that is unable to pay charges in SDRs because it is not a participant in the Special Drawing Rights Department and has not been prescribed as an other holder may pay all charges payable under Article V, Section 8 in the currencies of other members.

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3. The currencies for which the SDRs would be sold under paragraph 1(a) or that would be paid under paragraph 1(b) and paragraph 2 shall be selected by the Fund from those currencies that the Fund would receive in accordance with the operational budget in effect at the time. (SM/78/43, 2/3/78)

Decision No. 5702-(78/39) G/S,
March 22, 1978, effective April 1, 1978,
as amended by Decision No. 7096-(82/57) G/S,
April 23, 1982

ACCOUNTING FOR CHARGES FROM MEMBERS WITH OVERDUE OBLIGATIONS

The Executive Board decides that, effective November 1, 1986, accrued charges on the use of the Fund's general resources from a member that is overdue in meeting any financial obligation to the Fund for six months or more will not be included in accrued income unless the member is current in the payment of charges. Charges that are not included in accrued income will instead be reported as deferred income, and will be recorded as income only when paid. Once charges from a member have been reported as deferred income, charges subsequently accrued will not be included in accrued income until the member becomes current in the payment of charges.

Decision No. 8433-(86/175),[1]
October 31, 1986

SPECIAL CHARGES ON OVERDUE FINANCIAL OBLIGATIONS TO THE FUND

I. *Overdue Repurchases*

1. The Fund has reviewed the rates of charge to be levied under Article V, Section 8(*c*) on its holdings of a member's currency that

[1] Ed. Note: This decision replaced Decision No. 7930-(85/41), March 13, 1985.

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have not been repurchased in accordance with the requirements of the Articles or decisions of the Fund.

2. Within three business days after (i) the due date for the repurchase by a member of the Fund's holdings of its currency or (ii) the effective date of this decision, whichever is the later, the Fund shall consult with the member on the reduction of the Fund's holdings of the member's currency that should have been repurchased. The consultation shall take place by rapid means of communication.

3. Unless the Fund's holdings of the member's currency are reduced within the period referred to in Section IV below by the amount that should have been repurchased, the rate of charge on the holdings that should have been repurchased shall be increased by a percentage equal to the excess, if any, of the rate of interest on the SDR over the rate of charge levied on the holdings under Rule I-6(4). For the purposes of this calculation, any adjustments in the rate of charge referred to in Rule I-6(4) that may be made to cover deferred income or for placement to the Special Contingent Account shall not be taken into consideration.

II. *Overdue Charges in the General Resources Account*

A special charge equal to the rate of interest on the SDR shall be paid by a member on the unpaid amount of charges owed by it under Article V, Section 8(*a*) and (*b*).

III. *Overdue Interest and Repayments on Trust Fund Loans*

The Fund shall levy a special charge on (i) the amount of overdue interest on Trust Fund loans, at a rate equal to one half of the sum of the rate of interest on Trust Fund loans and the rate of interest on the SDR, and (ii) the overdue amounts of repayments of Trust Fund loans, at a rate equal to one half of the sum of the rate of interest on Trust Fund loans and the rate of interest on the SDR, less one-half percent.

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IV. *Waiver of Special Charges*

Special charges under Sections I, II, and III above shall be levied in respect of an overdue financial obligation as of the due date or the effective date of this decision, whichever is the later, unless the obligation is discharged within ten business days after the applicable date.

Effective May 1, 1992, special charges under Sections I and II above shall not be levied on overdue obligations of a member that is overdue in meeting any financial obligation to the Fund subject to special charges under Sections I and II above for six months or more.

Effective May 1, 1993, special charges under Section III above shall not be levied on overdue obligations of a member that is overdue for six months or more in meeting any financial obligation to the Fund subject to special charges under Section III above.

V. *Notification and Payment of Special Charges*

1. Special charges levied under this decision shall be payable following the end of each of the Fund's financial quarters and the member shall be notified promptly of any special charges due. The charges shall be payable on the second business day following the dispatch of the notification.

2. Special charges in respect of overdue repurchases and charges in the General Resources Account shall be paid in SDRs to that Account. Special charges in respect of overdue repayments and interests on Trust Fund loans shall be paid in U.S. dollars to the Special Disbursement Account. Such payments may be made also in SDRs to a prescribed holder on behalf of the Special Disbursement Account, provided that use of SDRs is in accordance with Decision No. 8642-(87/101) S/TR, adopted July 9, 1987.

VI. *Entry into Effect and Review*

This Decision will enter into effect on February 1, 1986. It will be reviewed shortly after October 31, 1986 at the time of the mid-year review of the Fund's income position for the financial year

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ending April 30, 1987, and thereafter annually in connection with the annual reviews of the Fund's income position.

Decision No. 8165-(85/189) G/TR,
December 30, 1985, effective February 1, 1986,
as amended by Decision Nos. 8496-(87/3) G/TR, January 7, 1987,
8641-(87/101) G/S/TR, July 9, 1987,
8923-(88/110) G/TR, July 21, 1988,
10000-(92/58) G/TR, April 17, 1992,
10337-(93/49) G/TR, April 9, 1993,
10352-(93/49) G/TR, April 9, 1993,
10551-(94/1) G/TR, January 7, 1994, and
13001-(03/39) G/TR,
April 25, 2003

SETOFF IN CONNECTION WITH A RETROACTIVE REDUCTION OF CHARGES DUE BY MEMBERS IN ARREARS

1. When the Fund decides upon a retroactive reduction in the rate of charge specified in Rule I-6(4), the amount to be paid to a member that has charges or repurchases overdue, in the General Resources Account, on the effective date of the payment by the Fund, shall be set off pro tanto, as of that date, against such overdue obligations in the following manner: the member shall be requested to specify which overdue obligations, among the categories listed in paragraph 2, it wishes to discharge by the setoff; in the absence of a response by the member within seven business days after the request, the setoff shall apply to the member's overdue obligations, within the categories listed in paragraph 2, in the descending order of maturities.

2. The setoff under paragraph 1 shall apply to:

(a) special charges due on the amount of overdue charges under Executive Board Decision No. 8165-(85/189) G/TR, December 30, 1985;

(b) special charges due on the amount of overdue repurchases under Article V, Section 8(*c*);

(c) charges due under Article V, Section 8(a) or (b);

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(d) overdue repurchase obligations.

Decision No. 8271-(86/74),
April 30, 1986

Burden Sharing

INCOME POSITION—BURDEN SHARING—IMPLEMENTATION IN FY 2000

Section I. *Principles of Burden Sharing*

1. The financial consequences for the Fund which stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. The sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. *Determination of the Rate of Charge*

The rate of charge for financial year 2000 referred to in Rule I-6(4) shall be adjusted in accordance with the provisions of Section IV.

Section III. *Amount for Special Contingent Account I*

An amount equivalent to 5 percent of the Fund's reserves at the beginning of the financial year shall be generated during financial year 2000 in accordance with the provisions of Section IV, and shall be placed to the Special Contingent Account-1 referred to in Decision No. 9471-(90/98), adopted June 20, 1990.

Section IV. *Implementation of Burden Sharing*

1. During financial year 2000, notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4) and the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this Section.

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2. (a) In order to generate the amount to be placed to the Special Contingent Account-1 in accordance with Section III, the rate of charge, and, subject to the limitation in (c), the rate of remuneration, shall be adjusted in accordance with the provisions of this paragraph, so as to produce equal amounts of income.

(b) If income from charges becomes deferred during an adjustment period as defined in (d), the rate of charge and, subject to the limitation in (c), the rate of remuneration, shall be further adjusted, in accordance with the provisions of this paragraph, so as to generate, in equal amounts, an additional amount of income equal to the amount of deferred charges. For the purposes of this provision, special charges on overdue financial obligations under Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, as amended, shall not be taken into account.

(c) No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(d) The adjustments under this paragraph shall be made as of May 1, 1999, August 1, 1999, November 1, 1999, and February 1, 2000: shortly after July 31 for the period May 1 to July 31; shortly after October 31 for the period from August 1 to October 31; shortly after January 31 for the period from November 1 to January 31; shortly after April 30 for the period from February 1 to April 30;

(e) The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit in (c) above.

3. (a) Subject to paragraph 3 of Decision No. 8780-(88/12), adopted January 29, 1988, the balances held in the Special Contingent Account-1 shall be distributed in accordance with the provisions of this paragraph to members that have paid additional charges or have received reduced remuneration as a result of the adjustment when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

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(b) An amount equal to the proceeds of any adjustment for deferred charges shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have received reduced remuneration when, and to the extent that, charges, the deferral of which had given rise to the same adjustment, are paid to the Fund. Distributions under this provision shall be made quarterly.

(c) Distributions under (a) or (b) shall be made in proportion to the amounts that have been paid or have not been received by each member as a result of the respective adjustments.

(d) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74), adopted April 30, 1986, or any subsequent decision of the Fund.

(e) Subject to paragraph 4 of Decision No. 8780-(88/12), adopted January 29, 1988, if any loss is charged against the Special Contingent Account-1, it shall be recorded in accordance with the principles of proportionality set forth in (c).

Decision No. 11945-(99/49),
April 30, 1999

IMPLEMENTATION OF BURDEN SHARING IN FY 2001

Section I. *Principles of Burden Sharing*

1. The financial consequences for the Fund, which stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. The sharing shall be applied in a simultaneous and symmetrical fashion.

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Section II. *Determination of the Rate of Charge*

The rate of charge referred to in Rule I-6(4) shall be adjusted in accordance with the provisions of Sections III and IV.

...

Section IV. *Adjustment for Deferred Charges*

1. (a) If income from charges becomes deferred during an adjustment period as defined in (c), notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4), and, subject to the limitation in (b), the rate of remuneration prescribed in Rule I-10, shall be adjusted in accordance with the provisions of this paragraph, so as to generate, in equal amounts, an additional amount of income equal to the amount of deferred charges. For the purposes of this provision, special charges on overdue financial obligations under Decision No. 8165-(85/189)G/TR, adopted December 30, 1985, shall not be taken into account.

(b) No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(c) The adjustments under this paragraph shall be made as of the first day after each financial quarter beginning May 1, August 1, November 1 and February 1:

shortly after July 31 for the period May 1 to July 31;

shortly after October 31 for the period August 1 to October 31;

shortly after January 31 for the period from November 1 to January 31;

shortly after April 30 for the period from February 1 to April 30.

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2. (a) An amount equal to the proceeds of any adjustment for deferred charges shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have received reduced remuneration, when, and to the extent that, charges, the deferral of which had given rise to the same adjustment, are paid to the Fund. Distribution under this provision shall be made quarterly.

(b) Distribution under (a) shall be made in proportion to the amounts that have been paid or have not been received by each member as a result of the respective adjustments.

(c) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74), adopted April 30, 1986, or any subsequent decision of the Fund.

(d) Notwithstanding paragraph 1(a) above, the rate of charge and the rate of remuneration determined under this section shall be rounded to two decimals, provided that an adjustment of at least one basis point shall be made to both the rate of charge and the rate of remuneration, subject to subparagraph (e) below.

(e) If the amounts generated as a result of paragraph (2)(d) above exceed or fall short of the amounts to be generated from adjustments to the rate of charge or the rate of remuneration under paragraph 1(a) above for the relevant quarterly period, then any excess or shortfall from adjustments to the rate of charge 11 or the rate of remuneration shall be applied, respectively, to the amount to be generated from the adjustment to the same rate for the following quarterly period. No adjustment shall be made if any excess amount generated from the previous quarterly period is equal to or exceeds the amount needed in the following quarterly period. (EBS/09/202, 12/8/09) (EBS/09/202, 12/08/09)

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Section V. Review

The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit set forth in paragraphs 2(b) of Section III and 1(b) of Section IV.

Decision No. 12189-(00/45),
April 28, 2000,
effective May 2, 2000,
as amended by Decision Nos. 13911-(07/35), April 25, 2007,
14496-(09/125),
December 15, 2009

BURDEN SHARING—IMPLEMENTATION IN FY 2007

Section I. *Principles of Burden Sharing*

1. The financial consequences for the Fund that stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. The sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. *Determination of the Rate of Charge*

The rate of charge referred to in Rule I-6(4) shall be adjusted in accordance with the provisions of Section IV of this decision and Section IV of Executive Board Decision No. 12189-(00/45), adopted April 28, 2000.

Section III. *Adjustment for Deferred Charges*

Notwithstanding paragraph 1(a) of Section IV of Executive Board Decision No. 12189-(00/45), adopted April 28, 2000, the rate of charge and the rate of remuneration determined under that Section shall be rounded to two decimal places.

Section IV. *Amount for Special Contingent Account-1*

1. An amount of SDR 60 million shall be generated during financial year 2007 in accordance with the provisions of this Section

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and shall be placed to the Special Contingent Account-1 referred to in Decision No. 9471-(90/98), adopted June 20, 1990.

2. (a) In order to generate the amount to be placed to the Special Contingent Account-1 in accordance with paragraph 1 of this Section, notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4) and, subject to the limitation in (b), the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this paragraph.

(b) Notwithstanding paragraph 1 above, adjustments to the rate of charge and the rate of remuneration under this paragraph shall be rounded to two decimal places. No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(c) The adjustments under this paragraph shall be made as of May 1, 2006, August 1, 2006, November 1, 2006 and February 1, 2007; shortly after July 31 for the period May 1 to July 31; shortly after October 31 for the period from August 1 to October 31; shortly after January 31 for the period from November 1 to January 31; shortly after April 30 for the period from February 1 to April 30.

3. (a) Subject to paragraph 3 of Decision No. 8780-(88/12), adopted January 29, 1988, the balances held in the Special Contingent Account-1 shall be distributed in accordance with the provisions of this paragraph to members that have paid additional charges or have received reduced remuneration as a result of the adjustment when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) Distributions under (a) shall be made in proportion to the amounts that have been paid or have not been received by each member because of the respective adjustments.

(c) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with

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Decision No. 8271-(86/74), adopted April 30, 1986, or any subsequent decision of the Fund.

(d) Subject to paragraph 4 of Decision No. 8780-(88/12), adopted January 29, 1988, if any loss is charged against the Special Contingent Account-1, it shall be recorded in accordance with the principles of proportionality set forth in (b).

Section V. *Review*

The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit set forth in paragraph 2(b) of Section IV of this decision and Section IV of Executive Board Decision No. 12189-(00/45), adopted April 28, 2000. (EBS/06/51, 4/12/06)

Decision No. 13707-(06/40),
April 28, 2006

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2011 AND FY 2012—THE RATE OF CHARGE ON THE USE OF FUND RESOURCES FOR FY 2012

Pursuant to Rule I-6(4)(a), last sentence of the Fund's Rules and Regulations, the rate of charge for FY 2012 shall be100 basis points over the SDR interest rate under Rule T-1 of the Fund's Rules and Regulations. (EBS/11/53, 04/07/11)

Decision No. 14900-(11/37),
April 20, 2011

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2010 AND FY 2011—PRGT RESERVE ACCOUNT TRANSFER TO SUBSIDY ACCOUNT

In accordance with paragraph 19 of Executive Board Decision No. 14354-(09/79), adopted on July 23, 2009, in lieu of reimbursement to the General Resources Account, an amount equivalent to SDR 38.395 million, representing the cost of administering the Pover-

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ty Reduction and Growth Trust (PRGT) for FY 2010, shall be transferred from the Reserve Account of the PRGT (through the Special Disbursement Account) to the General Subsidy Account of the PRGT. (EBS/10/63, Sup. 1, 4/26/10)

Decision No.14600-(10/41),
April 28, 2010

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2010 AND FY 2011—THE RATE OF CHARGE ON THE USE OF FUND RESOURCES FOR FY 2011

Pursuant to Rule I-6(4)(a), last sentence, the rate of charge for FY 2011 shall be 100 basis points over the SDR interest rate under Rule T-1. (EBS/10/63, Sup. 1, 4/26/10) (EBS/10/63, Sup. 1, 04/26/10)

Decision No. 14604-(10/41),
April 28, 2010

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Rates for Computations and Maintenance of Value

RATES FOR COMPUTATIONS AND MAINTENANCE OF VALUE

1. The exchange rate for computations by the Fund relating to the currency of a member in the General Resources Account.

(a) on the occasion of the use of that currency in an operation or transaction between the Fund and a member (other than the case specified in (b) below) shall be the rate determined as of the date of the Fund's instructions for the execution of the transaction or operation, and if this rate cannot be used, the rate of the preceding day closest thereto that is practicable. The value date shall be the second business day after the date of the dispatch of the Fund's instructions, or as early thereto as is practicable.

(b) Payments received by the Fund after the due date and payments made to the Fund on an unscheduled basis shall be valued at the exchange rate in effect on the day of receipt, provided that, if a late payment is received within ten business days from the date of the instructions and there is a shortfall or overpayment caused by the difference between the exchange rate used for the instructions and the exchange rate in effect on the day of receipt, no adjustment shall be made if the shortfall or overpayment does not exceed SDR 5,000, unless the member that issues the currency being used for the payment requests that the adjustment be made irrespective of costs.

(c) on all other occasions shall be the rate at which the currency is held by the Fund.

2. The Fund shall adjust its holdings of the currency of a member in the General Resources Account

(a) whenever a computation relating to the currency is made in accordance with paragraph 1(a) above,

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(b) at the end of the Fund's financial year,

(c) when the member requests the Fund to adjust the Fund's holdings of its currency,

(d) with respect to the euro, on the last business day of each month,

(e) with respect to the U.S. dollar, on the last business day of each month, and

(f) on such other occasions as the Fund may decide.

3. Adjustments under paragraph 2 shall be made on the basis of the exchange rate of the currency under Rule O-2 for the day of the adjustment and shall take effect on that day, provided that if an exchange rate under Rule O-2 is not communicated for the currency with respect to paragraph 2(b) above, the rate of the preceding day closest thereto for which a rate is communicated shall be used.

4. Whenever the Fund adjusts its holdings of a member's currency in accordance with paragraph 3 above, the Fund shall establish an account receivable or an account payable, as the case may be, in respect of the amount of the currency payable by or to the member under Article V, Section 11.

5. For the purpose of adjustments, the Fund's holdings of a member's currency in the General Resources Account shall consist of the total of the balances of the member's currency in the General Resources Account, plus the balance in any account receivable, or minus the balance in any account payable, in the currency, as of the date of the adjustment. The total of the balances of the member's currency in the General Resources Account shall be as recorded on the Fund's books if the member agrees with this procedure.

6. For the purpose of applying the provisions of the Articles as of any date, the Fund's holdings of a currency shall consist of its actual holdings plus the balance in any account receivable or minus the balance in any account payable on that date.

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7. Settlements of accounts receivable or payable by or to a member shall be made promptly after the end of a financial year of the Fund and at other times when requested by the Fund or the member.

Decision No. 5590-(77/163),
December 5, 1977,
effective April 1, 1978,
as amended by Decision Nos. 11859-(98/130), December 17, 1998,
and 12998-(03/39),
April 25, 2003

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Article V, Section 12(*f*)

Special Disbursement Account

SPECIAL DISBURSEMENT ACCOUNT: INVESTMENT

1. The Managing Director is authorized to invest a member's currency held in the Special Disbursement Account in accordance with the provisions of Article V, Section 12(*h*).

2. Decision No. 7990-(85/81), adopted May 28, 1985, is repealed.

3. The Fund will review this investment strategy before September 30, 2002. (EBS/00/26, 2/15/00)

Decision No. 12152-(00/21),
March 3, 2000

STRUCTURAL ADJUSTMENT FACILITY—USE OF RESOURCES OF SPECIAL DISBURSEMENT ACCOUNT—REGULATIONS FOR ADMINISTRATION

Pursuant to Article V, Section 12(*j*), the Fund adopts the Regulations set forth in the Annex to this decision for the administration of the Structural Adjustment Facility within the Special Disbursement Account.

Decision No. 8238-(86/56) SAF,
March 26, 1986,
as amended by Decision Nos. 8497-(87/3) SAF, January 7, 1987,
8652-(87/105) SAF, July 22, 1987,
8758-(87/176) SAF, December 18, 1987,
9118-(89/40) SAF, March 29, 1989,
9490-(90/106) SAF, July 2, 1990,
9863-(91/156) SAF/ESAF, November 15, 1991,
10093-(92/94) SAF, July 23, 1992, and
10353-(93/49) SAF,
April 9, 1993

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ANNEX

Structural Adjustment Facility Within Special Disbursement Account

Paragraph 1. *Purposes*

The Structural Adjustment Facility within the Special Disbursement Account shall provide balance of payments assistance on concessional terms, on a uniform basis, to low-income developing members of the Fund in need of such assistance, in accordance with these Regulations.

Paragraph 2. *Resources*

The resources of the Special Disbursement Account available for the Structural Adjustment Facility ("the Facility") shall consist of the assets that have been made, or will be, available for the Facility pursuant to Executive Board Decision No. 6704-(80/185) TR and Decision No.8237-(86/56) SAF.

Paragraph 3. *Conditions for Assistance*

Balance of payments assistance shall be provided in the form of loans on the terms specified in paragraph 7 to eligible members that qualify for assistance under paragraph 5.

Paragraph 4. *Amount of Assistance*

1. The potential access of all eligible members to the resources of the Facility shall be expressed as a uniform proportion of their quotas in the Fund. It shall be determined from time to time, at least annually, by the Fund.

2. Whenever a member has notified the Fund that it does not intend to make use of the resources available under the Facility, the member shall not be included in the calculations under subparagraph (1) above.

3. If, after resources have been committed to a member under paragraph 5(2), the member's potential access is increased or decreased pursuant to subparagraph (1) or (2) above, the total amount available to the member under the three-year commitment will be

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proportionately modified and subsequent disbursements will be modified accordingly. If the member's potential access is increased after all disbursements under the three-year commitment have been made, but before the expiration of the commitment, an amount not in excess of the balance may be disbursed to the member at its request, upon a determination by the Fund that the member is continuing to make a reasonable effort to strengthen its balance of payments position.

4. Access to the Fund's resources under other policies of the Fund will remain available in accordance with the terms of those policies.

Paragraph 5. *Qualification for Assistance*

1. An eligible member shall consult the Managing Director before making an initial request for a commitment of resources for a three-year period.

2. Resources shall be committed to a qualifying member, subject to these Regulations, for a three-year period upon approval by the Fund of an arrangement in support of a three-year macroeconomic and structural adjustment program presented by the member. The arrangement will prescribe the total amount, and the annual amounts within the total, available in accordance with the original or any modified terms of the arrangement, subject to these Regulations.

3. Before approving a three-year arrangement, the Fund shall be satisfied that the member has a protracted balance of payments problem and is making a reasonable effort to strengthen its balance of payments position.

4. A member shall be deemed to be making a reasonable effort within the meaning of subparagraph (3) of this paragraph if the member has presented to the Fund (i) a three-year adjustment program which seeks to correct macroeconomic and structural problems that have impeded balance of payments adjustment and economic growth, and (ii) the first of three annual programs setting forth the objectives for the year and the policies to be followed during the year to meet those objectives.

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5. Resources under three-year commitments shall be made available in the form of loans under three annual arrangements approved by the Fund. An annual arrangement may not be approved before the expiration of the preceding annual arrangement, other than under exceptional circumstances. The approval of an annual arrangement under a three-year commitment must precede the expiration of the commitment period.

6. An annual arrangement shall be approved only for a member that has submitted a satisfactory program for the corresponding year and has a need for balance of payments assistance.

7. If, during a three-year commitment period, a member ceases to be eligible for assistance under the Facility, a commitment of resources under the Facility, made to the member for that period, shall remain in effect, subject to these Regulations.

Paragraph 6. *Disbursements*

1. One disbursement shall be made for each annual arrangement upon approval of the arrangement.

2. Disbursements to a member under the Facility shall be suspended while the member has an overdue financial obligation to the Fund in the General Resources Account, the Special Disbursement Account, or the SDR Department, or to the Fund as Trustee. The disbursements shall be made when the overdue financial obligation has been discharged.

3. No disbursement under a three-year commitment shall be made after the expiration of the commitment period.

Paragraph 7. *Terms of Loans*

1. Interest shall be charged at the rate of one half of one percent per annum on the outstanding balance of a loan and shall be paid on June 30 and December 31 of each year, or the next day if the day when payment is due is not a business day. Additional interest shall be charged on (i) the amount of overdue interest on structural adjust-

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ment facility loans, at a rate equal to one half of the sum of the rate of interest on loans under the Structural Adjustment Facility and the rate of interest on the SDR, and (ii) the overdue amounts of repayments of loans under the Structural Adjustment Facility, at a rate equal to one half of the sum of the rate of interest on loans under the Structural Adjustment Facility and the rate of interest on the SDR, less one half percent, and subject to the rules on waiver, notification, and payment of special charges under Executive Board Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, or any subsequent decision of the Fund thereon. Effective May 1, 1993, such additional interest shall not be levied on overdue obligations of a member that is overdue for six months or more in meeting any financial obligation to the Fund subject to additional interest under this paragraph.

2. A member shall repay each loan in ten equal semiannual installments, which shall begin not later than the end of the first six months of the sixth year, and be completed at the end of the tenth year, after the date of the disbursement.

3. On the request of a member when repayment of an installment is due under a loan, the Fund may reschedule the repayment to a date not later than two years after the due date if the Fund finds that repayment on the due date would result in serious hardship for the member and that such rescheduling would not impair the ability of the Special Disbursement Account to meet the liabilities of the Facility.

Paragraph 8. *Unit of Account*

The SDR shall be the unit of account for commitments, loans, and all other operations under the Facility.

Paragraph 9. *Media of Payment*

Loans shall be disbursed and repaid, and interest paid, in U.S. dollars. 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 payment of interest or repayments of loans by it to the Fund.

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Paragraph 10. *Reimbursement of Expenses*

The General Resources Account of the Fund shall be reimbursed annually by the Special Disbursement Account in respect of the expenses of administration of the Facility that are paid from the General Resources Account. Reimbursement shall be made on the basis of a reasonable estimate of these expenses by the Fund.

Paragraph 11. *Reserves*

The Fund may establish, in the Special Disbursement Account, such reserves for the purposes of the Facility as it deems appropriate.

Paragraph 12. *Modifications*

Any modification of these Regulations 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.

Paragraph 13. *Identification of Decisions*

Decisions and other actions taken by the Fund in the administration of the Facility shall be identified as such.

Paragraph 14. *Loans Under Enhanced Structural Adjustment Facility*

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. 8757-(87/176) SAF/ESAF, adopted December 18, 1987 shall be governed by these Regulations subject to the following provisions:

(a) The amounts of such assistance shall be identified in any commitment, arrangement, or disbursement under the Enhanced Structural Adjustment Facility. They shall remain available for disbursement until the expiration of any commitment under the Enhanced Structural Adjustment Facility.

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(b) If the full amount of resources committed to an eligible member under a three-year arrangement under the Structural Adjustment Facility has not been disbursed and a subsequent three-year commitment is made under the Enhanced Structural Adjustment Facility for that member, the undisbursed amounts under the previous arrangement may be made available to the member under the three-year arrangement 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.

5. If a three-year commitment to an eligible member has expired with undrawn amounts, the Fund may approve a new commitment for that member, subject to these Regulations, provided that the member submits a three-year macroeconomic and structural adjustment program and that the amount of resources that could be made available under the new commitment shall not exceed the undrawn amounts under the expired commitment. The new commitment may be made under a one-year or a two-year arrangement, as the case may

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be, with annual access to be determined on the basis of the strength of the member's program and its balance of payments need.

6. If a member has received loans from the Structural Adjustment Facility in conjunction with loans from the Enhanced Structural Adjustment Facility Trust, any payment made by the member for the discharge of an obligation under any such loan shall also be attributed to the obligation under the other loan having the same due date in proportion to the respective amounts of such obligations.

STRUCTURAL ADJUSTMENT FACILITY—USE OF RESOURCES OF SPECIAL DISBURSEMENT ACCOUNT—LIST OF ELIGIBLE MEMBERS AND AMOUNTS OF ASSISTANCE

1. The members on the list annexed to this decision are eligible to receive balance of payments assistance under the Structural Adjustment Facility within the Special Disbursement Account ("the Facility").

2. The potential access of each eligible member to the resources of the Facility as of March 29, 1989 shall be 50 percent of quota; no more than 15 percent of quota shall be disbursed under the first annual arrangement; no more than 20 percent of quota shall be disbursed under the second annual arrangement; and no more than 15 percent of quota shall be disbursed under the third annual arrangement.

Decision No. 8240-(86/56) SAF,
March 26, 1986,
as amended by Decision Nos. 8542-(87/36) SAF, March 2, 1987,
8651-(87/105) SAF, July 22, 1987,
8935-(88/118) SAF, July 29, 1988,
9117-(89/40) SAF, March 29, 1989,
9986-(92/48) SAF, April 7, 1992,
10184-(92/132) SAF, November 3, 1992, and

14522-(10/3), January 11, 2010,
effective April 10, 2010

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ANNEX

Low-Income Developing Members Eligible for Assistance Under the Structural Adjustment Facility Within the Special Disbursement Account [1]

Members	
Afghanistan	Madagascar
Armenia	Malawi
Bangladesh	Maldives
Benin	Mali
Bhutan	Mauritania
Bolivia	Moldova, Republic of
Burkina Faso	Mongolia
Burundi	Mozambique
Cambodia	Myanmar
Cameroon	Nepal
Cape Verde	Nicaragua
Central African Republic	Niger
Chad	Papua New Guinea
Comoros	Rwanda
Congo, Democratic Republic of	St. Lucia
Congo, Republic of	St. Vincent and the Grenadines
Côte d'Ivoire	Samoa
Djibouti	São Tomé and Príncipe
Dominica	Senegal
Eritrea	Sierra Leone
Ethiopia	Solomon Islands
Gambia, The	Somalia

[1] Ed. Note: Effective November 22, 1999, the Enhanced Structural Adjustment Facility (ESAF) was renamed the Poverty Reduction and Growth Facility (PRGF). The table is from "Eligibility to Use the Fund's Facilities for Concessional Borrowing," SM/12/14, January 17, 2012. Zimbabwe is not PRGT-eligible due to its removal from the PRGT-eligible list by an Executive Board decision in connection with its overdue obligations to the PRGT.

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Ghana	Sudan
Grenada	Tajikistan
Guinea	Tanzania
Guinea-Bissau	Timor-Leste
Guyana	Togo
Haiti	Tonga
Honduras	Uganda
Kenya	Uzbekistan
Kiribati	Vanuatu
Kyrgyz Republic	Vietnam
Lao People's Democratic Republic	Yemen, Republic of
Lesotho	Zambia

ELIGIBILITY TO USE THE FUND'S FACILITIES FOR CONCESSIONAL FINANCING—PRGT ELIGIBILITY CRITERIA

1. The following criteria for entry and graduation shall, respectively, guide Executive Board decisions to add members to, and remove members from, the list annexed to Decision No. 8240-(86/56) SAF, as amended (the "PRGT-eligibility list"):

(A) ***Criteria for entry***: A member will be added to the PRGT-eligibility list if (i) its annual per capita gross national income ("GNI"), based on the latest available qualifying data, is below the International Development Association ("IDA") operational cut-off or, for a member qualifying as a "small country" under the definition set forth in subparagraph (D), is less than twice the IDA operational cut-off; and (ii) the sovereign does not have capacity to access international financial markets on a durable and substantial basis as defined in subparagraph (C).

(B) ***Criteria for graduation***: A member will be removed from the PRGT-eligibility list if it meets either or both the income and market access criteria specified in (1) and (2) below, and does not face serious short-term vulnerabilities as specified in (3) below:

(1) *Income Criterion*: the member's annual per capita GNI (i) has been above the IDA operational cut-off for at least the last five years for which qualifying data are available; (ii) has not been on a declining trend over the same period, comparing the first and last re-

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levant annual data; and (iii) based on the latest qualifying annual data, is at least twice the IDA operational cut-off or, for a member qualifying as a "small country" under the definition set forth in subparagraph (D), is at least three times the IDA operational cut-off.

(2) *Market Access Criterion*: (i) the sovereign has the capacity to access international financial markets on a durable and substantial basis as defined in subparagraph (C); (ii) the member's annual per capita GNI is above 80 percent of the IDA operational cut-off based on the latest qualifying annual data; and (iii) the member's annual per capital GNI has not been on a declining trend over the last five years for which qualifying data are available, comparing the first and last relevant annual data.

(3) *Absence of serious short-term vulnerabilities*: the member does not face serious short-term vulnerabilities, which shall require in particular (i) the absence of risks of a sharp decline in the member's income, or of a loss of its market access (where relevant); (ii) limited debt vulnerabilities as indicated by the most recent debt sustainability analysis, including, for members whose debt has been assessed under the Debt Sustainability Framework for Low-Income Countries, an external debt distress classification of moderate or less and a level of domestic debt that does not give rise to serious concerns about the member's debt sustainability; and (iii) confirmation that overall debt vulnerabilities remain limited, taking into account developments and prospects since the most recent debt sustainability analysis.

(C) For the purposes of subparagraphs (A) and (B)(2), the sovereign's capacity to access international financial markets on a durable and substantial basis shall be evidenced by either of the following:

(1) The issuance or guarantee by a public debtor of external bonds in international markets, or disbursements under external commercial loans contracted or guaranteed by a public debtor in international markets, if such issuance, guarantee or disbursement has occurred during at least three of the last five years for which qualifying data are available, and has been in a cumulative amount equiva-

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lent to at least one hundred percent of the member's quota in the Fund at the time of the assessment; or

(2) The existence of convincing evidence that the sovereign could have tapped international markets as specified under (1) above, even though the actual issuance or guarantee by a public debtor of external bonds in international markets, or actual disbursements under external commercial loans contracted or guaranteed by a public debtor in international markets, fell short of the duration and scale thresholds specified under (1) above. Determinations under this paragraph shall be a case-specific assessment that takes into account relevant factors, including the volume and terms of recent external borrowing or guaranteeing of external borrowing in international markets, and the sovereign credit rating where one exists.

For purposes of this subparagraph (C): (i) a "public debtor" shall include the sovereign (national government) as well as other public borrowers (including political subdivisions, agencies of the national government or of political subdivisions, autonomous public bodies and public corporations) whose ability to borrow in international markets is assessed to be an indicator of the sovereign's creditworthiness; (ii) "external bonds" are those issued in international capital markets and "external commercial loans" are commercial loans contracted in international markets by residents of a member with nonresidents, provided that bonds issued and loans contracted in markets that are not integrated with broader international markets shall not qualify; and (iii) bonds and commercial loans guaranteed by a public debtor shall be obligations of a private debtor whose repayment is guaranteed by a public debtor.

(D) For the purposes of the criteria set forth in this paragraph 1, a member will be considered a "small country" if it has a population below 1 million.

(E) For the purposes of the criteria set forth in this paragraph 1, assessments of per capita GNI will normally be based on World Bank data using the ATLAS methodology, but other data sources may be used in exceptional circumstances, including data estimated by Fund staff in the absence of World Bank data. Qualifying data for the pur-

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poses of the criteria set forth in this paragraph 1 shall be data in respect of which the most recent observation relates to a calendar year that is not more than 30 months in the past at the time of the assessment.

2. Executive Board decisions to remove a member from the PRGT-eligibility list pursuant to the graduation criteria set forth in paragraph 1 of this decision shall become effective three months after their adoption, provided that such decisions in respect of members that have an existing arrangement under the Poverty Reduction and Growth Trust established pursuant to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, as amended ("PRGT"), or that have a program subject to assessment and endorsement by the Fund under an existing policy support instrument, shall become effective upon the expiration or other termination of such arrangement or policy support instrument, respectively.

3. Notwithstanding the entry into effect of a decision to remove a member from the PRGT-eligibility list in accordance with this decision, any outstanding PRGT resources disbursed to such member prior to the effectiveness of the decision shall remain subject to the terms of the PRGT. In Section II, paragraph 4(c) of the PRGT, the reference to "as such list may be amended from time to time," shall be deleted.

4. The term "eligible recipients" under paragraph 7(a) of Decision No. 12481-(01/45) governing subsidies for post conflict and natural disaster purchases of PRGT-eligible members shall be understood to include members that, at the time of their removal from the PRGT-eligibility list pursuant to this decision, have outstanding post conflict or natural disaster purchases in respect of which subsidies may be provided under Decision No. 12481-(01/45), for as long as such purchases remain outstanding. In subparagraph 7(d) of Decision No. 12481-(01/45), as amended, the references to "qualifying PRGT-eligible members" shall be replaced with references to "PRGT-eligible members," and the second sentence shall be deleted.

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5. It is expected that the criteria for entry and graduation set forth in this decision shall be reviewed every two years.[1] It is also expected that the PRGT-eligibility list shall be reviewed and updated every two years on the basis of the then applicable criteria for entry and graduation, provided however that (i) decisions on entry onto the PRGT-eligibility list of members that meet the entry criteria specified in paragraph 1 above may also be adopted in the interim period between reviews; (ii) notwithstanding paragraph 1 above, decisions may be adopted in the interim period between reviews in respect of the re-entry onto the PRGT-eligibility list of members that had previously been removed from such list as a sanction for overdue obligations, so long as such a member at the time of re-entry does not meet the criteria for graduation specified in subparagraph 1(B) above; and (iii) decisions may be adopted in the interim period between reviews in respect of the graduation from the PRGT-eligibility list of members that meet the criteria for graduation specified in subparagraph 1(B) above, at the request of such a member. (SM/09/288, Sup. 1, Rev. 1, 1/11/10) (SM/09/288, 12/11/09)

Decision No. 14521-(10/3),
January 11, 2010

The Acting Chair's Summing Up—
Eligibility to Use the Fund's Facilities for
Concessional Financing
Executive Board Meeting 12/17, February 17, 2012

Executive Directors welcomed today's discussion on eligibility to use the Fund's facilities for concessional financing, reviewing the eligibility framework that was established in 2010 as well as the list of countries eligible for concessional financing under the Poverty Reduction and Growth Trust (the PRGT-eligibility list). Directors agreed that, based on the application of the framework, no members are currently eligible for entry or graduation, and decided to keep the list of

[1] Ed. Note: At the 2012 review of eligibility to use the Fund's facilities for concessional financing, the next review was scheduled to take place in 2013, a year ahead of schedule. See the next document below.

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PRGT-eligible countries unchanged in this review, noting that the framework allows for interim updates where warranted by the existing criteria and requirements. Directors also agreed to increase the population threshold used to define small states to 1.5 million, aligning it with the definition adopted by the World Bank.

Directors emphasized the need to maintain a transparent and rules-based framework for PRGT eligibility that ensures uniformity of treatment among members. They generally reca
lled the importance of preserving the Fund's scarce concessional resources for members with a low income level and related vulnerabilities, and continuing to closely align eligibility with the objectives of the PRGT and with IDA practices. A few Directors stressed that eligibility should not be constrained by the availability of concessional resources. A few other Directors were of the view that highly vulnerable small states that marginally exceed the relevant income threshold should be PRGT-eligible.

Directors agreed to advance the more comprehensive review of PRGT eligibility to early-2013. On the basis of extensive consultations and analytical work, the review could assess, among other things, the suitability of the various criteria and whether the balance between the criteria used in the framework remains appropriate. In particular, a number of Directors pointed out the shortcomings of the GNI per capita criterion in the case of small states, while some other Directors called for a careful assessment of the application of the short-term vulnerabilities criterion for graduation. The review would also consider whether additional or alternative variables could be used to better capture members' circumstances, particularly those of small states. Many Directors called for the next review to assess further options to enhance the flexibility of the PRGT-eligibility framework to cover small and very small countries.

BUFF/12/21,
February 24, 2012

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SPECIAL DISBURSEMENT ACCOUNT: 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.

Assistance under that Facility may also be provided from loans by the Enhanced Structural Adjustment Facility Trust not made in conjunction with loans from the Structural Adjustment Facility to members that are eligible for assistance from the Structural Adjustment Facility and have notified the Fund of their intention not to make use of the resources of the Structural Adjustment Facility.

(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. 8758-(87/176) SAF, adopted December 18, 1987.

(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. 8759-(87/176) ESAF, adopted December 18, 1987.

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 and in accordance with the arrangements between the Fund and the lenders.

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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.

Decision No. 8757-(87/176) SAF/ESAF,
December 18, 1987,
as amended by Decision No. 9987-(92/48) SAF/ESAF,
April 7, 1992

SPECIAL DISBURSEMENT ACCOUNT: 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")[1] 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

[1] Ed. Note: On the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, later renamed the Poverty Reduction and Growth Facility Trust, see Decision No. 8759-(87/176) ESAF, p. 194.

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Structural Adjustment Facility, and that have not been transferred to the Subsidy Account of the ESAF Trust in accordance with Decision No. 10531-(93/170) SAF;

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. Resources transferred under this decision shall be available to cover liabilities that are authorized to be discharged by the Reserve Account with respect to members that are eligible for assistance from the Structural Adjustment Facility and have notified the Fund of their intention not to make use of the resources of the Structural Adjustment Facility.

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

Decision No. 8760-(87/176),
December 18, 1987,

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as amended by Decision Nos. 9989-(92/48), April 7, 1992, and 10531-(93/170) SAF, December 15, 1993

SPECIAL DISBURSEMENT ACCOUNT: REVIEW OF STRUCTURAL ADJUSTMENT FACILITY (SAF), TERMINATION OF AUTHORITY TO MAKE COMMITMENTS TO PROVIDE ASSISTANCE FROM SAF IN CONJUNCTION WITH LOANS FROM ESAF TRUST, AND TRANSFER OF RESOURCES FROM SDA TO ESAF TRUST

1. The Fund has reviewed the operation of the Structural Adjustment Facility (SAF) within the Special Disbursement Account (SDA) and decides that from the date this decision becomes effective it will no longer approve commitments to provide assistance from the SAF in conjunction with loans from the Enhanced Structural Adjustment Facility Trust (ESAF Trust).

2. With the exception of the resources that have been or are to be transferred to the Reserve Account of the ESAF Trust pursuant to subparagraphs 1(i), 1(ii), or 1(iii) of Decision No. 8760-(87/176), as amended, (i) SDR 260 million of the resources held in the SDA derived from the termination of the 1976 Trust Fund shall be maintained in that account for further use under the SAF, and (ii) SDR 400 million of the resources held or to be received by the SDA that are derived from the termination of the 1976 Trust Fund shall be transferred promptly after the effectiveness of this decision to the Subsidy Account of the ESAF Trust for the subsidization of ESAF Trust loans. Accordingly, Decision No. 8760-(87/176), as amended, is further amended by adding at the end of subparagraph 1(iv) the following: "and that have not been transferred to the Subsidy Account of the ESAF Trust in accordance with Decision No. 10531-(93/170) SAF."

Decision No. 10531-(93/170) SAF, December 15, 1993

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MODALITIES OF GOLD PLEDGE FOR USE OF PRGF TRUST RESOURCES UNDER RIGHTS APPROACH

1. As long as loans from the Poverty Reduction and Growth Facility Trust (hereinafter the "PRGF Trust") to members for the financing of "rights" as defined in the Managing Director's Summing Up at EBM/90/97 of June 20, 1990 are outstanding, the Fund shall review the adequacy of the Reserve Account of the ESAF Trust (hereinafter the "Reserve Account") by end March and end September of each year.

2. The Fund shall determine whether the amounts held in the Reserve Account, plus other available means of financing that would effectively restore the resources of the Trust, are sufficient to meet all obligations which could give rise to a payment from the Reserve Account to lenders to the Loan Account of the ESAF Trust in the six months following a review under paragraph 1. To the extent that it is determined by the Fund that these resources are insufficient to meet all such obligations (the "potential shortfall"), then the Managing Director is hereby authorized and instructed to sell gold held in the General Resources Account of the Fund in an amount that would generate proceeds available for transfer to the Special Disbursement Account under Article V, Section 12(*f*), up to the equivalent of the potential shortfall in the Reserve Account provided that

(i) these proceeds shall not exceed the equivalent of the previous drawings on the Reserve Account attributable to overdue obligations under loans from the ESAF Trust to members for the financing of rights as described above, plus foregone interest earnings on amounts equivalent to these drawings, and less any amounts corresponding to these drawings that have been subsequently paid by such members or for which the Reserve Account has previously been replenished from the proceeds of a gold sale under this decision; and

(ii) the total amount of gold available for sale under this decision shall not exceed the amount specified in paragraph 4.

3. The proceeds of any sale of gold under this decision in excess of an amount equivalent at the time of the sale to one special drawing right per 0.888671 gram of fine gold shall be placed in the

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Special Disbursement Account and shall be transferred immediately thereupon to the Reserve Account.

4. Subject to Paragraphs 5, 6, and 7 the Fund shall retain full ownership of holdings of gold of 3 million ounces in the General Resources Account, less any amounts sold pursuant to this decision, as long as loans from the ESAF Trust to members for the financing of rights as described above remain outstanding.

5. The need to maintain the full amount specified in paragraph 4 available for sale shall be reassessed on the occasion of the reviews under paragraph 1. This amount shall not be reduced without the consent of all lenders to the Loan Account of the ESAF Trust.

6. This decision shall not be amended by the Fund except with the consent of all lenders to the Loan Account of the ESAF Trust.

7. This decision shall be terminated (i) when after all loans that may be made from the ESAF Trust have been fully disbursed, the resources held in the Reserve Account exceed the amounts outstanding under ESAF Trust loans, or (ii) when after all loans that may be made from the ESAF Trust for the financing of rights as described above have been fully disbursed, there are no outstanding obligations under such ESAF Trust loans, with respect to which a gold sale can be made under this decision, whichever is earlier.

Decision No. 10286-(93/23) ESAF,
February 22, 1993,
as amended by Decision No.12229-(00/66) PRGF,
June 30, 2000

ANNUAL REIMBURSEMENT OF GENERAL RESOURCES ACCOUNT IN RESPECT OF EXPENSES OF CONDUCTING BUSINESS OF PRGF-ESF TRUST

1. Beginning the financial year in which the Fund adopts a decision authorizing the sale of the current stock of post-Second Amendment gold, the Fund will resume annual reimbursements of the General Resources Account in respect of the expenses of conducting

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the business of the PRGF-ESF Trust, pursuant to Decision No. 8760-(87/176), adopted December 18, 1987.

2. Notwithstanding paragraph 1 above, the lending and subsidization capacity of the PRGF-ESF Trust will be kept under close review and, if a determination is made by the Fund that the resources of the Trust are likely to be insufficient to support anticipated demand for PRGF-ESF assistance and the Fund has been unable to obtain additional subsidy resources, the Fund should temporarily suspend annual reimbursements of the General Resources Account in respect of the expenses of conducting the business of the PRGF-ESF Trust. Upon suspension, the Fund will engage donors with a view to restoring the sustainability of the PRGF-ESF Trust. (SM/08/80, Rev. 1, Sup. 1; 4/8/08)

Decision No. 14093-(08/32),
April 7, 2008

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2011 AND FY 2012—PRGT RESERVE ACCOUNT TRANSFER TO SUBSIDY ACCOUNT

In accordance with paragraph 19 of Decision No. 14354-(09/79), adopted on July 23, 2009, in lieu of reimbursement to the General Resources Account, an amount equivalent to SDR 46.411 million, representing the cost of administering the Poverty Reduction and Growth Trust (PRGT) for FY 2011, shall be transferred from the Reserve Account of the PRGT (through the Special Disbursement Account) to the General Subsidy Account of the PRGT. (EBS/11/53, 04/07/11)

Decision No. 14896-(11/37),
April 20, 2011

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Article VI, Section 1

Use of Fund's Resources for Capital Transfers

USE OF FUND'S RESOURCES FOR CAPITAL TRANSFERS

[See Interpretation Pursuant to Decision No. 71-2, adopted September 26, 1946,[1] and Decision No. 1238-(61/43), adopted July 28, 1961.[2]]

[1] Ed. Note: See p. 335.

[2] Ed. Note: See p. 335.

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Article VI, Section 3

Controls on Capital Transfers

CONTROLS ON CAPITAL TRANSFERS

The report of the Committee on Interpretation on controls on capital transfers (EBD/56/71, 7/11/56) is approved and the following conclusions are adopted:

Subject to the provisions of Article VI, Section 3 concerning payments for current transactions and undue delay in transfers of funds in settlement of commitments:

(a) Members are free to adopt a policy of regulating capital movements for any reason, due regard being paid to the general purposes of the Fund and without prejudice to the provisions of Article VI, Section 1.

(b) They may, for that purpose, exercise such controls as are necessary, including making such arrangements as may be reasonably needed with other countries, without approval of the Fund.

Decision No. 541-(56/39),
July 25, 1956

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Article VII

Borrowing

GENERAL ARRANGEMENTS TO BORROW

Preamble

In order to enable the International Monetary Fund to fulfill more effectively its role in the international monetary system, the main industrial countries have agreed that they will, in a spirit of broad and willing cooperation, strengthen the Fund by general arrangements under which they will stand ready to make loans to the Fund up to specified amounts under Article VII, Section 1 of the Articles of Agreement when supplementary resources are needed to forestall or cope with an impairment of the international monetary system. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 1 of the Articles of Agreement.

Paragraph 1. *Definitions*

As used in this decision the term:

(i) "Articles" means the Articles of Agreement of the International Monetary Fund;

(ii) "credit arrangement" means an undertaking to lend to the Fund on the terms and conditions of this decision;

(iii) "participant" means a participating member or a participating institution;

(iv) "participating institution" means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member;

(v) "participating member" means a member of the Fund that has entered into a credit arrangement with the Fund;

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(vi) "amount of a credit arrangement" means the maximum amount expressed in special drawing rights that a participant undertakes to lend to the Fund under a credit arrangement;

(vii) "call" means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund's account;

(viii) "borrowed currency" means currency transferred to the Fund's account under a credit arrangement;

(ix) "drawer" means a member that purchases borrowed currency from the Fund in an exchange transaction or in an exchange transaction under a stand-by or extended arrangement;

(x) "indebtedness" of the Fund means the amount it is committed to repay under a credit arrangement.

Paragraph 2. *Credit Arrangements*

A member or institution that adheres to this decision undertakes to lend its currency to the Fund on the terms and conditions of this decision up to the amount in special drawing rights set forth in the Annex to this decision or established in accordance with paragraph 3(b).

Paragraph 3. *Adherence*

(a) Any member or institution specified in the Annex may adhere to this decision in accordance with paragraph 3(c).

(b) Any member or institution not specified in the Annex that wishes to become a participant may at any time, after consultation with the Fund, give notice of its willingness to adhere to this decision, and, if the Fund shall so agree and no participant object, the member or institution may adhere in accordance with paragraph 3(c). When giving notice of its willingness to adhere under this paragraph 3(b) a member or institution shall specify the amount, expressed in terms of the special drawing right, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the credit arrangement of the participant with the smallest credit arrangement.

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(c) A member or institution shall adhere to this decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of this decision, whichever shall be later.

Paragraph 4. *Entry into Force*

This decision shall become effective when it has been adhered to by at least seven of the members or institutions included in the Annex with credit arrangements amounting in all to not less than the equivalent of five and one half billion United States dollars of the weight and fineness in effect on July 1, 1944.

Paragraph 5. *Changes in Amounts of Credit Arrangements*

The amounts of participants' credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and all participants.

Paragraph 6. *Initial Procedure*

When a participating member or a member whose institution is a participant approaches the Fund on an exchange transaction or stand-by or extended arrangement and the Managing Director, after consultation, considers that the exchange transaction or stand-by or extended arrangement is necessary in order to forestall or cope with an impairment of the international monetary system, and that the Fund's resources need to be supplemented for this purpose, he shall initiate the procedure for making calls under paragraph 7.

Paragraph 7. *Calls*

(a) The Managing Director shall make a proposal for calls for an exchange transaction or for future calls for exchange transactions under a stand-by or extended arrangement only after consultation with Executive Directors and participants. A proposal shall become effective only if it is accepted by participants and the proposal is then approved by the Executive Board. Each participant shall notify

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the Fund of the acceptance of a proposal involving a call under its credit arrangement.

(b) The currencies and amounts to be called under one or more of the credit arrangements shall be based on the present and prospective balance of payments and reserve position of participating members or members whose institutions are participants and on the Fund's holdings of currencies.

(c) Unless otherwise provided in a proposal for future calls approved under paragraph 7(a), purchases of borrowed currency under a stand-by or extended arrangement shall be made in the currencies of participants in proportion to the amounts in the proposal.

(d) If a participant on which calls may be made pursuant to paragraph 7(a) for a drawer's purchases under a stand-by or extended arrangement gives notice to the Fund that in the participant's opinion, based on the present and prospective balance of payments and reserve position, calls should no longer be made on the participant or that calls should be for a smaller amount, the Managing Director may propose to other participants that substitute amounts be made available under their credit arrangements, and this proposal shall be subject to the procedure of paragraph 7(a). The proposal as originally approved under paragraph 7(a) shall remain effective unless and until a proposal for substitute amounts is approved in accordance with paragraph 7(a).

(e) When the Fund makes a call pursuant to this paragraph 7, the participant shall promptly make the transfer in accordance with the call.

Paragraph 8. *Evidence of Indebtedness*

(a) The Fund shall issue to a participant, on its request, nonnegotiable instruments evidencing the Fund's indebtedness to the participant. The form of the instruments shall be agreed between the Fund and the participant.

(b) Upon repayment of the amount of any instrument issued under paragraph 8(a) and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund

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and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

Paragraph 9. *Interest*

(a) The Fund shall pay interest on its indebtedness at a rate equal to the combined market interest rate computed by the Fund from time to time for the purpose of determining the rate at which it pays interest on holdings of special drawing rights. A change in the method of calculating the combined market interest rate shall apply only if the Fund and at least two thirds of the participants having three fifths of the total amount of the credit arrangements so agree; provided that if a participant so requests at the time this agreement is reached, the change shall not apply to the Fund's indebtedness to that participant outstanding at the date the change becomes effective.

(b) Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.

(c) Interest due to a participant shall be paid, as determined by the Fund, in special drawing rights, or in the participant's currency, or in other currencies that are actually convertible.

Paragraph 10. *Use of Borrowed Currency*

The Fund's policies and practices under Article V, Sections 3 and 7 on the use of its general resources and stand-by and extended arrangements, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund. Nothing in this decision shall affect the authority of the Fund with respect to requests for the use of its resources by individual members, and access to these resources by members shall be determined by the Fund's policies and practices, and shall not depend on whether the Fund can borrow under this decision.

Paragraph 11. *Repayment by the Fund*

(a) Subject to the other provisions of this paragraph 11, the Fund, five years after a transfer by a participant, shall repay the participant an amount equivalent to the transfer calculated in accordance with paragraph 12. If the drawer for whose purchase participants make transfers is committed to repurchase at a fixed date earlier than

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five years after its purchase, the Fund shall repay the participants at that date. Repayment under this paragraph 11(a) or under paragraph 11(c) shall be, as determined by the Fund, in the participant's currency whenever feasible, or in special drawing rights, or, after consultation with the participant, in other currencies that are actually convertible. Repayments to a participant under paragraph 11(b) and (e) shall be credited against transfers by the participant for a drawer's purchases in the order in which repayment must be made under this paragraph 11(a).

(b) Before the date prescribed in paragraph 11(a), the Fund, after consultation with a participant, may make repayment to the participant in part or in full. The Fund shall have the option to make repayment under this paragraph 11(b) in the participant's currency, or in special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4, of the Articles of Agreement unless the participant agrees to accept special drawing rights above that limit in such repayment, or, with the agreement of the participant, in other currencies that are actually convertible.

(c) Whenever a reduction in the Fund's holdings of a drawer's currency is attributed to a purchase of borrowed currency, the Fund shall promptly repay an equivalent amount. If the Fund is indebted to a participant as a result of transfers to finance a reserve tranche purchase by a drawer and the Fund's holdings of the drawer's currency that are not subject to repurchase are reduced as a result of net sales of that currency during a quarterly period covered by an operational budget, the Fund shall repay at the beginning of the next quarterly period an amount equivalent to that reduction, up to the amount of the indebtedness to the participant.

(d) Repayment under paragraph 11(c) shall be made in proportion to the Fund's indebtedness to the participants that made transfers in respect of which repayment is being made.

(e) Before the date prescribed in paragraph 11(a) a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall

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be made after consultation with the participant in the currencies of other members that are actually convertible, or made in special drawing rights, as determined by the Fund. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, individual participants shall be requested, and will be expected, to provide the necessary balance under their credit arrangements. If, notwithstanding the expectation that the participants will provide the necessary balance, they fail to do so, repayment shall be made to the extent necessary in the currency of the drawer for whose purchases the participant requesting repayment made transfers. For all of the purposes of this paragraph 11 transfers under this paragraph 11(e) shall be deemed to have been made at the same time and for the same purchases as the transfers by the participant obtaining repayment under this paragraph 11(e).

(f) All repayments to a participant in a currency other than its own shall be guided, to the maximum extent practicable, by the present and prospective balance of payments and reserve position of the members whose currencies are to be used in repayment.

(g) The Fund shall at no time reduce its holdings of a drawer's currency below an amount equal to the Fund's indebtedness to the participants resulting from transfers for the drawer's purchases.

(h) When any repayment is made to a participant, the amount that can be called for under its credit arrangement in accordance with this decision shall be restored pro tanto.

(i) The Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this paragraph or to pay interest in accordance with the provisions of paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the member in which the institution is established.

Paragraph 12. *Rates of Exchange*

(a) The value of any transfer shall be calculated as of the date of the dispatch of the instructions for the transfer. The calculation shall be made in terms of the special drawing right in accordance with Article XIX, Section 7(*a*) of the Articles, and the Fund shall be obliged to repay an equivalent value.

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(b) For all of the purposes of this decision, the value of a currency in terms of the special drawing right shall be calculated by the Fund in accordance with Rule O-2 of the Fund's Rules and Regulations.

Paragraph 13. *Transferability*

A participant may not transfer all or part of its claim to repayment under a credit arrangement except with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

Paragraph 14. *Notices*

Notice to or by a participating member under this decision shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by rapid means of communication and shall be given to or by the participating institution.

Paragraph 15. *Amendment*

This decision may be amended during the period prescribed in paragraph 19(a) only by a decision of the Fund and with the concurrence of all participants. Such concurrence shall not be necessary for the modification of the decision on its renewal pursuant to paragraph 19(b).

Paragraph 16. *Withdrawal of Adherence*

A participant may withdraw its adherence to this decision in accordance with paragraph 19(b) but may not withdraw within the period prescribed in paragraph 19(a) except with the agreement of the Fund and all participants.

Paragraph 17. *Withdrawal from Membership*

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the credit arrangement

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shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3, and Schedule J of the Articles.

Paragraph 18. *Suspension of Exchange Transactions and Liquidation*

(a) The right of the Fund to make calls under paragraph 7 and the obligation to make repayments under paragraph 11 shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule K of the Articles. For the purpose of paragraph 1(a) of Schedule K, the currency in which the liability of the Fund shall be payable shall be first the participant's currency and then the currency of the drawer for whose purchases transfers were made by the participants.

Paragraph 19. *Period and Renewal*

(a) This decision shall continue in existence for four years from its effective date. A new period of five years shall begin on the effective date of Decision No. 7337-(83/37), adopted February 24, 1983. References in paragraph 19(b) to the period prescribed in paragraph 19(a) shall refer to this new period and to any subsequent renewal periods that may be decided pursuant to paragraph 19(b). When considering a renewal of this decision for the period following the five-year period referred to in this paragraph 19(a), the Fund and the participants shall review the functioning of this decision, including the provisions of paragraph 21.[1]

[1] Ed. Note: The GAB has been renewed for periods of five years from December 26, 1988, 1993, 1998, 2003, and 2008 (the last renewal was adopted by Decision No. 13997-(07/100), November 15, 2007). The Executive Board approved the revised text of the GAB Decision, which incorporates amendments in a number of provisions and provides for the increases in participants' credit arrangements, on February 24, 1983 (Decision No. 7337-(83/37)). It became effective on December 26, 1983.. The text was further amended by the deletion of paragraph 22 in light of Switzerland's membership (Decision No. 10175-(92/129), October 28, 1992) and the amendment became effective on December 22, 1992, when all 11 participants notified the Fund that they concurred in the amendment.

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(b) This decision may be renewed for such period or periods and with such modifications, subject to paragraph 5, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in paragraph 19(a) that it will withdraw its adherence to the decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the decision as renewed. Withdrawal of adherence in accordance with this paragraph 19(b) by a participant, whether or not included in the Annex, shall not preclude its subsequent adherence in accordance with paragraph 3(b).

(c) If this decision is terminated or not renewed, paragraphs 8 through 14, 17 and 18(b) shall nevertheless continue to apply in connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the decision until repayment is completed. If a participant withdraws its adherence to this decision in accordance with paragraph 16 or paragraph 19(b), it shall cease to be a participant under the decision, but paragraphs 8 through 14, 17 and 18(b) of the decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under the former credit arrangement until repayment has been completed.

Paragraph 20. *Interpretation*

Any question of interpretation raised in connection with this decision which does not fall within the purview of Article XXIX of the Articles shall be settled to the mutual satisfaction of the Fund, the participant raising the question, and all other participants. For the purpose of this paragraph 20 participants shall be deemed to include those former participants to which paragraphs 8 through 14, 17 and 18(b) continue to apply pursuant to paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

Paragraph 21. *Use of Credit Arrangements for Nonparticipants*

(a) The Fund may make calls in accordance with paragraphs 6 and 7 for exchange transactions requested by members that

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are not participants if the exchange transactions are (i) transactions in the upper credit tranches, (ii) transactions under stand-by arrangements extending beyond the first credit tranche, (iii) transactions under extended arrangements, or (iv) transactions in the first credit tranche in conjunction with a stand-by or an extended arrangement. All the provisions of this decision relating to calls shall apply, except as otherwise provided in paragraph 21(b).

(b) The Managing Director may initiate the procedure for making calls under paragraph 7 in connection with requests referred to in paragraph 21(a) if, after consultation, he considers that the Fund faces an inadequacy of resources to meet actual and expected requests for financing that reflect the existence of an exceptional situation associated with balance of payments problems of members of a character or aggregate size that could threaten the stability of the international monetary system. In making proposals for calls pursuant to paragraph 21(a) and (b), the Managing Director shall pay due regard to potential calls pursuant to other provisions of this decision.

Paragraph 22. (Abrogated)[1]

Paragraph 23. *Associated Borrowing Arrangements*

(a) A borrowing arrangement between the Fund and a member that is not a participant, or an official institution of such a member, under which the member or the official institution undertakes to make loans to the Fund for the same purposes as, and on terms comparable to, those made by participants under this decision, may, with the concurrence of all participants, authorize the Fund to make calls on participants in accordance with paragraphs 6 and 7 for exchange transactions with that member, or to make requests under paragraph 11(e) in connection with an early repayment of a claim under the borrowing arrangement, or both. For the purposes of this decision such calls or requests shall be treated as if they were calls or requests in respect of a participant.

(b) Nothing in this decision shall preclude the Fund from entering into any other types of borrowing arrangements, including an

[1] Ed. Note: See Decision No. 10175-(92/129), October 28, 1992.

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arrangement between the Fund and a lender, involving an association with participants, that does not contain the authorizations referred to in paragraph 23(a).

ANNEX

Participants and Amounts of Credit Arrangements[1]

	Amount in Special Drawing Rights
1. United States of America	4,250,000,000
2. Deutsche Bundesbank	2,380,000,000
3. Japan	2,125,000,000
4. France	1,700,000,000
5. United Kingdom	1,700,000,000
6. Italy	1,105,000,000
7. Canada	892,500,000
8. Netherlands	850,000,000
9. Belgium	595,000,000
10. Sveriges Riksbank	382,500,000
11. Swiss National Bank	1,020,000,000
	17,000,000,000

Decision No. 1289-(62/1),
January 5, 1962,
as amended by Decision Nos. 1362-(62/32), July 9, 1962,
effective October 12, 1962,
1415-(62/47), September 19, 1962,
4421-(74/132), October 23, 1974,
5792-(78/79), June 2, 1978,
6241-(79/144), August 24, 1979,
7337-(83/37), February 24, 1983,
8733-(87/159), effective December 26, 1988,
10175-(92/129), October 28, 1992,
10176-(92/129), October 28, 1992,

[1] The Borrowing Agreement with Saudi Arabia under the General Arrangements to Borrow is reproduced in *Selected Decisions and Documents of the IMF*, 32nd Issue, pp. 474-82.

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11609-(97/112), November 19, 1997,
12879-(02/113), November 12, 2002,and
13997-(07/100),
November 15, 2007

Letter from Mr. Baumgartner, Minister of Finance, France to Mr. Dillon, Secretary of the Treasury, United States

December 15, 1961

Dear Mr. Secretary:

The purpose of this letter is to set forth the understandings reached during the recent discussions in Paris with respect to the procedure to be followed by the Participating Countries and Institutions (hereinafter referred to as "the participants") in connection with borrowings by the International Monetary Fund of Supplementary Resources under credit arrangements which we expect will be established pursuant to a decision of the Executive Directors of the Fund.

This procedure, which would apply after the entry into force of that decision with respect to the participants which adhere to it in accordance with their laws, and which would remain in effect during the period of the decision, is as follows:

A. A participating country which has need to draw currencies from the International Monetary Fund or to seek a stand-by agreement with the Fund in circumstances indicating that the Supplementary Resources might be used, shall consult with the Managing Director of the Fund first and then with the other participants.

B. If the Managing Director makes a proposal for Supplementary Resources to be lent to the Fund, the participants shall consult on this proposal and inform the Managing Director of the amounts of their currencies which they consider appropriate to lend to the Fund, taking into account the recommendations of the Managing Director and their present and prospective balance of payments and reserve positions. The participants shall aim at reaching unanimous agreement.

C. If it is not possible to reach unanimous agreement, the question whether the participants are prepared to facilitate, by lending

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their currencies, an exchange transaction or stand-by arrangement of the kind covered by the special borrowing arrangements and requiring the Fund's resources to be supplemented in the general order of magnitude proposed by the Managing Director, will be decided by a poll of the participants.

The prospective drawer will not be entitled to vote. A favorable decision shall require the following majorities of the participants which take part in the vote, it being understood that abstentions may be justified only for balance of payments reasons as stated in paragraph D:

(1) a two-thirds majority of the number of participants voting; and

(2) a three-fifths majority of the weighted votes of the participants voting, weighted on the basis of the commitments to the Supplementary Resources.

D. If the decision in paragraph C is favorable, there shall be further consultations among the participants, and with the Managing Director, concerning the amounts of the currencies of the respective participants which will be loaned to the Fund in order to attain a total in the general order of magnitude agreed under paragraph C. If during the consultations a participant gives notice that in its opinion, based on its present and prospective balance of payments and reserve position, calls should not be made on it, or that calls should be for a smaller amount than that proposed, the participants shall consult among themselves and with the Managing Director as to the additional amounts of their currencies which they could provide so as to reach the general order of magnitude agreed under paragraph C.

E. When agreement is reached under paragraph D, each participant shall inform the Managing Director of the calls which it is prepared to meet under its credit arrangement with the Fund.

F. If a participant which has loaned its currency to the Fund under its credit arrangement with the Fund subsequently requests a reversal of its loan which leads to further loans to the Fund by other participants, the participant seeking such reversal shall consult with the Managing Director and with the other participants.

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For the purpose of the consultative procedures described above, participants will designate representatives who shall be empowered to act with respect to proposals for use of the Supplementary Resources.

It is understood that in the event of any proposals for calls under the credit arrangements or if other matters should arise under the Fund decision requiring consultations among the participants, a consultative meeting will be held among all the participants. The representative of France shall be responsible for calling the first meeting, and at that time the participants will determine who shall be the Chairman. The Managing Director of the Fund or his representative shall be invited to participate in these consultative meetings.

It is understood that in order to further the consultations envisaged, participants should, to the fullest extent practicable, use the facilities of the international organizations to which they belong in keeping each other informed of the developments in their balances of payments that could give rise to the use of the Supplementary Resources.

These consultative arrangements, undertaken in a spirit of international cooperation, are designed to insure the stability of the international payments system.

I shall appreciate a reply confirming that the aforegoing represents the understandings which have been reached with respect to the procedure to be followed in connection with borrowings by the International Monetary Fund under the credit arrangements to which I have referred.

I am sending identical letters to the other participants—that is, Belgium, Canada, Germany, Italy, Japan, the Netherlands, Sweden, the United Kingdom. Attached is a verbatim text of this letter in English. The French and English texts and the replies of the participants in both languages shall be equally authentic. I shall notify all of the participants of the confirmations received in response to this letter.

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TRANSFERABILITY OF CLAIMS UNDER GENERAL ARRANGEMENTS TO BORROW

Pursuant to paragraph 13 of the revised General Arrangements to Borrow (GAB) which became effective on December 26, 1983, the Fund consents in advance to the transfer of outstanding claims to repayment under the GAB on the terms and conditions set out below:

1. All or part of any claim under the GAB may be transferred at any time to a participant in the GAB.

2. As from the value date of the transfer, the transferred claim shall be held by the transferee on the same terms and conditions as claims originating under its credit arrangement, except that the transferee shall acquire the right to request early repayment of the transferred claim on balance of payments grounds pursuant to paragraph 11(e) of the GAB only if, at the time of the transfer, (i) the transferee is a member, or the institution of a member, whose balance of payments and reserve position is considered sufficiently strong for its currency to be usable in net sales in the Fund's operational budget; or (ii) the transferee is the Swiss National Bank,[1] and the balance of payments and reserve position of the Swiss Confederation is, in the opinion of the Fund, sufficiently strong to justify such acquisition.

3. The price for the claim transferred shall be as agreed between the transferee and the transferor.

4. The transferor of a claim shall inform the Fund promptly of the claim that is being transferred, the name of the transferee, the amount of the claim that is being transferred, the agreed price for transfer of the claim, and the value date of the transfer.

5. The transfer shall be registered by the Fund if it is in accordance with the terms and conditions of this decision. The transfer

[1] Ed. Note: The Swiss National Bank became a participant in the GAB with effect from April 10, 1984.

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shall be effective as of the value date agreed between the transferee and the transferor.

6. If all or part of a claim is transferred during a quarterly period as described in paragraph 9(b) of the GAB, the Fund shall pay interest to the transferee on the amount of the claim transferred for the whole of that period.

If requested, the Fund shall assist in seeking to arrange transfers.

Decision No. 7628-(84/25),
February 15, 1984,
effective April 10, 1984[1]

NEW ARRANGEMENTS TO BORROW

Preamble

In order to enable the International Monetary Fund (the "Fund") to fulfill more effectively its role in the international monetary system, a number of countries with the financial capacity to support the international monetary system have agreed to provide resources to the Fund up to specified amounts in accordance with the terms and conditions of this decision. As the Fund is a quota-based institution, the credit arrangements provided for under the terms of this decision shall only be drawn upon when quota resources need to be supplemented in order to forestall or cope with an impairment of the international monetary system. In order to give effect to these intentions, the following terms and conditions are adopted under Article VII, Section 1(i) of the Fund's Articles of Agreement.

Paragraph 1. *Definitions*

(a) As used in this decision the term:

[1] Decision No. 7629-(84/25), February 15, 1984, effective April 10, 1984, on the Transferability of Claims Under Saudi Arabia's Borrowing Agreement is reproduced in *Selected Decisions and Selected Documents of the IMF*, 32nd Issue, pp. 472-73.

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(i) “amount of a credit arrangement” means the maximum amount expressed in special drawing rights that a participant undertakes to make available to the Fund under a credit arrangement;

(ii) “Articles” means the Articles of Agreement of the Fund;

(iii) “available commitment” means a participant’s credit arrangement less any drawn and outstanding balances;

(iv) “borrowed currency” or “currency borrowed” means currency transferred to the Fund’s account under a credit arrangement;

(v) “call” means a notice by the Fund to a participant to make a transfer under its credit arrangement to the Fund’s account;

(vi) “credit arrangement” means an undertaking to provide resources to the Fund on the terms and conditions of this decision;

(vii) “currency actually convertible” means currency included in the Fund’s quarterly financial transactions plan for transfers;

(viii) “drawer” means a member that purchases borrowed currency from the General Resources Account of the Fund;

(ix) “indebtedness of the Fund” means the amount the Fund is committed to repay under a credit arrangement;

(x) “member” means a member of the Fund;

(xi) “participant” means a participating member or a participating institution;

(xii) “participating institution” means an official institution of a member that has entered into a credit arrangement with the Fund with the consent of the member; and

(xiii) “participating member” means a member that has entered into a credit arrangement with the Fund.

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(b) For the purposes of this decision, the Monetary Authority of Hong Kong (the "HKMA") shall be regarded as an official institution of the member whose territories include Hong Kong, provided that:

(i) loans by the HKMA and payments by the Fund to the HKMA under this decision shall be made in the currency of the United States of America, unless the currency of another member is agreed between the Fund and the HKMA;

(ii) the references to balance of payments and reserve position in paragraphs 5(c), 6(b), 6(c), 7(a), and 11(e) shall be understood to refer to the balance of payments and reserve position of Hong Kong. The HKMA shall not be eligible to vote on a proposal for activation under paragraph 5(c), included in a resources mobilization plan under paragraph 6(b), or subject to calls under paragraph 7(a), and shall be excluded from calls in accordance with paragraph 6(c), if, at the time of voting on any such proposal, approval of any such resource mobilization plan, or making of any such call, the HKMA notifies the Fund that Hong Kong's present and prospective balance of payments and reserve position does not allow it to meet calls under its credit arrangement; and

(iii) the HKMA shall have the right to request early repayment in accordance with paragraph 13(c) with respect to claims transferred to the HKMA if at the time of the transfer the balance of payments position of Hong Kong is, in the opinion of the Fund, sufficiently strong to justify such a right.

Paragraph 2. *Credit Arrangements*

(a) A member or institution that adheres to this decision undertakes to provide resources to the Fund on the terms and conditions of this decision up to the amount in special drawing rights set forth in Annex I to this decision ("Annex I"), which may be amended from time to time in order to take into account changes in credit arrangements resulting from the application of paragraphs 3(b), 4, 15(b), 16, 17, and 19(b).

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(b) Except as set forth in paragraph 1(b)(i) or otherwise agreed with the Fund, resources provided to the Fund under this decision shall be made in the currency of the participant. Agreements under this paragraph for the use of the currency of another member shall be subject to the concurrence of any member whose currency shall be used.

Paragraph 3. *Adherence*

(a) Any member or institution specified in Annex I as a new participant may adhere to this decision in accordance with paragraph 3(c).

(b) Any member or institution not specified in Annex I, may apply to become a participant at any time. Any such member or institution that wishes to become a participant shall, after consultation with the Fund, give notice of its willingness to adhere to this decision, and, if the Fund and participants representing 85 percent of total credit arrangements shall so agree, the member or institution may adhere in accordance with paragraph 3(c). When giving notice of its willingness to adhere under this paragraph 3(b), a member or institution shall specify the amount, expressed in special drawing rights, of the credit arrangement which it is willing to enter into, provided that the amount shall not be less than the credit arrangement of the participant with the smallest credit arrangement. The admission of a new participant shall lead to a proportional reduction in the credit arrangements of all existing participants whose credit arrangements are above that of the participant with the smallest credit arrangement: such proportional reduction in the credit arrangements of participants shall be in an aggregate amount equal to the amount of the new participant's credit arrangement less any increase in total credit arrangements decided in accordance with paragraph 4(a), provided that no participant's credit arrangement shall be reduced below the minimum amount set out in Annex I.

(c) A member or institution shall adhere to this decision by depositing with the Fund an instrument setting forth that it has adhered in accordance with its law and has taken all steps necessary to enable it to carry out the terms and conditions of this decision. On the deposit of the instrument the member or institution shall be a participant as of the date of the deposit or of the effective date of the amendments to

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this decision set out in Executive Board Decision No. 14577-(10/35), April 12, 2010, whichever is later.

Paragraph 4. *Changes in Amounts of Credit Arrangements*

(a) When a member or institution is authorized under paragraph 3(b) to adhere to this decision, the total amount of credit arrangements may be increased by the Fund with the agreement of participants representing 85 percent of total credit arrangements; the increase shall not exceed the amount of the new participant's credit arrangement.

(b) The amounts of participants' individual credit arrangements may be reviewed from time to time in the light of developing circumstances and changed with the agreement of the Fund and of participants representing 85 percent of total credit arrangements, including each participant whose credit arrangement is changed. This provision may be amended only with the consent of all participants.

Paragraph 5. *Activation Period*

(a) When the Managing Director considers that the Fund's resources available for the purpose of providing financing to members from the General Resources Account need to be supplemented in order to forestall or cope with an impairment of the international monetary system, and after consultations with Executive Directors and participants, the Managing Director may make a proposal for the establishment of an activation period during which the Fund may (i) make commitments under Fund arrangements for which it may make calls on participants under their credit arrangements, and (ii) fund outright purchases by making calls on participants under their credit arrangements; provided that an activation period shall not exceed 6 months, and provided further that the amount covered by calls to fund such commitments under arrangements and outright purchases shall not exceed the maximum amount specified in the proposal. The proposal for the establishment of an activation period shall include information on (i) the overall size of possible Fund arrangements on which discussions are advanced, (ii) the balance between arrangements that are expected to be drawn upon and arrangements that are expected to be precautionary, (iii) additional financing needs that, in

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the opinion of the Managing Director, may arise during the proposed activation period, and (iv) the mix of quota and NAB resources for purchases from the General Resources Account in the period following the approval of an activation period. The information will be updated quarterly during an activation period.

(b) If there is not unanimity among the participants, the question whether the participants are prepared to accept the Managing Director's proposal for the establishment of an activation period in accordance with paragraph 5(a) will be decided by a poll of the participants. A favorable decision shall require an 85 percent majority of total credit arrangements of participants eligible to vote. The decision shall be notified to the Fund.

(c) A participant shall not be eligible to vote if, based on its present and prospective balance of payments and reserve position, the member is not included in the financial transactions plan for transfers of its currency at the time of the decision on a proposal for an activation period.

(d) An activation period shall become effective only if it is accepted by participants pursuant to paragraph 5(b) and is then approved by the Executive Board.

Paragraph 6. *Resource Mobilization Plans and Calls*

(a) To fund outright purchases during an activation period and commitments under arrangements approved during an activation period, calls under individual credit arrangements of participants may be made on the basis of resource mobilization plans approved by the Executive Board normally on a quarterly basis in conjunction with the quarterly financial transactions plan for the General Resources Account. Such resource mobilization plans shall specify for each participant the maximum amount for which calls may be made during the applicable period. The Executive Board may at any time amend such a plan to change the maximum amounts and period for calls. With respect to the allocation of the maximum amounts among participants, the resource mobilization plan shall normally establish an allo-

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cation that would result in the available commitments of participants being of equal proportion relative to their credit arrangements.

(b) A participant shall not be included in the resource mobilization plan when, based on its present and prospective balance of payments and reserve position, the member is not included and is not being proposed by the Managing Director to be included in the list of countries in the quarterly financial transactions plan for transfers of its currency.

(c) Calls during the period of a resource mobilization plan shall be made on participants by the Managing Director with due regard to the objective specified in paragraph 6(a) of achieving available commitments of participants that are of equal proportion relative to their credit arrangements. No call shall be made on a participant that has been included in the resource mobilization plan if, at the time of such call, the member's currency is not being used in transfers under the financial transactions plan because of the member's balance of payments and reserve position.

(d) When the Fund makes a call pursuant to this paragraph 6, the participant shall promptly make the transfer in accordance with the call.

Paragraph 7. *Procedures for Special Calls*

(a) Calls pursuant to paragraph 11(e) may be made at any time with due regard to the objective specified in paragraph 6(a) of achieving available commitments of participants that are of equal proportion relative to their credit arrangements, provided that no such call shall be made on a participant, when, based on its present and prospective balance of payments and reserve position, the member is not included and is not being proposed by the Managing Director to be included in the list of countries in the quarterly financial transactions plan for transfers of its currency or, if the member has been included in the financial transactions plan, when, at the time of such call, the member's currency is not being used in transfers under such plan because of the member's balance of payments and reserve position. Calls under this paragraph 7(a) shall not be subject to the procedures set forth in either paragraph 5 or paragraph 6.

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(b) Calls pursuant to paragraph 23 may be made at any time; they shall not be subject to the procedures set forth in either paragraph 5 or paragraph 6.

(c) When the Fund makes a call pursuant to this paragraph 7, the participant shall promptly make the transfer in accordance with the call.

Paragraph 8. *Nature and Evidence of Indebtedness*

(a) A participant's claim on the Fund arising from calls under this decision shall be in the form of a loan to the Fund; provided that, at the request of a participant, the Fund shall issue to the participant and the participant shall purchase, for up to the amount of any call on that participant, one or more promissory notes (each a "Note" or together the "Notes") that have the same substantive terms as loans extended under this decision and are subject to the General Terms and Conditions for NAB Notes set forth in Annex II to this decision (the "GTC").[1] The GTC may be amended by a decision of the Fund with the agreement of participants representing 85 percent of total credit arrangements, provided that any amendment of the GTC shall be consistent with the terms of this decision. The amended GTC shall apply upon effectiveness to all outstanding Notes issued under this decision.

(b) In cases where a participant's claim on the Fund is in the form of a loan, the Fund shall issue to the participant, at its request, instruments evidencing the Fund's indebtedness. The form of the instruments shall be agreed between the Fund and the participant. Upon repayment of the amount of any such instrument and all accrued interest, the instrument shall be returned to the Fund for cancellation. If less than the amount of any such instrument is repaid, the instrument shall be returned to the Fund and a new instrument for the remainder of the amount shall be substituted with the same maturity date as in the old instrument.

[1] Ed. Note: The "GTC" is not included in this volume.

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(c) In cases where a participant's claim on the Fund is in the form of Notes, such Notes shall be issued in book entry form. Upon the request of a participant, the Fund shall issue a registered Note substantially in the form as set out in the Appendix to the GTC. Upon repayment of any Note and all accrued interest, the Note shall be returned to the Fund for cancellation. If less than the amount of any such Note is repaid, the Note shall be returned to the Fund and a new Note for the remainder of the amount shall be substituted with the same maturity date as in the old Note.

Paragraph 9. *Interest*

(a) The Fund shall pay interest on its indebtedness under this decision at a rate equal to the combined market interest rate computed by the Fund from time to time for the purpose of determining the rate at which it pays interest on holdings of special drawing rights or any such higher rate as may be agreed between the Fund and participants representing 85 percent of the total credit arrangements.

(b) Interest shall accrue daily and shall be paid as soon as possible after each July 31, October 31, January 31, and April 30.

(c) Interest due to a participant shall be paid, as determined by the Fund in consultation with the participant, in special drawing rights, in the participant's currency, in the currency borrowed, in freely usable currencies, or, with the agreement of the participant, in other currencies that are actually convertible.

Paragraph 10. *Use of Borrowed Currency*

The Fund's policies and practices under Article V, Sections 3 and 7 of the Articles on the use of its general resources, including those relating to the period of use, shall apply to purchases of currency borrowed by the Fund. Nothing in this decision shall affect the authority of the Fund with respect to requests for the use of its resources by individual members, and access to these resources by members shall be determined by the Fund's policies and practices, and shall not depend on whether the Fund can borrow under this decision.

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Paragraph 11. *Repayment by the Fund*

(a) Subject to the other provisions of this paragraph 11, the Fund, ten years after a transfer by a participant in response to a call under this decision, shall repay the participant an amount equivalent to the transfer calculated in accordance with paragraph 12. If a drawer for whose purchase resources were made available under this decision repurchases on a date earlier than ten years after its purchase, the Fund shall repay participants an equivalent amount during the quarterly period in which the repurchase is made in accordance with paragraph 11(d). Repayment under this paragraph 11(a) or under paragraph 11(c) shall be, as determined by the Fund, in the currency borrowed whenever feasible, in the currency of the participant, in special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4 of the Articles unless the participant agrees to accept special drawing rights above that limit in such repayment, in freely usable currencies, or, with the agreement of the participant, in other currencies that are actually convertible.[1]

(b) Before the date prescribed in paragraph 1l(a), the Fund, after consultation with participants, may make repayment in part or in full to one or several participants in accordance with paragraph 11(d). The Fund shall have the option to make repayment under this paragraph 11(b) in the participant's currency, in the currency borrowed, in special drawing rights in an amount that does not increase the participant's holdings of special drawing rights above the limit under Article XIX, Section 4 of the Articles unless the participant agrees to accept special drawing rights above that limit in such repayment, in freely usable currencies, or, with the agreement of the participant, in other currencies that are actually convertible. At the request of a participant, the Fund shall repay, in accordance with this subparagraph (b), any claims resulting from calls under the participant's credit arrangement that exceed the amount of the participant's credit arrangement

[1] Ed. Note: This paragraph was amended by Decision No. 15014-(11/110), November 16, 2011, effective November 17, 2011.

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as changed in accordance with Executive Board Decision No. 15073 adopted December 21, 2011, provided that no such repayment shall be made until the quota increase for the relevant member under the Fourteenth General Review of Quotas has become effective.[1]

(c) Whenever a reduction in the Fund's holdings of a drawer's currency is attributed to a purchase of currency borrowed under this decision, the Fund shall promptly repay an equivalent amount to participants. If the Fund has used resources under this decision to finance a reserve tranche purchase by a drawer and the Fund's holdings of the drawer's currency that are not subject to repurchase are reduced as a result of net sales of that currency during a quarterly period covered by a financial transactions plan, the Fund shall repay at the beginning of the next quarterly period an amount equivalent to that reduction to participants, up to the amount of the reserve tranche purchase. Payments under this paragraph 11(c) shall be allocated among participants in accordance with paragraph 11(d).

(d) Repayments under paragraphs 11(a), second sentence, 11(b), and 11(c) shall be allocated among participants with due regard to the objective specified in paragraph 6(a) of achieving available commitments of participants that are of equal proportion relative to their credit arrangements. For each participant, repayments shall be applied first to the longest outstanding claim under its credit arrangement. If repayment is to be made in accordance with this paragraph 11(d) on a claim that has been transferred, the repayment shall be made to the transferee of such claim.

(e) Before the date prescribed in paragraph 11(a), a participant may give notice representing that there is a balance of payments need for repayment of part or all of the Fund's indebtedness and requesting such repayment. The participant seeking such repayment shall consult with the Managing Director and with the other participants before

[1] Ed. Note: The last sentence of paragraph 11(b) was added by Decision No. 15073-(12/1), December 21, 2011, and shall become effective when NAB participants representing at least 85 percent of total credit arrangements have concurred in the amendment (SM/11/331, 12/15/11).

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giving notice. The Fund shall give the overwhelming benefit of any doubt to the participant's representation. Repayment shall be made promptly after consultation with the participant in freely usable currencies or in special drawing rights, as determined by the Fund, or, with the agreement of the participant, in the currencies of other members that are actually convertible. If the Fund's holdings of currencies in which repayment should be made are not wholly adequate, the Managing Director shall make calls on individual participants to provide the necessary balances under their credit arrangements subject to the limit of their available commitments. At the time of such call, and if so requested by the participant seeking early repayment, (i) a participant providing balances under its credit arrangement that are not balances of a freely usable currency shall ensure that such balances can be exchanged for a freely usable currency of its choice, and (ii) a participant providing balances under its credit arrangement that are balances of a freely usable currency, shall collaborate with the Fund and other members to enable such balances to be exchanged for another freely usable currency.

(f) When a repayment is made on a claim arising from a call under this decision, the amount that can be called for under the credit arrangement of the participant under which the claim arose as a result of a call under this decision shall be restored pro tanto.

(g) Unless otherwise agreed between the Fund and a participating institution, the Fund shall be deemed to have discharged its obligations to a participating institution to make repayment in accordance with the provisions of this paragraph 11 or to pay interest in accordance with the provisions of paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the member in which the participating institution is established.

Paragraph 12. *Rates of Exchange*

(a) The value of any transfer shall be calculated as of the date of the dispatch of the instructions for the transfer. The calculation shall be made in terms of the special drawing right in accordance with Article XIX, Section 7(a) of the Articles, and the Fund shall be obliged to repay an equivalent value.

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(b) For all of the purposes of this decision, the value of a currency in terms of the special drawing right shall be calculated by the Fund in accordance with Rule O-2 of the Fund's Rules and Regulations.

Paragraph 13. *Transferability*

(a) No participant or non-participant holder may transfer all or any part of its claim to repayment under a credit arrangement except (i) in accordance with this paragraph 13 or (ii) with the prior consent of the Fund and on such terms and conditions as the Fund may approve.

(b) All or part of any claim to repayment under a credit arrangement may be transferred at any time to a participant or to a non-participant that is either (i) a member of the Fund, (ii) the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 of the Articles ("other fiscal agency"), or (iii) an official entity that has been prescribed as a holder of special drawing rights pursuant to Article XVII, Section 3 of the Articles.

(c) As from the value date of the transfer, the transferred claim shall be held by the transferee on the same terms and conditions as claims originating under its credit arrangement (in the case of transferees that are participants) or as the claim was held by the transferor (in the case of transferees that are non-participants), except that (i) the transferee shall have the right to request early repayment of the transferred claim on balance of payments grounds pursuant to paragraph 11(e) only if the transferee is a member, or an institution of a member, whose balance of payments and reserve position, at the time of the transfer, is considered sufficiently strong for its currency to be usable in transfers under the Fund's financial transactions plan; (ii) if the transferee is a non-participant, references to the participant's currency shall be deemed to refer (A) if the transferee is a member, to the transferee's currency, (B) if the transferee is an institution of a member, to the currency of that member, and (C) in other cases, to a freely usable currency as determined by the Fund; and (iii) claims transferred in accordance with this paragraph 13 shall be considered drawn balances of the first transferor participant for purposes of determining the available commitment under its credit arrangement, and claims ob-

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tained by a participant under a transfer shall not be considered drawn balances of the transferee for purposes of determining the available commitment under its credit arrangement.

(d) The price for the claim transferred shall be as agreed between the transferee and the transferor.

(e) The transferor of a claim shall inform the Fund promptly of the claim that is being transferred, the name of the transferee, the amount of the claim that is being transferred, the agreed price for transfer of the claim, and the value date of the transfer.

(f) The transfer shall be registered by the Fund and the transferee shall become the holder of the claim if the transfer is in accordance with the terms and conditions of this decision. Subject to the foregoing, the transfer shall be effective as of the value date agreed between the transferee and the transferor.

(g) Notice to or by a transferee that is a non-participant shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency designated by the transferee in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund if the transferee is a member, or to or by the transferee directly if the transferee is not a member.

(h) If all or part of a claim is transferred during a quarterly period as described in paragraph 9(b), the Fund shall pay interest to the transferee on the amount of the claim transferred for the whole of that period.

(i) Unless otherwise agreed between the Fund and a transferee that is either a participating institution or the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 of the Articles, the Fund shall be deemed to have discharged its obligations to make repayment to such transferee in special drawing rights in accordance with paragraph 11 or to pay interest in special drawing rights in accordance with paragraph 9 if the Fund transfers an equivalent amount in special drawing rights to the account of the member in which the institution is established.

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(j) If requested, the Fund shall assist in seeking to arrange transfers.

(k) The transferee of a claim may request at the time of transfer that a claim in the form of a loan be exchanged by the Fund for a Note on the same substantive terms subject to the GTC, or that a claim in the form of a Note be exchanged for a loan claim on the same substantive terms.

(l) Derivative transactions in respect of any claim under this decision, and transfer of participation interests in any claim, are prohibited.

Paragraph 14. *Notices*

Notice to or by a participating member under this decision shall be in writing or by rapid means of communication and shall be given to or by the fiscal agency of the participating member designated in accordance with Article V, Section 1 of the Articles and Rule G-1 of the Rules and Regulations of the Fund. Notice to or by a participating institution shall be in writing or by rapid means of communication and shall be given to or by the participating institution.

Paragraph 15. *Amendment*

(a) Except as provided in paragraphs 4(b), 15(b), and 16, this decision may be amended during the period prescribed in paragraph 19(a) and any subsequent renewal periods that may be decided pursuant to paragraph 19(b) only by a decision of the Fund and with the concurrence of participants representing 85 percent of total credit arrangements. Such concurrence shall not be necessary for the modification of the decision on its renewal pursuant to paragraph 19(b).

(b) If in its view an amendment materially affects the interest of a participant that voted against the amendment, the participant shall have the right to withdraw its adherence to this decision by giving notice to the Fund and the other participants within 90 days from the date the amendment was adopted. This provision may be amended only with the consent of all participants.

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Paragraph 16. *Withdrawal of Adherence*

Without prejudice to paragraph 15(b), a participant may withdraw its adherence to this decision in accordance with paragraph 19(b) but may not withdraw within the period prescribed in paragraph 19(a) except with the agreement of the Fund and all participants. This provision may be amended only with the consent of all participants.

Paragraph 17. *Withdrawal from Membership*

If a participating member or a member whose institution is a participant withdraws from membership in the Fund, the participant's credit arrangement shall cease at the same time as the withdrawal takes effect. The Fund's indebtedness under the relevant credit arrangement shall be treated as an amount due from the Fund for the purpose of Article XXVI, Section 3 and Schedule J of the Articles.

Paragraph 18. *Suspension of Exchange Transactions and Liquidation*

(a) The right of the Fund to make calls under paragraphs 6, 11(e), and 23 and the obligation to make repayments under paragraph 11 shall be suspended during any suspension of exchange transactions under Article XXVII of the Articles.

(b) In the event of liquidation of the Fund, credit arrangements shall cease and the Fund's indebtedness shall constitute liabilities under Schedule K of the Articles. For the purpose of paragraph 1(a) of Schedule K, the currency in which the liability of the Fund shall be payable shall be first the currency borrowed, then the participant's currency and finally the currency of the drawer for whose purchases transfers were made by the participants in connection with calls under paragraph 6.

Paragraph 19. *Period and Renewal*

(a) This decision shall continue in existence until November 16, 2012. When considering a renewal of this decision for any period following the period referred to in this paragraph 19(a), the Fund and the participants shall review the functioning of this decision and, in particular,

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(i) the experience with the procedures for activation and (ii) the impact of the Fourteenth General Review of Quotas on the overall size of quotas, and shall consult on any possible modifications.

(b) This decision may be renewed for such period or periods and with such modifications, subject to paragraphs 4(b), 15(b), and 16, as the Fund may decide. The Fund shall adopt a decision on renewal and modification, if any, not later than twelve months before the end of the period prescribed in paragraph 19(a). Any participant may advise the Fund not less than six months before the end of the period prescribed in paragraph 19(a) that it will withdraw its adherence to the decision as renewed. In the absence of such notice, a participant shall be deemed to continue to adhere to the decision as renewed. Withdrawal of adherence in accordance with this paragraph 19(b) by a participant shall not preclude its subsequent adherence in accordance with paragraph 3(b).

(c) If this decision is terminated or not renewed, paragraphs 8 through 14, 17 and 18(b) shall nevertheless continue to apply in connection with any indebtedness of the Fund under credit arrangements in existence at the date of the termination or expiration of the decision until repayment is completed. If a participant withdraws its adherence to this decision in accordance with paragraph 15(b), paragraph 16, or paragraph 19(b), it shall cease to be a participant under the decision, but paragraphs 8 through 14, 17, and 18(b) of the decision as of the date of the withdrawal shall nevertheless continue to apply to any indebtedness of the Fund under such former credit arrangement until repayment has been completed.

Paragraph 20. *Interpretation*

Any question of interpretation raised in connection with this decision (including the GTC) which does not fall within the purview of Article XXIX of the Articles shall be settled to the mutual satisfaction of the Fund, the participant or transferee of a claim raising the question, and all other participants. For the purpose of this paragraph 20 participants shall be deemed to include those former participants to which paragraphs 8 through 14, 17, and 18(b) continue to apply pursuant to

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paragraph 19(c) to the extent that any such former participant is affected by a question of interpretation that is raised.

Paragraph 21. *Relationship with the General Arrangements to Borrow and Associated Borrowing Arrangements*

(a) When considering whether to activate the New Arrangements to Borrow or the General Arrangements to Borrow, the Fund shall be guided by the principle that the New Arrangements to Borrow shall be the facility of first and principal recourse, except that in the event that a proposal for the establishment of an activation period under the New Arrangements to Borrow is not accepted under paragraph 5(a), a proposal for calls may be made under the General Arrangements to Borrow.

(b) Outstanding drawings and available commitments under the New Arrangements to Borrow and the General Arrangements to Borrow shall not exceed SDR 367,467.36 million, or such other amount of total credit arrangements as may be in effect in accordance with this decision. The available commitment of a participant under the New Arrangements to Borrow shall be reduced pro tanto by any outstanding drawings on, and commitments of, the participant under the General Arrangements to Borrow. The available commitment of a participant under the General Arrangements to Borrow shall be reduced pro tanto by the extent to which its credit arrangement under the General Arrangements to Borrow exceeds its available commitment under the New Arrangements to Borrow.

(c) References to drawings and commitments under the General Arrangements to Borrow shall include drawings and commitments under the Associated Borrowing Arrangements referred to in paragraph 23 of the General Arrangements to Borrow.

Paragraph 22. *Other Borrowing Arrangements*

Nothing in this decision shall preclude the Fund from entering into any other types of borrowing arrangements.

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Paragraph 23. *Transitional Arrangements for Amendments Adopted Pursuant to Decision No. 14577-(10/35)*

At the request of a participant that holds claims, either in the form of loans or notes, on the Fund under bilateral borrowing agreements entered into by the Fund prior to the effectiveness of the amendments to this decision set forth in Decision No. 14577-(10/35), April 12, 2010, the Managing Director shall make calls under the credit arrangement of such a participant to fund the repayment of such claims. Similarly, at the request of the relevant participant, calls shall be made on a participant that is a participating institution for the repayment of such claims held by the member of which it is an official institution or by the central bank or other fiscal agency designated by the member, or on a participant that is a member for the repayment of such claims held by the central bank or other fiscal agency designated by the member. Notwithstanding paragraph 11(a), the maturity date of claims under credit arrangements arising from such calls shall be the maturity date of the bilateral borrowing agreement claim for whose repayment the call was made.

Paragraph 24. *Delay in Drawings*

No drawings shall be made under this decision until participants representing at least 70 percent of the total credit arrangements of new participants listed in Annex I have adhered to this decision in accordance with paragraph 3(c).

Decision No. 11428-(97/6),
January 27, 1997,
as amended by Decision Nos. 12880-(02/113),
12881-(02/113), November 12, 2002,
13996-(07/100), November 15, 2007,
14577-(10/35), April 12, 2010,
14721-(10/80), August 5, 2010,
15014-(11/110), November 16, 2011, and
15072-(12/1),
December 21, 2011

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Attachment I, Annex I

Participants and Amounts of Credit Arrangements
(In Millions of SDRs)[1]

Current Participants	Current	New[2]
Australia	801.29	4,370.41
Austria	407.57	3,579.24
Belgium	956.6	7,861.85
Canada	1,380.99	7,624.43
Chile, Banco Central de	340	1,360.00
Danmarks Nationalbank	367.01	3,207.78
Deutsche Bundesbank	3,518.75	25,370.81
Finland	340	2,231.76
France	2,549.29	18,657.38
Hong Kong Monetary Authority	340	340
Italy	1,752.95	13,578.03
Japan	3,518.75	65,953.20
Korea	340.00	6,583.44
Kuwait	341.29	341.29
Luxembourg	340	970.59
Malaysia	340	340
Netherlands	1301.85	9043.72
Norway	378.88	3,870.94
Saudi Arabia	1,760.86	11,126.03
Singapore	340	1,276.52
Spain	664.77	6,702.18

[1] Credit arrangements are subject to a minimum of SDR 340 million.

[2] Ed. Note: The new amounts of credit arrangements became effective on March 11, 2011.

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Sveriges Riksbank	849.76	4,439.74
Swiss National Bank	1,540.26	10,905.42
Thailand	340	340
United Kingdom	2,549.29	18,657.38
United States	6,639.83	69,074.27

New Participants

Bank of Israel	500
Brazil	8,740.82
China	31,217.22
Cyprus	340
Greece	1,654.51
India	8,740.82
Ireland	1,885.52
Mexico	4,994.76
New Zealand	624.34
Pilipinas, Banko Sentral ng	340
Portugal, Banco de	1,542.13
Russian Federation	8,740.82
South Africa	340
Total	367,467.36

Attachment to SM/96/307

NAB Meetings

In the course of establishing the new arrangements to borrow (NAB), understandings were reached on procedures and administrative arrangements for meetings of participants. These understandings are intended to complement, but do not supersede or modify, the provisions related to the activation of the new arrangements to borrow, as specified in the Fund decision.

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Frequency, timing, subject matter, and level of representation

Participants agreed that, in addition to any meetings needed for activation, renewal, or amendment of the NAB, it would be appropriate for participants to meet once a year at the time of the annual Fund/Bank meetings to discuss matters pertaining to the NAB. The objective of these meetings would be to review and discuss macroeconomic and financial markets developments, especially those that could have an impact on the stability of the financial system and lead to a possible need for the Fund to seek supplementary resources for the purposes set out in the preamble of the NAB. Participants would be represented by a minister or central bank governor or both. The principal representative could appoint deputies to meet in their stead. The level of the meeting (Ministerial or Deputy) would be determined each year in light of the issues at hand.

Chairmanship

The Chairmanship of the NAB grouping would rotate annually in the English alphabetical order of the participants, as listed in the Annex to the decision, beginning with the first name on that list.[1] The Chair would, in consultation with participants, be responsible for determining the agenda of the meeting, which will be devoted to the matters set out above. These consultations would also serve to determine the level of representation (Ministerial or Deputy) that would be most appropriate for the meeting in question.

Support

IMF headquarters staff would, under the direction of the Chair, provide secretariat support for the group. This would entail providing logistic support and maintaining an archive of documents concerning the deliberations and decisions taken under the new arrangements to borrow.

[1] In the event that the Chair was unable to perform its functions, a substitute would be provided by the participant immediately above the Chair on the list of participants in the Annex, or, if that substitute were not available, by the participant immediately below the Chair in that list.

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NEW ARRANGEMENTS TO BORROW—TRANSFERABILITY OF CLAIMS

Pursuant to paragraph 13 of the New Arrangements to Borrow (NAB), the Fund consents in advance to the transfer of outstanding claims to repayments under the NAB on the terms and conditions set out below:

1. All or part of any claim under the NAB may be transferred at any time to a participant in the NAB.

2. As from the value date of the transfer, the transferred claim shall be held by the transferee on the same terms and conditions as claims originating under its credit arrangement, except that the transferee shall acquire the right to request early repayment of the transferred claim on balance of payments grounds pursuant to paragraph 11(e) of the NAB only if, at the time of the transfer, (i) the transferee is a member, or the institution of a member, whose balance of payment and reserve position is considered sufficiently strong for its currency to be usable in net transfers in the Fund's operational budget; or (ii) the transferee is the institution of a nonmember, and the balance of payments and reserve position of the nonmember is, in the opinion of the Fund, sufficiently strong to justify such acquisition.

3. The price for the claim transferred shall be as agreed between the transferee and the transferor.

4. The transferor of a claim shall inform the Fund promptly of the claim that is being transferred, the name of the transferee, the amount of the claim that is being transferred, the agreed price for transfer of the claim, and the value date of the transfer.

5. The transfer shall be registered by the Fund if it is in accordance with the terms and conditions of this decision. The transfer shall be effective as of the value date agreed between the transferee and the transferor.

6. If all or part of a claim is transferred during a quarterly period as described in paragraph 9(c) of the NAB, the Fund shall pay interest to the transferee on the amount of the claim transferred for the whole of that period.

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7. If requested, the Fund shall assist in seeking to arrange transfers.

8. This decision shall become effective on the date of effectiveness of the NAB.

Decision No.11429-(97/6),
January 27, 1997

ESTABLISHMENT OF THE BORROWED RESOURCES SUSPENSE ACCOUNTS

1. The Managing Director is authorized (i) to establish Borrowed Resources Suspense Accounts within the General Department, (ii) to transfer to these Accounts balances of currencies borrowed before these can be used in transactions or received in repurchases made before repayment can be made, and (iii) to invest these balances until they can be transferred to the General Resources Account for immediate use in a transaction or an operation.

2. A Borrowed Resources Suspense Account for each currency shall be opened, as needed, with the depository designated pursuant to Article XIII, Section 2, by a member whose currency is to be borrowed, used for investment, or used in repayment or the payment of interest and shall be operated in accordance with the standard procedures for the operation of the Fund's No. 1 and Securities Accounts with the depository.

Decision No. 6844-(81/75),
May 5, 1981

INVESTMENT BY THE FUND OF THE CURRENCIES HELD IN THE BORROWED RESOURCES SUSPENSE ACCOUNTS

1. The Managing Director is authorized to invest currencies held in the Borrowed Resources Suspense Accounts in one or more of the following ways: (a) deposits with a national official financial institution of a member, or an international financial institution, that are denominated in special drawing rights; (b) marketable obligations issued by a member or by a national official institution of a member

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and denominated in special drawing rights; and (c) marketable obligations issued by an international financial institution and denominated in special drawing rights.

2. The policy on the investment of the undisbursed amounts held in the Borrowed Resources Suspense Accounts shall take into account the operational needs of the General Resources Account, including the dates on which members are expected to make purchases from the Fund under its Policy on Enlarged Access.

3. (a) The Managing Director, when making arrangements for the placement of investments in accordance with paragraphs 1 and 2 above, shall consider the terms offered by a national official financial institution of the member issuing the currency borrowed, or to which the borrowed funds may be transferred, that will accept investments denominated in special drawing rights, and the terms offered by the Bank for International Settlements, for all or part of the intended investment in SDR-denominated deposits.

(b) In the event the Managing Director considers that none of the offers made by the central banks and by the BIS is sufficiently attractive, he shall inform the Executive Board promptly and make other proposals to it for investment in SDR-denominated obligations.

4. The Managing Director is authorized to transfer borrowed funds at the time of the original receipt from the Borrowed Resources Suspense Account in the depository designated by the member whose currency was borrowed to the Borrowed Resources Suspense Account in the depository designated by the member whose currency is to be used in an investment when this transfer is necessary to effect an investment denominated in special drawing rights, and when this transfer has been concurred in by the two members whose currencies will be involved.

Decision No. 6845-(81/75),
May 5, 1981

GUIDELINES FOR BORROWING BY THE FUND

Quota subscriptions are and should remain the basic source of the Fund's financing. However, on a temporary basis, borrowing by the

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Fund can provide an important supplement to its resources. The confidence of present and potential creditors in the Fund will depend not only on the prudence and soundness of its financial policies but also on the effective performance of its various responsibilities, including, in particular, its success in promoting crisis prevention and adjustment. Against this background, the Executive Board approves the following guidelines on borrowing by the Fund.

1. Fund borrowing shall remain subject to a process of continuous monitoring by the Executive Board in the light of the above considerations. For this purpose, the Executive Board will regularly review the Fund's liquidity and financial position, taking into account all relevant factors of a quantitative and qualitative nature.

2. The Executive Board may establish at any time, in the context of circumstances prevailing at that time, limits expressed in terms of the total of Fund quotas above which the total of outstanding borrowing plus unused credit lines would not be permitted to rise.

3. Any limits that may be adopted pursuant to paragraph 2 above are not to be understood, at any time, as targets for borrowing by the Fund.

4. For each borrowing agreement entered into by the Fund, other than the General Arrangements to Borrow and the New Arrangements to Borrow, the maximum amount of claims that may be subject to immediate repayment by the Fund as a result of the balance of payments need of the creditor shall be SDR 15 billion.

5. In the context of the Financial Transactions Plan, the Executive Board shall determine the appropriate mix between borrowed resources (including any borrowing under the General Arrangements to Borrow and the New Arrangements to Borrow) and quota resources, in light of the Fund's liquidity needs and the expected availability of borrowed and quota resources, among other relevant considerations.

6. The Fund shall aim to maintain equitable burden sharing among lenders to the Fund by seeking, over time, broadly balanced cumula-

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tive drawings relative to amounts committed across borrowing sources.

7. The Fund shall review these guidelines no later than 90 days after the date of effectiveness of the expanded New Arrangements to Borrow. (SM/09/150, Sup. 2, 6/29/09) (SM/09/150, Sup. 2, 06/29/09)

Decision No. 9862-(91/156), November 15, 1991,
as amended by Decision No. 14367-(09/65),
June 29, 2009

A FRAMEWORK FOR THE FUND'S ISSUANCE OF NOTES TO THE OFFICIAL SECTOR

1.The Fund endorses the form Note Purchase Agreement (NPA), the General Terms and Conditions for International Monetary Fund Series A and Series B Notes, and the form of registered Series A and B notes that are set out in the Attachment to EBS/09/96, Supplement 2.

2. The Fund is prepared to consider the approval of NPAs with members or central banks of members whose balance of payments and reserve position is sufficiently strong in the opinion of the Fund that their currency is being used in transfers under the Financial Transactions Plan. It is expected that such approval will be sought on a lapse-of-time basis.

3. The conclusion of NPAs shall be subject to the Fund's guidelines on borrowing, as amended from time to time. (EBS/09/96, Sup. 2, 7/6/09)

Decision No. 14379-(09/67),
July 1, 2009

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Article VIII, Section 2(*b*)

Unenforceability of Exchange Contracts

UNENFORCEABILITY OF EXCHANGE CONTRACTS—FUND'S INTERPRETATION OF ARTICLE VIII, SECTION 2(*b*)

The following letter shall be sent to all members:

The Board of Executive Directors of the International Monetary Fund has interpreted, under Article XVIII[1] of the Articles of Agreement, the first sentence of Article VIII, Section 2(*b*), which provision reads as follows:

> Exchange contracts which involve the currency of any member and which are contrary to the exchange control regulations of that member maintained or imposed consistently with this Agreement shall be unenforceable in the territories of any member.

The meaning and effect of this provision are as follows:

1. Parties entering into exchange contracts involving the currency of any member of the Fund and contrary to exchange control regulations of that member which are maintained or imposed consistently with the Fund Agreement will not receive the assistance of the judicial or administrative authorities of other members in obtaining the performance of such contracts. That is to say, the obligations of such contracts will not be implemented by the judicial or administrative authorities of member countries, for example by decreeing performance of the contracts or by awarding damages for their nonperformance.

2. By accepting the Fund Agreement members have undertaken to make the principle mentioned above effectively part of their national law. This applied to all members, whether or not they have

[1] Ed. Note: Corresponds to Article XXIX of the Articles of Agreement after the Second Amendment.

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availed themselves of the transitional arrangements of Article XIV, Section 2.

An obvious result of the foregoing undertaking is that if a party to an exchange contract of the kind referred to in Article VIII, Section 2(*b*) seeks to enforce such a contract, the tribunal of the member country before which the proceedings are brought will not, on the ground that they are contrary to the public policy (ordre public) of the forum, refuse recognition of the exchange control regulations of the other member which are maintained or imposed consistently with the Fund Agreement. It also follows that such contracts will be treated as unenforceable notwithstanding that under the private international law of the forum, the law under which the foreign exchange control regulations are maintained or imposed is not the law which governs the exchange contract or its performance.

The Fund will be pleased to lend its assistance in connection with any problem which may arise in relation to the foregoing interpretation or any other aspect of Article VIII, Section 2(*b*). In addition, the Fund is prepared to advise whether particular exchange control regulations are maintained or imposed consistently with the Fund Agreement.

Decision No. 446-4,
June 10, 1949

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Article VIII and Article XIV

Payments Restrictions

PAYMENTS RESTRICTIONS FOR SECURITY REASONS: FUND JURISDICTION

Article VIII, Section 2(*a*), in conformity with its language, applies to all restrictions on current payments and transfers, irrespective of their motivation and the circumstances in which they are imposed. Sometimes members impose such restrictions solely for the preservation of national or international security. The Fund does not, however, provide a suitable forum for discussion of the political and military considerations leading to actions of this kind. In view of the fact that it is not possible to draw a precise line between cases involving only considerations of this nature and cases involving, in whole or in part, economic motivations and effects for which the Fund does provide the appropriate forum for discussion, and the further fact that the Fund must exercise the jurisdiction conferred by the Fund Agreement in order to perform its duties and protect the legitimate interests of its members, the following policy decision is taken:

1. A member intending to impose restrictions on payments and transfers for current international transactions that are not authorized by Article VII, Section 3(*b*) or Article XIV, Section 2 of the Fund Agreement and that, in the judgment of the member, are solely related to the preservation of national or international security, should, whenever possible, notify the Fund before imposing such restrictions. Any member may obtain a decision of the Fund prior to the imposition of such restrictions by so indicating in its notice, and the Fund will act promptly on its request. If any member intending to impose such restrictions finds that circumstances preclude advance notice to the Fund, it should notify the Fund as promptly as circumstances permit, but ordinarily not later than 30 days after imposing such restrictions. Each notice received in accordance with this decision will be circulated immediately to the Executive Directors. Unless the Fund informs the member within 30 days after receiving notice from the member that it is not satisfied that such restrictions are proposed sole-

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ly to preserve such security, the member may assume that the Fund has no objection to the imposition of the restrictions.

2. The Fund will review the operation of this decision periodically and reserves the right to modify or revoke, at any time, the decision or the effect of the decision on any restrictions that may have been imposed pursuant to it.

Decision No. 144-(52/51),
August 14, 1952

BILATERALISM AND CONVERTIBILITY

1. This decision records the Fund's views on the use of bilateral arrangements.

2. Fund policies and attitude on bilateral arrangements which involve the use of exchange restrictions and represent limitations on a multilateral system of payments are an integral part of its policy on restrictions. This policy aims at the elimination of foreign exchange restrictions and the earliest possible establishment of a multilateral system of payments in respect of current transactions between members. The Fund's policies and procedures on such restrictions rest on Articles I, VIII and XIV of the Fund Agreement.

3. Certain members have already taken steps to reduce their dependence on bilateral arrangements, but many members still use them. The Fund welcomes the reduced reliance on these arrangements and believes that the improvement in the international payments situation makes it less necessary for members to rely on such arrangements. The Fund urges the full collaboration of all its members to reduce and to eliminate as rapidly as practicable reliance on bilateralism. In this respect the Fund recommends close cooperation of those who plan to make their currencies convertible in the near future. Unless this policy is energetically pursued by all countries, both convertible and inconvertible, there is serious risk that widespread restrictions, particularly of a discriminatory character, will persist. Moreover, the persistence of bilateralism may impede the attainment and maintenance of convertibility. This whole problem is one not on-

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ly for countries which maintain bilateral arrangements but also for other countries whose domestic and foreign economic policies may adversely affect the balance of payments of other members.

4. The Fund will have discussions with its members on their need to retain existing bilateral arrangements or their ability to facilitate the reduction of bilateral arrangements by other countries. During the coming year, the Fund will explore with all countries which are parties to bilateral arrangements which involve the use of exchange restrictions the need for the continuation of these arrangements, the possibilities of their early removal, and ways and means, including the use of the Fund's resources, by which the Fund can assist in this process. In its examination of the justification for reliance on such bilateral arrangements the Fund will, without excluding other considerations, have particular regard to the payments position and prospects of the members concerned.

Decision No. 433-(55/42),
June 22, 1955

OFFICIAL CLEARING AND PAYMENTS ARRANGEMENTS—
TEMPORARY EXEMPTION FROM THREE-MONTH RULE

Pending completion of the forthcoming review of the jurisdictional aspects of official clearing and payments arrangements, the Fund shall not object to the maintenance in existing official clearing or payments arrangements of settlement provisions that do not require the settlement of balances at least as frequently as every three months if such provisions were in force before July 1, 1994.

Decision No. 10749-(94/67),
July 20, 1994

RETENTION QUOTAS: DECISION AND LETTER OF TRANSMITTAL

In concluding consultations on restrictions on current payments and transfers as required under Article XIV of the Fund Agreement, the Fund postponed consideration of retention quotas and similar practices through which some members have sought to improve their earnings of specific currencies. The Fund has now examined these practices more fully than was possible at the consulta-

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tions referred to above. The Fund has extended this examination to cover the terms of reference of the resolution adopted on September 9, 1952, by the Board of Governors and has come to the following conclusions:

1. Members should work toward and achieve as soon as feasible the removal of these retention quotas and similar practices, particularly where they lead to abnormal shifts in trade which cause unnecessary damage to other countries. Members should endeavor to replace these practices by more appropriate measures leading to currency convertibility.

2. The Fund will enter into consultation with each of the members concerned with a view to agreeing on a program for the implementation of 1 above, including appropriate attention to timing of any action which may be decided upon.

3. The Fund does not object to those practices which, by their nature, can be regarded as devices designed solely to simplify the administration of official exchange allocations.

The Managing Director is asked to send the following letter to all members in transmitting the foregoing decision on retention quotas and similar practices:

> The Fund has made a detailed study concerning retention quotas and other similar practices pursuant to the resolution passed at the Seventh Session of the Board of Governors in Mexico in September 1952. I am pleased to transmit herewith a decision of the Executive Board of the Fund based on this study.
>
> The Fund has concluded that these practices stem from widespread difficulties presently existing in the international payments position of many countries. The Fund's consideration of this subject has shown that what is referred to as "retention quotas and similar practices" covers a wide range of exchange measures. Certain practices under this heading may be unobjectionable from the point of view of Fund policies. Other practices in this category, however, appear to result in adverse effects on exchange stability and to cause unnecessary damage to member countries. They also may lead to the adoption of retaliatory measures. The interest of

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the Fund in these matters clearly follows from the terms of Article VIII containing the general obligations of members with respect to the avoidance of exchange restrictions, discriminatory currency arrangements, and multiple currency practices, and Article XIV dealing with these exchange measures during the transitional period.

In dealing with retention quotas and similar practices, the Board has not intended to change existing Fund standards and procedures with respect to exchange restrictions, discriminatory currency arrangements, and multiple currency practices. Specifically, there was no intention to affect the existing requirements of prior consultation and approval with respect to measures of this character. Those requirements, so far as they concern multiple currency practices, were communicated to members in the Fund's letter of December 19, 1947 (Appendix II of the Fund's *Annual Report* of 1948). Accordingly, it is expected that members intended to maintain, introduce, or enlarge those retention quotas and similar practices which constitute exchange restrictions, multiple currency practices, or discriminatory currency arrangements will act in accordance with existing Fund requirements.

The decision recognizes that it is not practicable to deal with all of these practices on a general basis. The Fund, therefore, wishes to deal with these arrangements on a case-to-case basis. We shall communicate as quickly as practicable with members using these practices. We are confident that members will cooperate in these individual discussions in order to enable the Fund to reach appropriate conclusions.

Decision No. 201-(53/29),
May 4, 1953

DISCRIMINATION FOR BALANCE OF PAYMENTS REASONS

The following decision deals exclusively with discriminatory restrictions imposed for balance of payments reasons.

In some countries, considerable progress has already been made towards the elimination of discriminatory restrictions; in others, much remains to be done. Recent international financial developments have established an environment favorable to the elimination of

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discrimination for balance of payments reasons. There has been a substantial improvement in the reserve positions of the industrial countries in particular and widespread moves to external convertibility have taken place.

Under these circumstances, the Fund considers that there is no longer any balance of payments justification for discrimination by members whose current receipts are largely in externally convertible currencies. However, the Fund recognizes that where such discriminatory restrictions have been long maintained, a reasonable amount of time may be needed fully to eliminate them. But this time should be short and members will be expected to proceed with all feasible speed in eliminating discrimination against member countries, including that arising from bilateralism.

Notwithstanding the extensive moves toward convertibility, a substantial portion of the current receipts of some countries is still subject to limitations on convertibility, particularly in payments relations with state-trading countries. In the case of these countries the Fund will be prepared to consider whether balance of payments considerations would justify the maintenance of some degree of discrimination, although not as between countries having externally convertible currencies. In this connection the Fund wishes to reaffirm its basic policy on bilateralism as stated in its decision of June 22, 1955.

Decision No. 955-(59/45),
October 23, 1959

ARTICLES VIII AND XIV

There has been in recent years a substantial improvement in the balance of payments and the reserve positions of a number of Fund members which has led to important and widespread moves to the external convertibility of many currencies. Most international transactions are now carried on with convertible currencies, and many countries have progressed far with the removal of restrictions on payments. In consequence of these developments, it seems likely that a number of members of the Fund either have reached or are nearing a position in which they can consider the feasibility of formally accepting the obligations of Article VIII, Sections 2, 3, and 4. Previous decisions taken by the Fund, such as those on multiple currency practic-

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es, bilateral arrangements, discriminatory restrictions maintained for balance of payments purposes, and payments restrictions for security reasons, indicate the Fund's attitude on these matters. The present decision has been adopted as an additional guide to members in pursuance of the purposes of the Fund as set forth in Article I of the Articles of Agreement.

1. Article VIII provides in Sections 2 and 3 that members shall not impose or engage in certain measures, namely restrictions on the making of payments and transfers for current international transactions, discriminatory currency arrangements, or multiple currency practices, without the approval of the Fund. The guiding principle in ascertaining whether a measure is a restriction on payments and transfers for current transactions under Article VIII, Section 2, is whether it involves a direct governmental limitation on the availability or use of exchange as such. Members in doubt as to whether any of their measures do or do not fall under Article VIII may wish to consult the Fund thereon.

2. In accordance with Article XIV, Section 3,[1] members may at any time notify the Fund that they accept the obligations of Article VIII, Sections 2, 3, and 4, and no longer avail themselves of the transitional provisions of Article XIV. Before members give notice that they are accepting the obligations of Article VIII, Sections 2, 3, and 4, it would be desirable that, as far as possible, they eliminate measures which would require the approval of the Fund, and that they satisfy themselves that they are not likely to need recourse to such measures in the foreseeable future. If members, for balance of payments reasons, propose to maintain or introduce measures which require approval under Article VIII, the Fund will grant approval only where it is satisfied that the measures are necessary and that their use will be temporary while the member is seeking to eliminate the need for them. As regards measures requiring approval under Article VIII and maintained or introduced for nonbalance of payments reasons, the Fund believes that the use of exchange systems for nonbalance of payments reasons should be avoided to the greatest possible extent,

[1] Ed. Note: Corresponds to Article XIV, Section 1 of the Articles of Agreement after the Second Amendment.

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and is prepared to consider with members the ways and means of achieving the elimination of such measures as soon as possible. Members having measures needing approval under Article VIII should find it useful to consult with the Fund before accepting the obligations of Article VIII, Sections 2, 3, and 4.

3. If members at any time maintain measures which are subject to Sections 2 and 3 of Article VIII, they shall consult with the Fund with respect to the further maintenance of such measures. Consultations with the Fund under Article VIII are not otherwise required or mandatory. However, the Fund is able to provide technical facilities and advice, and to this end, or as a means of exchanging views on monetary and financial developments, there is great merit in periodic discussions between the Fund and its members even though no questions arise involving action under Article VIII. Such discussions would be planned between the Fund and the member, including agreement on place and timing, and would ordinarily take place at intervals of about one year.

4. Fund members which are contracting parties to the GATT and which impose import restrictions for balance of payments reasons will facilitate the work of the Fund by continuing to send information concerning such restrictions to the Fund. This will enable the Fund and the member to join in an examination of the balance of payments situation in order to assist the Fund in its collaboration with the GATT. The Fund, by agreement with members which are not contracting parties to the GATT and which impose import restrictions for balance of payments reasons, will seek to obtain information relating to such restrictions.

Decision No. 1034-(60/27),
June 1, 1960

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Summing Up by the Chairman—Biennial Review of the Fund's Surveillance Policy
Executive Board Meeting 93/15, January 29, 1993

…

Most Executive Directors emphasized the importance of a greater commitment of members to current account convertibility as evidenced by the acceptance of Article VIII obligations. They agreed that many members have availed themselves of Article XIV for too long and should take appropriate steps to remove remaining restrictions. Therefore, the staff will intensify its efforts to encourage countries to accept the obligations of Article VIII, especially in those long-standing cases where there are no restrictions subject to Articles VIII or XIV.

PAYMENTS ARREARS IN CURRENT INTERNATIONAL TRANSACTIONS

The Executive Board has reviewed the Fund's policy with respect to payments arrears. The Fund shall be guided by the approach in the conclusions set forth in SM/70/139, 7/6/70).

Decision No. 3153-(70/95),
October 26, 1970

SM/70/139

Conclusions

1. Undue delays in the availability or use of exchange for current international transactions that result from a governmental limitation give rise to payments arrears and are payments restrictions under Article VIII, Section 2(*a*), and Article XIV, Section 2. The limitation may be formalized, as for instance compulsory waiting periods for exchange, or informal or ad hoc.

2. The need for the Fund to define its policy on payments arrears is emphasized by the fact that restrictions resulting in payments arrears arising from informal or ad hoc measures do particular harm to a country's international financial relationships because of the uncertainty they generate. This uncertainty is particularly harmful to the

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smooth functioning of the international payments system and has pronounced adverse effects on the creditworthiness of the debtor country which may extend beyond the period of the existence of the restrictions.

3. In the light of these considerations it is believed that the Fund should aim in consultation reports at a more systematic treatment of restrictions on payments and transfers for current international transactions that produce payments arrears. In all cases where payments arrears arise from a governmental limitation on, or interference with, the availability of foreign exchange at the time a payment for a current international transaction falls due, or with the timely transfer of the proceeds of such transactions, the payments arrears should be treated in the consultation papers as evidence of a payments restriction requiring approval in Article VIII or Article XIV consultation decisions. The staff, in the consultation discussions, will have to establish whether payments arrears exist by ascertaining whether there has been a substantial delay beyond that usually required for ascertaining the bona fides of exchange applications or the time that can be regarded as normally required for the administrative processing of applications for exchange. If payments arrears exist and approval of the restriction giving rise to them is requested by the member, the member should be expected to submit a satisfactory program for their elimination. Approval if given should be only for a temporary period and generally with a fixed terminal date. Because of the difficulty in surveillance, approval should be wherever feasible in terms of the level of arrears outstanding. The program for the elimination of the payments arrears should provide for a maximum permissible delay to which a payment or transfer could be subjected, together with a phased reduction in the outstanding level.

...

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Payments Policies

CONSULTATIONS ON MEMBERS' POLICIES IN PRESENT CIRCUMSTANCES

1. The Committee on Reform of the International Monetary System and Related Issues on January 18, 1974 reviewed important recent developments and agreed that, in the present difficult circumstances, all members, in managing their international payments, must avoid the adoption of policies which would merely aggravate the problems of other members. Accordingly, the Committee stressed the importance of avoiding competitive depreciation and the escalation of restrictions on trade and payments; and emphasized the importance of pursuing policies that would sustain appropriate levels of economic activity and employment, while minimizing inflation. It was also recognized that recent developments would create serious payments difficulties for many developing countries. The Committee agreed that there should be the closest international cooperation and consultation in pursuit of these objectives.

2. The Executive Directors call on all members to collaborate with the Fund in accordance with Article IV, Section 4(*a*),[1] with a view to attaining these objectives. The consultations of the Fund on the policies that members are following in present circumstances will be conducted with a view to the attainment of these objectives.

Decision No. 4134-(74/4),
January 23, 1974

[1] Ed. Note: Refers to the Articles of Agreement in effect before the Second Amendment.

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Multiple Currency Practices

STATEMENT TO MEMBERS TRANSMITTING FUND'S DECISIONS ON MULTIPLE CURRENCY PRACTICES

The letter to members concerning multiple currency practices and the accompanying statement of the Fund's decisions with respect to such practices are agreed as revised (Executive Board Document No. 235, Revision 2) and shall be sent without delay to all members. The texts of earlier decisions on the same subject are modified as necessary to correspond with the agreed statement.

Decision No. 237-2,
December 18, 1947

Letter to Members

December 19, 1947

To All Members:

During the past several months the Fund has been giving special consideration to multiple currency practices. I am writing to all of the members today in order to acquaint them with the results of our considerations. Enclosed is a memorandum containing the pertinent decisions taken by the Executive Board. These set forth the general lines of the Fund's policies toward multiple currency practices which the Fund has adopted to date, together with the obligations of the members and the jurisdiction of the Fund upon which the development of Fund policy will necessarily be based.

We intend, as rapidly as may be possible under the circumstances, to discuss with each member now engaging in a multiple currency practice how this general policy will be applied to its individual problems. In the meantime, all of the members are requested to be guided by the enclosed memorandum and to initiate with the Fund discussions of any pressing problems which may arise.

Sincerely yours,

GUTT
Managing Director

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Multiple Currency Practices

This memorandum contains the decisions the Fund has so far taken concerning its policies toward multiple currency practices, and clarification of its jurisdiction with respect to such practices.

The exchange systems of the members who engage in multiple currency practices are frequently complex. For this reason various difficulties will be involved in the modification and removal of the practices, and the policy of the Fund in this regard must develop progressively as its consultations with the members concerned reveal problems which might otherwise be overlooked. The policies set forth below have been agreed as a basis for the initiation of discussions with the members affected:

I. *Policies*

A. *General*

1. *Consultation.* There should be continuing consultation on multiple currency practices between the Fund and the members concerned. Members should, as a minimum, consult the Fund before introducing a multiple currency practice, before making a change in any of the multiple rates of exchange, before reclassifying transactions subject to different rates, and before making any other type of significant change in their exchange systems.

2. *Stability and Restrictions.* In most cases multiple currency practices are both systems of exchange rates and restrictions on payments and transfers for current international transactions. Whenever it is inconvenient to deal with both aspects of such multiple currency practice simultaneously, priority should be given to those features which affect exchange stability and orderly exchange arrangements among members.

3. *Removal.* Early steps should be taken toward the removal of multiple currency practices which are clearly not necessary for balance of payments reasons. In such cases, ample time should be provided for members to take the necessary steps and to install appropriate substitutes where necessary.

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The Fund will encourage members engaging in multiple currency practices for balance of payments reasons to establish as soon as possible conditions which would permit their removal, with the general objective of seeking removal not later than the end of the transitional period.

Where complete removal by the end of the transitional period proves impossible, the Fund will assist the members concerned to eliminate the most dangerous aspects of their multiple currency practices and to exercise reasonable control over those retained.

B. *Specific Practices*

1. *Fixed Exchange Rates.* When a multiple currency system includes fixed exchange rates, members should consult with the Fund on any changes in their practices, whether such changes concern the rates of exchange or the classification of transactions subject to particular practices. Should the step contemplated by a member be a part of a program made in agreement with the Fund, the member could, of course, act without prior consultation.

When a multiple rate system is used for restrictions on current and capital transactions, the elimination of the restriction on current transactions would be highly commendable even though restrictions on capital transactions might have to be retained.

2. *Taxes on Exchange Drafts.* The use by members of taxes on exchange drafts resulting in an unusually large difference between buying and selling rates for a currency is not in accord with the objectives of the Fund Agreement and the Fund shall, in consultation with members concerned, seek the elimination of such practices as rapidly as practicable

3. *Fluctuating Rates of Exchange*

(a) *Free Markets.* When a multiple currency practice includes a free market with a fluctuating rate, the member should agree with the Fund on the scope of the transactions permitted to take place in that market. Any changes in the scope of these transactions should, of course, be subject to agreement with the Fund. The objective should be to

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eliminate the fluctuations in the free market as soon as such action is reasonably practicable. When it is not reasonably practicable to eliminate such fluctuations, the Fund will encourage members to exclude current transactions from the free market to the extent that this would be reasonable in the circumstances of each case.

(b) *The Auction System*

(i) The purpose for which an auction system is to be used should be agreed with the Fund and any change in its scope should be agreed with the Fund. The fewer the transactions subject to the auction rate, and the less essential the goods involved, the better.

(ii) Depending upon the circumstances, the monetary authorities should undertake to keep the auction rate stable, or to maintain it within certain limits, or to make every effort to prevent brisk fluctuations.

(iii) Wherever auction rates exist or are proposed, circumstances should be examined in order to determine whether a fixed rate should be substituted for the auction rate.

(iv) If, as is usually the case where an auction system exists, a reduction of the money supply is desirable, the proceeds of the auction market should be directed toward this end.

II. *Jurisdiction of the Fund*

Multiple currency practices, besides being in most cases restrictive practices, also constitute systems of exchange rates. Since exchange stability depends on effective rates, the general purposes of the Fund and the members' undertakings of Article IV, Section 4(*a*)[1]

[1] Ed. Note: Refers to the Articles of Agreement in effect before the Second Amendment.

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"to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations" are fundamental considerations in an interpretation of the rights and obligations of members under Article XIV, Section 2 or Article VIII, Section 3, to maintain, introduce, or adapt multiple currency practices. Subject to these general principles, the following conclusions are agreed with respect to the Fund's jurisdiction and the obligations of members.

A. *Practices Subject to Article VIII, Section 3*

1. *Maintenance.* A member maintaining multiple currency practices at the time the Agreement entered into force, if it does not take advantage of Article XIV, is required by Article VIII, Section 3, to consult with the Fund for their progressive removal or obtain the Fund's approval for their maintenance.

2. *Introduction.* Members that have not been occupied by the enemy, and former enemy-occupied members which have not taken advantage of the transitional arrangements, whether or not they have existing multiple rate practices, may introduce a new practice only under Article VIII, Section 3, which provides expressly for the necessity of approval by the Fund.

3. *Adaptation.* If a multiple currency practice is in force by virtue of Article VIII, Section 3, the member may change or adapt such practice only after consulting with the Fund and obtaining its approval.

4. *Reclassification.* Members maintaining multiple currency practices under Article VIII, Section 3, may reclassify commodities subject to the practices only after consultation with the Fund and Fund approval.

B. *Practices Subject to Article XIV, Section 2*

1. *Restrictive Nature.* Multiple currency practices, when applied to current international transactions, constitute a type of restriction on payments and transfers for current international transactions for the purposes of Article XIV, Section 2.

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2. *Representations by the Fund.* The following language in Article XIV, Section 4[1] of the Fund Agreement:

> The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other article of this Agreement.
>
> (a) applies at any time after the entry into force of the Fund Agreement and
>
> (b) gives to the Fund the power to determine what is meant by "in exceptional circumstances."

3. *Maintenance.* Members may maintain multiple currency practices during the transitional period under the provisions of Article XIV, Section 2, but only if the maintenance of such practices is necessary for settling members' balance of payments in a manner which does not unduly encumber their access to the resources of the Fund. Members are under a duty to withdraw such practices as soon as they are able without them to settle their balance of payments in a manner which will not unduly encumber their access to the resources of the Fund. Moreover, under Section 4 of Article XIV, the Fund has certain powers to make representations in exceptional circumstances, of which it is the judge, that conditions are favorable for the withdrawal of any particular restriction. The Fund may exercise this power even if a particular restriction is justified for balance of payments reasons, if the conditions are favorable for the substitution of some practice which is not inconsistent with the purposes of the Agreement.

4. *Introduction.* Only former enemy-occupied members, which are availing themselves of the transitional provisions, and then whether or not they have existing multiple currency practices, may introduce a new multiple currency practice under Article XIV, Section 2, provided the Fund agrees with the member that the practice is

[1] Ed. Note: Corresponds to Article XIV, Section 3 of the Articles of Agreement after the Second Amendment.

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necessary and does not find that it is inconsistent with the purposes of the Fund Agreement or with Article IV, Section 4(*a*).[1]

5. *Adaptation.* A member maintaining multiple currency practices under Article XIV may adapt the existing restrictions, provided such action is consistent with the obligations of Article IV, Section 4(*a*) and the Fund is satisfied that the adaptation is dictated by "changing circumstances." A duty to consult with and obtain the approval of the Fund before changing the practice is implicit in both Article IV, Section 4(*a*)[2] and in Article XIV, Section 2. The Fund has the power under Article XIV, Section 4,[3] to represent in exceptional circumstances that circumstances are favorable to withdrawal of a proposal to change an existing multiple currency practice.

6. *Reclassification.* A member maintaining multiple currency practices under Article XIV may reclassify commodities subject to such practices, under the power to adapt restrictions in Section 2 of Article XIV, and under the same conditions, provided, however, that under the existing restrictions the effective rates are other than parity.

C. *Exchange Taxes*

When a tax affects an obligation undertaken by the members of the Fund, the relationship between the tax and the obligation is of direct concern to the Fund and subject to its jurisdiction. Whenever exchange taxes are used to modify par values, create multiple currency practices, or introduce restrictive exchange controls, they are subject to the Fund's jurisdiction. The Fund has authority to deal with these exchange matters irrespective of the official device or procedure involved.

[1] Ed. Note: Refers to the Articles of Agreement in effect before the Second Amendment.

[2] Ed. Note: Refers to the Articles of Agreement in effect before the Second Amendment.

[3] Ed. Note: Corresponds to Article XIV, Section 3 of the Articles of Agreement after the Second Amendment.

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D. *Rates Differing from Parity by More Than One Percent*

An effective buying or selling rate which, as the result of official action, e.g., the imposition of an exchange tax, differs from parity by more than 1 percent, constitutes a multiple currency practice.

MULTIPLE CURRENCY PRACTICES

I. The Executive Board has considered the staff paper on the "Review of Fund Policies on Multiple Currency Practices" (SM/57/2, Rev. 1, 5/3/57)[1] and is in agreement with the general approach of the paper.

II. Unification of the exchange rates in multiple rate systems is a basic objective of the Fund, and it is satisfying to record that several of the members which had followed such practices have been successful in achieving this objective, and that others have made considerable progress in this direction.

III. In reviewing the experience of the past ten years as summarized in the staff report, the Fund draws special attention to the fact that complex multiple rate systems damage the economies of countries maintaining them and harm other countries. These complex systems are difficult to administer, and involve frequent changes, discrimination, export subsidization, a considerable spread between rates, and undue differentiation between classes of imports.

IV. The Executive Board concludes that it is necessary and feasible to make more rapid progress in simplifying complex multiple rate systems, to remove those aspects of existing systems which adversely affect the interests of other members, and to avoid existing systems becoming more complex. Accordingly the following decision is taken:

1. Early and substantial steps should be taken to simplify complex multiple rate systems. The Fund will not approve such systems unless the countries maintaining them are making reasonable progress toward simplification and ultimate elimination of such systems, or are

[1] Ed. Note: Not included in this volume.

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taking measures or adopting programs which seem likely to result in such progress.

2. As opportunity arises the Fund will continue to press for simplification in all cases where there is clear evidence that the multiple currency system in question is damaging to other members. It will in addition be reluctant to approve changes in multiple rate systems which make them more complex.

3. To assist members to simplify and eliminate complex rate systems the Fund wishes to intensify its collaboration with them. The Fund stands ready to meet members' requests for technical assistance in the preparation of economic programs and measures directed toward exchange simplification. These may in some cases include arrangements in other directions, especially in the fiscal and trade fields. If the Fund considers the proposed exchange simplification and related economic programs or measures to be adequate and appropriate, it will give sympathetic consideration, if requested, to the use of its resources.

Decision No. 649-(57/33),
June 26, 1957

MULTIPLE CURRENCY PRACTICES—POLICY

The Executive Board approves the decision set forth in SM/81/34, Supplement, 1 (3/17/81).

Decision No. 6790-(81/43),
March 20, 1981,
as amended by Decision No. 11728-(98/56),
May 21, 1998

SM/81/34, Sup. 1

The Executive Board has reviewed the Fund's policy with respect to multiple currency practices. The Fund shall be guided by the approach outlined in the conclusions set forth below.

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1. Official action should not cause exchange rate spreads and cross rate quotations to differ unreasonably from those that arise from the normal commercial costs and risks of exchange transactions.

a. (i) Action by a member or its fiscal agencies that of itself gives rise to a spread of more than 2 percent between buying and selling rates for spot exchange transactions between the member's currency and any other member's currency would be considered a multiple currency practice and would require the prior approval of the Fund.

(ii) An exchange spread that arises without official action would not give rise to a multiple currency practice.

(iii) Deviations between the buying and selling rates for spot transactions and for other transactions would not be considered multiple currency practices if they represent the additional costs and exchange risks for these other transactions.

b. Action by a member or its fiscal agencies which results in midpoint spot exchange rates of other members' currencies against its own currency in a relationship which differs by more than 1 percent from the midpoint spot exchange rates for these currencies in their principal markets would give rise to a multiple currency practice. If the differentials of more than 1 percent in these cross rates persist for more than one week, the resulting multiple currency practice would become subject to the approval of the Fund under Article VIII, Section 3.

When difficulties are encountered in the interpretation and application of these criteria in specific cases, particularly concerning the nature of official actions, the staff will present the relevant information to the Executive Board for its determination.

2. The policy of the Fund on the exercise of its approval jurisdiction over exchange measures subject to Article VIII, as set forth in paragraph 2 of Executive Board Decision No. 1034-(60/27), adopted June 1, 1960, remains broadly appropriate. In accordance with this policy, the Fund will be prepared to grant approval of multiple currency practices introduced or maintained for balance of payments reasons provided the member represents and the Fund is satisfied that the measures are temporary and are being applied while the member is

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endeavoring to eliminate its balance of payments problems, and provided they do not give the member an unfair competitive advantage over other members or discriminate among members. The Fund will continue to be very reluctant to grant approval for the maintenance of broken cross exchange rates.

3. In accordance with the Fund's policy on complex multiple currency practices, as stated in Executive Board Decision No. 649-(57/33), adopted June 26, 1957, the Fund will not approve multiple currency practices under complex multiple rate systems unless the countries maintaining them are making reasonable progress toward simplification and ultimate elimination of such systems, or are taking measures or adopting programs which seem likely to result in such progress.

4. While urging members to apply alternative policies not connected with the exchange system, the Fund will be prepared to grant temporary approval of multiple currency practices introduced or maintained principally for nonbalance of payments reasons, provided that such practices do not materially impede the member's balance of payments adjustment, do not harm the interests of other members, and do not discriminate among members.

5. To assist the Executive Board in reaching a decision concerning approval or nonapproval of a multiple currency practice subject to approval under Article VIII, Section 3, the reasons underlying the practice and its effects will be analyzed in reports on Article IV consultations or in other staff papers dealing with exchange systems. Consistent with the cycle of consultations under Article IV, approval will be granted for periods of approximately one year, in order to provide for a continual review by the Executive Board, except where the practice is maintained only for existing arrangements and for a specified period of time.

MULTIPLE CURRENCY PRACTICES APPLICABLE SOLELY TO CAPITAL TRANSACTIONS

The phrase "multiple currency practices" in decisions of the Fund relating to the use of the Fund's resources does not, except as

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otherwise provided, include multiple currency practices applying solely to capital transactions.

Decision No. 8648-(87/104),
July 17, 1987

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Article VIII, Section 5

Furnishing of Information

STRENGTHENING THE EFFECTIVENESS OF ARTICLE VIII, SECTION 5

1. Pursuant to Article VIII, Section 5, the Fund decides that all members shall provide the information listed in Annex A to this decision, which is necessary for the Fund to discharge its duties effectively. Members shall provide the data specified in Annex A for the periods commencing after December 31, 2004, except as provided in paragraph 1(a). Reviews of Annex A shall be conducted together with reviews of data provision to the Fund for surveillance purposes, and the next review of Annex A and data provision to the Fund for surveillance purposes shall take place no later than April 30, 2013.[1]

(a) Members shall provide the data specified in paragraph (viii) of Annex A for the periods commencing after December 31, 2008.

2. When a member fails to provide information to the Fund as specified in Article VIII, Section 5 or in a decision of the Fund adopted pursuant to that Article including information listed in Annex A (hereinafter information required under Article VIII, Section 5), the procedural framework set forth in paragraphs 5 through 17 below shall apply. Failure to provide information includes both the nonprovision of information and the provision of inaccurate information.

3. A member has an obligation to provide information required under Article VIII, Section 5 to the best of its ability. Therefore, there is no breach of obligation if the member is unable to provide informa-

[1] Ed. Note: Pursuant to Decision No. 13814-(06/98), November 15, 2006, future reviews will be conducted on an "as needed" basis. The expectation going forward is that "as needed" would generally mean a lag of at least five years between any such reviews.

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tion required under Article VIII, Section 5 or to provide more accurate information than the information it has provided. However, a member that is unable to provide final data is obligated to provide provisional data to the best of its ability until it is in a position to provide the Fund with final data. When assessing a member's ability to provide information, the Fund will give the member the benefit of any doubt.

4. In the context of performance criteria associated with the use of the Fund's general resources, a member may be found in breach of its obligation under Article VIII, Section 5 only if (i) it has reported that a performance criterion was met when in fact it was not, or that a performance criterion was not observed by a particular margin and it is subsequently discovered that the margin of non-observance was greater than originally reported, and (ii) a purchase was made on the basis of the information provided by the member, or the information was reported to the Executive Board in the context of a review which was subsequently completed or of a decision of the Executive Board to grant a waiver for non-observance of the relevant performance criterion.

Procedures Prior to Report by the Managing Director to the Executive Board

5. Whenever it appears to the Managing Director that a member is not providing information required under Article VIII, Section 5, the Managing Director shall call upon the member to provide the required information; before making a formal representation to the member, the Managing Director shall inform, and enlist the cooperation of, the Executive Director for the member. If the member persists in not providing such information and has not demonstrated to the satisfaction of the Managing Director that it is unable to provide such information, the Managing Director shall notify the member of his intention to make a report to the Executive Board under Rule K-l for breach of obligation unless, within a specified period of not less than a month, such information is provided or the member demonstrates to his satisfaction that it is unable to provide such information.

6. Whenever it appears to the Managing Director that a member has provided inaccurate data on information required under Article VIII,

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Section 5, the Managing Director shall consult with the member to assess whether the inaccuracy is due to a lack of capacity on the part of the member; provided however, that in de minimis cases, as defined in paragraph 1 of Decision No. 13849, the preliminary communications and consultations with the member may be conducted by the Area Department. If, after the consultation with the member, the Managing Director finds no reason to believe that the inaccuracy is due to a lack of capacity on the part of the member, he shall notify the member of his intention to make a report to the Executive Board for breach of obligation under Rule K-l unless the member demonstrates to his satisfaction within a period of not less than one month that it was unable to provide more accurate information.

7. If the Managing Director concludes that the nonprovision of information or the provision of inaccurate information is due to the member's inability to provide the required information in a timely and accurate fashion, he may so inform the Executive Board. In that case, the Executive Board may decide to apply the provisions of paragraph 10 below.

Report by the Managing Director

8. After the expiration of the period specified in the Managing Director's notification to the member, the Managing Director shall make a report to the Executive Board under Rule K-l for breach of obligation, unless the Managing Director is satisfied that the member's response meets the requirements specified in his notification. The report shall identify the nature of the breach and include the member's response (if any) to the Managing Director's notification, and may recommend the type of remedial actions to be taken by the member.

Consideration of the Report

9. Within 90 days of the issuance of the Managing Director's report, the Executive Board will consider the report with a view to deciding whether the member has breached its obligations. Before reaching a decision, the Executive Board may request from the staff and the authorities additional clarification of the facts respecting the

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alleged breach of obligation; the Executive Board will specify a deadline for the provision of such clarification.

10. If the Executive Board finds that the member's failure to provide information required under Article VIII, Section 5 is due to its inability to provide the information in a timely and accurate fashion, the Executive Board may call upon the member to strengthen its capacity to provide the required information and ask the Managing Director to report periodically on progress made by the member in that respect. The member may request technical assistance from the Fund.

11. (a) If the Executive Board finds that the member has breached its obligation, the Executive Board may call upon the member to prevent the recurrence of such a breach in the future and to take specific measures to that effect. Such measures may include the implementation of improvements in the member's statistical systems or any other measures deemed appropriate in view of the circumstances.

(b) In addition, if the Executive Board finds that the member is still not providing the required information, the Executive Board will call upon the member to provide such information.

(c) The Executive Board will specify a deadline for taking any remedial actions specified under (a) and (b); in principle, the deadline will not exceed 90 days for actions specified under (b). The decision may note the intention of the Managing Director to recommend the issuance of a declaration of censure if the specified actions are not implemented within the specified period. In order to assist the Executive Board in identifying the appropriate actions to address a breach of obligation under Article VIII, Section 5, the member may, before the Board meeting, provide the Executive Board with a statement specifying the remedial actions it intends to take and a proposed timeframe. The member may also request technical assistance from the Fund.

(d) At the expiration of the period specified by the Executive Board, the Managing Director shall report to the Executive Board on the status of the specified actions. If the member has not taken the specified actions within the specified period, and depending on the

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circumstances of such failure, the Managing Director may recommend and the Executive Board may decide: (1) to extend the period before further steps under the procedural framework are taken; (2) to call upon the member to take additional remedial actions within a specified timeframe; or (3) to issue a declaration of censure against the member.

Declaration of Censure

12. If a member fails to implement the actions specified by the Executive Board before the established deadline, the Managing Director may recommend and the Executive Board may decide to issue a declaration of censure. Before the adoption of a declaration of censure, the Executive Board may issue a statement to the member setting out its concerns and giving the member a specified period to respond.

13. The declaration of censure will identify the breach of obligation under Article VIII, Section 5 and the specified remedial actions the member has failed to take within the specified timeframe. The declaration may specify a new deadline for the implementation by the member of the specified remedial actions; in addition, the declaration may identify further remedial actions for the member to implement before the specified deadline. It will note that the member's failure to implement any of the actions called for in the declaration within the specified timeframe may result in the issuance of a complaint for ineligibility under Article XXVI (a) and the imposition of this measure. At the expiration of the period specified by the Executive Board, the Managing Director shall report to the Executive Board on the status of the specified actions.

Sanctions under Article XXVI

14. Following the adoption of a declaration of censure, if the Executive Board finds that the member has failed to implement any of the actions called for in the declaration within the specified timeframe, the Managing Director may issue a complaint to the Executive Board and recommend that the Executive Board declare the member ineligible to use the general resources of the Fund for its breach of obligation under Article VIII, Section 5. The Executive Board decision declaring the member ineligible to use the general resources of

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the Fund will note that the member's persistence in its failure to fulfill its obligations under Article VIII, Section 5 following the declaration of ineligibility may result in the issuance of a complaint for the suspension of the member's voting and related rights and in the imposition of this measure.

15. If the member persists in its failure to fulfill its obligations under Article VIII, Section 5 for six months after the declaration of ineligibility, the Managing Director may issue a complaint and recommend that the Fund suspend the member's voting and related rights. The Executive Board decision suspending the member's voting and related rights will note that the member's persistence in its failure to fulfill its obligations under Article VIII, Section 5 following the declaration of suspension of voting and related rights may result in the issuance of a complaint for compulsory withdrawal and in the initiation of the proceedings for the compulsory withdrawal of the member from the Fund.

16. If the member persists in its failure to fulfill its obligation under Article VIII, Section 5 for six months after the suspension of its voting rights, the Managing Director may initiate proceedings for the compulsory withdrawal of the member from the Fund.

17. All the Executive Board decisions arising from a breach of obligation taken under the procedures described above, including a decision to issue the statement of concern referred to in paragraph 12 above, will give rise to a public announcement with prior review of the text by the Executive Board.

18. (a) The following procedures shall apply to cases in which amember provides inaccurate information required under Article VIII, Section 5:

(i) for the purposes of a performance criterion under an arrangement in the General Resources Account, or

(ii) for another purpose in circumstances where the relevant information is reported to the Fund with respect to a performance criterion under an arrangement under a facility of the Poverty Reduction

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and Growth Trust, or an assessment criterion under a Policy Support Instrument, and understandings have been reached between Fund staff and the relevant member that such reporting shall be made not only for the purposes of the relevant arrangement or instrument but for such other purposes as well, and where the deviation from the relevant performance criterion or assessment criterion, as the case may be, is judged to be de minimis as defined in paragraph 1 of Decision No. 13849.

(b) Whenever the Managing Director considers a deviation described in paragraph 18 (a) to be de minimis in nature:

(i) the consultations and notifications contemplated in paragraph 6 may be made by a representative of the relevant Area Department, and

(ii) the report of the Managing Director contemplated in paragraph 8 shall, wherever possible, be included in a staff report on the relevant member that deals with issues other than the potential breach of Article VIII, Section 5 and, with respect to potential remedial actions for such breach of obligation, shall include a recommendation that no further action by taken by the Fund. In those rare cases in which such a document cannot be issued to the Board promptly after the Managing Director concludes that a breach of obligation under Article VIII, Section 5 has arisen, the Managing Director shall consult Executive Directors and, if deemed appropriate by the Managing Director, a stand-alone report under Rule K-1 will be prepared for consideration by the Executive Board normally on a lapse-of-time basis.

(c) Whenever the Executive Board, under paragraph 1l(a), finds that a breach of obligation under Article VIII, Section 5 has occurred but that the relevant deviation was de minimis in nature as defined in paragraph 1 of Decision No. 13849,

(i) the Executive Board shall decide that no further action be taken by the Fund with respect to the breach, and

(ii) under paragraph 17, the finding of breach of obligation shall not be published by the Fund.

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ANNEX A

The data referred to in paragraph 1 of this decision are the national data on the following matters:

(i) reserve, or base money;

(ii) broad money;

(iii) interest rates, both market-based and officially determined, including discount rates, money market rates, rates on treasury bills, notes and bonds;

(iv) revenue, expenditure, balance and composition of financing (i.e., foreign financing and domestic bank and nonbank financing) for the general and central governments respectively[1]; the stocks of central government and central government-guaranteed debt, including currency and maturity composition and, if the debt data are amenable to classification on the basis of the residency or nonresidency of the holder, the extent to which the debt is held by residents or nonresidents;

(v) balance sheet of the central bank;

(vi) external current account balance;

(vii) exports and imports of goods and services;

(viii) for the monetary authorities: international reserve assets (specifying separately any reserve assets that are pledged or otherwise encumbered), reserve liabilities, short-term liabilities linked to a foreign currency but settled by other means, and the notional values of financial derivatives to pay and to receive foreign currency (including those linked to a foreign currency but settled by other means);

(ix) gross domestic product, or gross national product;

(x) consumer price index;

[1] The general government consists of the central government (budgetary funds, extrabudgetary funds, and social security funds) and state and local governments.

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(xi) gross external debt[1]; and

(xii) consolidated balance sheet of the banking system.

Decision No. 13183-(04/10),
January 30, 2004,
as amended by Decision Nos.13814-(06/98), November 15, 2006,
13849-(06/108), December 20, 2006,
14107-(08/38), May 2, 2008, and
14354-(09/79), July 23, 2009,
effective January 7, 2010

The Acting Chair's Summing Up—
Review of Data Provision to the Fund for
Surveillance Purposes
Executive Board Meeting 08/38, May 2, 2008

Executive Directors welcomed the opportunity to review progress in members' provision of data to the Fund for surveillance purposes, and the expanded data list adopted under the 2004 Decision on *Strengthening the Effectiveness of Article VIII, Section 5*. Directors stressed that timely and good quality data are crucial to Fund surveillance. Directors agreed with the thrust of the staff paper's analysis and findings, and broadly endorsed the staff's recommendations.

Data Provision Trends

Directors welcomed the progress made by members in providing adequate data to the Fund. They noted that significant data challenges remain in developing countries that have yet to attain market access, particularly in low-income or small countries. These challenges will require continued capacity building by the countries themselves, as well as the coordinated support of the international community. In this connection, Directors stressed the importance of targeted Fund technical assistance, within the established budgets,

[1] Gross external debt is the outstanding amount of those actual current, and not contingent, liabilities that require payment(s) of principal and/or interest by the debtor at some point(s) in the future and that are owed to nonresidents by residents of an economy. (SM/03/386, Sup. 1, 1/23/04).

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and of promoting dissemination of the core indicators required for surveillance under the General Data Dissemination System. They also encouraged donors to provide more targeted support to strengthening countries' capacity to produce and disseminate statistics.

Treatment of Data Issues

Directors considered that there is room for improvement in the treatment of data issues in Article IV staff reports, and called for more candid assessments of data adequacy across countries. They agreed that, in cases where shortcomings in data provision significantly hamper surveillance, staff should highlight the implications of these deficiencies for its analysis and policy conclusions. In addition, in cases of severe deficiencies and where staff have had to construct key data based on limited information, staff should discuss with the authorities specific and prioritized remedial measures, and should report on this discussion. Most Directors supported the proposed new classification system for data adequacy as set out in paragraph 19 of the paper. Directors also supported the proposal that Statistical Issues Appendices be more focused and expanded to include financial sector data issues where warranted.

Handling of Potential Breaches of Article VIII, Section 5

Directors stressed that members should abide by their obligation to provide the Fund with data covered under Article VIII, Section 5 to the best of their ability. They encouraged management and staff to address vigorously this responsibility of members, while emphasizing the importance of a cooperative approach and of paying due attention to capacity limitations. Directors noted that the approach followed in recent years has been largely effective in resolving concerns that members may not be sharing data to the best of their ability. They pointed, however, to the wide variance in staff's handling of such cases as an area for improvement, and stressed that staff must follow up expeditiously in cases where concerns arise. They endorsed the proposal to clarify guidance to staff regarding steps to follow when there is a concern that a member may not be complying with Article VIII, Section 5, to ensure consistent and evenhanded treatment. In cases of non-provision of data, most Directors agreed that there should be no delay in implementing the formal procedures specified under the 2004 Decision—including the "letter stage" where man-

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agement notifies the member of its intention to inform the Board of a breach of obligation—once the criteria for moving to the letter stage are met, namely where the data are not provided and the member appears to have the capacity to provide the data. However, some Directors emphasized that staff should take care not to move to the letter stage prematurely. In cases where there are concerns that data are being provided late or inaccurately, staff should prepare a plan and timetable for following up on these concerns, including moving to the letter stage when necessary.

Evolving Data Needs

Directors had a wide-ranging discussion on how best to meet the evolving data needs of surveillance to keep pace with the changing global economic environment. Ongoing data initiatives have focused appropriately on positions and exposures across domestic sectors and vis-à-vis the rest of the world. These data are critical in assessing vulnerabilities, and have gained further prominence in light of recent global economic developments. Directors therefore broadly agreed that priority should remain on moving current initiatives forward and adapting them to absorb the new data provision requirements, rather than creating new ones. At the same time, a number of Directors noted the costs of enhanced data initiatives, for both the Fund and member countries, and emphasized that the costs and benefits of additional data collection should be carefully assessed. Many Directors stressed the importance of data on cross-border and intersectoral exposures and risks in advanced economies.

Directors were broadly supportive of the proposed approach to evolving data needs related to Sovereign Wealth Funds (SWFs), Currency Composition of Official Foreign Exchange Reserves (COFER), and assessing financial sector stability. On SWFs, many Directors supported the various data initiatives the Fund is undertaking as part of a wider effort to facilitate and coordinate work on a set of voluntary principles for SWFs, while at the same time, many Directors emphasized that data initiatives should not run ahead of collaborative and voluntary efforts to identify such principles. Noting the importance of COFER data for surveillance over the global economy and reserve currency economies, a number of Directors encouraged members who do not yet report such data to do so. Some Directors stressed that provision of COFER data should remain voluntary and

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confidential. In view of the increasing importance of data on intersectoral positions and exposures, Directors agreed that high priority should be attached to increasing the number of countries that report monetary and financial data using the Standardized Report Forms (SRFs), expanding the coverage of financial institutions in the monetary and financial statistics, and introducing additional information in SRFs for assessing financial sector stability. Current and planned efforts in the Fund with regard to Financial Soundness Indicators (FSIs) will also support better financial sector surveillance.

Directors endorsed the proposals in paragraph 42 of the paper to clarify and enhance the requirements for data provision to the Fund. Most Directors supported the proposal to incorporate International Investment Position (IIP) data into the Table of Common Indicators Required for Surveillance, although a number of Directors cautioned that close monitoring of reporting of IIP data should be accompanied by continued regard for the capacity constraints many countries face in producing them, and some Directors did not support the proposal on this account. Directors also agreed to expand the coverage of reserve liabilities and derivatives in the Annex of the 2004 Decision to include those linked to a foreign currency but settled in domestic currencies, for closer alignment with the practice in the template for *International Reserves and Foreign Currency Liquidity*– the internationally accepted methodology for reserve reporting.

Directors agreed that with the discussions today, the Board concluded the review of Annex A envisaged under the 2004 Decision, and that future reviews of Annex A should be conducted together with the reviews of data provision to the Fund for surveillance purposes.

The next reviews are expected to be conducted in 2013, unless a need arises earlier.

BUFF/08/57,
May 12, 2008

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Summing Up by the Acting Chairman—Standards for the Dissemination of Economic and Financial Statistics to the Public by Member Countries and Implementation of the SDDS
Executive Board Meeting 96/36, April 12, 1996

Executive Directors noted that the Interim Committee, in its communiqué of October 8, 1995, had endorsed the establishment by the Fund of standards to guide members in the publication of their economic and financial data. Those standards would consist of two tiers: a general standard, and a more demanding standard, now designated as the Special Data Dissemination Standard (SDDS). They recalled that the Interim Committee had requested that Fund members have the opportunity to subscribe to the SDDS by the time of the April 1996 Interim Committee meeting and were gratified that this objective would be achieved. Directors also appreciated the speedy staff work that had gone into the data dissemination initiative and the widespread consultation with users and producers of statistics, national authorities, and other international organizations that had been undertaken in preparation of the specific staff proposals.

Directors recalled their earlier approval, at the meeting of March 29, 1996, of the SDDS and of its immediate opening for subscription on a voluntary basis. They recognized that the establishment of the SDDS was an important step for the Fund and for its membership. Directors emphasized that in the initial phase the approach to its implementation would inevitably need to be both flexible and evolutionary.

Directors discussed the elaborations proposed by the staff regarding the timeliness of foreign trade data, the periodicity of foreign reserves data, some flexibility for release calendars, and procedures in case of possible non-observance of the SDDS. In light of the above considerations, the Executive Board approved those elaborations to the SDDS, whose scope and operational characteristics are set forth in the Annex to this summing up.

Executive Directors took note that a significant number of member countries had provided indications of their intention to subscribe to the SDDS and agreed that the electronic Data Standards Bulletin Board (DSBB) should be open to the public by the end of Au-

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gust 1996. Directors also welcomed the preparation by the staff of an operations manual that would soon become available.

Directors observed that the SDDS was ambitious. At the same time, they welcomed the several aspects of flexibility built into the standard. They also noted that reviews of the operation of, and experience with, the SDDS would provide the opportunity to make adjustments that might be called for as experience accumulated through the transition period that would end at the close of 1998.

Directors agreed that invitations for subscription should be sent by the Managing Director as soon as possible. The package of materials would comprise a communication from the Managing Director, and, to be sent separately, this summing up with its Annex, and a paper entitled the Special Data Dissemination Standard (SM/96/83, Sup. 2, 4/15/96, to be circulated).

Directors called for work to continue on the elaboration of the general data dissemination standard for Board consideration before the end of 1996. They also called for a review of the operation of the special and general data dissemination standards by the end of 1997, and another review before the completion of the transition period at the end of 1998.

ANNEX[1]

Scope and Operational Characteristics of the Special Data Dissemination Standard

I. Purpose and framework

The purpose of the Special Data Dissemination Standard (SDDS) is to guide member countries in the provision to the public of comprehensive, timely, accessible, and reliable economic and financial statistics in a world of increasing economic and financial integration. The SDDS thus comprises four dimensions: (a) coverage, periodicity, and

[1] Ed. Note: As amended by Decision No. 14728-(10/85), September 1, 2010, this Annex incorporates amendments approved by the Executive Board including various reviews of the SDDS through March 12, 2010

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timeliness of data; (b) access by the public; (c) integrity of the disseminated data; and (d) quality of the disseminated data. For each of the four dimensions, the SDDS prescribes good practices that can be observed, or monitored, by users of statistics.

II. Dimensions of the SDDS

1. Coverage, periodicity, and timeliness of data

Comprehensive economic and financial data, disseminated on a timely basis, are essential to the transparency of macroeconomic performance and policy.

(A) Definitions and general considerations

(i) Coverage

In respect of coverage, the SDDS focuses on basic data that are most important in shedding light on economic performance and policy in four sectors across the economy—real, fiscal, financial, and external. The SDDS focuses on the minimum coverage necessary, but countries are encouraged to disseminate other data that may increase the transparency of economic performance and policy in general and for their own economic and financial situations in particular. For example, subscribers may take advantage of the possibility to provide—on a strictly voluntary basis—additional metadata to promote public knowledge and understanding of their practices with respect to measuring core inflation, forward-looking indicators, interest rates used as operating targets, financial soundness indicators, and gross outstanding external debt by remaining maturity.

For each of the four sectors, the SDDS provides:

(a) a comprehensive statistical framework—national accounts for the real sector, government operations for fiscal data, depository corporations survey for financial data, and balance of payments accounts for external transactions;

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(b) data that permit tracking of the principal measures in the comprehensive frameworks; and

(c) other data relevant to the sector.

These other data are often in the form of a price, including interest rates and exchange rates. The comprehensive frameworks and tracking categories are indicated in the attached Table 1.

(ii) Periodicity and timeliness

Periodicity refers to the frequency of compilation of the data. Timeliness refers to the speed of dissemination of the data; that is, the lapse of time between a reference date (or close of a reference period) and dissemination of the data. Dissemination of statistics may take several forms, including: formal publications (including news releases); announcement of availability on request (but not necessarily without charge), including through electronic databases; diskettes, tapes, or CD-ROM of a formal publication or a database; and recorded telephone messages and facsimile services.

(B) Specifications

The SDDS specifications for coverage, periodicity, and timeliness are summarized in the attached Table 1. Further specifications that apply to international reserves and foreign currency liquidity are set out in the attached Table 2[1]; those for external debt are shown in Tables 3 and 4. Within the specifications, some data categories or components are designated "as relevant." This designation recognizes that the relevance of a specific data category or component to an economy should be taken into account. If a data category or component is not relevant to a subscribing country, the subscribing country is deemed to be in observance of the SDDS with respect to the specific category

[1] The Data Template for International Reserves and Foreign Currency Liquidity has been revised to cover exchange-traded futures, settled in domestic currency, and the revision took effect on July 31, 2009.

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or component even if it does not produce and disseminate data pertaining to that category or component. The "as relevant" provision can be applied in cases where a certain specification called for in the SDDS is inapplicable to an economy or where a certain financial instrument or market does not exist in the economy. However, when the specifications apply, the markets exist, or the financial instruments and arrangements are in use, the "as relevant" provision is not to be invoked. Where the coverage components, periodicity, or timeliness is designated as "encouraged" that feature would not be binding under the SDDS, but countries are encouraged to develop and disseminate such data categories in the indicated periodicity and timeliness.

The prescribed comprehensive statistical framework for the real sector is the national accounts, consisting of nominal levels, real (price-adjusted) levels, and associated prices (deflators or price indices). The data category intended to track GDP on a more frequent basis is a single production index or a selection of production indices. For price statistics, consumer price indices and producer or wholesale price indices are prescribed.

For the fiscal sector, the prescribed comprehensive statistical framework covers the general (central plus state or provincial and local) government or the public sector, depending on which coverage is the focus of policy and analysis in a particular country. As more frequent and timely tracking indicators of fiscal stance, central government indicators are prescribed. Data for government debt are prescribed in terms of central government debt.

For the financial sector, the prescribed comprehensive statistical framework is the depository corporations survey (DCS). The DCS is to cover all depository corporations, which include the central bank and all other depository corporations (ODCs). The ODCs, in turn, are to cover resident financial corporations and quasi-corporations that mainly engage in financial intermediation and that issue liabilities included in the national definition of money. The data category prescribed to track banking system data on a more timely basis is the central bank survey. Interest rates should include rates on short- and long-term government securities as appropriate to the country. Data

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on financial soundness indicators with quarterly periodicity and timeliness are encouraged for dissemination, as shown in Table 1.

For the external sector, balance of payments data are the prescribed comprehensive statistical framework. On a more frequent and timely basis, official reserve assets, data on international reserves and foreign currency liquidity, and merchandise trade are called for a tracking categories. The dissemination of monthly official reserve assets (total and key components covering foreign currency reserves, IMF reserve position, SDRs, gold, and other reserve assets) within one week is prescribed. The dissemination of the data template on international reserves and foreign currency liquidity, as shown in the attached Table 2, is prescribed with monthly periodicity and timeliness; weekly periodicity and timeliness are encouraged. Countries that wish to have their data on international reserves and foreign currency liquidity included in the Fund's database and re-disseminated over the Fund's external web site should report such data in the format of Table 2. With respect to the international investment position (IIP), annual data (encompassing components consistent with internationally accepted statistical methodologies) are to be disseminated within three quarters after the end of the reference year; quarterly periodicity and timeliness are encouraged. However, quarterly IIP data with quarterly timeliness will be prescribed after a four-year transition period. Therefore, beginning with IIP data observations for the first and second quarters of 2014 (and subsequent periods), quarterly data are prescribed for dissemination starting at the end of September 2014. Exchange rates should be disseminated on a daily basis, as should forward exchange rates (three- and six-month rates) on an "as relevant" basis if a robust forward market exists. There is also a separate data category for external debt, with data covering four sectors: (1) the general government, (2) the monetary authorities, (3) the banking sector, and (4) all other sectors. These data are to be disseminated with quarterly periodicity and timeliness. Data should also be disaggregated by maturity—short and long term—on an original maturity basis and by instrument, as set out in the attached Table 3. In addition, a simplified set of data on gross outstanding external debt by remaining maturity (Table 4) is encouraged for dissemination containing principal and interest payments due in one year or less, disaggregated by sector, with quarterly periodicity and quarterly timeli-

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ness. Nevertheless, the SDDS still encourages the dissemination of more detailed supplementary information on future debt service payments on gross outstanding external debt, in which the principal and interest components are separately identified, twice yearly for the first four quarters and the following two semesters ahead, with a lag of one quarter. Finally, the dissemination of external debt data disaggregated by currency (domestic and foreign) with quarterly periodicity and timeliness is encouraged.

(C) Flexibility

Under the SDDS, a member that does not produce or disseminate data categories/components designated "as relevant" would nevertheless be deemed to be in observance of the coverage specifications of the specific data categories or components of the SDDS. However, the "as relevant" provision is not to be invoked when the conditions under which the provision was applied no longer exist. In addition, a member may take either or both of two flexibility options in respect of periodicity and timeliness. First, for the national accounts and balance of payments, although the quarterly specification for periodicity must be met, the specified data may be issued on a less timely basis than prescribed in the event that the data category or categories indicated as tracking the principal measures in these comprehensive statistical frameworks are disseminated with the periodicity and timeliness prescribed for the tracking categories. Second, for any other two prescribed data categories, except international reserves and external debt, periodicity may be less frequent and/or the specified data may be issued on a less timely basis than prescribed. The flexibility provided for periodicity and timeliness is not open-ended. The extra allowance for compilation or dissemination under the flexibility options, unless indicated separately for specific data categories or components, is usually not to exceed one reference period, and the data are to be disseminated no later than the next due date. (For example, for quarterly data to be disseminated within one quarter after the end of the reference period, if a timeliness flexibility option is taken, the data should be released to the public no later than two quarters after the end of the reference period.)

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In addition, subscribers may exercise a targeted flexibility option for the timeliness of monthly central government operations that is available for subscribers disseminating, with a one-quarter lag, quarterly accrual-based general government operations (GGO) data in line with the Fund's *Government Finance Statistics Manual 2001* or an equivalent standard. This targeted flexibility option would be allowed for the last month of the fiscal year (up to three months lag) and the first month of the new fiscal year (up to two months lag). In order to make use of this flexibility option, a subscriber would need to begin disseminating quarterly GGO data for at least the last quarter of the fiscal year in which the option is exercised.

2. Access by the public

Dissemination of official statistics is an essential feature of statistics as a public good. Ready and equal access is a principal requirement for the public, including market participants. To support ready and equal access, the SDDS prescribes:

(a) Advance dissemination of release calendars, with flexibility for the distribution of the release dates for up to two data categories; and

(b) Simultaneous release to all interested parties.

3. Integrity

To fulfill the purpose of providing the public with information, official statistics must have the confidence of their users. In turn, confidence in the statistics ultimately becomes a matter of confidence in the objectivity and professionalism of the agency producing the statistics. Transparency of its practices and procedures is a key factor in creating this confidence. To assist users of the data disseminated under the SDDS in assessing their integrity, the SDDS prescribes:

(a) the dissemination of the terms and conditions under which official statistics are produced, including those relating to the confidentiality of individually identifiable information;

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(b) the identification of internal government access to data before release;

(c) the identification of ministerial commentary on the occasion of statistical release; and (d) the provision of information about revision and advance notice of major changes in methodology.

4. Quality

A set of standards that deals with coverage, periodicity, and timeliness of data must also address the quality of statistics. Subscribers are encouraged to adopt and implement internationally accepted statistical methodologies for the data categories covered by the SDDS (a specified list of these methodologies is posted on the Dissemination Standards Bulletin Board (DSBB, see Section III.2). Although quality is difficult to judge, monitorable proxies, designed to focus on information the user needs to judge quality, can be useful. To assist users of the data disseminated under the SDDS in assessing their quality, the SDDS prescribes:

(a) the dissemination of documentation on methodology and sources used in preparing statistics;

(b) the dissemination of component detail, reconciliations with related data, and statistical frameworks that support statistical cross-checks and provide assurance of reasonableness; and

(c) the dissemination of deviations from internationally accepted statistical methodologies in the metadata. The deviations should be specified in the relevant indicators of the metadata (i.e., information describing methodology) posted on the DSBB. In instances where a subscriber has not provided clear metadata on deviations from internationally accepted statistical methodologies, the SDDS nonobservance procedures would apply (see section III.4).

SDDS subscribers are also encouraged to undertake and publish a data quality assessment, using a recognized data quality assessment tool, such as the Fund's Data Module of the Report on the Observance of Standards and Codes that uses the Data Quality Assessment

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Framework, or the Eurostat or ECB data quality monitoring frameworks. Reassessments should take place at no more than seven-to-ten-year intervals. Assessments (and reassessments) could be conducted by Fund staff, or alternatively, a subscriber could request another subscriber or external agency to conduct a peer review exercise.

III. Implementation of the SDDS

1. Subscription to the SDDS

Subscription to the SDDS by members of the Fund is on a voluntary basis. Members that wish to subscribe to the SDDS should first communicate this intention to the staff of the Fund, with an undertaking to provide to the staff metadata (other than the summary descriptions of methodology) as soon as possible.

Upon receipt of the necessary metadata from a member, the Fund staff would work with the member to determine where its practices stood with respect to the SDDS as well as to identify any changes in practices that would be needed. If no changes were needed, the member may proceed to inform the Secretary of the Fund of its subscription to the SDDS. If changes to a member's practices are required, the member may, after the necessary changes have been discussed with the Fund staff and implemented, proceed to inform the Secretary of the Fund of its subscription to the SDDS. In this regard, a member may make known publicly its intent to improve its data and dissemination practices with the goal of subscribing to the SDDS.

In all cases, the Fund's public identification of a member's subscription to the SDDS will be made through the posting of the member's metadata on the DSBB (see section III.2). Within three months of the posting of the member's metadata on the DSBB, the member would need to provide to the Fund staff the summary descriptions of methodology called for under the SDDS.

2. Dissemination Standards Bulletin Board

As a cornerstone of the implementation of the SDDS, the Fund, as a service to its members, has established and maintained an electronic

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DSBB on the Internet. The DSBB identifies the members subscribing to the SDDS and provides wide and easy access to the members' respective metadata. The responsibility for the accuracy of the metadata and of the economic and financial statistics underlying the metadata rests with member countries.

Subscribers to the SDDS are required to establish a national summary data page (NSDP) on the Internet, which is to be linked to the DSBB electronically through "hyperlinks" on the latter. The NSDP is to contain, at a minimum, the most recent observation for the prescribed data category and the next most recent observation, and can also contain additional information. Responsibility for the data on the NSDP rests with individual subscribers.

Subscribers are required to certify, on an annual basis, the accuracy of the metadata posted on the DSBB. Under this process, subscribers will notify the Fund staff, within one month after the end of each calendar year, that either: (1) all of the metadata posted on the DSBB are fully accurate; or (2) certain metadata are inaccurate. In the latter case, subscribers would need to provide the corrected metadata together with the annual certification. The DSBB will post the date on which the metadata were last certified by the subscriber.

There may be situations where a subscriber, during the period between certification dates for the metadata, makes changes to its practices that affect the accuracy of the metadata posted on the DSBB. In such situations, the subscriber should inform the Fund staff of these changes, and amend the affected metadata expeditiously (within the calendar quarter when those changes have occurred). Pending revision of the metadata on the DSBB, a note may be posted on the DSBB indicating that the metadata in question are in the process of being updated.

3. Automated Monitoring Arrangements

Subscribers are required to use standardized electronic reporting procedures established from time to time by the Fund staff in consultation with subscribers, which will allow the Fund staff to effectively monitor subscribers' observance of the SDDS. Specifically, under

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these procedures, subscribers are required to (1) report advance release calendars to the Fund staff; (2) adopt the formats for the subscribers' NSDPs that will allow the Fund staff to electronically capture information on such NSDPs, including the date of release and the reference period of the most recently disseminated data for each of the prescribed data categories; (3) certify on an annual basis the accuracy of the metadata posted on the DSBB as prescribed in section III.2 above; and (4) report updated metadata to the Fund staff.

4. Observance of the SDDS and Removal from the DSBB

Subscribers to the SDDS are expected to observe the elements of its four dimensions described in section II above, to maintain an NSDP, and observe the metadata certification requirement in section III.2 above and the monitoring requirements set forth in section III.3 above. Deviations of any kind from SDDS undertakings will be brought immediately to the attention of the subscriber. Subsequent steps for dealing with such deviations will follow a graduated approach that distinguishes between minor and serious deviations.

The Fund staff would monitor regularly the observance by subscribers of the requirements of the data dimension (section II.1 above), the advance release calendars element of the access dimension (section II.2.(a) above), the certification requirement (section III.2 above), and the automated monitoring requirements (section III.3 above). In cases of nonobservance of the practices prescribed for these items, the Fund staff would try to resolve the issue with the subscriber, at first directly, and then, if necessary, through the Executive Director representing the subscriber in the Fund. If these efforts fail to produce a satisfactory solution, the matter would be brought to the attention of the subscriber's Governor for the Fund. At the same time, the Fund staff could post a note on the DSBB indicating that the Fund staff has determined that the subscriber is not in observance of its undertakings under the SDDS. The note would also describe the problem, the subscriber's response to the problem and the efforts under way to remedy it. If the problem persisted thereafter without the subscriber taking satisfactory corrective measures, the matter would be referred to the Executive Board of the Fund, which could decide to delete the metadata of that subscriber from the DSBB.

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Finally, an annual report that assesses each subscribing member's observance of its undertakings under the SDDS will be posted on the DSBB.

5. Review, Revisions, and Withdrawal

Reviews of the SDDS will be conducted by the Fund at intervals determined by the Executive Board of the Fund. At the completion of these reviews, revisions of the SDDS may be adopted. A member may withdraw its subscription to the SDDS at any time by sending a notification to the Managing Director of the Fund. The relevant metadata would be removed promptly from the DSBB.

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Table 1. The Special Data Dissemination Standard: Coverage, Periodicity, and Timeliness

Coverage			Periodicity[1]	Timeliness[1]
Prescribed		Encouraged categories and/or Components		
Category [2]	Components			
Real sector				
GDP: nominal, real, and associated prices or price indices*	GDP in current prices and GDP volume by production approach, with disaggregated components; or GDP in current prices and GDP volume by expenditure category, with disaggregated components.	Saving; Gross national income.	Q	Q
Production index/ indices**	Industrial, primary commodity, or sector, coverage as relevant.		M (as relevant)	6W (as relevant) (M encouraged)
		Forward-looking indicator(s), for example, qualitative business surveys, orders, composite leading indicators.	M or Q	M or Q

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Real sector				
Labor market	Employment, as relevant; Unemployment, as relevant; and Wages/earnings, as relevant.		Q (as relevant)	Q (as relevant)
Price indices	Consumer prices; and Producer or wholesale prices.		M	M
Fiscal sector				
General government operations (or public sector operations, as relevant)*	For subscribers using the *Manual on Government Finance Statistics 1986* (GFSM 1986) framework: revenue; expenditure; balance (deficit/surplus); aggregate financing, disaggregated by: domestic financing (bank, non-bank), foreign financing;	For subscribers using the GFSM 1986 framework: Interest payments, indicated separately as a component of expenditure. Financing of public enterprises separately identified.	A (Q encouraged)	2Q (Q encouraged)

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Fiscal sector				
General government operations (or public sector operations, as relevant)*	If disaggregation by domestic (bank, nonbank) and foreign financing is not feasible, disaggregated by: maturity, and either instrument, or currency of issue		A (Q encouraged)	2Q (Q encouraged)
	For subscribers using the GFSM 2001 framework, see Tables 4.1a, 4.1b, and 4.1c of *The Special Data Dissemination Standard: Guide for Subscribers and Users*.	For subscribers using the GFSM 2001 framework, see Tables 4.1a, 4.1b, and 4.1c of *The Special Data Dissemination Standard: Guide for Subscribers and Users.*		

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Fiscal sector				
Central government operations**	For subscribers using the GFSM 1986 framework: revenue; expenditure; balance (deficit/surplus); aggregate financing, disaggregated by: domestic financing (bank, nonbank), foreign financing; If disaggregation by domestic (bank, nonbank) and foreign financing is not feasible, disaggregated by: maturity, and either instrument, or currency of issue	For subscribers using the GFSM 1986 framework: Interest payments, indicated separately as a component of expenditure. Financing of public enterprises separately identified.	M	M

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Fiscal sector				
Central government operations**	For subscribers using the GFSM 2001 framework, see Tables 4.1a, 4.1b, and 4.1c of *The Special Data Dissemination Standard: Guide for Subscribers and Users*.	For subscribers using the GFSM 2001 framework, see Tables 4.1a, 4.1b, and 4.1c of *The Special Data Dissemination Standard: Guide for Subscribers and Users*.	M	M
Central government debt	Total, with disaggregated components: by maturity; and by residency (domestic, foreign); or by instrument; or by currency of issue. Non-central-government debt guaranteed by central government, as relevant.	Debt service projections: Projected interest and amortization payments on medium- and long-term debt, provided quarterly for the coming four quarters, and annually thereafter; and Quarterly data on projected repayments of short-term debt.	Q	Q

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Fiscal sector				
Central government debt	For subscribers using the GFSM 2001 framework, see Tables 4.1a and 4.1d of *The Special Data Dissemination Standard: Guide for Subscribers and Users.*	For subscribers using the GFSM 2001 framework, see Tables 4.1a and 4.1d of *The Special Data Dissemination Standard: Guide for Subscribers and Users.*	Q	Q
Financial sector				
Depository corporations survey* (formerly called Analytical accounts of banking sector)	Broad money (for example, M3); Domestic claims, disaggregated into: (1a) net claims on general government (covering central, state, and local governments); or (1b) claims on nonfinancial public sector (if public sector operations represent the comprehensive framework for the fiscal sector); and	Narrower (lower-ordered) monetary aggregates (such as M1 and M2); Claims on other resident sectors, disaggregated into: (1) Other financial corporations;	M	M

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Financial sector				
Depository corporations survey*	(2) claims on other resident sectors; and Net foreign assets. or Total foreign assets. Total foreign liabilities.	(2) Public nonfinancial corporations (not applicable if claims on nonfinancial public sector are disseminated); (3) Other nonfinancial corporations; and (4) Other resident sectors.	M	M
Central bank survey** (formerly called Analytical accounts of the central bank)	Monetary base; Domestic claims, disaggregated into: (1a) net claims on general government (covering central, state, and local governments), or (1b) claims on nonfinancial public sector (if public sector operations represent the comprehensive framework for the fiscal sector); and	Claims on other resident sectors, disaggregated into: Other financial corporations; Public nonfinancial corporations (not applicable if claims on nonfinancial public sector are disseminated);	M (W encouraged)	2W (W encouraged)

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Financial sector				
Central bank survey**	(2) claims on all other resident sectors; and Net foreign assets or Total foreign assets. Total foreign liabilities.	Other nonfinancial corporations; and Other resident sectors.	M (W encouraged)	2W (W encouraged)
Interest rates	Short-term and long-term government security rates; and Policy-oriented rate (for example, central bank lending rate).	Range of representative deposit and lending rates	D	3

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		Financial soundness indicators (FSIs): Regulatory Tier I capital to risk-weighted assets Regulatory Tier I capital to assets Nonperforming loans net of provisions to capital Nonperforming loans to total gross loans Return on assets Liquid assets to short-term liabilities Net open position in foreign exchange to capital	Q	1Q
Stock market	Share price index, as relevant		D	3

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External sector				
Balance of payments*	Current account, disaggregated by: (1) Goods: exports; (2) Goods: imports; (3) Services: credit; (4) Services: debit; (5) Income: credit; (6) Income: debit; (7) Current transfers: credit; and (8) Current transfers: debit. Capital account, disaggregated by: (1) capital account: credit; and (2) capital account: debit.	Disaggregation according to the standard components of internationally accepted statistical methodologies.	Q	Q

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External sector				
Balance of payments*	Financial account, disaggregated by: (1) direct investment abroad; (2) direct investment in reporting economy; (3) portfolio investment, assets; (4) portfolio investment, liabilities; (5) other investment, assets; (6) other investment, liabilities; and (7) reserve assets. Net errors and omissions.	Under financial account, separately report data on financial derivatives; assets and liabilities.	Q	Q
Official reserve assets**	Total amount of official reserve assets, disaggregated into: (1) foreign currency reserves; (2) IMF reserve position; (3) SDRs; (4) Gold; and (5) other reserve assets.		M (W encouraged)	1W

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External sector				
Template on International Reserves and Foreign Currency Liquidity**	See Table 2 of this Annex, *Scope and Operational Characteristics of the Special Data Dissemination Standard*.	See the Pro Memoria component in Section III, item 5 of Table 2 of this Annex, *Scope and Operational Characteristics of the Special Data Dissemination Standard*.	M (W encouraged)	1M (1W encouraged)
Merchandise trade**	Trade balance, disaggregated into: (1) merchandise imports; and (2) merchandise exports.	Disaggregation by major components, with longer time lapse.	M	8W (4-6W encouraged)
International investment position	Assets, disaggregated by: direct investment abroad; portfolio investment, disaggregated by: (1) equity securities; (2) debt securities; other invest ment; and reserve assets.	Disaggregation of assets and liabilities according to the standard components of internationally accepted statistical methodologies. Under assets and liabilities, separately report data on financial derivatives.[4]	A (Q encouraged); effective September 2014, Q prescribed	3Q (1Q encouraged); effective September 2014, 1Q prescribed

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External sector				
International investment position	Liabilities, disaggregated by: direct investment in reporting economy; portfolio investment, disaggregated by: (1) equity securities; (2) debt securities; and other investment.		A (Q encouraged); effective September 2014, Q prescribed	3Q (1Q encouraged); effective September 2014, 1Q prescribed
External debt	See Table 3 of this Annex, *Scope and Operational Characteristics of the Special Data Dissemination Standard*.	See Tables 6.2b and 6.2c of *The Special Data Dissemination Standard: Guide for Subscribers and Users*. Principal and interest payments due in one year or less, by sector (see Table 4)	Q	Q
Exchange rates	Spot rates; and 3- and 6-month forward market rates, as relevant.		D	[3]
Addendum: Population		Key distributions, for example, by age and sex.	A	...[5]

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Source: IMF Statistics Department

[1] Periodicity and timeliness: ("D") daily; ("W") weekly or with a lag of no more than one week after the reference date (or the end of the reference period); ("M") monthly or with lag of no more than one month after the reference date (or the end of the reference period); ("Q") quarterly or with lag of no more than one quarter after the reference date (or the end of the reference period); ("A") annual.

[2] (*) Denotes comprehensive statistical frameworks; (**) denotes tracking categories.

[3] Given that data are widely available from private sources, dissemination of official producers may be less time-sensitive.

[4] The SDDS encourages subscribers to classify financial derivatives in a separate functional category, in line with internationally accepted statistical methodologies.

[5] Although the SDDS makes no specification for the timeliness of population, it does presume that data are disseminated at least once a year and on a regular basis.

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Table 2. Data Template on International Reserves and Foreign Currency Liquidity

(Information to be disclosed by the monetary authorities and other central government, excluding social security) [1, 2, 3]

I. Official reserve assets and other foreign currency assets (approximate market value)[4]

A. Official reserve assets
(1) Foreign currency reserves (in convertible foreign currencies)
(a) Securities
of which: issuer headquartered in reporting country but located abroad
(b) total currency and deposits with:
(i) other national central banks, BIS and IMF
(ii) banks headquartered in the reporting country
of which: located abroad
(iii) banks headquartered outside the reporting country
of which: located in the reporting country
(2) IMF reserve position
(3) SDRs
(4) Gold (including gold deposits and, if appropriate, gold swapped) [5]
—volume in fine troy ounces
(5) Other reserve assets (specify)
—financial derivatives
—loans to nonbank nonresidents
—other

B. Other foreign currency assets (specify)
—securities not included in official reserve assets
—deposits not included in official reserve assets
—loans not included in official reserve assets
—financial derivatives not included in official reserve assets
—gold not included in official reserve assets
—other

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II. Predetermined short-term net drains on foreign currency assets (nominal value)

	Total	Maturity breakdown (residual maturity)		
		Up to 1 month	More than 1 month and up to 3 months	More than 3 months and up to 1 year
1. Foreign currency loans, securities, and deposits [6]				
outflows (-)	Princpal Interest			
inflows (+)	Princpal Interest			
2. Aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps) [7]				
(a) Short positions (-)				
(b) Long positions (+)				
3. Other (specify)				
outflows related to repos (-)				
inflows related to reverse repos (+)				
trade credit (-)				
trade credit (+)				
other accounts payable (-)				
other accounts receivable (+)				

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III. Contingent short-term net drains on foreign currency assets (nominal value)

	Total	Maturity breakdown (residual maturity)		
		Up to 1 month	More than 1 month and up to 3 months	More than 3 months and up to 1 year
1. Contingent liabilities in foreign currency				
(a) Collateral guarantees on debt falling due within 1 year				
(b) Other contingent liabilities				
2. Foreign currency securities issued with embedded options (puttable bonds) [8]				
3. Undrawn, unconditional credit lines [9] provided by:				
(a) other national monetary authorities, BIS, IMF, and other international organizations				
—other national monetary authorities (+)				
—BIS (+)				
—IMF (+)				
—other international organizations (+)				
(b) banks and other financial institutions headquartered in the reporting country (+)				

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(c) banks and other financial institutions head-quartered outside the reporting country (+)				
4. Undrawn, unconditional credit lines pro-vided to:				
(a) other national mone-tary authorities, BIS, IMF, and other internation-al organizations				
—other nation-al monetary authorities (-)				
—BIS (-)				
—IMF (-)				
—other inter-national organi-zations (-)				
(b) banks and other financial institutions head-quartered in the reporting country (-)				
(c) banks and other financial institutions head-quartered outside the reporting country (-)				
5. Aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency [10]				
(a) Short posi-tions				
(i) Bought puts				

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(ii) Written calls				
(b) Long positions				
(i) Bought calls				
(ii) Written puts				
PRO MEMORIA: In-the-money options [11]				
(1) At current exchange rates				
(a) Short position				
(b) Long position				
(2) +5% (depreciation of 5%)				
(a) Short position				
(b) Long position				
(3) -5% (appreciation of 5%)				
(a) Short position				
(b) Long position				
(4) +10% (depreciation of 10%)				
(a) Short position				
(b) Long position				
(5) -10% (appreciation of 10%)				
(a) Short position				
(b) Long position				
(6) Other (specify)				
(a) Short position				
(b) Long position				

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IV. Memo items

(1) To be reported with standard periodicity and timeliness: [12]
- (a) short-term domestic currency debt indexed to the exchange rate
- (b) financial instruments denominated in foreign currency and settled by other means (for example, in domestic currency) [13]
  - —derivatives (forwards, futures, or options contracts)
  - —short positions
  - —long positions
  - —other instruments
- (c) pledged assets [14]
  - —included in reserve assets
  - —included in other foreign currency assets
- (d) securities lent and on repo [15]
  - —lent or repoed and included in Section I
  - —lent or repoed but not included in Section I
  - —borrowed or acquired and included in Section I
  - —borrowed or acquired but not included in Section I
- (e) financial derivative assets (net, marked to market) [16]
  - —forwards
  - —futures
  - —swaps
  - —options
  - —other
- (f) derivatives (forward, futures, or options contracts) that have a residual maturity of greater than one year.
  - —aggregate short and long positions in forwards and futures in foreign currencies vis-à-vis the domestic currency (including the forward leg of currency swaps)
    - (a) short positions (-)
    - (b) long positions (+)
  - —aggregate short and long positions of options in foreign currencies vis-à-vis the domestic currency
    - (a) short positions
      - (i) bought puts
      - (ii) written calls
    - (b) long positions
      - (i) bought calls
      - (ii) written puts

(2) To be disclosed at least once a year:
- (a) currency composition of reserves (by groups of currencies)
  - —currencies in SDR basket
  - —currencies not in SDR basket
  - —by individual currencies (optional)

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Notes to Table 2 (subtables I-IV):

[1] In principle, only instruments denominated and settled in foreign currency (or those whose valuation is directly dependent on the exchange rate and that are settled in foreign currency) are to be included in categories I, II, and III of the template. Financial instruments denominated in foreign currency and settled in other ways (for example, in domestic currency or commodities) are included as memo items under Section IV.

[2] Netting of positions is allowed only if they have the same maturity, are against the same counterparty, and a master netting agreement is in place. Positions on organized exchanges could also be netted.

[3] Monetary authorities defined according to the IMF *Balance of Payments Manual*, fifth edition.

[4] In cases of large positions vis-à-vis institutions headquartered in the reporting country, in instruments other than deposits or securities, they should be reported as separate items.

[5] The valuation basis for gold assets should be disclosed; ideally this would be done by showing the volume and price.

[6] Including interest payments due within the corresponding time horizons. Foreign currency deposits held by nonresidents with central banks should also be included here. Securities referred to are those issued by the monetary authorities and the central government (excluding social security).

[7] In the event that there are forward or futures positions with a residual maturity greater than one year, which could be subject to margin calls, these should be reported separately under Section IV.

[8] Only bonds with a residual maturity greater than one year should be reported under this item, as those with shorter maturities will already be included in Section II, above.

[9] Reporters should distinguish potential inflows and potential outflows resulting from contingent lines of credit and report them separately in the specified format.

[10] In the event that there are options positions with a residual maturity greater than one year, which could be subject to margin calls, these should be reported separately under Section IV.

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[11] These "stress-tests" are an encouraged, rather than a prescribed, category of information in the IMF's Special Data Dissemination Standard (SDDS). Results of the stress-tests could be disclosed in the form of a graph. As a rule, notional value should be reported. However, in the case of cash-settled options, the estimated future inflow/outflow should be disclosed. Positions are "in the money" or would be, under the assumed values.

[12] Distinguish between assets and liabilities, where applicable.

[13] Identify types of instrument; the valuation principles should be the same as in Sections I–III. The notional value of derivatives should be shown in the same format as for the nominal/notional values of forwards/futures in Section II and of options in Section III.

[14] Only assets included in Section I that are pledged should be reported here.

[15] Assets that are lent or repoed should be reported here, whether or not they have been included in Section I of the template, along with any associated liabilities (in Section II). However, these should be reported in two separate categories, depending on whether or not they have been included in Section I. Similarly, securities that are borrowed or acquired under repo agreements should be reported as a separate item and treated symmetrically. Market values should be reported and the accounting treatment disclosed.

[16] Identify types of instrument. The main characteristics of internal models used to calculate the market value should be disclosed.

Table 3. Gross External Debt Position by Sector

Gross External Debt Position	End Period
General Government	
Short-term	
Money market instruments	
Loans	
Trade credits	
Other debt liabilities*	
Long-term	
Bonds and notes	
Loans	
Trade credits	
Other debt liabilities*	

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Table 3. Gross External Debt Position by Sector	
Gross External Debt Position	End Period
Monetary Authorities	
Short-term	
Money market instruments	
Loans	
Currency and deposits**	
Other debt liabilities*	
Long-term	
Bonds and notes	
Loans	
Currency and deposits**	
Other debt liabilities*	
Banks	
Short-term	
Money market instruments	
Loans	
Currency and deposits**	
Other debt liabilities*	
Long-term	
Bonds and notes	
Loans	
Currency and deposits**	
Other debt liabilities*	
Other Sectors	
Short-term	
Money market instruments	
Loans	
Currency and deposits**	
Trade credits	
Other debt liabilities*	
Long-term	
Bonds and notes	
Loans	
Currency and deposits**	
Trade credits	
Other debt liabilities*	
Direct Investment: Intercompany Lending***	
Debt liabilities to affiliated enterprises	
Debt liabilities to direct investors	
Gross External Debt	

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Notes to Table 3:

**Other debt liabilities* are *other liabilities* in the *international investment position (IIP) statement.*

**It is recommended that all currency and deposits be included in the short-term category unless detailed information is available to make the short-term/long-term attribution.

***Direct investment intercompany lending should preferably be disseminated separately from the four sectors. Alternatively, direct investment intercompany lending should be reported under its relevant sector.

Table 4. Gross Outstanding External Debt:
Principal and Interest Payments Due in One Year or Less
(In millions of currency units)

By Sector	
General Government	
Principal	
Interest	
Monetary authorities	
Principal	
Interest	
Banks	
Principal	
Interest	
Other Sectors	
Principal	
Interest	
Direct investment – Intercompany lending	
Principal	
Interest	
Total	
Principal	
Interest	

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Summing Up by the Acting Chairman—
General Data Dissemination System
Executive Board Meeting 97/125, December 19, 1997

Executive Directors welcomed the report provided in SM/97/275 and the staff proposal for the establishment of the General Data Dissemination System (GDDS). They recognized that the establishment of the GDDS was an important step for all Fund members not only in providing guidance in the provision of data to the public, but also in encouraging improvements in the quality and accessibility of economic, financial, and socio-demographic data.

In light of the above considerations, the Executive Board approved today the establishment of the GDDS, whose scope, operational characteristics, and mode of implementation are set forth in the revised draft Annex V of SM/97/275, Correction 1.

Executive Directors generally agreed with the purposes and orientation of the GDDS. In particular, Directors supported a system that recognized that for many countries improvements in data quality were a necessary precursor to enhanced dissemination of data to the public. The GDDS was seen as a useful framework for development of a broad range of statistics, including major macroeconomic and financial data, as well as socio-demographic indicators.

Directors endorsed the staff's proposals concerning implementation by countries of the General System. They agreed that participation in the GDDS should be voluntary, and they supported the three elements of participation: commitment to use the GDDS as a framework for statistical development; designation of a country coordinator to work with the Fund; and development of metadata. The metadata were considered important as a means for identifying strengths and weaknesses in existing data systems, developing plans for improving data, and providing users with a means for assessing countries' practices and developmental plans against the objectives recommended by the General System. As the GDDS was recognized as a long-term exercise for many countries, the metadata were also seen as useful for tracking counties' improvements over time. The recommendation in the GDDS to focus primarily on a set of core frameworks and indicators, supplemented by encouraged data sys-

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tems and categories, was viewed as useful, as it made the General System relevant to a very broad range of countries and provided a clear set of links between the GDDS and the SDDS. These links would be particularly helpful to countries that wished to use participation in the GDDS as a step toward subscription to the SDDS.

A few Directors suggested a number of additions to the core data specifications of the GDDS, including in the areas of national accounts, and more fiscal data, including off-budget transactions, and the accounts of local and regional governments. The staff will explore these suggestions and report in the context of the next review of the GDDS.

Most Directors supported inclusion in the GDDS of a set of sock-demographic indicators because of the importance of these data in assessing economic developments in many of the likely participating countries. However, some Directors reiterated that the responsibility for development of social indicators should be left primarily to other international organizations, and some expressed doubts regarding the appropriateness of inclusion of these data in the GDDS. Directors agreed that there should be close cooperation with regional and other international organizations.

Directors acknowledged the importance of the access and integrity dimensions of the GDDS, as aspects of openness and transparency. The principles embodied in these dimensions were not yet standard practice in many countries, and it was therefore considered appropriate that the GDDS focus on the development of these dimensions in the practices of data compiling and disseminating agencies.

Most Directors supported a phased approach to the implementation of the GDDS that focused first on education and training through development of appropriate documentation and presentation of seminars and workshops. It was recognized that the GDDS was a very ambitious project, both for the Fund and for countries that might wish to participate, and many Directors agreed that a longer-term approach to implementation was appropriate in recognition of the substantial resource costs to the Fund and the resource costs to, and absorptive capacity of, participating countries.

Executive Directors agreed with the staff's proposal to begin the compilation of metadata on participating countries' statistical

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practices and plans for improvement. Most Directors endorsed the proposal that the Fund disseminate these metadata to the public through an electronic bulletin board, as the most efficient means. However, Directors agreed not to preclude other means of communication, given the different situations of members. Directors also pointed out the need to clearly distinguish between the bulletin boards for the GDDS and the SDDS.

Annex V of SM/97/275, Cor. 1[1]

The General Data Dissemination System

- *Purposes and Framework*

The purposes of the General Data Dissemination System (GDDS) are (1) to encourage member countries to improve data quality; (2) to guide member countries in the provision to the public of comprehensive, timely, accessible, and reliable economic, financial, and socio-demographic statistics in a world of increasing economic and financial integration; and (3) to provide a framework for evaluating needs for data improvement and dissemination as well as setting priorities. The GDDS framework thus comprises four dimensions: (a) coverage, periodicity, and timeliness of data; (b) access by the public; (c) integrity of the disseminated data; and (d) quality of the disseminated data. For each of the four dimensions, the GDDS describes good practices to serve as objectives in the development of national systems of data production and dissemination. Box 1 provides an overview of the four dimensions of the GDDS.

[1] Ed. Note: Annex V of SM/97/275, Correction 1, incorporates amendments adopted by the Executive Board at various reviews of the GDDS.

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Box 1. The Four Dimensions of the GDDS

1. *Coverage, Periodicity, and Timeliness of Data*: Dissemination of reliable, comprehensive, and timely economic, financial, and socio-demographic data is essential to the transparency of macroeconomic performance and policy. The GDDS therefore recommends dissemination of data as described in Table 1.

2. *Access by the Public:* Dissemination of official statistics is an essential feature of statistics as a public good. Ready and equal access by the public are principal requirements. The GDDS recommends:

- Dissemination of advance release calendars.
- Simultaneous release to all interested parties.
- Dissemination of data through a National Summary Data Page via the Internet.

3. *Integrity:* To fulfill the purpose of providing the public with information, official statistics must have the confidence of their users. In turn, confidence in the statistics ultimately becomes a matter of confidence in the objectivity and professionalism of the agency producing the statistics. Transparency of practices and procedures is a key factor in creating this confidence. The GDDS therefore recommends:

- Dissemination of the terms and conditions under which official statistics are produced, including those relating to the confidentiality of individually identifiable information.
- Identification of internal government access to data before release.
- Identification of ministerial commentary on the occasion of statistical releases.
- Provision of information about revisions and advance notice of major changes in methodology.

4. *Quality:* Data quality must have a high priority. Data users should be provided with information to assess quality and quality improvements. The GDDS recommends:

- Dissemination of documentation on methodology and sources used in preparing statistics.
- Dissemination of component detail, reconciliations with related data, and statistical frameworks that support statistical cross-checks and provide assurance of reasonableness.

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- *Dimensions of the GDDS*

1. *Coverage, periodicity, and timeliness of data*

Dissemination of reliable, comprehensive, and timely economic, financial, and sociodemographic data is essential to the transparency of macroeconomic performance and policy. Thus, the GDDS recommends the dissemination of data as described in Table 1.

(A) *Definitions and general considerations*

(i) *Coverage*

The GDDS focuses on the data that are most important in evaluating performance and policy in four macroeconomic sectors—real, fiscal, financial, and external—as well as complementary socio-demographic data that shed light on economic development and structural change. The socio-demographic data specified under the GDDS are closely aligned with the majority of the indicators used to monitor progress towards the Millennium Development Goals (MDG).[1] The GDDS also covers most of the indicators used to monitor progress on national poverty reduction strategies. Table 1 shows the GDDS recommended data categories, including comprehensive statistical frameworks, tracking categories, and other relevant data, as appropriate, as well as highlighting the main GDDS components and encouraged extensions.

[1] See United Nations Statistical Division, Millennium Indicators Database. (http://millenniumindicators.un.org)

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Table 1. The General Data Dissemination System: Data, Coverage, Periodicity, and Timeliness—Macroeconomic and Financial Sectors and Sociodemographic Data

Data Categories	Components	Encouraged extension(s)	Periodicity	Timeliness
Real Sector				
National accounts (GDP) *[1]	• GDP in current prices and GDP volume by production approach, with disaggregated components; or • GDP in current prices and GDP volume by expenditure category, with disaggregated components.	Gross national income, capital formation, saving.	Annual (quarterly encouraged)	6–9 months
Production index/ indices **[1]	Manufacturing or industrial, primary commodity, or sector coverage as relevant		Monthly (as relevant)	6–12 weeks
Labor market	Employment, unemployment, wages/earnings, as relevant	Disaggregation by age, sex, employment status, occupation and industry as appropriate.	Annual	6–9 months
Price indices	Consumer price index	Producer price index	Monthly	1–2 months
Fiscal Sector				
General government operations		General government or public sector operations data,[2] where subnational levels of government or public enterprise operation are of analytical or policy importance.	Annual	6–9 months

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Fiscal Sector				
Central government operations*[1]	For participants using the *GFSM 1986* framework: • revenue; • expenditure; • balance (deficit/surplus); • aggregate financing, disaggregated by: o domestic financing (bank, nonbank); o foreign financing; If disaggregation by domestic (bank, nonbank) and foreign financing is not feasible, disaggregated by: o maturity, and either o instrument, or o currency of issue	Interest payments, indicated separately as a component of expenditure.	Quarterly (monthly encouraged)	1 quarter (1 month encouraged)

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	For participants using the GFSM 2001framework (see Tables 4.2 and 4.1 of the GFSM 2001): • Statement of sources and uses of cash (for cash-based data); o cash receipts from operating activities; o cash payments for operating activities; o net cash inflow from operating activities; o net cash outflow from investments in nonfinancial assets; o cash surplus (+) / deficit (-); o net acquisition of financial assets, excluding cash; o net incurrence of liabilities; o net cash inflow, financing activities; o net change in stock of cash; o statistical discrepancy; o total cash expenditure (memorandum item); or			
Fiscal Sector				
	• Statement of government operations (for accrual-based data[3]) o revenue; of which taxes; o expense; o gross operating balance; o net operating balance; o net acquisition of nonfinancial assets; o net lending (+) / borrowing (-) o net acquisition of financial assets: (1) domestic; (2) foreign; o net incurrence of liabili-			

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	ties: (1) domestic; (2) foreign; ○ statistical discrepancy ○ total expenditure (memorandum item)			
Central government debt	Domestic and foreign debt, as relevant, with appropriate breakdowns (maturity, currency, sector of creditor, instrument), as relevant.	Government guaranteed debt	Quarterly	1–2 quarters
Financial Sector				
Depository corporations survey *[1]	• Broad money (for example, M3[4]) • Domestic claims: (1a) net claims on government; or (1b) claims on nonfinancial public sector (if public sector operations represent the comprehensive framework for the fiscal sector); and (2) claims on other resident sectors; and • Net foreign assets.	Narrower (lower-ordered) monetary aggregates (such as M1 and M2[4]).	Monthly	Monthly 1–3 months
Financial Sector				
Central bank survey**[1]	Monetary base		Monthly	1–2 months
Interest rates	Short and long-term government security rates, policy-oriented rate	Money market or interbank rates and a range of deposit and lending rates	Monthly	
Stock market		Share price index, as relevant	Monthly	
External Sector				
Balance of payments *	• Current account: (1) Goods;	• Disaggregation according to the standard	Annual (quarterly strongly encour-	6 months

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.	(2) Services; (3) Income; (4) Current transfers • Capital account • Financial account: (1) direct investment; (2) portfolio investment,; (3) other investment; and (4) reserve assets • Net errors and omissions	components of the IMF *Balance of Payments Manual* fifth edition[5] • Under financial account, separately report data on financial derivatives; assets and liabilities	aged)	
External debt and debt service schedule **[1]	Public and publicly guaranteed external debt, broken down by maturity	Public and publicly guaranteed external debt by instrument breakdown	Quarterly	1–2 quarters
	Public and publicly guaranteed external debt service schedule	Public and publicly guaranteed external debt service schedule disaggregated by: • principal; • interest	Semi-annual: schedule covering the next 4 quarters and then 2 subsequent semesters	3–6 months
External Sector				
	Private external debt not publicly guaranteed	Private external debt service schedule.	Annual	6–9 months
Official reserve assets **	Gross official reserve assets	Reserve-related liabilities[6]	Monthly	1–4 weeks (1 Week encouraged)
Merchandise trade **	Total exports and total imports	Major commodity breakdowns with longer time lapse	Monthly	8–12 weeks

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International investment position (IIP) *	Assets and liabilities, disaggregated by: • direct investment; • portfolio investment: disaggregated by equity securities and debt securities; • other investment; and • reserve assets (included only in assets)	• Disaggregation of assets and liabilities according to the standard components of the IMF *Balance of Payments Manual* fifth edition[5] • Under financial account, separately report data on financial derivatives; assets and liabilities	Annual	6–9 months
Exchange rates	Spot rates		Daily	

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Socio-demographic Data					
Data categories	**Components**	**Encouraged extension(s)**	**Related indicators of Millennium Development Goals[8]**	**Periodicity**	**Timeliness**
Population	Population characteristics: size and composition of the population, derived from census, surveys, or vital registration system	Disaggregation of population and vital statistics data by age, sex, and region, as appropriate		Annual (Census every ten years)	3–6 months for annual updates; 9–12 months for Census
	Dynamics of growth: vital statistics: births, deaths, and migration	Reporting of mortality rates, crude birth rate, fertility rate, and life expectancy	- Under-five mortality rate - Infant mortality rate - Adolescent birth rate		
Education	Inputs: measures of current financial, human, and physical resources available to public and private (if significant) educational institutions, recorded by level of education or type of program	Disaggregation of data by region is recommended for all data categories. Characteristics of teaching staff, including training, experience, and terms of employment (full or part time). Expenditures by households on education (including fees and other expenses for public or private education)		Annual	6–12 months following beginning of school year

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Data categories	Components	Encouraged extension(s)	Related indicators of Millennium Development Goals[8]	Periodicity	Timeliness
	Process: measures of student progress through school, such as enrollments, dropouts, and repetitions, recorded by level of education and sex of students	Calculation of net enrollment rates (by grade and sex)	- Net enrolment ratio in primary education - Proportion of pupils starting grade 1 who reach grade 5 - Ratio of girls to boys in primary, secondary, and tertiary education		
	Outcomes: educational attainment measured by progress through school, graduations, and completions by level; literacy	Disaggregation by age and sex. Graduation and completion rates. Scores on standardized achievement exams	- Literacy rate of 15–24-year olds - Ratio of school attendance of orphans to school attendance of nonorphans ages 10-14 years		

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Data categories	Components	Encouraged extension(s)	Related indicators of Millennium Development Goals[8]	Periodicity	Timeliness
Health	Inputs: measures of current financial, human, and physical resources available to public and private (if available) health system, including public expenditures on health services; capacity of health care facilities by location and type of facility, and the number of trained personnel by location and certification	Private (household) expenditures on health services. Disaggregation of data by region		Annual (out-breaks of contagious diseases should be reported at higher frequency and with greater timeliness)	3–6 months following end of reference period
	Process (service delivery): Measures describing the number of clients served and type of care provided by public and private care providers, including inpatient, outpatient, and preventative care; population served by public health services such as immunizations, sanitation services, and improved water supply	Measures of the responsiveness of the health system to non-health aspects of service delivery. Disaggregation of data by region.	- Proportion of 1-year old children immunized against measles - Proportion of births attended by skilled health personnel - Antenatal care coverare (at least one visit) - Condom use (at last high-risk sex)		

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Data categories	Components	Encouraged extension(s)	Related indicators of Millennium Development Goals[8]	Periodicity	Timeliness
			- Proportion of population ages 15–24 years with comprehensive knowledge of HIV/AIDS - Proportion of children under age 5 sleeping under insecticide-treated bednet - Proportion of children under age five who are treated with appropriate anti-malarial drugs - Proportion of tuberculosis cases detected and cured under directly observed treatment short course - Proportion of population with avanced HIV infection with access to antiretroviral drugs		

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Data categories	Components	Encouraged extension(s)	Related indicators of Millennium Development Goals[8]	Periodicity	Timeliness
			- Proportion of population using an improved water source, urban and rural - Proportion of population using an improved sanitation facility		
	Outcomes: statistics on mortality and morbidity, including mortality by cause and the incidence of disease by age, sex, region and other patient characteristics		- Maternal mortality ratio - Contraceptive prevalence Rate - Unmet need for family planning - Prevalence of underweight children under 5 years of age - HIV prevalence among population 15–24-years -Prevalence and death rates associated with malaria		

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Data categories	Components	Encouraged extension(s)	Related indicators of Millennium Development Goals[8]	Periodicity	Timeliness
			- Incidence, prevalence and death rates associated with tuberculosis		
Poverty	Income poverty: number and proportion of people or households with less than minimum standard of income or consumption; valuation of minimum consumption bundle	Measures of the distribution of household or per capita income or consumption, and incidence of low consumption	- Proportion of population below $1 (PPP) per day - Poverty gap ratio (incidence x depth of poverty) - Share of poorest quintile in national consumption	3–5 years	6–12 months following the survey
	Other poverty measures: measures of deprivation or insecurity used to identify the population living in poverty, such as evidence of malnutrition, endemic diseases, educational achievement, and lack of access to basic services	Separate poverty estimates for urban and rural populations or for major regions, states, or provinces. Disaggregation of data by region.			

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[1] (*) Denotes comprehensive statistical frameworks; (**) denotes tracking categories.
[2] See Central Government Operations for component details.
[3] Accrual including all noncash basis, such as modified cash and modified accrual basis.
[4] The measures of broad and narrow money vary from country to country. M2 is broad money for countries that do not have M3. However, M2 is a narrower measure of money for countries that have M3 or a broader measure of money.
[5] Or subsequent editions.
[6] As a first step towards the full Template on International Reserves and Foreign Currency Liquidity.
[7] See table 2 of the Annex Scope and Operational Characteristics of the Special Data Dissemination Standard, as amended, in Article VIII, Section 5 of the IMF Articles of Agreement (http://www.imf.org/external/pubs/ft/sd/index.asp?decision=EBM/96/36).
[8] As documented (and numbered) in the Millennium Indicators Database of the United Nations Statistical Division (see http://millenniumindicators.un.org)

(ii) *Periodicity and timeliness*

The GDDS recognizes the importance of production and dissemination of data that are of appropriately high periodicity and timeliness. Periodicity refers to the **frequency of compilation** of the data (that is the relevant period covered by a data observation, i.e., annual, quarterly, monthly, weekly, daily, etc.). The periodicity of a particular data category reflects several factors, including the ease of data collection and compilation, and the needs of analysis. The GDDS should be viewed as encouraging improvements over time in periodicity of data dissemination (that is higher frequency) that are consistent with improvements in data quality. Timeliness refers to the **speed of dissemination** of the data—i.e., the lapse of time between a reference date (or close of a reference period) and dissemination of the data. It reflects many factors, including institutional arrangements, such as the preparation of accompanying commentary. Dissemination of statistics takes several forms, including:

• formal publications, such as news releases (perhaps presenting only summary statistics), periodicals such as monthly bulletins, or one-time volumes;

• announcement of availability of statistics on request (but not necessarily without charge), including through electronic databases;

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• internet, diskettes, tapes, or CD-ROM of a formal publication or a database;

• recorded brief telephone messages, e-mail and fax services, especially in the case of data categories justifying high-frequency distribution.

The objectives for timeliness that are presented in Table 1 are set out in terms of ranges of time in recognition of the diversity of relevant country practices and circumstances. The short end of the timeliness range corresponds to the Special Data Dissemination Standard (SDDS) timeliness requirements for a given indicator while the high end of the range relates to good practice across a broad group of countries. The GDDS should be viewed as encouraging improvements over time in the timeliness of data dissemination that are consistent with improvements in data quality.

(B) *Specifications*

The GDDS objectives for coverage, periodicity, and timeliness are summarized in Table 1. Recommended features of the GDDS are listed under the "Components" column. However, some data categories or components are designated "as relevant." This designation recognizes that the relevance of a specific data category or component to an economy should be taken into account in the development of the statistical system. Where the coverage components, periodicity, or timeliness is designated as "encouraged," countries are encouraged to develop and disseminate such data categories with the indicated periodicity and timeliness, but only after the main recommended components are regularly disseminated. The GDDS recommends the use of internationally accepted statistical methodologies (see http://dsbb.imf.org/Applications/web/getpage/?pagename=internationallyacceptedstatisticalmethodologies) for the compilation and presentation of data. Countries are encouraged to indicate deviations from these internationally accepted statistical methodologies in their metadata.

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Real sector

The comprehensive statistical framework for the real sector is the national accounts, consisting of nominal levels, real (price-adjusted) levels, and associated prices (deflators or price indices). For national accounts, the general objective is to produce and disseminate the full range of national accounts aggregates and balances. Thus, in addition to GDP, the GDDS recommends the development of measures of national and disposable income, consumption, saving, capital formation, and net lending/net borrowing. The GDDS recommends that either GDP by major expenditure category (in current prices and in volume terms) or GDP by production approach (in current prices and in volume terms) be disseminated annually (quarterly encouraged) and within 6–9 months after the end of the reference year.

The data category intended to track GDP on a more frequent basis is a single production index or a selection of production indices. The index or selection of indices that are relevant will depend on a country's economic structure—manufacturing or industrial production in some countries, and primary commodity production (e.g., petroleum or rice) and/or agriculture production in other countries. To provide a guide to developments in GDP, a monthly measure is recommended for manufacturing or industrial production.

Labor market data are critically important statistics in industrial countries, but may be less meaningful in others, such as those with large informal or subsistence sectors. The "as relevant" notation recognizes that the coverage of the specified employment, unemployment, and wages/earnings components may, of necessity, be less than the total economy and that such concepts may not be meaningful. The annual periodicity and 6–9 months timeliness are recommended in consultation with the Bureau of Statistics of the International Labor Office. Disaggregation by age, sex, occupation, and industry are relevant to two MDG indicators namely the share of women in nonagricultural wage employment (MDG Indicator No. 11) and the unemployment rate among youths (MDG Indicator No. 45).

For price statistics, consumer price indices are recommended and producer price indices are encouraged. They are widely used in their

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own right; in addition, their underlying detail is needed for price-adjusted national accounts. Monthly periodicity is recommended with timeliness of 1–2 months after the end of the reference period.

Fiscal sector

For the fiscal sector, the comprehensive statistical framework is the central government operations. The GDDS recommends complete coverage of all central government units. The actual coverage of units of central government should be broad enough to closely reflect the country's fiscal stance. For some countries, this may be limited to budgetary accounts, but for many countries, social security funds, extrabudgetary accounts, and decentralized agencies would need to be included. The production and dissemination of interest payments data is encouraged, particularly in heavily indebted countries. The GDDS recommends development of an appropriate analytical framework and classification schemes, but does not prescribe a particular framework or set of classification tables. The GDDS recommends that data on the operations of central government be disseminated quarterly (monthly encouraged) within 1 quarter (1 month encouraged). The GDDS also encourages the development of data on general government operations or public sector operations, as appropriate. When these data are of particular policy and analytical significance—for example, when the public sector borrowing requirement is a focus of policy—their development may be accorded a high priority.

The recommended data coverage for debt is the total debt of central government. Debt data should be classified as domestic and foreign, on an "as relevant" basis. Breakdowns may be provided, as relevant, by maturity (short- versus medium- and long-term, preferably by remaining maturity but on an original maturity basis if the former is not available), by currency, by sector of the creditor, and/or by debt instrument. Quarterly periodicity and timeliness of 1–2 quarters are recommended for central government debt. The dissemination of information on government guaranteed debt is encouraged.

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Financial sector

The depository corporations survey (DCS) is the comprehensive framework for the financial sector. The coverage of this framework includes all depository corporations (banking institutions) that have liabilities included in broad money aggregates. The GDDS recommends an analytical framework that is based on a measure of broad money and factors that affect changes in money, especially domestic credit and external assets and liabilities. Narrower monetary aggregates (such as M1 and M2[1]) are encouraged. In recognition of existing good practice across a broad range of countries, the GDDS recommends monthly data to be disseminated within 1–3 months of the end of the reference month.

The data category recommended to track DCS data on a more timely basis is the central bank survey. With regard to data for the central bank, the component specified is the monetary base. Monthly dissemination within one to two months is recommended.

Interest rates should include short- and long-term government securities rates as appropriate to the country (e.g., three-month Treasury bill rate and ten-year government bond rate) and a policy-oriented rate, such as the central bank lending rate. Dissemination of money market or interbank rates and a range of deposit and lending rates is encouraged. The GDDS recommends monthly data observations. Where rates are administratively determined, changes in rates should be disseminated as soon as possible after rate changes.

In countries where a stock market exists, the GDDS encourages the dissemination of share price indices.

[1] The measures of broad and narrow money vary from country to country. M2 is broad money for countries that do not have M3. However, M2 is a narrower measure of money for countries that have M3 or a broader measure of money.

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External sector

For the external sector, balance of payments and international investment position (IIP) are the comprehensive frameworks. The general objective is the production and dissemination of complete balance of payments and IIP accounts. The GDDS recommends that disseminated data on the balance of payments identify the following components: current (imports and exports of goods and services, net income and net transfer transactions), capital, and financial (direct investment, portfolio investment, other investment, and reserves) account transactions; a range of analytical balances, such as the trade balance, current account balance, and the overall balance may also be compiled within this framework. Disaggregation of data according to the standard components of the IMF *Balance of Payments Manual,* fifth edition (*BPM5*) and separately identifying data on financial derivatives (assets and liabilities) under financial account is encouraged. The GDDS recommends the dissemination of complete balance of payments data annually within 6 months of the end of the reference year. The compilation and dissemination of quarterly data are strongly encouraged.

For IIP, the GDDS recommends to disseminate the following components: direct investment; portfolio investment, including a breakdown into equity and debt; other investment; and (for assets), reserves. Disaggregation of assets and liabilities according to the standard components of the *BPM5* and separately identifying data on financial derivatives (assets and liabilities) under the financial account is encouraged. The GDDS recommends the dissemination of IIP data annually within 6–9 months of the end of the reference year.

The GDDS recommends a separate data category for external debt, with the following data components: (1) public and publicly guaranteed external debt, broken down by maturity, (2) the associated debt service schedule, and (3) private external debt not publicly guaranteed. It is recommended that the stock data on public and publicly guaranteed external debt be disseminated with quarterly periodicity and timeliness of 1–2 quarters of the reference date, and the private external debt data be disseminated with annual periodicity and timeliness of 6–9 months. Similarly, public and publicly guaranteed exter-

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nal debt service schedule should be disseminated semi-annually, within 3–6 months of the reference date, and should cover estimates and projections for four quarters and then two subsequent half years.

For example, the debt service schedule with a reference date of end-December 2008 should be disseminated at end-March (but no later than end-June) 2009 and the estimates and projections should cover QI, QII, QIII and QIV for 2009, as well as January–June and July–December 2010. The dissemination of data on external debt service and the exports of goods and services in the balance of payments allows the calculation of the ratio of external debt service to exports of goods and services (MDG Indicator No. 44). The GDDS encourages disseminating instrument breakdown of public and publicly guaranteed external debt, the associated debt service schedule, disaggregated into principal and interest, and a private external debt service schedule.

The dissemination of monthly official reserve assets (total and key components covering foreign currency reserves, IMF reserve position, SDRs, gold, and other reserve assets) within 1–4 weeks is recommended (timeliness of 1 week is encouraged). The dissemination of the data Template on International Reserves and Foreign Currency Liquidity (reserves template) is encouraged. Monthly dissemination of reserve-related liabilities is also encouraged as a first step towards the full reserves template.

The dissemination of monthly data on merchandise trade (at least total imports and exports) within 8–12 weeks is recommended. Dissemination of major commodity breakdowns of imports and exports is encouraged, with a slightly longer time lag.

The GDDS recommends that spot exchange rates be disseminated to the public on a daily basis. If these are readily available in the media or through on-line systems, public redissemination by official agencies may be limited to monthly, or preferably weekly, end period and period average rates.

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Socio-demographic data

The GDDS provides for the coverage of **socio-demographic data** that may be useful in monitoring and evaluating long-term economic objectives to complement core macroeconomic data categories. The information is of great importance to the operation of governments, to the activities of non-governmental and international organizations, and to civil society in general. The GDDS includes four categories of socio-demographic data—population, education, health, and poverty. Table 1 also summarizes the main components recommended for compilation and dissemination for each category together with specified periodicity and timeliness. These do not represent the full range of statistics that are relevant for setting or monitoring social policies, nor do they reflect the full range of data gathering activities that official agencies may undertake. The GDDS does not, for example, include categories for housing, criminal justice, scientific and cultural activities, or environmental statistics. Nevertheless, the recommendations for socio-demographic data are subject to future elaboration and amendment.

The GDDS makes no specific recommendations concerning which social or demographic indicators should be compiled or reported by participating countries. Countries are encouraged to construct indicators to meet their own national needs based on good statistical practices. The main components for the socio-demographic data that are listed in Table 1 include information on inputs of resources (financial as well as human) into the social area, as it may provide a useful link to public expenditure policies. This feature is particularly appropriate for the GDDS as it is meant to provide a comprehensive framework spanning a broad range of interrelated policy areas, both in the social and economic spheres. As such, the GDDS is particularly appropriate for covering the broad range of indicators used to monitor progress within national poverty reduction strategies. Furthermore, each sociodemographic data category specifies related MDG indicators which could be used to gauge the effectiveness of poverty-reduction policies.

While there are no comprehensive frameworks for socio-demographic data (as there are for macroeconomic and financial statistics), there do

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exist guidelines for compilation, standard classification systems, and examples of "best practice" that are frequently cited and widely used by statisticians to organize the collection and presentation of social and demographic statistics. Detailed guidance, including references to relevant documents published by international agencies, is provided in the IMF's *Guide to the General Data Dissemination System*.

2. *Access by the public*

Dissemination of official statistics is an essential feature of statistics as a public good. Ready and equal access are principal needs for the public, including market participants. To support ready and equal access, the GDDS recommends:

a. Advance dissemination of release calendars

Advance release calendars (ARC) highlight sound management and transparency of statistical compilation and provide data users with information needed to take a more active and organized approach to acquiring the inputs for their work. The objective may be met, for example, by the dissemination of calendars showing release dates for the current month and for the following three months. Agencies are recommended to make widely known the name and address of an office or a person who could provide the latest information about the ARC, including release of data for which periodicity and timeliness are irregular, and newly disseminated data.

b. Simultaneous release to all interested parties

To recognize that data are valuable commodities and in the interest of equity, the GDDS recommends the release of data to all interested parties at the same time. Release is not intended to refer to access by government agencies, including those other than the producing agency; pre-release access is governed by conditions set out in the description of integrity (see subsection 3.b below). The act of release may consist of providing summary data, to be accompanied perhaps later, by provision of detail. The objective may be met by providing at least one publicly identified and accessible location where data are available to all on an equal basis once they are released.

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Therefore, given the ongoing global integration and increased reliance on the Internet and electronic data transmission, the GDDS recommends to release data simultaneously to the public through a National Summary Data Page (NSDP) that is published on the website of one of the statistics compiling agencies (see III.2).

3. *Integrity*

To fulfill the purpose of providing the public with information, official statistics must have the confidence of their users. In turn, confidence in the statistics ultimately becomes a matter of confidence in objectivity and professionalism of the agency producing the statistics. Transparency of its practices and procedures is a key factor in creating this confidence. To assist users of the data disseminated under the GDDS in assessing their integrity, the GDDS recommends:

a. Dissemination of the terms and conditions under which official statistics are produced, including those relating to the confidentiality of individually identifiable information

This practice, which was embodied in the Fundamental Principles of Official Statistics adopted in 1994 by the United Nations Statistical Commission is indirect, but nevertheless fundamental to fostering confidence in the objectivity and professionalism of official statistics. The terms and conditions under which statistical agencies operate may take various forms, including statistics laws, charters, and codes of conduct. Accordingly, a first step toward this objective would be to put such laws, charters, and codes in place. The terms and conditions incorporated in them may refer to matters such as the relationship of the statistical unit to a larger department or ministry of which it is part (if relevant), the legal authority to collect data, the requirement to publish data it has collected, the terms of reference for the chief statistician/director, and procedures and processes related to confidentiality of individual responses. Dissemination of this information may take a variety of forms, including annual reports of the producer of statistics, abstracts in key publications, and statements of relevant passages referring to confidentiality of survey forms. Statistics producers may find it convenient to use logos and other insignia to remind users of

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the terms under which statistics carrying the logo are produced. These terms and conditions should be kept up-to-date.

b. Identification of internal government access to data before release

In the interest of transparency about possible undue influence on the data before release, the GDDS calls for listing the persons/positions within the government, but outside the agency producing the data, who have pre-release access. Such identification that is, statements of who knows what—may take a variety of forms, including brief notices to the public and annual reports of the producer of statistics. This practice is addressed mainly to situations in which the data are sensitive for policy or other reasons, and the objective may be met, at a minimum, by following this practice for the most sensitive data categories and indicators.

c. Identification of ministerial commentary on the occasion of statistical releases

Ministerial commentary is not necessarily expected to maintain the same degree of objectivity or freedom from political judgment as would be expected of good practice for a producer of official statistics. Therefore, a good practice is to identify such commentary so that its source will be transparent to the public. The identification of ministerial commentary on the occasion of statistical release may take several forms including separate statements by the minister (or other policy or political official) or, alternatively, identification of a statistical agency's material in a release that contains both ministerial commentary and data.

The agency's material may include data, explanatory text (e.g., of an unusual event affecting the data), and objective analysis; the identification of an agency's material may be made in various ways, including the use of source lines in tables and of the producer's logos or other insignia. This practice is addressed mainly to situations in which the data are sensitive for policy or other reasons, and the objective may be met, at a minimum, by following this practice for the most sensitive data categories and indicators.

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d. Provision of information about revision and advance notice of major changes in methodology

In the interest of transparency about the data producers' practices, the GDDS calls for the provision of information about past revisions and about one of the major prospective sources of revision. Relevant information about revisions in data may include statements about the policy followed (e.g., a policy of revising monthly data when an annual, more comprehensive survey becomes available or a policy of no revision) and data about the size of past revisions; both policies and data on revisions may have to be developed before they can be disseminated. Changes in methodology (e.g., changes in base year, major expansions of sample size, introduction of alternative data sources, reclassification of transactions or industries) are to be expected in developing statistical systems. The advance notices may take a variety of forms, including, at a minimum, a short statement in the last presentation of unrevised data or on a stand-alone basis. These statements would identify the kinds of changes to be made and give a source for additional information, such as a paper available on request or the name and address of a person able to explain the upcoming change. Members are encouraged, as well, to provide easy access to information explaining revisions after they are released (e.g., by access to a person able to answer questions about revisions).

4. Quality

Data quality must have a high priority. Data users should be provided with information to assess quality and quality improvements. GDDS participants are encouraged to adopt and implement internationally accepted statistical methodologies for the data categories covered by the GDDS and are encouraged to indicate where statistical practices deviate from these methodologies (a specified list of these methodologies is posted on the Dissemination Standards Bulletin Board (DSBB, see Section III.2). Although quality is difficult to judge, monitorable proxies, designed to focus on information the user needs to judge quality, can be useful. To assist users of the data disseminated under the GDDS in assessing their quality, the GDDS recommends:

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a. Dissemination of documentation on methodology and sources used in preparing statistics

The availability of documentation on methodology and sources underlying statistics is key to users' awareness of the strengths and weaknesses of the data. In addition to information on the DSBB (see section III.2), the participant's documentation may take several forms, including summary notes accompanying release of the data, separate publications, and papers available on request from the producers. Participants are encouraged to prepare and disseminate statements about important features of quality (e.g., the kinds of errors to which the data are subject, sources of noncomparability over time, measures of coverage for census data or sample error for survey data).[1]

b. Dissemination of component detail, reconciliations with related data, and statistical frameworks that support statistical cross-checks and provide assurance of reasonableness

To support and encourage users' checks and verification of data, this element provides for dissemination of components underlying aggregate series, dissemination within a statistical framework, and/or dissemination of comparisons and reconciliations with related data. Component detail should be at a level that does not conflict with other desirable characteristics such as the confidentiality of individually identifiable information or statistical reliability. Statistical frameworks include accounting identities and statistical relationships (such as matching stocks with flows). Comparisons and reconciliations include those that cut across frameworks, such as exports and imports as part of the national accounts and as part of the balance of payments.

[1] The size of past revisions, which is an important aspect of quality, is included under integrity, drawing on its role as an indicator of the transparency of conditions under which data are produced, (see II.3.d).

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III. *Implementation of the GDDS*

1. *Participation in the GDDS*

Members are encouraged to participate in the GDDS on a voluntary basis. Participants should make best efforts to disseminate the data as set out in Table 1. Participation involves (1) a commitment to use the GDDS as a framework for the development of their national systems for the production and dissemination of macroeconomic, financial, and socio-demographic data, (2) designation of a country coordinator to work with Fund staff, and (3) preparation of descriptions ("metadata") of (a) current statistical production and dissemination practices and (b) plans for short- and longer-term improvements that would be disseminated by the Fund. Participants are also expected to describe recent improvements that have been implemented. The descriptions of current practices and plans would correspond to each of the objectives for the data, coverage, periodicity and timeliness, access, integrity, and quality dimensions (using the Fund's Data Quality Assessment Framework (DQAF))[1] The plans would identify the major shortcomings relative to the objectives set out in the GDDS; the steps by which the shortcomings would be addressed; the resources, including technical assistance, necessary to achieve the improvements; and the time frame during which the improvements would be achieved. In particular, the improvements to be undertaken within the next year and within 2 to 5 years would be identified.

Participation will depend upon the completion of the three actions set out above and will be publicly recognized by the Fund when the metadata are posted on the Fund's Dissemination Standards Bulletin Board (DSBB). At any time before the completion of such actions, members may indicate their intent to participate by sending an appropriate communication to the Fund. This communication will provide the basis for work with the member on the actions involved in participation.

[1] See details on DQAF at http://dsbb.imf.org/Applications/web/dqrs/dqrsdqaf/.

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A country could opt for participation from the outset, move gradually toward participation, or continue to work with the Fund on the improvement of national systems for the production and dissemination of statistics, as in the past, without participation. Member countries cannot participate in both the GDDS and the SDDS at the same time. Although, participation in the GDDS is not a prerequisite for subscribing to the SDDS, member countries may well find the GDDS framework useful as a stepping stone for subscribing to the SDDS. In this context, GDDS plans for improvement should be oriented towards meeting SDDS requirements, where relevant.

2. *Dissemination Standards Bulletin Board*

The Fund, as a service to its members, has established and maintains an electronic DSBB on the Internet, a system to store and disseminate the metadata provided by participants. The DSBB identifies the members participating in the GDDS and provides easy access to the members' respective metadata. The responsibility for the accuracy of the metadata and of the economic, financial, and socio-demographic statistics underlying the metadata rests with the member countries. Although, participants are expected to review and update their metadata on either a "best-effort" or "when-merited" basis, participants are expected to update their plans for improvement on an annual basis.

It is recommended that GDDS participants establish a NSDP on the Internet, which could be linked to the DSBB electronically through "hyperlinks" on the latter. It is recommended that a participant's NSDP should contain the most recent observation for data categories included in the GDDS that are available as well as the previous observation. Where possible these data categories should be linked through "hyperlinks" to additional information available on other websites. Responsibility for the data on an NSDP rests with the participant. Furthermore, it is recommended that participants disseminate on the Internet an ARC showing the release dates of these data for the current month and for the following three months (see Section II.2.a).

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3. *Reviews and Withdrawal*

Reviews of the GDDS content and implementation procedures will be conducted by the Fund at intervals determined by the Executive Board of the Fund. The views of both producers and users of data will be sought. At the completion of these reviews, revisions of the GDDS framework may be adopted. Reviews of the Fund's Data Standards' Initiatives are available on the DSBB (http://www.imf.org/external/np/sta/dsbb/list.htm).

Members may withdraw their participation at any time. They may do so by sending an appropriate communication to the Fund. The relevant metadata would be removed promptly from the DSBB.

The Acting Chair's Summing Up—
Eighth Review of the Fund's Data Standards Initiatives
Executive Board Meeting 12/18, February 22, 2012

Executive Directors considered the review of the Fund's Data Standards Initiatives appropriate and timely, and noted that these initiatives have contributed to strengthening data quality and transparency. They considered proposals for further enhancing the Special Data Dissemination Standard (SDDS) and the creation of the SDDS Plus as a new tier under these initiatives, given the need to fill data gaps to help prevent and mitigate financial crises. Directors expressed broad satisfaction with developments in the data standards initiatives since the *Seventh Review of the Fund's Data Standards Initiatives* in December 2008.

Directors broadly supported the proposed enhancements to the SDDS. They saw merit in enhancing the SDDS by adding hyperlinks on the National Summary Data Pages (NSDPs) to time series for all data categories. Most Directors supported the introduction of a more structured timeline to strengthen the credibility of the nonobservance procedure. Most Directors also supported proposals to streamline the SDDS, by structuring Forward Looking Indicators and deleting ARC flexibility options. In this context, Directors supported terminating the posting of the SDDS quarterly update on the Dissemination Standards Bulletin Board.

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Directors encouraged members to continue their efforts to strengthen participation in the General Data Dissemination System (GDDS), including by further increasing participation and by encouraging participants to update annually their plans for improvement. Directors also agreed with the proposal to better leverage plans for focusing further and prioritizing the delivery of technical assistance in statistics. They looked forward to the graduation of additional countries from the GDDS to the SDDS as national statistical systems strengthen, while recognizing that progress in this area is likely to proceed at a measured pace. In this regard, Directors highlighted the importance of continued outreach efforts and well-prioritized technical assistance. A few Directors raised a concern about the resource implications that data initiatives for advanced economies may have on GDDS participants.

Directors broadly supported developing concrete proposals on the data categories and modalities of the SDDS Plus since the *Interim Report for the Eighth Review* in February 2011. They were encouraged to note that the proposed data categories and the modalities were developed in collaboration with other international institutions and capital markets, and were guided by feedback from SDDS subscribers and some GDDS participants.

Directors generally supported the nine additional data categories, especially for countries with systemically important global financial sectors, although many Directors saw merit in more flexibility for reporting and inclusion of certain categories. Directors supported the introduction of transition periods for certain categories to accommodate country-specific circumstances. In this context, Directors supported a transition period through end-2019.

Directors underscored the importance of continuing close collaboration with national authorities and relevant international bodies—in particular the Financial Stability Board, the Bank for International Settlements, and the Inter-Agency Group on Economic and Financial Statistics—for the resolution of any procedural and operational issues that may arise in the future.

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In light of today's discussion, updated SDDS and new SDDS Plus legal texts will be prepared by staff and submitted to the Executive Board in the second half of 2012 for approval. Upon approval, the SDDS Plus initiative would be officially launched and countries would be able to indicate their intention to adhere to the SDDS Plus initiative. Directors generally agreed that the next review of the Fund's Data Standards Initiatives should take place in about two year

BUFF/12/20,
February 24, 2012

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Article IX, Section 5

Archives

REVIEW OF THE FUND'S TRANSPARENCY POLICY—ARCHIVES POLICY

1. Outside persons, on request, will be given access under the terms specified in this Decision to documentary materials maintained in the Fund's archives.

2. Access will be given as follows:

(i) Executive Board documents that are over 3 years old;

(ii) Minutes of Executive Board meetings that are over 5 years old;

(iii) BUFF Statements by the Managing Director or Fund Staff to the Executive Board, BUFF/EDs, Gray Documents, Green Documents, Précis of Executive Board Meetings (replaced by Weekly Précis and Weekly Decisions Report), Executive Board Seminars Agendas and Minutes, Secretary's Journal of Executive Board Informal Sessions Minutes, and Executive Board Committee Minutes that are over 5 years old; and

(iv) Other documentary materials maintained in the Fund's archives that are over 20 years old.

3. Access to Fund documents specified in paragraph 2 above that are classified as "Secret" or "Strictly Confidential" as of the date of this Decision will be granted only upon the Managing Director's consent to their declassification. It is understood that this consent will be granted in all instances but those for which, despite the passage of time, it is determined that the material remains highly confidential or sensitive.

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4. Executive Board documents covered by Decision No. 13564-(05/85), October 5, 2005, as amended, on the Fund's Transparency Policy, that are classified as "Strictly Confidential" after the date of this Decision will be automatically declassified when the respective time periods specified in paragraph 2 have elapsed, unless at the time of their initial classification as "Strictly Confidential, the authoring department specifies that the document in question shall not be subject to automatic declassification. If a specification is made that a document shall not be subject to automatic declassification, paragraph 3 of this Decision shall apply to the declassification of that document.

5. Access to the following will not be granted: (a) legal documents and records maintained by the Legal Department that are protected by attorney-client privilege; (b) documentary materials furnished to the Fund by external parties, including member countries, their instrumentalities and agencies and central banks, that bear confidentiality markings, unless such external parties consent to their declassification; (c) personnel files and medical or other records pertaining to individuals; and (d) documents and proceedings of the Grievance Committee.

6. To enable easier and wider public access to the Fund's Archives, archival material covered by this Decision may be made available through a variety of means, including through a designated section on the Fund's external website. Accordingly, a "request" under paragraph 1 of this Decision may be made orally in person at Fund Headquarters or by telephone; in writing by hardcopy or electronic means such as e-mail or facsimile; or through a portal in the Fund's external website designated for access to archival material. Requested material may also be conveyed to the public by hardcopy, electronic means and web-based modalities.

7. Since the Board's approval of the Policy on Access to Fund Archives in 1996, staff has continued to follow the long-standing policy of requesting Board consent for ad hoc exceptions to the policy on behalf of external researchers. A reasonable cost recovery scheme may be maintained for administering ad hoc requests for Board approval of exceptions to the terms specified under this Decision. No

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charge shall be assessed for requests received from government officials of member countries.

8. Decision No. 11192-(96/2), January 17, 1996, as amended, on the Opening of the Archives and Decision No. 12981-(03/34), April 9, 2003 on Review of the Policy on Access to the Fund's Archives are repealed.

9. This Decision is expected to be reviewed by the Executive Board at regular intervals in tandem with the regular reviews of the Fund's Transparency Policy, Decision No. 13564-(05/85), adopted October 5, 2005, as amended.

10. This Decision shall become effective on March 17, 2010. (SM/09/264, Sup. 3, 12/9/09)

Decision No. 14498-(09/126),
December 17, 2009,
as amended by Decision No. 14766-(10/115),
November 29, 2010

COOPERATION WITH INVESTIGATIONS ON FUND ACTIVITIES BY AUDITING INSTITUTIONS OF MEMBERS—PROCEDURES

The Executive Board of the International Monetary Fund adopts the following procedures to cooperate, upon request, with investigating agencies of members for the preparation of reports on the Fund and its activities. In keeping with the multilateral character of the Fund and in light of the many existing mechanisms to assess the Fund and its activities, the Executive Board expects that restraint will be exercised in requesting such investigations.

1. All requests from official investigating agencies will be notified to the Executive Board at least two weeks before the commencement of any cooperation with the agency pursuant to the request. The notification will include the full text of the terms of reference of the enquiry and any special features of the enquiry. Executive Directors will have an opportunity to comment on all aspects of the notification, as they deem suitable.

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2. Management and staff will be prepared to meet a request if it is channeled through an Executive Director's office and provides:

(i) a precise description of the terms of reference of the enquiry; and

(ii) written assurances that:

- confidential information provided in the course of the enquiry will not be disclosed;
- management and staff will be given an opportunity to review any report resulting from the enquiry before its circulation outside the agency to ascertain that no confidential information is being disclosed in the report and that the factual information is correct; and
- the views of management and staff will be included in the report in an acceptable manner.

3. In principle only documents and information available to the Executive Board will be made available to the agency; the consent of Executive Directors whose statements are involved should be requested before transmitting grays or Executive Board minutes to the agency. Requests by the agency for access to additional documents and information (other than those relating to the Fund's internal advisory procedures) will be submitted to the Executive Board for approval if management supports the request. The Executive Board will not approve the request unless it has reviewed the relevant document or information; the procedures for the review will ensure the confidentiality of the document or information.

4. The Executive Board will be informed of requests which are denied by management under paragraph 2 or 3. In such cases, management or the relevant Executive Director may consult with the Executive Board.

5. All published reports resulting from such investigations will be circulated to the Executive Board for information, together with an assessment of the staff resources used by the Fund in the enquiry.

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6. If, in the judgment of management, an investigative agency did not respect the written assurances provided in accordance with paragraph 2(ii), it shall so inform the Executive Board and propose any remedial action it considers necessary.

7. These procedures will be reviewed not later than January 30, 2004. (SM/00/97, Rev. 1, Sup. 2, 2/2/01)[1]

Decision No. 12424-(01/13),
February 5, 2001,
as amended by Decision No. 12936-(03/8),
February 4, 2003

[1] Ed. Note: The Executive Board reviewed the procedures on January 20, 2004 (Decision No. 13172-(04/06) and on January 31, 2007 (Decision No. 13870-(07/10)). Pursuant to the latter decision, the procedures shall be reviewed again not later than January 31, 2012.

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Article IX, Section 7

Privilege for Communications

INTERPRETATION OF ARTICLE IX, SECTION 7

WHEREAS the Executive Director for the [member concerned] has raised certain questions of interpretation of the provisions of Section 7 of Article IX of the Articles of Agreement of the Fund as to the treatment to be accorded by a member of the International Monetary Fund to official communications of the Fund, which questions of interpretation are set forth below;

WHEREAS the said Executive Director has requested that the Executive Directors, in accordance with Article XVIII[1] of said Articles, decide such questions of interpretation;

NOW THEREFORE, the Executive Directors hereby decide such questions of interpretation as follows:

Question No. 1:

Does Section 7 of Article IX of the Articles of Agreement of the Fund apply to rates charged for official communications of the Fund?

Decision on Question No. 1:

Yes. Section 7 of Article IX applies to rates charged for official communications of the Fund.

Question No. 2:

If a member exercises regulatory powers over the rates charged for communications, is it relieved of the obligation of Section 7, Article IX, by reason of the fact that the facilities for transmitting communications are privately owned or operated or both?

[1] Ed. Note: Corresponds to Article XXIX of the Articles of Agreement after the Second Amendment.

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Decision on Question No. 2:

No. A member which exercises regulatory powers over the rates charged for communications is not relieved of its obligation under Section 7 of Article IX by reason of the fact that the facilities for transmitting such communications are privately owned or operated or both.

Question No. 3:

Is the member's obligation under Section 7 of Article IX satisfied if official communications of the Fund may be sent only at rates which exceed the rates accorded the official communications of other members in comparable situations? For example, would the obligation of member "a," under Section 7 of Article IX, be satisfied if the rate charged the Fund for its official communications from the territory of member "a" to the territory of member "b" exceeds the rate charged member "b" for its official communications from the territory of "a" to that of "b"?

Decision on Question No. 3:

No. The obligation of a member under Section 7 of Article IX is not satisfied if official communications of the Fund may be sent only at rates which exceed the rates accorded the official communications of other members in comparable situations. For example, the obligation of member "a," under Section 7 of Article IX, would not be satisfied if the rate charged the Fund for its official communications from the territory of member "a" to the territory of member "b" exceeds the rate charged member "b" for its official communications from the territory of "a" to that of "b."

Decision No. 534-3,
February 20, 1950

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Article IX, Section 8

Immunities and Privileges of Officers and Employees

MANAGING DIRECTOR—POLICY STATEMENT ON IMMUNITY OF FUND OFFICIALS

The Executive Board expressed support for the Managing Director's policy statement on the immunity of Fund officials.

Decision No. A-11780,
June 17, 2002

ANNEX

Policy Statement on Immunity of Fund Officials

The safety and security of Fund staff and other officials, particularly while traveling on mission or on assignment to field offices, are of paramount importance to the Fund. In this regard, in addition to the procedures that are intended to ensure the physical safety of Fund staff and other officials and their families, there are legal protections applicable in situations where staff and other officials are arrested or detained.

Article IX, Section 8 of the Articles of Agreement provides that all Governors, Executive Directors, Alternates, members of committees, representatives appointed under Article XII, Section 3(*j*), advisors of any of the foregoing persons, officers, and employees of the Fund shall be immune from legal process with respect to acts performed by them in their official capacity except when the Fund waives this immunity.

This policy statement clarifies the rights that apply, and sets out the basic steps that would be taken, in the event that a Fund official[1] is arrested or detained while on mission, on assignment to resi-

[1] For purposes of this Policy Statement, the term "officials" includes all persons listed in Article IX, Section 8.

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dent representative posts or field offices, or at headquarters, and explains what actions the Fund is prepared to take to obtain the dismissal of all charges to which the immunity applies and the immediate release of the official.

In the event that a Fund official were to be arrested or detained, it would be necessary to immediately determine whether or not the arrest or detention was made for acts performed in an official capacity. In order to make this assessment and to ensure that both the official's immunity and the Fund's interests are protected, the Fund has the right:

(1) to visit and converse freely with the official;

(2) to be apprised of the grounds for the arrest or detention, including the main facts of the case and the formal charges against the official;

(3) to assist the official in arranging for legal assistance; and

(4) to appear in legal proceedings to defend any interest of the Fund affected by the arrest or detention.

As these rights are considered ancillary to the immunities of the Fund and its officials and essential in order for the Fund to safeguard and maintain its interests, member countries are required, as part of their obligation to respect immunities, to give the Fund a full and timely opportunity to exercise these rights.

Accordingly, a Fund official who is arrested or detained will be entitled to contact the Fund, or have the authorities notify the Fund of his arrest or detention. The mere fact that there is no apparent connection between the reason for the arrest or detention given by the authorities of the member country and the duties, functions or status of the official would be insufficient to negate the right of the Fund to be informed.

If the Managing Director concludes that the official's acts are covered by immunity from legal process, and the immunity has not been waived by the Executive Board, the Managing Director will inform the Executive Board and notify the authorities of his conclusions and insist on the immediate release of the official and the dismissal of any charges to which the immunity applies. This notification must be

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conveyed by the authorities to the competent law enforcement or judicial organs.

In the event that a member's authorities (including judicial and law enforcement organs) failed to respect immunities or to comply with the ancillary obligations described above, the Managing Director will report the matter to the Executive Board under Rule K-1 of the Rules and Regulations, and the Executive Board will be asked to consider the application of sanctions to the member for breach of its obligations under the Articles.

In addition, if Fund officials were to be incarcerated, the Fund would also seek to monitor their treatment and the conditions in which they are being held, with a view to ensuring that they receive humanitarian treatment, adequate nourishment and medical care.

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Article X

Relations with Other International Organizations

ARRANGEMENT FOR CONSULTATION AND COOPERATION WITH THE CONTRACTING PARTIES OF GATT

The Fund agrees that the informal arrangement of an administrative character proposed by the Chairman of the Contracting Parties constitutes a satisfactory basis for consultation and cooperation between the Fund and the Contracting Parties to the General Agreement on Tariffs and Trade (Executive Board Document No. 316, Supplement 2). The Managing Director is authorized to agree to that arrangement on behalf of the Fund and the text of the proposed reply to the Contracting Parties is agreed (Committee on Liaison with ITO Document No. 11).

Decision No. 363-1,
September 24, 1948

Executive Board
Document No. 316
Supplement 2

Contracting Parties
to the General Agreement
on Tariffs and Trade
Palais des Nations
GENEVA

9 September 1948

The Managing Director,
International Monetary Fund,
1818 "H" Street,
Washington, D.C.
U.S.A.

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Dear Sir:

The General Agreement on Tariffs and Trade, which has now been put into provisional application by all but one of the countries participating in the negotiation thereof, provides in paragraph 1 of Article XV as follows:

"The CONTRACTING PARTIES shall seek co-operation with the International Monetary Fund to the end that the CONTRACTING PARTIES and the Fund may pursue a coordinated policy with regard to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the CONTRACTING PARTIES."

Throughout the Agreement various provisions call for consultation or agreement between the CONTRACTING PARTIES, that is, the contracting parties to the General Agreement acting jointly, and the International Monetary Fund on matters of common concern. In particular, paragraph 2 of Article XV calls for a wide range of consultation, and paragraph 3 of Article XV provides:

"The CONTRACTING PARTIES shall seek agreement with the Fund regarding procedures for consultation under paragraph 2 of this Article."

In view of the fact that the General Agreement on Tariffs and Trade has been given only provisional rather than definitive application, it is the view of the CONTRACTING PARTIES that an elaborate agreement to implement paragraph 3 quoted above is not necessary at this time. However, questions may arise in the interim, which would require the CONTRACTING PARTIES to seek the cooperation of the Fund.

Under such circumstances it is proposed by the CONTRACTING PARTIES that the Fund agree to co-operate with the CONTRACTING PARTIES in carrying out the provisions of the General Agreement in accordance with the terms thereof and, in particular, to consult, at the request of the CONTRACTING PARTIES, on matters as contemplated by the General Agreement. If such cases arise, the Chairman of the CONTRACTING PARTIES will notify the Managing Director of the Fund of each particular instance in which the CONTRACTING PARTIES desire consultation and will furnish

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the Fund with all information available which may assist the Fund in considering the question. Since various provisions of the General Agreement call for consultation between the CONTRACTING PARTIES and the Fund, it might be necessary in particular cases to await a meeting of the contracting parties before formal consultation could be undertaken. However, the CONTRACTING PARTIES have authorized their Chairman to initiate requests, either at the direction of the CONTRACTING PARTIES or on the Chairman's own initiative if the contracting parties are not in session, for the Fund to consult with the CONTRACTING PARTIES in accordance with the provisions of the General Agreement. This arrangement should make it possible for the Fund to undertake with a minimum of delay such studies as may be necessary and should afford the Fund opportunity to become familiar with the subject matter involved in advance of consultation with the CONTRACTING PARTIES in particular cases.

The Fund may from time to time wish to request consultation with the CONTRACTING PARTIES on matters of common interest, and, in such cases, the CONTRACTING PARTIES will be prepared to consult upon such requests.

Any request for consultation by either the Fund or the CONTRACTING PARTIES shall be accompanied by available information that would contribute to the effectiveness of the consultation. In such cases, due regard shall be paid to the need to safeguard confidential information and to any special obligations of the Fund and the CONTRACTING PARTIES in this respect.

The particular procedures in implementation of these arrangements can be worked out case by case until sufficient experience has been acquired on the basis of which more formal procedures can be developed if necessary.

If the foregoing arrangements are acceptable to the Fund, a reply to that effect would be appreciated.

Yours faithfully,

/S/ L.D. WILGRESS
Chairman of the Contracting Parties to the
General Agreement on Tariffs and Trade

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Committee on Liaison with ITO
Document No. 11

DRAFT

Dear Sir:

I beg to acknowledge receipt of your letter of September 9, 1948, concerning the future cooperation between the International Monetary Fund and the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade in carrying out the provisions of the General Agreement.

The Fund agrees with you that an elaborate agreement on co-operation is not necessary at this time and that this informal arrangement of an administrative character constitutes a satisfactory basis for consultation and cooperation between the International Monetary Fund and the CONTRACTING PARTIES.

I take pleasure in agreeing on behalf of the International Monetary Fund to the provisions of your letter of September 9, 1948.

Yours faithfully,

Gutt
Managing Director

L.D. Wilgress
Chairman of the Contracting Parties
to the General Agreement on Tariffs and Trade
European Office of the United Nations
Palais des Nations

THE IMF-WORLD BANK CONCORDAT (SM/89/54, REV. 1)

March 31, 1989

To: Members of the Executive Board

From: The Acting Secretary

Subject: Bank-Fund Collaboration in Assisting Member Countries

The President of the World Bank and the Managing Director of the International Monetary Fund have reached agreement on the

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attached text. This document, jointly prepared by the managements of the Bank and the Fund, reviews the current status of cooperation between the Fund and the Bank and provides for the administrative and procedural steps that are necessary to secure a constructive and stronger collaboration between them.

The purposes and mandates of the Bank and the Fund are defined in their Articles of Agreement, as interpreted by their respective Boards. Operating within the framework of the Articles, the managements of both institutions believe that it is of the utmost importance to ensure the closest possible collaboration and working relations between the two institutions in order to serve member governments with maximum effectiveness in meeting their development needs and in providing support for macroeconomic and structural change.

The guidelines contained in the attached document are intended to achieve this objective and should help avoid administrative friction and facilitate orderly resolution of differences of views. Both of us recognize that the advice, suggestions and support of each institution for the other are essential if they are to discharge their responsibilities effectively and promptly. Smooth and effective working relations between the two institutions have assumed special importance in view of the contribution that both of them are expected to make to policy formulation and sustained economic growth in their member countries.

The staff will be instructed to implement the guidelines embodied in this document in a spirit of close collaboration. This matter will be brought to the agenda for discussion on a date to be announced.

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Attachment

Memorandum to the Executive Board of the International Monetary Fund and the Board of Executive Directors of the World Bank
March 30, 1989

FROM: The Managing Director
The President

SUBJECT: Bank-Fund Collaboration in Assisting Member Countries

1. Guidelines for collaboration between our two institutions have been in place since 1966. They have been reviewed and strengthened on a number of occasions since then.[1] We, and our colleagues in the management of both institutions, have recently reviewed the experience with collaboration under existing policy and practices.

2. The problems faced by our member countries are severe. They are struggling to restore stability, to adjust their economies to a more rapidly changing and less benign international environment, and to restore growth, while they continue to grapple with their massive debt overhangs and limited availability of both concessional funds and commercial capital. The majority of the members of our two organizations face serious problems. Many of them face the urgent need for change in policies, institutions, and the incentive framework. All are entitled, in our view, to the best advice our highly competent staffs can provide—each by drawing on their specialized technical expertise and experience. It is our responsibility, and that of our Boards, to ensure that the procedures in place make possible, to the fullest extent practicable, comprehensive analyses by our staffs, early exchange of views on differences, and a system to refer remaining differences to the appropriate level of management for resolution. Proposals to improve our capacity to achieve these objectives are set forth in this paper.

[1] Additional collaboration procedures were added to the original guidelines in 1970, and guidelines, as expanded, were reviewed and affirmed by managements of both institutions in 1980, and by the Fund in 1984 and the Bank in 1985.

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3. The existing guidelines lay down principles which remain sound and provide a firm basis on which to build. They provide the Bank with "...primary responsibility for the composition and appropriateness of development programs and project evaluation, including development priorities." The Fund is assigned "...primary responsibility for exchange rates and restrictive systems, for adjustment of temporary balance of payments disequilibria, and for evaluating and assisting members to work out stabilization programs as a sound basis for economic advance." The guidelines further provide that "in between these two clear-cut areas of responsibility ...there is a broad range of matters which are of interest to both institutions. This range includes such matters as the structure and functioning of financial institutions, the adequacy of money and capital markets, the actual and potential capacity of the member to generate domestic savings, the financial implications of economic development programs, both for the internal financial position of the country and for its external situation, foreign debt problems, and so on."

4. The same guidelines also stipulate that "[on those matters in the area of primary responsibility of the Bank], the Fund, and particularly the field missions of the Fund, should inform themselves of the established views and position of the Bank and adopt those views as a working basis for their own work. This does not preclude discussions between the Bank and the Fund as to those matters, but it does mean that the Fund (and Fund missions) will not engage in a critical review of those matters with member countries unless it is done with the prior consent of the Bank." Corresponding provisions were made for the Bank and Bank missions.

5. While we reaffirm the principles of these guidelines, the overlap of activities of the two institutions has grown rapidly in the 1970s and 1980s as the Bank and the Fund have attempted to respond to the massive financing and adjustment requirements of members in a more difficult economic environment. In recognition of the longer-term and supply-oriented nature of the adjustment process, the Fund increased its consideration of structural issues in stand-by arrangements; extended the repayment period of extended arrangements to 10 years; and introduced the concessional and relatively long-term Structural Adjustment Facility (SAF) and the Enhanced Structural Adjustment Facility (ESAF). In response to the serious balance of payments

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problems affecting many developing countries stemming from the sharp deterioration of the terms of trade and from the weakness in domestic policies and institutions, the Bank introduced Structural Adjustment Loans (SALs) in 1980 that provided financing in support of policies to promote structural, economy-wide changes and, subsequently, Sector Adjustment Loans (SECALs), which focused on structural changes in specific sectors.

6. There is continuous and successful cooperation between the Bank and the Fund. Close contacts between the two staffs contribute to a better understanding of economic problems and policy options, and normally lead to improved and consistent policy advice; better coordination of the amounts, forms, and timing of financial assistance; and a greater effectiveness in mobilizing additional financial support.

7. Yet, given the complexity of the problems faced by our members and the perspectives of the two institutions, it is not unusual that differences of view may sometimes arise. In a few cases, some significant differences about country priorities and policy have emerged. In some cases, they have spilled into discussions by the staff with country authorities. Differences of view have concerned a number of areas, including exchange rate, the level of external assistance sufficient to provide reasonable prospects for sustained and successful adjustment efforts and resumption of growth, the speed of adjustment, and the need to maintain adequate levels of public sector development expenditures. At other times, differences of view between the staffs of the two institutions have centered on the trade-off between efficiency gains from certain structural measures to be accrued over time and balance of payments and budgetary impacts.

8. With the growing contiguity of the activities of the Bank and the Fund, we believe it is essential to strengthen collaboration, to ensure that conflicts of views are resolved at an early stage, do not surface in contacts with country authorities, and do not result in differing policy advice to member countries.

9. The Fund has among its purposes the promotion of economic conditions conducive to growth, price stability, and balance of payments sustainability and is required to exercise surveillance on a continual basis over the performance of its members as defined by

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Article IV. The Fund is empowered to provide temporary balance of payments financing to members to enable them to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity. Thus, the Fund has focused on the aggregate aspects of macroeconomic policies and their related instruments—including public sector spending and revenues, aggregate wage and price policies, money and credit, interest rates and the exchange rate. The Fund has to discharge responsibilities with respect to surveillance, exchange rate matters, balance of payments, growth-oriented stabilization policies and their related instruments. These are the areas in which the Fund has a mandate, primary responsibility, and a record of expertise and experience.

10. The Bank has the objective of promoting economic growth and conditions conducive to efficient resource allocation, which it pursues through investment lending, sectoral and structural adjustment loans. Thus, the Bank has focused on development strategies; sector and project investments; structural adjustment programs; policies which deal with the efficient allocation of resources in both public and private sectors: priorities in government expenditures; reforms of administrative systems, production, trade and financial sectors; the restructuring of state enterprises and sector policies. Moreover, as a market-based institution, the Bank also concerns itself with issues relating to the creditworthiness of its members. In these areas, except for the aggregate aspects of the economic policies mentioned in the previous paragraph, the Bank has a mandate, primary responsibility, and a record of expertise and experience.

11. While it is important to strengthen the framework for collaboration and to reduce the risk of conflict and duplication, both the Bank and the Fund must be allowed to explore their legitimate concerns with regard to macroeconomic and structural issues and to take them into account in their policy advice and lending operations. The 1966 guidelines stipulate that views on matters clearly within the area of "primary responsibility" of one or the other of the two institutions "should be expressed to members only by or with the consent of that institution." This provision remains appropriate. The procedures for enhanced collaboration spelled out below are designed to assure resolution of issues. It is, of course, equally important that borrowing

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countries be aware of the responsibility of the institution for policy advice in the areas of its primary responsibility.

12. The objective of the enhanced collaboration procedures is to avoid differing policy advice, but this does not mean that one institution should not engage in analyses in the areas of primary responsibilities of the other institution. On the contrary, the institutions and borrowing members normally stand to benefit from analyses from different perspectives, and thorough discussions between the two staffs are encouraged. In the event differences of view persist at the staff level even after a thorough common examination of them, and should the differences not be resolved by the management, the institution which does not have the primary responsibility would, except in exceptional circumstances, yield to the judgment of the other institution. In those cases, which are expected to be extremely rare, the managements will wish to consult their respective Executive Boards before proceeding. Also, in the interest of efficiency of staff resource use, each institution should rely as much as possible on analyses and monitoring of the other institution in the areas of primary responsibilities of the latter, while safeguarding the independence of institutional decisions.

Procedures for Enhanced Collaboration

13. Given the complexity of the problems handled, the differences in the mandates of the Bank and the Fund and the unique perspectives brought to bear on the assessment of country situations by the staffs of the two institutions, it is expected that differences of view will sometimes arise. Existing procedures and practices of Bank-Fund collaboration are designed to ensure the quality of analysis and policy advice, as well as thorough explorations of any differences of view that may emerge between the staffs. Typically, differences are worked out at the working level and are resolved satisfactorily in the large majority of cases. However, in order to further strengthen existing procedures on Bank-Fund collaboration and to facilitate the resolution of any remaining differences of view, new or more formal steps have been agreed in the following areas:

I. Strengthening Collaboration

14. The daily interactions and ad hoc contacts involving managements and staffs (and monthly, as well as ad hoc, meetings be-

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tween the Managing Director and the President) will be supplemented with regular meetings of the senior staff of each institution. In particular, there should be regular meetings between Bank Regional Vice Presidents and the corresponding Fund Area Department Directors to review current operational concerns. These meetings should anticipate and thus reduce the differences of view between staffs of the two organizations. In addition, meetings would be held at the senior level as required to review the strategies of each institution for countries of common concern. These meetings would normally be chaired by the Deputy Managing Director of the Fund and the Senior Vice President, Operations, of the Bank supported by a few senior staff on each side.

15. Whenever conditionality or advice to countries on major issues is involved, agreement should be sought promptly, beginning with working level staffs sharing information and views at the earliest possible stages, and involving their respective superiors when resolution at the working level cannot be achieved. It will be the responsibility of the managers to seek a resolution of any major differences of view between the institutions before the matter is discussed with the member, and before either staff makes proposals to the member. The Deputy Managing Director of the Fund and the Senior Vice President, Operations, of the Bank will meet to discuss any issues not resolved at the Fund Director/Bank Regional Vice President Level and advise, if necessary, the Managing Director and the President if any differences remain.

16. Existing procedures should be strengthened by a more systematic exchange of information on future country work and mission plans by country. Area Departments and Regions would be expected to maintain a forward-looking calendar of at Least one year that would be updated periodically. Deviations from the work plan or calendar would be communicated to the other institution without delay.

17. We also stand ready to establish, under the direction of the Fund's Director of Research and the Bank's Vice President, Development Economics, ad hoc study groups to examine analytical issues which may arise in the areas of common work between the two institutions.

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18. In the low-income countries, PFP discussions should continue to be handled jointly and, whenever possible, with a single mission chief at an appropriate rank, on the basis of pre-agreed terms of reference. The decision on whether the chief of such joint missions should be from the Bank or from the Fund will be determined on a case-by-case basis. When parallel missions are in the field, they would be expected to cooperate fully and meet jointly with the country authorities, following positions clearly agreed on in advance. Assuming members agree, the Fund management could issue an invitation for one or more Bank staff to be attached to missions involving the use of Fund resources in SAF/ESAF-eligible countries where the Bank was also financially active. Comparable provisions would be made to invite Fund staff to participate in Bank appraisal missions for SALs or SECALs in the same countries.

II. Improved Collaboration to Support Adjustment Programs

19. Under existing procedures, the Bank staff includes a discussion of the Fund's financial relations, the status of any negotiations for the use of Fund resources, and the results of any recent Fund reviews in the President's Report to the Bank's Executive Board on a proposed adjustment loan, since adjustment lending operations are not normally undertaken unless an appropriate Fund arrangement is in place. In the absence of a Fund arrangement, the Bank staff should ascertain whether the Fund has any major outstanding concerns about the adequacy of macroeconomic policies prior to formulating its own assessment in connection with the approval of the draft loan documents.[1] The Fund's assessment of macroeconomic policies is also taken into account in the Bank's assessment of its conditions prior to the release of subsequent tranches.

20. While the existing procedure functions well in most cases,[2] it is desirable to strengthen the coordination between the two institutions in this area. Such a need is particularly strong in the context

[1] SM/88/249 (11/14/88), pp. 4–6.

[2] Both the staff reports and summings up of Article IV consultations are made available to the Bank staff. Between consultations, the Bank staff is kept aware of the Fund staff's views and the results of other relevant Executive Board discussions on a continuous basis.

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of providing the Fund's assessment of macroeconomic policies for member countries where there are no existing Fund arrangements. Nonetheless, the economic situation or policies of the member may have changed significantly between consultations. In these cases the Bank will ask the Fund's views, leaving time for consultations with the country authorities as needed. In comparable circumstances, the Fund management will ask the Bank's staff views prior to recommending approval of an adjustment program involving the use of Fund resources.

III. A PFP-Like Document for Middle-Income Countries

21. Some Directors have suggested that consideration be given to preparing PFP-like documents for some middle-income countries requesting the use of Fund resources, particularly those requesting arrangements under the EFF.[1] While the preparation of medium-term plans could be useful for non-SAF-eligible countries where the member seeks a multi-year commitment of resources from its creditors or where structural changes are prominent in the programs (e.g., under the EFF), this matter would be presented to the Executive Boards for consideration after further consultations between the two staffs and managements.

IV. Collaboration in the Context of the Debt Strategy

22. In the context of the debt strategy, the Fund is looked to by the commercial and official financing communities for an assessment of balance of payments prospects and financing requirements of member countries undertaking stabilization programs. Bank views are sought with respect to Longer-term external resource requirements and growth prospects. In certain cases menu items play an important role in providing financing and contributing to a viable debt service profile over the medium term. Both institutions have an interest in this aspect of the member's external position as it affects the member's medium-term balance of payments prospects and creditworthiness. Therefore, in order to better coordinate our assistance to debtor countries faced with the need to develop financial menu items and

[1] See BUFF/88/92 (5/13/88), pp. 2–3; and "Proposals for Extending the Policy Framework Paper (PFP) Process to Middle-Income Debtors" (EBD/88/144, 5/31/88).

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other innovative forms of financing, including those aimed at debt reduction, we will establish a task force to promote cooperation, analysis, and the exchange of information on the financing techniques by our institutions.

V. Collaboration in the Presence of Overdue Obligations

23. Both the Bank and the Fund urge members with overdue obligations to one or both institutions to become current with both. In practice, if a member country has overdue obligations to one institution, this will affect the other institution's assessment of the justification for extending its own financial assistance. Each institution's policies require that it review the ability of a member to meet its financial obligations in light of that member's discharge of its obligations to the other; Fund management would find it difficult to present a request for a Fund arrangement to the Executive Board for a member with overdue obligations to the Bank, both because of its implications for ability to meet Fund obligations and because continued access to Bank or IDA Lending is often necessary to ensure that an adjustment program is adequately financed. Fund management, therefore, proposes to seek the views of the Bank in all cases where the use of Fund resources was requested by a member with overdue obligations to the Bank, and would not be prepared to support such a request when arrears to the Bank were an indication that the resources of the Fund would not be safeguarded. Similarly, Bank management would advise its Board with regard to countries with overdue obligations to the Fund and would not be prepared to recommend approval of an IBRD or IDA loan, if the overdue obligations to the Fund were an indication that the resources of the Bank would not be safeguarded. Furthermore, the two managements will act in the full spirit of solidarity when one of the institutions is confronted with arrears, as such arrears constitute a major challenge to the cooperative nature of the institutions. They will, in such instances, provide their good offices and support to help eliminate those arrears.

VI. Independence of Institutional Decisions

24. The Executive Directors of the Bank and the Fund have stressed repeatedly the need to avoid cross-conditionality: each institution must continue to proceed with its own financial assistance according to the standards laid down in its Articles of Agreement and

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the policies adopted by its Executive Board. Thus, although the Bank's assessment of structural and sectoral policies will continue to be an important element in decisions regarding Fund lending, the ultimate decision on whether to support the program rests with the Fund's Executive Board. Similarly, although the Fund's assessments will continue to be an important element in decisions regarding Bank adjustment lending, the ultimate decision rests with the Bank's Executive Directors.

25. Nevertheless, in the event that Fund management were to decide to submit a program for approval in spite of the Bank's reservations about structural policies or in the presence of arrears to the Bank, Fund management would present the case to an informal meeting of the Fund's Executive Board for discussion prior to communicating its decision to the member concerned. Bank management would adopt the corresponding procedure.

VII. Dealing with Other Institutions

26. Not only have the activities and roles of the Fund and the Bank expanded in relation to their members, coordinating activities to assist member countries in mobilizing resources have grown rapidly, as has the interest of other groups (the OECD, DAC, UN) in matters of debt and the resumption of growth. To avoid conflicting views from being expressed in reports to such organizations, to the maximum extent feasible, the draft reports prepared by either institution will be sent to the other well in advance of the circulation date for review and comments. This will provide an additional opportunity to identify possible problems and to resolve them.

VIII. Longer-Term Promotion of Mutual Understanding

27. To better acquaint staff of the two institutions with the thinking practices and constraints within which each institution operates, we propose to initiate an exchange of staff on two- to three-year secondments at the senior professional levels. During the period of the secondment, staff members would be wholly integrated into the regular staff of the institution to which they have been seconded. For administrative reasons, there might need to be some limit on the number of secondments at any one time.

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28. While the measures set out above should go a long way toward resolving emerging differences of view and limiting potential areas of conflict, both the Fund and the Bank remain committed to a process of strengthening their collaboration in a longer-term perspective.

Fund/Bank Collaboration: Invitation to the Bank to Send a Staff Member as an Observer
Executive Board Meeting 70/30, April 10, 1970

…

2. The Executive Board authorizes the issuance of a general invitation to the International Bank for Reconstruction and Development to send a staff member as an observer to attend Fund Board discussions on staff reports on missions relating to Article VIII and Article XIV consultations and use of Fund resources in areas of common interest.

The Chairman's Summing Up at the Conclusion of the Discussion on Fund-Bank Collaboration and the Adjustment Process—Issues for Consideration
Executive Board Meeting 84/171, November 28, 1984

...

The proposal for attendance at Board discussions in each institution of appropriate staff member(s) from the other seemed basically to be aimed at obtaining a fuller understanding of the involvement of the other institution in countries to which both the Bank and the Fund were providing financial assistance. As far as Bank staff attendance at Fund Board meetings is concerned, I understand that Directors are prepared to reaffirm the invitation extended in 1970, for ad hoc, selective attendance at discussions of countries in which both the Fund and the Bank have programs of financial assistance. A number of Directors expressed the expectation of reciprocity on the part of the Bank with regard to staff attendance at Board meetings of the other institution. That applies also to the exchange of notes suggested in the staff paper as a way to facilitate the expression of specific concerns and questions by Executive Directors. Active participation in

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Fund Board meetings by Bank staff, as opposed to attendance as observers, has not received the necessary support in the Executive Board.

…

Concluding Remarks by the Acting Chairman—Bank-Fund Collaboration—Report of the Managing Director and the President; and Review of Collaboration in Strengthening Financial Systems
Executive Board Meeting 98/102, September 22, 1998

I shall summarize the constructive and useful discussion of the two papers on Bank-Fund collaboration in two parts. First, I will offer remarks on the Report of the Managing Director and the President on Bank-Fund Collaboration in which I have tried to capture the spirit of the views expressed by Directors. Second, I will provide a summary of the discussion on the review of Bank-Fund Collaboration in strengthening financial systems, which includes Directors' comments on the issues and proposals on which their views were sought.

Report of the Managing Director and the President on Bank-Fund Collaboration

This has been a constructive and useful discussion.

Directors generally agreed that the 1989 Concordat still provides a valid framework for Bank-Fund collaboration. Nevertheless, some Directors considered that there might be a need to more fully reflect present realities, in which macroeconomic and sectoral issues were becoming increasingly intertwined. Directors noted that recent experience pointed to some areas where collaboration could be further strengthened. In this context, while welcoming the further clarification of responsibilities between the Bank and the Fund outlined in the Report, Directors stressed the even greater importance of developing practical mechanisms to ensure close coordination and to manage the unavoidable overlaps that will remain in some areas between the two institutions. In that regard, many Directors welcomed the emphasis given to reinforcing the culture of collaboration among the staffs. Directors equally underscored the importance of effective implementation of the existing guidelines as well as the spirit in which that was

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done. They welcomed the commitment of the heads of both institutions to enhancing collaboration.

Directors regarded the framework set out for the interaction of the two institutions in surveillance, policy advice, lending operations, and crisis management as helpful. Important lessons had been learnt from the Asian crisis, and it was essential that those lessons were applied to other countries that could be vulnerable to the turmoil in world financial markets. The need to seek out the Bank's advice in its areas of expertise at an early stage and to the maximum extent feasible was emphasized. Equally, it was important for the Bank to respond in a timely fashion. Those two elements were essential ingredients for the quick delivery of advice on integrated stabilization and structural reform policies and programs.

Directors welcomed the Bank's efforts to undertake more intensive structural assessments and to enhance its capacity to respond quickly to deliver policy advice. Directors endorsed the proposals for strengthening collaboration in the financial sector. Collaboration in public sector work was also considered a priority, especially on social sector issues. Directors also welcomed the pilot program in enhanced Bank-Fund collaboration in low-income countries that was in the process of being launched.

Directors agreed with the proposals for improving operational procedures for enhancing collaboration, but stressed the importance of the culture of collaboration to ensure that those procedures were followed. Access to the right people and to timely information were key to coordination. Most Directors also supported the establishment of the joint electronic information system. Those, and other mechanisms, were seen as useful complements to, but not substitutes for, open communication between staff. In that regard, cross-participation in missions was important, and some Directors felt that, when appropriate, joint missions could be considered.

Several Directors felt that the Report should give more attention to the role of the authorities. Those Directors stressed that the framework for Bank-Fund collaboration should give more emphasis to: taking account of the needs of the country; making the delineation of responsibilities and the designation of key decision-makers clear to the authorities; and involving the country in the collaborative efforts

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of the Fund and the Bank. Indeed, the Bank and the Fund exist to serve their shareholders according to the highest possible standards, and the needs of the member country should be the driving force of our activities.

Some Directors felt that an important contribution to Bank-Fund collaboration was strengthened coordination between the Executive Boards of the two institutions, and we will come back to the proposals that have been put forward in this area.

Let me assure you that the managements of both institutions are personally committed to strengthening Bank-Fund collaboration. We frequently discuss issues of common concern and work through any disagreements that emerge. Given the strong links between the areas of our work and overlaps in certain sectors, it is inevitable that differences of view will arise. To manage these differences constructively, it is important to keep the channels of communication between the two institutions open and to maintain a dialogue. We will continue to keep an open dialogue.

Finally, we will consider how we can best reflect your comments in the Report to the Interim Committee and to the Development Committee and consult with our Bank colleagues on the points raised in their Board discussion. I see two areas where we can strengthen the Report, namely, by emphasizing the culture of collaboration and better reflecting the role of country authorities.

Review of Bank-Fund Collaboration in Strengthening Financial Systems

I will now try to summarize the useful discussion we have had on collaboration in strengthening financial systems.

Executive Directors welcomed the opportunity to discuss the collaboration experience over the past year and proposals for new and improved procedures for further cooperation between the Bank and the Fund in financial sector work. Directors generally agreed that the broad division of responsibilities prescribed by the 1989 Concordat, and further elaborated in the paper presented to the Boards of the two institutions in August 1997, continues to provide a valid framework. However, recent experiences, especially in crisis situations, had exposed problems in operational coordination and highlighted the need

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to improve collaboration procedures. In that connection, Directors agreed that the distinction in the mandates of the two institutions—the Fund to exercise surveillance over macroeconomic and stabilization policies and the Bank to promote overall economic development, structural and sectoral reforms—should continue to provide the basis for the delineation of responsibilities in financial sector work. However, as attested by the recent experience in Asia, Directors underscored that it might not be possible to delineate responsibilities between the Bank and the Fund along functional lines in all areas and at all times. Financial sector strengthening was such an area, in which the distinction between macroeconomic and sectoral/developmental issues was inherently blurred. Thus, while agreeing that, where possible, the staff should continue to identify areas that allow clearer delineation, they stressed the need to strengthen the implementation of the existing guidelines, particularly by addressing how best to manage unavoidable overlaps of responsibilities. Noting that the staff paper provided a useful starting point for the Board's review of those issues, Directors urged the staff to build on this work with a view to further clarifying and specifying the operational aspects of coordination and collaboration.

Directors emphasized that in crisis situations and short-term stabilization programs, the Fund should continue to take responsibility for the overall stabilization exercise, including the adoption of urgent structural adjustment measures. This would be particularly important in those cases in which financial sector issues have macroeconomic implications and when Bank input is not immediately available. Directors stressed, nevertheless, that engagement of the Bank should begin at an early stage, or at least from the time problems emerge. Noting that mismatches in the operational time schedules of the Bank and the Fund had complicated past coordination efforts, Directors stressed that improved coordination would require a timely response from the Bank. In this regard, they welcomed the efforts by the Bank to expedite the delivery of its policy advice and assistance. Directors stressed that, in less critical circumstances, the Bank should be consulted on aspects of program formulation that pertain to structural issues where the Bank has primary responsibility. The country's longer-term program in the financial sector would be worked out over time by the Bank and the country, taking into account the requirements of stabilization objectives, and this would feed

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into the review process of the programs supported by the Bank and the Fund.

Directors supported staff proposals to strengthen operational procedures to improve collaboration. In particular, they emphasized the importance of cross-participation in missions. Such efforts could help alleviate the pressure on staff resources on both institutions, and ease the burden on national authorities. Directors also called for greater sharing of information, while stressing the need to preserve confidentiality of data. The possibilities for some formal linkages between Fund-supported programs and related Bank sectoral work was noted, in view of the many implications of structural reforms in the financial area for macroeconomic stability and the success of Fund-supported programs. Directors considered that such procedures could serve to avoid duplication of work and assure complementary in policy advice.

Directors supported the establishment of a Bank-Fund Financial Sector Liaison Committee to reinforce the collaboration process. They agreed that this Committee should focus in the first instance on facilitating coordination in financial sector work, improving the efficiency of the use of staff resources and experts in this area, and resolving disagreements. The Committee should in particular assist in prioritizing assignments and quickly delineating work in overlapping areas to country-specific situations, in order to avoid inconsistent advice or duplication of work. Directors agreed with the proposed organization of the Committee, but cautioned that the Committee should be used as a flexible instrument where needed, and not regarded as a panacea for improved collaboration. A few Directors suggested that a joint subcommittee of Executive Directors could be formed to enhance accountability and transparency, especially on disagreements between the two institutions. More fundamentally, however, Directors considered that strengthened collaboration would require staff in the field to work together and resolve their own differences. It was also suggested by some Directors that the management of the Fund and the Bank report to the Bank and the Fund Boards periodically on the working of the Committee and that its activities be reviewed in light of experience.

Directors considered that the Bank and the Fund should play a catalytic role in developing commonly-accepted policies and good

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practices. In that respect, they noted that neither the Bank nor the Fund should take the lead in developing standards and good practices in areas outside their core fields of responsibility; rather, that they should rely on more specialized agencies to do so. An important function of the Bank and the Fund in this area would be to participate in the elaboration of standards and good practices where they have relevant expertise, provide guidelines for adapting them to country-specific circumstances, and disseminate commonly accepted principles among their member countries.

Directors agreed that the Fund could, with the prior consent of the concerned authorities, seek to augment internal resources by drawing on experts from national and other international organizations for the monitoring of financial systems under Article IV surveillance. They underscored the need for the Bank and the Fund to collaborate closely in the dissemination of standards and good practices and the delivery of associated technical assistance. They stressed that such efforts should be well coordinated from the start to ensure the effectiveness of technical assistance and efficient use of expert resources as well as to avoid the risks of overlapping requests for technical assistance, conflicting advice to countries, and suboptimal use of expert resources. They also underscored the need to adopt appropriate policies in this area to ensure confidentiality. In that respect, Directors felt that outside experts should be held to the same standards as the staff.

Some Directors thought that peer review procedures could provide a useful arrangement for following up on the findings of Article IV surveillance missions on financial sector issues in countries where substantial actual and potential problems had been identified. Some Directors suggested that the institutional arrangement for operating peer reviews could be located in, and coordinated by, the Fund in collaboration with other international bodies, including the Bank for International Settlements and the World Bank, and requested that a paper be prepared for Board consideration on the organizational and other aspects of peer reviews. They noted that peer reviews would require prior consent from the authorities of the countries concerned. They encouraged the staff to explore possible approaches to coordinating peer review procedures.

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The Acting Chair's Summing Up—Strengthening IMF-World Bank Collaboration on Country Programs and Conditionality—Progress Report
Executive Board Meeting 04/26, March 17, 2004

Executive Directors welcomed the opportunity to review progress on IMF-World Bank collaboration on country programs and conditionality, the second review of its kind since the new operational framework on collaboration was set out in August 2001. They reiterated that close collaboration between the Bank and the Fund is indispensable for providing effective support to member countries in promoting financial stability, sustainable growth, and poverty reduction. Bank-Fund collaboration is of particular importance to ensure the effectiveness of the Fund's efforts in assisting low-income countries with the implementation of reform programs, based on strong country ownership, in the context of the PRGF/HIPC Initiative framework, and helping them make progress toward the Millennium Development Goals. In this context, several Directors also highlighted the importance of effective collaboration between IMF/World Bank staff, on the one hand, and other multilateral and bilateral organizations, on the other hand.

Directors emphasized that effective collaboration between the Bank and the Fund requires a clear demarcation of responsibilities based on their respective mandates and comparative advantages. They also stressed that the focus of conditionality should be on reforms that are critical to program success. Directors highlighted the importance of two main elements of the coordination framework: the designation of one of the two institutions as lead agency in particular policy areas; and systematic information-sharing between the institutions. They underscored the need for early engagement between Bank and Fund staffs to harmonize the two institutions' respective roles.

Directors found it useful to discuss the current state of Bank-Fund collaboration on the basis of survey responses from national authorities and from Bank and Fund staff, while noting that the results of these surveys need to be interpreted with sufficient caution. They were encouraged by indications that Bank country directors and Fund mission chiefs typically share a common perspective regarding the

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country's critical areas for reform, and that the division of labor is now clearer than in the past.

Directors were encouraged by the indications—in the responses of national authorities—that Bank-Fund collaboration is increasingly serving to strengthen national ownership, while stressing that continued progress in this area remains critical to the success of reform programs. Both institutions also appear to be showing increased sensitivity to social and political constraints, and close collaboration between them is helping to reduce the time spent in program negotiations. At the same time, Directors underscored that national authorities perceive a need for further progress in aligning program design and conditionality with a country's own reform priorities and implementation capacity.

While the survey results provide renewed support for the existing operational framework on collaboration, Directors stressed that there is no room for complacency. They noted that the survey results point to scope for further improvements with regard to the implementation of the agreed division of labor, the coordination in the interaction with government authorities with a view to further strengthening country ownership, and the information-sharing between the staffs of the two institutions. In particular, the survey findings reinforce some perceptions of continued tensions in the collaborative process regarding the coverage and application of conditionality and the scope and pace of reforms. Directors recognized that some of these findings may reflect differences in the responsibilities and organizational structures of the two Bretton Woods institutions. Given these differences, sustained efforts to strengthen collaboration within the agreed framework remain indispensable. In particular, increased upstream engagement, including during surveillance or pre-program situations, and coordination in program design should help ensure that priorities are appropriately set and the division of labor is clearly established, while ensuring that all important reform areas are adequately covered. Directors stressed that strong cooperation at the country level remains key to effective Bank-Fund collaboration, with some Directors highlighting the importance of providing the right incentives to the staffs in this regard.

Most Directors welcomed the decision by the Bank and Fund managements to strengthen the role of the Joint Implementation

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Committee (JIC) as a mechanism for collaboration at the senior staff level, while cautioning against creating bureaucratic layers. They expected the revamped and streamlined JIC to be an effective instrument for monitoring and further improving collaboration and communication between the staffs of the two institutions, including on cross-country analytical work where close collaboration is required. Accordingly, the JIC, which will now be expanded to cover matters affecting both low- and middle-income countries, is called on to be a useful complement to the broad-based mechanisms for institutional coordination that already exist at the management and staff levels. Some Directors noted that further enhancements of collaboration should duly take account of resource constraints. It was also noted that formal mechanisms for collaboration should not substitute for early and informal consultations between the two staffs and the authorities to enhance communication and avoid duplication of work.

Directors welcomed the emphasis on thematic areas for Bank-Fund collaboration. Important progress in this area is already underway in the context of the joint work on public expenditure and financial management, carried out by Bank and Fund staff with the participation of other development partners. Most Directors looked forward to strengthened coordination on the preparation of poverty and social impact analysis (PSIA), which they viewed as a critical instrument to help ensure the effectiveness of the Fund's role in low-income countries. Directors underscored that the Fund should look to the Bank to assist on PSIA for reforms in Fund-supported programs, as this would be the best way of fully utilizing the relative strengths of each institution. At the same time, most Directors acknowledged that some in-house capability in this area will be necessary, in particular, to facilitate the integration of PSIA into PRGF-supported programs. Directors also suggested several other thematic areas in which strengthened Bank-Fund collaboration could usefully be pursued, and which will be carefully considered going forward.

Directors highlighted the important role that the formal mechanisms for collaboration, embedded in the PRSP process, are playing in strengthening Bank-Fund collaboration on low-income countries. They recognized that formal arrangements are not always well suited for middle-income countries, given the diversity of these countries' circumstances and the differences in the degrees and timing of

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the engagement by each institution in these countries. They reaffirmed, however, that the principles for collaboration remain the same: a coherent program of support based on a country-owned strategy; early consultation on program conditionality and effective information sharing; and a clear division of responsibilities based on respective mandates.

Directors underscored that, consistent with the lead agency concept, the Executive Board of each institution needs to be kept well-informed of the other institution's views in relevant policy areas. Documents prepared for each Board need to specify the areas in which the Bank and the Fund have a leading role and provide a candid analysis of the policy challenges faced by member countries. They should report on the other institution's engagement in specific reform areas and its views regarding reform priorities, program conditionality, and progress with program implementation. Directors looked forward to continued rigorous implementation of the guidance provided to the staff regarding best practices for the preparation of annexes on Bank and Fund relations in Board documents. To ensure that these annexes present each institution's most current assessment, they supported the proposal to use assessment letters to convey the Fund's views of macroeconomic conditions of member countries in cases in which the PIN or the Chairman's statement is not sufficiently up-to-date. To further strengthen the lead agency concept, while at the same time facilitating donor coordination, some Directors saw merit in keeping under review the possibility of including in Fund staff reports a comprehensive policy table of structural reforms being undertaken in a country, identifying the lead agency and the sequencing and timing of the reform steps.

Directors stressed that progress on Bank-Fund collaboration will remain an ongoing challenge, requiring steady implementation and sustained commitment, in particular by the country teams of each institution. They looked forward to keeping progress under review, and considered that, to usefully allow for sufficient additional experience under the enhanced framework for collaboration, the next review should take place by 2007. In this context, it was suggested that future reviews should include a larger set of case studies to continue to draw lessons from a variety of experiences. Directors also looked forward to reviewing progress on collaboration in the context of the

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periodic reviews of the two institutions' work on thematic issues. Some Directors suggested that, at some point, an external review of Fund-Bank collaboration might be useful. The forthcoming review of conditionality will also provide an opportunity to return to several issues raised today, including on country ownership and the streamlining of conditionality.

The Acting Chair's Summing Up—Operational Framework for Debt Sustainability Assessments in Low-Income Countries—Further Considerations
Executive Board Meeting 05/34, April 11, 2005

Executive Directors welcomed the opportunity to consider the outstanding issues regarding the joint Fund-World Bank operational framework for the debt sustainability assessments (DSAs) in low-income countries. They underscored the importance of such a framework for helping low-income countries avoid an unsustainable build-up of debt in their pursuit of the Millennium Development Goals. Directors reiterated their broad support for the key elements of the framework: (i) country-specific, policy-dependent external debt-burden thresholds to guide debt sustainability assessments; (ii) forward-looking simulations of debt and debt service under a baseline scenario and in the face of shocks; and (iii) prudent borrowing strategies to contain risks of debt distress. Most Directors agreed that the operational framework is now ready to be incorporated in Fund operations.

Directors endorsed the proposed country-specific thresholds for external debt-burden indicators, including the classification of countries based on policy and institutional performance. They noted that the empirical evidence indicates that a country's ability to carry debt is correlated with the quality of its policies and institutions, and agreed that this should be reflected in the debt-burden thresholds. Directors also maintained that the need for prudence in external borrowing calls for a conservative approach in setting the thresholds. Directors felt that the staffs' preferred option is consistent with these criteria. They also saw centering the thresholds on the operational threshold of the HIPC Initiative as essential to preserve the coherence of the international community's approach to debt sustainability. Directors noted, moreover, that the preferred option does not require as

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high a share of grant financing, the availability of which is not assured, as the alternatives considered.

Directors again cautioned that the thresholds should be seen as guideposts for informing debt sustainability assessments rather than as rigid ceilings, and that individual country circumstances, including the burden of domestic public sector debt, need to be factored into the assessments. In this regard, some Directors expressed concern that the framework could be implemented rigidly, resulting in foregone development opportunities if additional grant financing or debt relief does not materialize; but some others stressed the need to avoid perceptions that the thresholds can be consistently exceeded because they are only indicative.

Directors stressed that the framework does not imply that countries with lower debt should borrow up to their thresholds. A few Directors noted the importance of adequate conditionality being attached to grants, to reduce any moral hazard implicit in the framework. Some Directors also stressed the need to avoid using over-optimistic export projections in the DSAs. Some Directors continued to express some reservations about the use of the World Bank's Country Policy and Institutional Assessment (CPIA) to classify the quality of policies and institutions, but most Directors supported its use, subject to periodic review, and while recognizing that CPIA thresholds should not be used mechanically in country assessments.

Directors welcomed the proposed transitional arrangements for the use of the new DSA framework for HIPCs, while the HIPC Initiative is still under way. They recognized that there are fundamental differences between DSAs under the HIPC Initiative and those under the new framework, the former being a backward-looking calculation for the purpose of determining debt relief, while the latter is a forward-looking exercise to inform future borrowing and policy decisions. While these differences would need to be clarified, Directors felt that applying the new framework to HIPCs as soon as possible is important to guide HIPCs in their borrowing decisions and provide creditors and donors with a clear view of these countries' debt sustainability outlook. Directors also stressed the importance of a well-designed communications strategy to accompany the introduction of the framework.

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Directors supported the preparation of a joint DSA for each low-income country and welcomed the proposed modalities of collaboration between Fund and World Bank staffs for achieving these objectives. Most Directors felt that the proposed modalities are in line with previous Board discussions of this topic and the respective mandates of the two institutions. They noted that, in almost all cases, Fund and World Bank staffs are expected to agree on the baseline for the DSA and the assessment of the risk of debt distress; and only in highly exceptional cases would they be unable to reach agreement on the underlying DSA baseline or the assessment of debt distress risks. Directors agreed that in such cases the different views of the staffs should be reported to the country authorities at an early stage, and later to the Boards in the DSA document. They urged the staffs, however, to avoid this outcome to the extent possible, and a number of Directors were of the view that the production of a single DSA is critical for the framework's credibility. Directors noted that minor revisions to DSAs would only be made in cases where both staffs agreed that the revision was minor, and would not in any case change the overall assessment or lead to two separate and inconsistent DSAs. Some Directors urged a clearer definition of what would be considered a minor update under the framework that would not warrant the production of a new joint DSA.

Directors noted that the framework would be an important addition to the Fund's toolkit to assess the appropriate balance between adjustment, lending, grants, and debt restructuring/relief in low-income countries. They also underlined the importance of the Fund and Bank staff working closely with other IFIs and donors to allow a coordinated approach to concessionality decisions and to ensure that the proposed framework guides the decisions of donors and creditors, including the Fund. Directors also saw a key role for the Fund and Bank staff in integrating country-led approaches into the process and building broad country ownership of the analytical underpinnings of the framework, which would be essential to enhance its effectiveness.

Directors asked the staffs to report to them after a six- to twelve-month period on the results of the country application of the proposed framework after sufficient experience has been gained and welcomed the staffs' intention to update the framework in light of

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these results. Directors provided a number of suggestions for guiding the implementation of the proposed framework and the Fund's continuing work in this area, which the staff will take into account.

EUROPEAN CENTRAL BANK—OBSERVER STATUS

1. The European Central Bank (ECB) shall be invited to send a representative to meetings of the Executive Board on:

- Euro-area policies in the context of the Article IV consultations with member countries under Decision No. 12899-(02/119);
- Fund surveillance under Article IV over the policies of individual euro-area members;
- Role of the euro in the international monetary system;
- World economic outlook;
- Global financial stability reports; and
- World economic and market developments.

2. In addition, the ECB shall be invited to send a representative to meetings of the Executive Board on agenda items recognized by the ECB and the Fund to be of mutual interest for the performance of their respective mandates. It is understood, for purposes of this paragraph and provided that there is no objection from the member concerned, that the ECB shall be invited to send a representative to meetings of the Executive Board on:

Fund surveillance under Article IV over the United States of America and Japan;

Fund surveillance under Article IV over, and on use of Fund resources by, the noneuro area member countries of the European Union; and

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Fund surveillance over the policies of, and on use of Fund resources by, members that have been placed by the European Commission on the list of candidate countries to the European Union. The Executive Board will be informed by management, after consultation with the Presidency of the Council of the European Union, of any changes to the list of candidate countries to the European Union.

3. At Executive Board meetings, the representative of the ECB will have the status of observer and, as such, will be able to address the Board with the permission of the Chairman on matters within the responsibility of the ECB. The ECB representative may circulate written statements in advance of Board meetings to which the ECB has been invited. Such statements may be acknowledged by the Chairman to become part of the record of the Board meeting.

4. The Fund shall communicate to the ECB:

(i) the agenda for all Board meetings, and

(ii) the documents for the Executive Board meetings to which the ECB has been invited.

5. The Board notes that the ECB has agreed to preserve the confidentiality of all information and documents communicated by the Fund to the ECB, as specified by the Fund, and that any such information and documents shall be solely for the internal use of the ECB." (EBD/09/89, Rev. 1, 12/22/09) (EBD/09/89, 12/16/09)

Decision No. 12925-(03/1),
December 27, 2002,
as amended by Decision Nos. 13414-(05/01), December 23, 2004,
13612-(05/108), December 22, 2005, and
14517-(10/1),
January 5, 2010

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GUIDELINES/FRAMEWORK FOR FUND STAFF COLLABORATION WITH THE NEW WORLD TRADE ORGANIZATION

The Executive Board decides that the draft guidelines/framework for Fund staff collaboration with the World Trade Organization (WTO), set forth in EB/CGATT/95/1, Supplement 1 (4/18/95), may be used by the staff to discuss cooperation with the WTO staff, with the goal of reaching agreement on collaboration between the institutions. (EBD/96/56, 4/18/95)

Decision No. 10968-(95/43),
April 21, 1995

EB/CGATT/95/1
Supplement 1

Guidelines/Framework for Fund Staff
Collaboration with the New World Trade Organization

This note is intended to provide Fund staff with guidelines for cooperation with the World Trade Organization (WTO), established on January 1, 1995. It builds upon the close, formal and informal collaboration that existed between the Fund and the GATT. These guidelines will be periodically reviewed and extended or modified as necessary, in the light of the evolution of the collaborative relationship between the Fund and the WTO.

The ministerial Declaration included in the Final Act concluding the Uruguay Round called upon the Director-General of the WTO to consult with the heads of the Fund and the World Bank on enhanced inter-institutional cooperation, especially with a view to achieving greater coherence in global economic policymaking. Cooperation between the Fund and the WTO is expected to cover the following areas:

- balance of payments consultations
- coherence in global economic policymaking
- consistency of policy advice and obligations
- resolution of open jurisdictional issues
- staff contacts

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- representation
- document exchange
- research and information exchange

Balance of payments consultations

An important aspect of Fund/WTO collaboration is through the Fund's participation in the consultations of the WTO Committee on Balance of Payments Restrictions with common members. A WTO member applying restrictions on trade in goods and/or services to safeguard its balance of payments must consult with the WTO Committee. In carrying out these consultations, the WTO Committee is required to consult with the Fund regarding the member's macroeconomic situation, particularly its balance of payments position and level of international reserves. In reaching its decision as to whether the trade restrictions are justified on balance of payments grounds, the WTO Committee must accept the Fund's findings of statistical and other facts relating to foreign exchange, monetary reserves, and balance of payments, and its determination as to the seriousness of the member's international reserve situation. Thus the Fund should stand ready to provide the WTO Committee timely information and assessment of the consulting member's balance of payments situation. Towards this end, the Fund and WTO will consult on the appropriate timing of the consultation. The Fund will provide the WTO Committee on a timely basis the latest RED report of the consulting member. When a recent RED is not available or where there have been significant changes in the country's external position since the last RED, the Fund will provide updated information on recent economic developments; transmittal of such supplementary information is submitted for Board approval on a lapse of time basis. In the case of a full consultation by the WTO Committee (when detailed discussion of the external financial justification for the restrictions is required), the Fund representative will also provide a statement that has been cleared by the Fund's Executive Board.

Coherence in global economic policymaking

The WTO's charter calls for cooperation with the Fund and the Bank with a view to achieving greater coherence in global eco-

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nomic policymaking. The Fund, given its responsibilities in the macroeconomic policy area, including with respect to exchange rates, can contribute to assessing issues of coherence between macroeconomic and trade policies. The Fund can also contribute to greater policy coherence by taking into account in its work the concerns of the WTO in the trade area. In the period ahead, Fund and WTO staffs will work closely to define better the elements and mechanisms for achieving coherence in economic policymaking, including formal and informal channels for communication between the Fund and the WTO.

Consistency of policy advice and obligations

In the conduct of their surveillance functions, the Fund and the WTO should ensure policy consistency and avoid duplication. In its surveillance, the Fund examines a member country's trade policy, along with its other economic and financial policies, with respect to their impact on the member's own adjustment and on other Fund members. The WTO exercises surveillance over specific aspects of trade policies (such as the implementation of the Multifiber Arrangement) and over individual countries' overall trade policy (through the trade policy review mechanism (TPRM)) with a view to enhancing the transparency of the trade regime. In surveillance, Fund staff should place greater emphasis on specific macroeconomic/trade linkages. The staff should also take into account the WTO's views of the trade stance of particular member countries, as enunciated, for example, in the WTO's conclusions of the Trade Policy Reviews (TPRs) with individual countries; when TPR reports are out of date or not available, the staff could seek the relevant information from the WTO Secretariat including in some cases through informal staff visits. The WTO Secretariat's reports for the TPR contain as background information the macroeconomic environment of the consulting member. To assist the WTO's surveillance, Fund staff should stand ready to provide information on the macroeconomic policies of common members in the preparation of TPR reports. This would be particularly so in cases where a recent Article IV consultation report is not available.

Fund staff need also to ensure that, in the context of surveillance and use of Fund resources (UFR), and bearing in mind the aim

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of achieving medium-term external viability, recommended policy measures and program conditionality are consistent with the member's agreements under the auspices of the WTO. This has assumed particular importance in the light of the more extensive commitments undertaken by members under the Uruguay Round. To promote structural reform, Fund policy advice often encompasses features that require reforms that are consistent with (though they may go beyond) a member's undertakings in the WTO. For example, tariffs may be reduced under a Fund-supported program to below levels "bound" in the relevant WTO agreements; this would promote economic efficiency without conflict with obligations under these agreements. However, if tariffs were to be raised above bound levels, this would breach the member's obligations in the agreements under the auspices of the WTO. To avoid such situations, Fund staff should seek information from the member and from the WTO on the nature and level of its tariff obligations under WTO-administered agreements, and take this information into account in policy formulation. Internal staff review procedures should assist in identifying potentially inconsistent policy measures. Where there is ambiguity or doubt about the WTO-consistency of specific measures, Fund staff should consult with WTO staff on member countries' WTO obligations and would expect WTO staff to provide the necessary input promptly so as to allow timely implementation of Fund-supported adjustment programs. The authorities should also be urged to consult with the WTO to clarify potential conflicts before the measures are implemented.

Fund-supported programs should continue to avoid cross conditionality. That is, Fund-supported programs should continue to avoid directly linking the use of Fund resources to the performance of obligations under the WTO-administered agreements. Fund-supported programs may include reductions in subsidies or trade barriers that are consistent with or go beyond the commitments undertaken under the Uruguay Round when the Fund finds that such measures are necessary to achieve the objectives of the Fund-supported program, but not to enforce commitments to agreements under the auspices of the WTO. Thus, for example, under the Uruguay Round, countries are required in principle to reduce their agricultural export subsidies over a six year period by certain percentages from those prevailing during a specified base period. Fund-supported programs may also call for a reduction in such subsidies, which could be more rapid and compre-

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hensive than under the Uruguay Round, if this is necessary to achieve the program's fiscal and resource allocation objectives. Moreover, provisions in a Fund arrangement constitute conditions for the member's use of Fund resources and do not alter obligations vis-à-vis other WTO members. For example, if program design calls for a reduction in applied tariffs to below WTO "bound" levels, this does not constitute a requirement by the Fund for the member to "bind" its WTO-administered commitments at the lower applied level. Fund staff will continue to consult and coordinate with Bank staff in the design of trade reforms included in Fund-supported adjustment programs.

Resolution of open jurisdictional issues

The Final Act of the Uruguay Round includes a Declaration on the Relationship of the World Trade Organization with the International Monetary Fund, which confirms the continued application of Article XV of GATT 1947 (now GATT 1994) on collaboration with the Fund in the area of trade in goods. Article XV requires the WTO to seek cooperation with the Fund in order for the WTO and the Fund to pursue a coordinated policy with regard to exchange questions within the jurisdiction of the Fund and questions of quantitative restrictions and other trade measures within the jurisdiction of the WTO. These provisions also recognize the right of a WTO member that is a Fund member to maintain exchange controls or restrictions in accordance with the Fund's Articles. Similarly, in the area of services, Article XI of the General Agreement on Trade in Services (GATS) safeguards the rights and obligations of Fund members under the Fund's Articles with respect to restrictions on current international transactions. Thus, it is expected that the WTO will not authorize countermeasures against exchange measures that are consistent with the Fund's Articles, or find measures consistent with the Fund's Articles to violate one of the Multilateral Agreements on Trade in Goods or the GATS, or subject exchange measures to remedies in the absence of violation for "nonviolation, nullification or impairment." The Fund and the WTO will work on clarifying jurisdictional issues in order that the rights and obligations of Fund members are protected.

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Staff contacts

Effective cooperation and interaction among the two staffs will be crucial in ensuring that policy inconsistencies and duplication are avoided, and there is full mutual awareness of the interests and concerns of each institution. The Fund's Geneva Office will continue to provide liaison between the Fund and the WTO on an ongoing basis, supplemented by contacts at headquarters. This will include periodic meetings (at least annually) between appropriately senior staff of the Fund and the WTO to identify issues of common concern and the means of dealing with them, including specifically the manner of enhancing collaboration. Bank staff will be invited to some of these meetings for trilateral discussions on issues of mutual interest. Meetings at head of institution level would be arranged as needed. In cases involving important trade policy issues, there should be more active use of informal Fund staff visits to exchange views with WTO staff, for example en route to Article IV and/or UFR consultations. Similarly, WTO staff should be encouraged to visit Fund headquarters periodically to informally discuss specific country cases (including in the context of preparing TPR reports) or policy issues. Staff secondments could also be given consideration.

Representation

Observer status in the WTO and the Fund is under discussion.

It is envisaged that representation in the Fund could be on several levels. The Director-General of the WTO (or his representative) could be regularly invited as an observer to the meetings of the Interim and Development Committees and to the joint Annual Meetings by the Chairman of the relevant Committee. The WTO Director General (or his representative) would also be invited as an observer in selected meetings covering general trade policy issues of the Fund's Executive Board, and there would also be some contact with the Committee on Liaison with the WTO (CWTO). In parallel with arrangements for Bank staff observers, the WTO staff representative could be invited to intervene in Fund Board/CWTO meetings by an Executive Director or the Chairman. The WTO Secretariat would be expected to treat the deliberations of the Fund Board/CWTO as strictly confidential information not available to other organizations or to

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the public. Similarly, Fund staff would be expected to treat the deliberations of the WTO with strict confidentiality.

Document exchange

As mentioned earlier, the Fund will transmit to the WTO Committee on Balance of Payments Restrictions the latest RED report or similar document on the consulting member (in addition to a Fund statement where relevant). The Director-General of the WTO will be regularly provided, for the confidential use of the Secretariat, Article IV Consultation reports (staff reports and REDs) on common members. For these members, consideration might be given in the future to transmitting the Chairman's Summing-Up of the Board discussion to the WTO Director-General, as long as the concerned Executive Director raises no objection. For Fund members that are seeking accession to the WTO, consideration might also be given to transmitting to the WTO Director-General Article IV Consultation reports, provided that the concerned Executive Director raises no objection. Fund staff will also ensure that an up-to-date assessment of a country's macroeconomic situation is available to WTO staff at the time of preparation of the latter's TPR reports or as needed; where there is considerable interval between the Article IV discussion and the TPR, Fund staff should be able to provide WTO staff updated factual information on the macroeconomic situation. As in arrangements with the GATT, Fund staff expect to continue to receive on a confidential basis most WTO documents (i.e., minutes and reports of councils and other bodies, the reports of member countries to these bodies, and TPR reports).

Research and information exchange

Fund staff will seek the WTO Secretariat's views on selected reports in which international trade policy issues are prominently featured. Fund staff expect to be able to comment on selected WTO staff reports in which macroeconomic issues are discussed. Joint studies on topics of mutual interest could be considered from time to time. Fund and WTO staff could participate in seminars at respective institutions involving topics of mutual interest. To improve awareness and reduce duplication, Fund and WTO staffs could make greater use of each other's basic data, taking into account confidentiality requirements of

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the respective organizations. This could also help reduce the burden on officials in member countries caused by duplication of requests for basic information. With a view to better investigating the economic and financial implications of the Uruguay Round on individual countries,[1] Fund staff have requested access to the WTO's Integrated Database; this should not involve setting up new communications links as Fund staff would be able to obtain relevant data from the World Bank which has already been granted access to the Integrated Database.

EXCHANGE OF DOCUMENTS WITH OTHER INTERNATIONAL AGENCIES

Staff reports pertaining to: (i) surveillance under Article IV, Section 3(a) and (b), and (ii) the use of Fund resources by members; and (iii) technical assistance reports may be transmitted by the Managing Director to international agencies having specialized responsibilities within the Fund's field of interest, subject to the reciprocal transmittal of comparable documents of the recipients to the Fund, and on the understanding with the recipients of the reports that the reports will be kept confidential. Such transmittals and exchanges of documents shall be carried out in accordance with the criteria set forth in SM/90/120 (6/20/90) and Correction 1 (7/17/90), and in SM/93/24 (1/28/93), and in the light of the discussion and summing up of EBM/90/105 and EBM/90/106 (7/2/90).

In addition, documents referred to in paragraph 11 of the Agreement between the Fund and the World Trade Organization may be transmitted to the World Trade Organization Secretariat on the sixth working day after their circulation to Executive Directors, provided that there is no objection by the member concerned.

Decision No. A-9786-(93/20),
February 11, 1993,
as amended by Decision No. A-10615-(96/105),
November 25, 1996

[1] Such investigations would also help assessment of possible adverse effects of the Round on particular developing countries as recognized by the WTO ministerial decision.

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SM/90/120

…

(a) Criteria for access

The following three basic criteria would seem relevant in considering the appropriateness of access to Fund documents:

(i) Commonality of operational interest and need: documents would in principle be available to official international organizations that share with the Fund a current operational and financial interest in the particular member country concerned. Thus, organizations that are or will be providing substantial financial assistance to Fund members, primarily balance of payments support whose effectiveness is dependent on the macroeconomic environment, would a priori meet this criterion. Organizations would also have to be deemed to have an operational need for the information in Fund documents.

(ii) Reciprocity: recipient organizations would need to be prepared to make arrangements as appropriate to ensure reciprocity of comparable country papers. The staff will need to explore the scope and nature of these papers in the case of each organization.

(iii) Confidentiality: recipient organizations would need to assure the Fund that the documents provided will not be used for any purpose other than that specified in the organization's request and would be kept confidential. A senior official of the organization would submit a request to the Secretary of the Fund for the regular transmittal of documents, and provide assurance that the material in the documents was for the internal and exclusive use by staff only and that it would not be quoted from, either in whole or in part, or used in publication.

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The agencies which meet these criteria at this time, and which could be expected to request regular transmittal of country documents, would include the AfDB, AsDB, Arab Monetary Fund, CDB, IsDB, IDB, EC Commission (see also Section V), EIB, and the UNDP on countries that are receiving technical assistance under the executing agency arrangement with the Fund. However, this indicative list can be expected to evolve over time with the agencies' scope of financial operations, and in terms of the countries of concern for each agency. For example, it might also be appropriate to include in this list at some point in the future the newly founded European Bank for Reconstruction and Development. Thus, the staff would keep agency and country indicative lists under periodic review in light of the basic criteria listed above.

SM/93/24

…

Given the clear need for a more timely release of country documents, certain modifications in the procedures set out in SM/92/90 may be helpful. These do not alter the guidelines and principles of the Board's decision of July 1990. The request for clearance of the document's transmittal could be made, on a "no objection" basis, in the Secretary's cover note to the document when it is first circulated to Executive Directors (see sample in Attachment III), with a considerable saving of paperwork and time. In this way, the document could be prepared for transmittal shortly after its circulation, and dispatched at a time indicated on the cover note. This time could be, according to the circumstances and on the basis of requirements to be indicated by the area department, either immediately following consideration by the Board or, in what are expected to be exceptional cases, at a specific date before the Board discussion. The need to consider release prior to Board discussion could arise when the early availability of a document is seen to be required, for instance, in order to make available background information when preparations are being made for the provision by donors or other agencies of financial or

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technical assistance to members, or to facilitate Paris Club rescheduling discussions.[1]

The modified procedures for clearing the release of country documents will apply only to the transmittal of staff reports and REDs sent to various agencies on a regular basis. Ad hoc requests for country documents will continue to be cleared in the same way as in the past, with the area and issuing department, and with the concurrence of the Executive Director concerned.

Summing Up by the Chairman—Policy Orientation and Balance of Payments Assistance of Bilateral and Multilateral Aid Agencies
Executive Board Meeting 90/106, July 2, 1990

…

To facilitate a greater exchange of information on country operations with multilateral agencies that are providing financial support for economic reforms, Directors agreed that the current procedures for release of Fund country documents should be modified to allow access to a wider range of such documents and for a larger group of recipient organizations, provided the confidentiality of the documents would be properly safeguarded. The changes in procedures would comprise staff reports for Article IV consultations, as well as staff papers on requests for and reviews of the use of Fund resources, and papers on recent economic developments. In all cases of documents involving the use of Fund resources, letters of intent and/or policy memoranda, as well as relevant decisions and texts of arrangements, would be deleted; and in certain exceptional cases, perhaps a summary of especially sensitive information would be

[1] See, for example, requests to provide economic reviews on states of the former Soviet Union to the EC, the EBRD, the EIB, the OECD, and the BIS (EBD/92/44, 3/6/92), and staff reports on the use of Fund resources by Estonia, Latvia, and Lithuania to the EC (EBD/92/185, 8/28/92, and EBD/92/237, 10/2/92).

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provided Directors endorsed the proposal for such a modification on the basis of the criteria set out in the staff paper (SM/90/120).[1]

…

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Article XII, Section 3

Executive Directors

INTERPRETATION OF ARTICLE XII, SECTIONS 3(*b*)(i) AND 3(*f*)

The request for interpretation of the Articles of Agreement referred to the Executive Directors by Resolution No. 7 of the Board of Governors was considered…. It was unanimously agreed that Sections 3(*b*)(i) and 3(*f*) of Article XII should be interpreted to mean that any member having one of the five largest quotas at the date of the regular election or at any date between regular elections shall be entitled to appoint an Executive Director who will hold office until the next regular election without prejudice to the right of a subsequently admitted member to appoint a Director if it has one of the five largest quotas.

…

Decision No. 2-1,
May 8, 1946

EXECUTIVE DIRECTORS: ARTICLE XII, SECTION 3(*c*)

Article XII, Section 3(*c*), should be understood as providing that the two members entitled to appoint additional directors are determined by the largest absolute amounts by which 100 percent of members' quotas exceed the average holdings by the Fund of their currencies during the two years preceding an election of directors, provided, of course, that they are not already entitled to appoint directors under Article XII, Section 3(*b*)(i).

In the calculation of average holdings under the provision, the Fund's special accounts for administrative purposes should not be included unless they exceed one tenth of one percent of the member's quota nor will sundry cash accounts be included. A member should not be entitled to the benefit of Article XII, Section 3(*c*) where the average holdings of its currency by the Fund have been reduced below 100 percent of its quota solely because of expenditures by the

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Fund for administrative purposes or because of the exclusion of the special accounts for administrative purposes from the calculation of average holdings.

Decision No. 574-2,
May 18, 1950,
as amended by Decision Nos. 2620-(68/141), November 1, 1968, and
14131-(08/65),
July 15, 2008

ADDITIONAL APPOINTED DIRECTORS

The phrase "the preceding two years" as used in Article XII, Section 3(*c*), shall be deemed to be the two-year period ending on the July 31 preceding the dates of regular biennial elections of Executive Directors. However, this decision shall be reconsidered if such regular elections are held in months other than September.

Decision No. 597-4,
July 28, 1950

ADJUSTMENT OF QUOTA AND VOTING POWER

A change in the quota of a member between regular biennial elections will change by the same amount the voting power of the elected Executive Director who casts the votes of the member.

Decision No. 180-5,
June 25, 1947

CODE OF CONDUCT FOR THE MEMBERS OF THE EXECUTIVE BOARD OF THE INTERNATIONAL MONETARY FUND

The Executive Board approves the Code of Conduct for Members of the Executive Board (EBS/00/108, Rev. 1, 7/7/00)

Decision No. 12239-(00/71), July 14, 2000,
as amended by Decision No. 13146-(03/114),
December 12, 2003

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EBS/00/108, Rev. 1

Code of Conduct

Executive Directors of the Fund are entrusted by the member countries that have selected them with responsibilities for ensuring that the Fund carries out the mandate prescribed in its Articles of Agreement. The office of Executive Director of the Fund requires personal and professional conduct that meets the highest standards. The Board of Governors has adopted certain resolutions with respect to the conduct of Executive Directors. In addition, Executive Directors have adopted the following Code of Conduct, which is intended to provide guidance on ethical standards in connection with, or having a bearing on, their status and responsibilities in the Fund.

The standards set out in this code also apply to Alternate Executive Directors, and Advisors to Executive Director, who perform their functions under the authority of the Executive Director. However, in lieu of the procedures set forth below concerning the Ethics Committee of the Executive Board, Executive Directors will consider any allegations of misconduct by Alternates and Advisors in their respective offices and will take such measures as are necessary and appropriate in the circumstances.

Application

Except with respect to the consideration of alleged misconduct by the Ethics Committee, all references to Executive Directors in this Code shall include Alternates and Advisors unless otherwise indicated. With respect to assistants to Executive Directors, Executive Directors should apply, to the extent possible, the provisions of the Fund Staff Code of Conduct to assistants in their own offices, and should take such measures as are necessary and appropriate. Other persons who are designated as Temporary Alternates shall also be subject to the provisions of this Code on the same basis as Executive Directors.

Basic Standard of Conduct

Executive Directors should observe the highest standards of ethical conduct. In the performance of their duties, they are expected

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to carry out the mandate of the Fund to the best of their ability and judgment, and to maintain the highest standards of integrity. In their conduct outside the workplace, they should also ensure that they observe local laws so as not to be perceived as abusing the privileges and immunities conferred on the Fund and Executive Directors.

Conduct Within the Fund

Executive Directors should treat their colleagues and the staff with courtesy and respect, without harassment, physical or verbal abuse.

Executive Directors should exercise adequate control and supervision over matters for which they are individually responsible.

Executive Directors should ensure that Fund property and services are used by themselves and persons in their offices for official business only.

Protection of Confidential Information

In line with the rules and guidelines of the Fund, Executive Directors have the responsibility to protect the security of any confidential information provided to, or generated by, the Fund.

Public Statements

When making public statements or speaking to the media on Fund-related matters, Executive Directors should make clear whether they are speaking in their own name or on behalf of the Executive Board.

Conflicts of Interest

In performing their duties, Executive Directors will carry out their responsibilities to the exclusion of any personal advantage.

Executive Directors should avoid any situation involving a conflict, or the appearance of a conflict, between their personal interests and the performance of their official duties. If such a conflict arises, Executive Directors should promptly inform the Ethics Committee and withdraw from participation in decision making connected with the matter. If the conflict is potential rather than actual, Execu-

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tive Directors should seek the advice of the Ethics Committee about whether they should recuse themselves from the situation that is creating the conflict or the appearance of conflict.

Personal Financial Affairs

Executive Directors should not use, or disclose to others, confidential information to which they have access, for purposes of carrying out private financial transactions. Because of the Fund's role in exchange rate surveillance, Executive Directors should not engage in short-term trading (i.e., a combination of buying and selling within six months) in gold, foreign currencies, and closely related financial instruments, for speculative purposes. For this purpose, the term "combination" does not include one-way transactions, such as the selling or buying of foreign exchange for household expenses, education or travel expenses.

For purposes of complying with these principles, Executive Directors should follow the guidance provided to the staff.

Disclosures

Executive Directors should make written disclosure to a compliance officer selected by the Executive Board of any financial or business interests of their own or their immediate family members. Until the extent and manner of this disclosure are determined by the Executive Board, the rules governing disclosure by the senior staff of the Fund shall apply. The compliance officer shall bring any unresolved concerns regarding a conflict of interest between an Executive Director's holdings and the performance of Fund duties to the attention of the Ethics Committee of the Board.

Gifts and Entertainment

In regard to acceptance of favors, gifts and entertainment, Executive Directors should exercise tact and judgment to avoid the appearance of improper influence on the performance of their official duties. The ordinary courtesies of international business and diplomacy may be accepted, but substantial and unusual gifts, favors and entertainment, as well as loans and other services of significant monetary value, should not be accepted.

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Post-Fund Employment

When negotiating for, or entering into an arrangement concerning, prospective employment outside the Fund, Executive Directors should not allow such circumstances to affect the performance of their duties. Where involvement in a Fund matter could be, or could be perceived as, benefiting the prospective employer, regardless of whether there is detriment to the Fund or their constituents, Executive Directors should recuse themselves.

Executive Directors who leave the Fund should not use or disclose confidential information known to them by reason of their service with the Fund, and should not contact Executive Directors or other Fund officials (other than through official channels) to obtain confidential information.

The Ethics Committee of the Executive Board

An Ethics Committee, comprised of five Executive Directors, shall be established by the Executive Board to consider matters relating to this Code. In addition, if requested to by Executive Directors, the Committee shall give guidance to them on ethical aspects of conduct, including the conduct of their Alternates, Advisors and assistants.

The Executive Board shall select a Chairperson, four members, and five alternate members from among Executive Directors. They shall be selected on the occasion of a general election of Executive Directors, and shall serve for two years. If the Chairperson, a member or an alternate member resigns, a new Chairperson, member or alternate member shall be selected by the Executive Board to complete the remainder of the term.

In the absence of the Chairperson, the Committee member who is the most senior Executive Director in the Board shall serve as acting Chairperson. In the event that a member of the Committee is not able to attend or serves as acting Chairperson, an alternate member shall serve in that member's place in order of seniority of Board membership. If the conduct of a member of the Committee is under consideration by the Committee, that member shall recuse himself/herself and be replaced as provided above.

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The General Counsel of the Fund, or if absent his/her representative, shall be the permanent secretary of the Committee. The Ethics Committee may seek the views of the Fund's Ethics Officer ex officio on any matter with which it is dealing.

The meetings of the Ethics Committee shall be restricted to members only and the permanent secretary of the Committee except at the Committee's invitation.

The Ethics Committee shall consider any alleged misconduct by an Executive Director, and any matters brought to its attention by the compliance officer concerning the disclosures made by Executive Directors about any actual or potential conflict of interest. The Executive Director concerned shall, in all cases, be given the opportunity to present his/her views to the Committee.

If a majority of the Ethics Committee concludes that misconduct has been committed, and taking into account both the nature and seriousness of the misconduct and the Executive Director's prior record of conduct, the members of the Committee shall make recommendations to the Committee of the Whole of the Executive Board regarding whether a warning should be issued to an Executive Director, and whether such warning should be conveyed to the Governor(s) of the member country (or countries) that appointed, elected or designated the Executive Director. If a majority of the Ethics Committee concludes that no misconduct has been committed, the Executive Director concerned shall be so informed and no recommendation shall be made. When convened for this purpose, the Committee of the Whole shall be comprised exclusively of Executive Directors and shall have a quorum equal to one-half the number of Executive Directors.

Upon receiving the recommendations of the Ethics Committee, the Committee of the Whole shall consider which of the following actions to take: (i) no further action in the matter; (ii) issuance of a warning to the Executive Director; or (iii) issuance of a warning to the Executive Director and transmittal of the warning to the Governor(s) of the member country (or countries) that appointed, elected or designated the Executive Director. If there is no consensus in the Committee of the Whole as to which action to take, the matter shall be referred to the Executive Board for decision.

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The Executive Director concerned shall, in all cases, have the opportunity to present his/her views to the Committee of the Whole, but shall not participate in the deliberations on the case.

Executive Board Meetings—Procedural Guidelines
Executive Board Meeting 75/12, February 7, 1975

The Executive Directors considered a paper describing the procedures for the adoption of decisions at meetings of the Executive Board (SM/75/13, 1/10/75).

…

The Executive Directors endorsed the guidelines as amended during the debate, agreeing that they would be available for the possible use of the Chairman and the Executive Directors on those rare occasions on which it became necessary to invoke an understanding about procedure.

SM/75/13

Procedural Guidelines for the Executive Directors

1. Any question of procedure that arises shall be decided before the discussion of substantive matters is resumed.

2. If there is more than one proposal on any subject under consideration, the proposals shall be considered one at a time and in the order in which they were submitted. If two or more proposals are submitted together, they shall be considered simultaneously and shall be decided upon in the order in which they have been presented.

3. An amendment is germane to the subject of a proposal and adds to, deletes from, or revises that proposal. The Chairman shall rule on the question whether a motion is a new proposal or a proposed amendment.

4. If an amendment to any proposal or previously proposed amendment is offered, consideration of the amendment shall be completed before consideration is resumed of the proposal or previously proposed amendment to which it relates. If more than one amendment is proposed, the amendments shall be considered in the reverse order of their submission.

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5. The Chairman may rule that parts of a proposal or proposed amendment shall be considered or decided upon separately. If the parts are severed, they shall be taken up in the order in which they appeared in the proposal or proposed amendment.

6. If a proposal or proposed amendment is adopted, any inconsistent proposals or proposed amendments shall not be considered.

7. The Chairman shall rule on questions of procedure, including questions of the application, of these guidelines.

8. The Executive Directors may revise rulings made under these guidelines and may depart from or amend these guidelines at any time.

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Article XII, Section 4

Managing Director and Staff

AUTHORIZED SIGNATORIES

1. All instructions and instruments in writing purporting to be binding on the Fund or to be an exercise of any right of the Fund shall be signed for the Fund by either:

(a) the Managing Director; or

(b) such other official or officials of the Fund or other person or persons as the Managing Director shall designate in writing.

2. Authority to sign instructions and instruments for the Fund which is granted by a designation under subparagraph (b) of paragraph 1 of this decision shall not be delegable.

3. Any signature pursuant to this decision may be a facsimile signature or other means of identification if it is authorized in writing by the Managing Director.

4. This decision supersedes all prior general signature authority decisions of the Executive Board without prejudice to action taken pursuant to them. (EBAP/90/315, 11/30/90)

Decision No. 9605-(90/170),[1]
December 7, 1990

[1] Ed. Note: The current Registry of Signatory Authority, which contains the list of authorized signatories and certified signatures, is maintained on file with each department.

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Article XII, Section 6

Reserves, Distribution of Net Income, and Investment

THE INVESTMENT ACCOUNT—ESTABLISHMENT

1. The Fund hereby establishes within the General Department an Investment Account as provided for in Article XII, Section 6(*f*)(i).

2. The assets of the Investment Account shall be kept separately from the other accounts of the General Department. (EBS/06/57, 4/17/06)

Decision No. 13710-(06/40) IA,
April 28, 2006

INVESTMENT ACCOUNT—ADOPTION OF RULES AND REGULATIONS

1. Pursuant to Article XII, Section 6(*f*)(vi),[1] the Fund adopts the Rules and Regulations for administration of the Investment Account that are set forth in Annex I of EBS/06/57 (4/17/06).

Decision No. 13711-(06/40),
April 28, 2006

[1] Ed. Note: After the Fifth Amendment of the IMF Articles of Agreement, Article XII, Section 6(f)(vi) became Article XII, Section 6(f)(iii).

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EBS/06/57, Annex I

Rules and Regulations for Administration of the Investment Account (IA)

Objective of the Investment Account

1. The objective of the IA is to provide a vehicle for the investment of a part of the Fund's assets so as to generate income that may be used to help meet the expenses of conducting the business of the Fund.

Sources of Investment Account Assets

2. The IA will be funded initially through the transfer of currencies from the GRA in an amount equivalent to the total amount of the Fund's general and special reserves at the time of the decision authorizing the transfer. In addition, and subject to paragraph 3 below, the IA may retain or invest the income from its investments, and may also reinvest the proceeds of assets that mature or that it sells.

Uses of Investment Account Income

3. The IA's income from investment may be invested, retained in the IA, or used to meet the expenses of conducting the business of the Fund. The Fund will decide on the use of the IA's income for each financial year, including whether any portion of such income should be transferred to the GRA for use in meeting the expenses of conducting the business of the Fund.

Termination or Reduction of the Investment Account

4. The IA shall be terminated in the event of liquidation of the Fund and may be terminated, or the amount of the currency transferred to the IA may be reduced, prior to liquidation of the Fund by a 70 percent majority of the total voting power. The procedures specified in Article XII, Sections 6(*f*) (vii), (viii) and (ix) will apply in the event of the termination of the IA or a reduction in its assets.

Guidelines for Investing Investment Account Assets

Investment Objective

5. The investment objective of the IA is to achieve investment returns that exceed the SDR interest rate over time while minimizing

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the frequency and extent of negative returns and underperformance over a 12-month investment horizon. Achieving this objective would help diversify the sources and increase the level of the Fund's income, thereby strengthening its finances over time.

Eligible Investments

6. The assets of the IA may be invested only as specified in Article XII, Section 6(*f*)(iii) of the Fund's Articles of Agreement. Accordingly:

• A member's currency held in the IA may be invested only in marketable obligations of that member or in marketable obligations of international financial organizations, provided that the IA may invest only in obligations denominated in special drawing rights (SDRs) or in the currency used for investment. Marketable obligations of a member shall include the obligations of its central bank and official agencies. Marketable obligations of international financial organizations shall include without limitation SDR-denominated deposits with the Bank for International Settlements.

• The IA's investment in the instruments specified above may only be made directly in the cash markets. Derivative securities—including forwards, futures, options and swaps—may not be used to establish or hedge positions in eligible investments.

• Only long positions may be established in eligible investments. Short selling or any form of leverage is not permitted.

7. The IA's portfolio will be limited to eligible investments, as described above, that are denominated in SDRs or in the currencies included in the SDR basket. No investment shall be made without the concurrence of the member whose currency is used to make the investment.

Supervision of the Investment Account's Investment Activities

8. The Managing Director will provide for the supervision of the IA's investment activities. Such supervision will include negotiating agreements with external investment managers and with custodial agents; ensuring that the IA's investment and other activities conform with the relevant provisions of the Fund's Articles of Agreement and with these rules and regulations; establishing investment benchmarks

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and guidelines for investment managers; placing investments in eligible BIS deposits and in the BIS' Medium-Term Instruments (MTIs); monitoring the structure and evaluating the performance of the IA's assets; supervising the management of the IA's assets, including the hiring and firing of external investment managers and assessing their performance; supervising the custodial arrangements for IA assets; adjusting the allocation of the portfolio in response to market conditions and the Fund's financing needs; and preparing regular reports to the Executive Board on the investment activities of the IA.

Custody Arrangements

9. The assets of the IA may be held in safekeeping by one or more custodian banks. The custodian(s) will hold the assets of the IA in safekeeping, periodically value the assets held, and hold and invest short-term residual cash balances.

Risk Controls

10. In keeping with the IA's investment objective, the Managing Director will establish specific risk control procedures and put in place a mechanism to monitor their observance by asset managers. The investment guidelines and benchmarks established for asset managers will set explicit limits for the exposure to interest rate, foreign exchange, liquidity, credit and operational risks.

Reporting Requirements

11. The Managing Director will provide semi-annual reports to the Executive Board on the operations and investment activities of the IA. These reports will analyze the operations of the IA in the context of the Fund's overall financial position and income, including in particular an assessment of the appropriate size of the IA and the disposition of its assets and earnings. These reports will include an analysis of changes in the valuation of IA assets, the investment guidelines and benchmark being followed by asset managers, a discussion of the applicable controls and evaluation of the adequacy of established risk control procedures, and an assessment of market conditions that may affect the valuation of the IA's assets. Ad hoc reports will be prepared as warranted by market or other developments. The assets of the IA will be audited by the Fund's external auditors and included in the Fund's financial statements.

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REVIEW OF THE FUND'S INCOME POSITION FOR FY 2010 AND FY 2011—TRANSFER OF CURRENCIES TO THE INVESTMENT ACCOUNT

Pursuant to Article XII, Section 6(f)(ii), the Fund shall transfer from the General Resources Account to the Investment Account currencies in an amount equivalent to the increase of the Fund's general and special reserves as of April 30, 2010 over their level at the end of financial year 2006, excluding any amounts in the special reserve that are attributable to profits from the sale of gold during FY 2010. This transfer of currencies to the Investment Account shall be effected in the context of the Financial Transactions Plan for the quarterly period May through July 2010. The currencies transferred to the Investment Account pursuant to this decision shall be used for immediate investment in accordance with the provisions of Article XII, Section 6(f), and in accordance with the rules and regulations for administration of the Investment Account adopted pursuant to Decision No. 13711-(06/40). (EBS/10/63, Sup. 1, 4/26/10)

Decision No. 14603-(10/41),
April 28, 2010

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2011 AND FY 2012—TRANSFER OF CURRENCIES TO THE INVESTMENT ACCOUNT

Pursuant to Article XII, Section 6(f)(ii) of the Articles of Agreement, the Fund shall transfer from the General Resources Account to the Investment Account currencies in an amount equivalent to the difference between the Fund's general and special reserves as of April 30, 2011 and the cumulative amount of previous transfers of currencies from the General Resources Account to the Investment Account. This transfer of currencies to the Investment Account shall be effected in the context of the Financial Transactions Plan covering the period March through July 2011. The currencies transferred to the Investment Account pursuant to this decision shall be used for immediate investment in accordance with the provisions of Article XII,

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Section 6(f)(iii) of the Articles of Agreement and the Rules and Regulations adopted thereunder. (EBS/11/53, 04/07/11)

Decision No. 14899-(11/37),
April 20, 2011

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2011 AND FY 2012—TRANSFER OF INVESTMENT INCOME FOR FY 2011 TO GENERAL RESOURCES ACCOUNT

The income of the Investment Account for FY 2011 that is not attributable to earnings from gold profits transferred to the Investment Account shall be transferred to the General Resources Account for use in meeting the expenses of conducting the business of the Fund during FY 2011. (EBS/11/53, 04/07/11)

Decision No. 14897-(11/37),
April 20, 2011

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2011 AND FY 2012—PLACEMENT OF FY 2011 NET INCOME OF THE GENERAL RESOURCES ACCOUNT TO THE SPECIAL RESERVE AND THE GENERAL RESERVE

The net income of the General Resources Account for FY 2011 other than net income from surcharges shall be placed to the Fund's Special Reserve and General Reserve as follows: Net income not attributable to gold profits shall be placed to the Fund's Special Reserve. Of the net income attributable to gold profits an amount of SDR 650 million shall be placed to the Fund's Special Reserve, and an amount of SDR 2,450 million shall be placed to the General Reserve. (EBS/11/53, 04/07/11)

Decision No. 14898-(11/37),
April 20, 2011

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PARTIAL DISTRIBUTION OF THE GENERAL RESERVE ATTRIBUTED TO WINDFALL GOLD SALE PROFITS

1. Pursuant to Article V, Section 2(b), the Fund adopts the *Instrument to Establish the Interim Administered Account for 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 0.7 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 member's own currency, provided that payment to a member with overdue repurchase obligations in the General Resources Account shall be made in the member's own currency.

4. In accordance with Article XII, Section 6(f)(vi) and Article XII, Section 6(f)(ix), the Fund decides to reduce the amount of investment in the Investment Account by an amount equivalent to SDR 0.7 billion and to transfer the proceeds from this reduction to the General Resources Account for immediate use in the Fund's operations and transactions.

5. Paragraphs 1 through 4 above shall become effective when the Managing Director has notified the Executive Board that, in her assessment, satisfactory financing assurances exist regarding the availa-

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bility of at least SDR 630 million for new subsidy contributions to the Poverty Reduction and Growth Trust based upon: (a) the amount that members have requested in writing be transferred as subsidy contributions to the PRGT from their share in the partial distribution of the general reserve provided for in paragraph 3 of this decision; (b) the amount of other new contributions that members have provided as subsidy contributions to the PRGT in light of this decision; and (c) the amount of other subsidy contributions that members have given written assurances that they will provide to the PRGT in light of this decision.

6. Paragraph 1(b) of the decision on Attribution of Reductions in Fund's Holdings of Currencies, Decision No. 6831-(81/65), adopted April 22, 1981 and effective May 1, 1981, as amended, shall be amended to read as follows: "(b) For a member with overdue repurchase obligations, the reduction shall be attributed to any obligation to repurchase." (SM/12/23, 02/03/12)

Decision No. 15092-(12/19),
February 24, 2012

The Acting Chair's Summing Up—
Broadening the Fund's Investment Mandate—
Further Considerations
Executive Board Meeting 11/86, August 26, 2011

Executive Directors welcomed the opportunity to continue the discussion on broadening the Fund's investment mandate. With the Fund's expanded investment authority now in place, they called for moving expeditiously to finalize the remaining issues concerning the design of the investment policy and governance framework for the gold-sale financed endowment so that it can be implemented as soon as possible.

Directors agreed that the endowment should reflect the broad goals of providing a meaningful contribution to the Fund's income and preserving the long-term real value of its resources. In this context, most Directors supported the adoption of a 3 percent real return target for the endowment. They recognized that achieving such a tar-

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get could be challenging in the near term, given that yields on highly rated sovereign bonds are at or near historic lows, and called for keeping the target and associated risk-return tradeoffs under review. A few Directors preferred a more cautious approach to setting a return target, with greater attention to risk-return tradeoffs especially in the current environment. Many Directors considered it prudent to adopt a lower pay-out ratio in the initial years as a means of protecting the endowment, and a few asked staff to explore the scope for rules to link pay-outs to the Fund's lending income. A few suggested supplementing the endowment with income windfalls from other Fund operations.

Directors agreed that a diversified portfolio both geographically and across asset classes would be needed to generate a meaningful return while carefully managing risks. At the same time, Directors stressed that the investment policies for the endowment need to take into account the Fund's mandate and acceptable levels of risk, particularly in light of the public nature of the funds to be invested.

Most Directors expressed willingness to support an approach along the lines of the proposed "conservative diversified portfolio" consisting of high-grade bonds of mature and emerging markets, including inflation-linked instruments; a limited exposure to mature and emerging market equities; and possibly a small allocation to publicly traded real estate trusts. Recognizing that such an approach would imply foregoing the potential benefits afforded by broader diversification, many of these Directors were open to creating a structure that would allow the endowment to flexibly operate over time. A few Directors continued to prefer a portfolio confined to, or with a larger share of, fixed-income instruments.

Directors took note of the extensive work on governance arrangements already done in the lead-up to the 2008 decisions on the new income model and of staff's more recent work, including outreach efforts. They generally agreed that the broad conclusions of the earlier work remain valid, including the need to establish explicit investment performance objectives to promote accountability, a clear separation between operational and oversight responsibilities, and effective risk controls. Directors reaffirmed the view that the Execu-

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tive Board should play a central role in the oversight of the endowment, including in determining broad investment policies. A number of Directors preferred to consider a governance structure contemporaneously with other decisions, including portfolio strategy, with a few seeking agreement on governance arrangements even before other decisions. A number of Directors considered that proposals on governance arrangements should await greater clarity on the investment strategy. Directors emphasized the importance of putting in place adequate safeguards against actual or perceived conflicts of interest. A number of Directors saw merit in drawing on the governance structure of the Fund's Investment Office, including an investment committee similar to that for the Staff Retirement Plan (SRP). A number also saw scope for benefitting from the SRP's experience and/or professional expertise.

Overall, today's discussion has been helpful in further clarifying views on the return target, broad investment strategy, and governance arrangements for the endowment. While some differences of views clearly remain, I propose that, as a next step, staff come back with more specific proposals on governance arrangements and an investment strategy, which preserves ultimate flexibility for the endowment, but which initially considers a strategy along the lines of the "conservative diversified portfolio" for further Board discussion.

BUFF/11/128,
September 14, 2011

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Article XII, Section 7

Publication of Reports

REVIEW OF THE FUND'S TRANSPARENCY POLICY

Preamble

Recognizing the importance of transparency, the Fund will strive to disclose documents and information on a timely basis unless strong and specific reasons argue against such disclosure. This overarching principle is reflected in the specific provisions of the Decision set forth below and of other Fund policies on transparency. The principle respects, and will be applied to ensure, the voluntary nature of publication of documents that pertain to member countries consistent with the need for the Fund to safeguard confidential information and with the provisions of Article XII, Section 8 of the Articles of Agreement concerning publication by the Fund of its views with respect to a member.

Authorization and Consent

1. The Managing Director shall arrange for publication by the Fund of the documents on the attached list, subject to the consent of the member concerned in the case of Documents 1–11, 13, and 16–23 and to the authorization of the World Bank in the case of Documents 6, 11, and 19. For purposes of this decision: (i) Documents 1-4, 6, 9–10, 11, 13, 17, 19, and 22–23 will be referred to as "Country Documents"; (ii) Documents 5, 7–8, 16, 18, and 20–21 will be referred to as "Country Policy Intentions Documents"; and (iii) Documents 14 and 15 will be referred to as "Fund Policy Documents."

2. a. A member's consent to Fund publication of Documents 1–11, 13, 16–23 shall be voluntary but presumed. This presumption shall mean that the Fund encourages each member to consent to the publication by the Fund of such documents. For the purposes of encourag-

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ing members and obtaining their consent to publication, the following procedures shall apply.

b. Except as otherwise provided in this Decision, Fund publication of an applicable document would occur, unless, prior to the conclusion of the Executive Board meeting at which that document is considered or the date of adoption of a decision on a lapse-of-time basis to which that document relates, the member concerned notifies the Fund that it: (i) objects to the publication of the document; or (ii) requires additional time to decide whether or not to publish; (iii) consents to publication but subject to reaching agreement with the Fund on deletions to the document. In the absence of a notification referred to in (i), (ii), or (iii) above, Documents 1–11, 13, and 16–23 shall be published by the Fund promptly after the relevant Executive Board meeting or the date of adoption of a decision on a lapse-of-time basis to which the document relates. Members who notify the Fund as provided for in (ii) or (iii) above are expected to reach a decision on publication of the document in question within thirty calendar days of the Executive Board meeting or decision. Where a member provides the Fund with a notification as provided for in (i), (ii), or (iii) above, the applicable document shall not be published unless the member's explicit consent is received by the Fund.

c. A member that requests access to Fund resources through the approval of a Fund arrangement or the completion of a review under an arrangement in the General Resources Account or the Poverty Reduction and Growth Facility (PRGF), or access to Fund resources under the Heavily Indebted Poor Countries (HIPC) Trust, or assistance through the approval of a Policy Support Instrument (PSI) or the completion of a review under a PSI, will be expected to indicate that it intends to consent to the publication of the related Board documents (Documents 5, 6, 7, 8, 11, 13, 18–22 and staff reports on the use of Fund resources included in Document 9, as the case may be) before the Board meeting or the date of adoption of a decision on a lapse-of-time basis to which those documents relate.

d. With respect to Documents 3, 5–6, and 18–19, paragraph 2(b) will only apply if the applicable document has been circulated to the Executive Board in the context of a meeting or a proposal for lapse-

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of-time approval of a decision. If the document has been circulated for information only, paragraph 17 will apply and the member's explicit consent must be provided to the Fund prior to publication.

e. Paragraph 2(b) will not apply to Chairman's Statements for the use of Fund resources (Document 10), Chairman's Statements in the context of a PSI (Document 23), or Article IV Public Information Notices (Document 4). A member's consent to the publication of these documents is governed by paragraphs 10 and 11 of this Decision.

f. In respect of any document that is subject to the procedures set out in paragraph 2 (b), the Secretary's cover memorandum will indicate that the document will be published promptly after the relevant Executive Board meeting or the date of adoption of a decision on a lapse-of-time basis, unless the member concerned notifies the Fund as provided for in paragraph 2(b)(i), (ii), or (iii) above.

3. a. The Managing Director will not recommend that the Executive Board approve (i) a PRGF arrangement or completion of a review under such arrangement, or (ii) a HIPC decision point or completion point decision, or (iii) a member's request for a PSI or the completion of a review under a PSI, if the member concerned does not explicitly consent to the publication of its Interim Poverty Reduction Strategy Paper (I-PRSP), Poverty Reduction Strategy Paper (PRSP), PRSP preparation status report, or PRSP annual progress report (APR) (Document 5 or Document 18, as the case may be).

b. The Managing Director will generally not recommend that the Executive Board approve a request to use the Fund's general resources that would result in the relevant member obtaining exceptional access, unless that member explicitly consents to the publication of the associated staff report. For purposes of this paragraph: (i) approval of the use of the Fund's general resources includes the completion of a review under an arrangement; and (ii) exceptional access means access by a member to the Fund's general resources, under any type of Fund financing, in excess of an annual limit of 200 percent of the member's quota, or a cumulative limit (net of scheduled repurchases) of 600 percent of the member's quota.

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4. Except as provided in paragraph 10, a member's explicit consent shall, for the purposes of this Decision, be communicated in writing, normally to the Secretary of the Fund. Such consent may be communicated by the Executive Director elected, appointed, or designated by the member.

Member's Statement Regarding Fund Staff Reports

5. If a Fund staff report (Documents 1, 9, 17, and 22) on a member is to be published under this decision, the member concerned shall be given the opportunity to provide a statement regarding the staff report and the Executive Board assessment. Such statement shall be communicated to the Fund and published together with the staff report.

Deletions and Rephrasing in Country Documents and Country Policy Intentions Documents

6. a. For purposes of publication, deletions may be made to a Country Document, or a Country Policy Intentions Document (Documents 7–8, and 20–21) that has been the basis of a Fund decision, or of Document 16, in accordance with paragraph 7 below. Deletions should be limited to: (i) highly market-sensitive material, mainly on the outlook for exchange rates, interest rates, the financial sector, and assessments of sovereign liquidity and solvency; and (ii) material not in the public domain, on a policy the country authorities intend to implement, where premature disclosure of the operational details of the policy would, in itself, seriously undermine the ability of the member to implement those policy intentions. For purposes of this Decision, highly-market sensitive material shall mean material that (a) is not in the public domain, (b) is market relevant within the near term, and (c) is sufficiently specific to create a clear risk of triggering a disruptive market reaction if disclosed. Politically sensitive material shall not be deleted unless the material satisfies (i) or (ii) above. Information relating to any performance criterion or structural benchmark (Documents 1, 7–9, and 16–17), or to any assessment criterion or structural benchmark (Documents 1, 20-22), may not be deleted, unless the information is of such character that would have enabled it to be communicated to the Fund in a side letter pursuant to Decision No. 12067-(99/108), September 22, 1999.

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b. If the Managing Director determines that the proposed deletions satisfy criteria (i) or (ii) in paragraph 6(a), he may decide that the deletions shall be accompanied by minor rephrasing of text, whenever such rephrasing would help retain maximum candor or minimize the risks of misinterpretation.

7. a. Requests for deletions to a Country Document, or a Country Policy Intentions Document (Documents 7–8 and 20–21) that has been the basis of a Fund decision, or of Document 16 may be made by the member concerned. Other members may also request deletions to Documents 1–3, 9, 17, and 22 if (i) the text to be deleted relates to that other member, (ii) the member to whom the document relates consents to the deletion, and (iii) the criteria set out in paragraph 6 are met.

b. Deletions shall be requested in writing. Such requests are expected to be communicated to the Fund no later than two days before: (i) the Executive Board meeting at which the document is discussed or (ii) the date of adoption of a decision on a lapse-of-time basis to which the document relates. In any event, requests for deletions shall be made no later than (i) twenty-one calendar days after the Executive Board has considered the document, or (ii) thirty-five calendar days after the document was issued to the Executive Board, whichever is later.

c. Once approved by the Managing Director, deletions and related rephrasing shall be circulated to the Executive Board in redlined form. The modified document circulated to the Executive Board shall include the justification for each modification made. In the case of a serious disagreement between the Managing Director and the member regarding the member's request for deletions, the Managing Director, or the Executive Director elected, appointed, or designated by that member, may refer the matter to the Executive Board. If the Managing Director is of the view that the deletions would result in a document that, if published, would undermine the overall assessment and credibility of the Fund, the Managing Director shall recommend to the Executive Board that the document not be published.

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Corrections to Country Documents and Country Policy Intentions Documents

8. Corrections to Country Documents and Country Policy Intentions Documents covered under this decision shall be limited to the correction of (i) data and typographical errors, (ii) factual mistakes, (iii) mischaracterization of views expressed by the authorities concerned, and (iv) evident ambiguity. Corrections shall normally take the form of substitution of text in existing sentences rather than the addition or deletion of entire sentences.

9. Corrections to a Country Document or Country Policy Intentions Document are expected to be requested no later than two days before the conclusion of the Executive Board's consideration of the document or the adoption of a decision on a lapse-of-time basis to which the document relates. In any event, corrections made after Executive Board consideration shall be limited to (i) cases where the correction is brought to the attention of the Executive Board before the conclusion of the Executive Board's consideration of the document, and (ii) cases where the failure to make the correction would undermine the overall value of publication. Corrections shall be circulated to the Executive Board in redlined form. Those corrections with significant implications for the substance of the document shall be discussed and justified in a supplementary staff report or in a corrections memorandum issued to the Executive Board.

Chairman's Statements in Respect of Use of Fund Resources and the Policy Support Instrument

10. After the Executive Board (i) adopts a decision regarding a member's use of Fund resources (including a decision completing a review under a Fund arrangement), or (ii) adopts a decision approving a PSI, or conducts a review under a PSI, or (iii) completes a discussion on a member's participation in the HIPC Initiative, or (iv) completes a discussion on a member's I-PRSP, PRSP, PRSP preparation status report, or APR in the context of the use of Fund resources or a PSI, a Chairman's statement on the discussion, emphasizing the key points made by Executive Directors, will be released to the public. Where relevant, the Chairman's statement will contain a summary of

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HIPC Initiative decisions pertaining to the member and the Executive Board's views on the member's I-PRSP, PRSP, PRSP preparation status report, or APR in the context of use of Fund resources or a PSI. Waivers for nonobservance, or of applicability, of performance criteria, and any other matter as may be decided by the Executive Board from time to time (Document 12), and waivers for nonobservance of assessment criteria, and any other matter as may be decided by the Executive Board from time-to-time (Document 24), will be mentioned in the factual statement section of the press release containing the Chairman's statement or in a factual statement issued in lieu of a Chairman's statement as provided for in paragraph 12(b). Before a Chairman's statement is released, it will, if any Executive Director so requests, be read by the Chairman to the Executive Board and Executive Directors will have an opportunity to comment at that time. The Executive Director elected, appointed, or designated by the member concerned will have the opportunity to review the Chairman's statement, to propose minor revisions, if any, and to consent to its publication immediately after the Executive Board meeting. Notwithstanding the above, no press release or Chairman's statement published under this paragraph shall contain any reference to a discussion or decision pertaining to a member's overdue financial obligations to the Fund, where a press release following an Executive Board decision to limit the member's use of Fund resources because of the overdue financial obligations has not yet been issued. In the case of an Executive Board meeting pertaining solely to such a discussion or decision, no Chairman's statement will be published.

Article IV Public Information Notices

11. Following the completion of an Article IV consultation for a member, the Fund may release a Public Information Notice (PIN) reporting on the results of the consultation. If a member has consented to the publication of Document 1, such publication will be made along with the publication of a PIN. PINs will be in accordance with the following terms:

a. The PIN will be brief (normally 3–4 pages) and will consist of two sections:

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(i) a background section, a draft of which should be attached to the staff report whenever possible, with factual information on the economy of a member, including a table of economic indicators; and

(ii) the Fund's assessment of the member's prospects and policies. This section will correspond closely to the Chairman's summing up of the Executive Board discussion.

b. The Executive Director concerned will have the opportunity to review the draft PIN prior to its release to propose changes, if any, consistent with paragraphs 6 through 9 above.

c. In case of a serious disagreement between the Managing Director and the Executive Director concerned on the draft, either may request the Executive Board to consider the matter.

d. The PIN will be released shortly following the completion of the Article IV consultation, but in any event not before the circulation of the summing up as a Fund document.

e. The following practices are confirmed: (i) the release of PINs shall not affect the current Article IV consultation summing up process. In particular, the Chairman's summing up will continue to be provided to the Executive Director concerned for review following the Executive Board meeting, and (ii) the possibility of releasing PINs shall not affect in any way the staff's reporting to the Executive Board on consultation discussions with members.

Non-publication of PINs and Chairman's Statements in Selected Cases—Release by the Fund of Factual Statements in Lieu

12. a. If a member does not consent to the publication of a PIN following the Executive Board's conclusion of an Article IV consultation with that member (Document 4), or following a post-program monitoring, ex post assessment or ex post evaluation discussion by the Executive Board pertaining to that member (Document 13), a brief factual statement announcing that the Executive Board has concluded that consultation or discussion will be released instead.

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b. If a member does not consent to the publication of a Chairman's statement (Documents 10 and 23) under paragraph 10 where one would be applicable, or if no Chairman's statement has been issued because a decision was taken on a lapse-of-time basis, a brief factual statement describing the Executive Board's decision relating to (i) that member's use of Fund resources (including HIPC initiative decisions (Document 11), Document 12, and consideration of Documents 5, when relevant), or (ii) the approval of a PSI for that member, or the conduct of a review under that member's PSI (including Document 24 and consideration of Document 18, when relevant) will be released instead.

Fund Policy Documents

13. After the Executive Board meets on policy issues in a formal or informal meeting, or in an Executive Board seminar, or adopts a decision on a lapse-of-time basis, it shall be presumed that the staff report under consideration (Document 14) and/or a PIN (Document 15) on the discussion will be published. This presumption will, inter alia, apply to matters upon which deliberation is ongoing, but it is recognized that the risk of undermining the Fund's decision making process may constitute a reason not to publish immediately in such cases. The presumption will not apply to policy issues dealing with the administrative matters of the Fund, except with respect to matters pertaining to the Fund's income, financing or budget matters that do not involve market sensitive information. Publication of a policy paper or PIN will require a decision of the Executive Board. Staff is expected to set out a recommendation on publication of a Board policy paper and/or its related PIN in the cover memorandum of the relevant document and, where publication is not recommended, to explain why. Whenever publication is approved, the paper and/or PIN will normally be published promptly after an Executive Board meeting, seminar, or date of adoption of a lapse-of-time decision to which the documents relate. Whenever publication is proposed of a paper or PIN prepared for Executive Board seminars, publication will be deemed to have been approved by the Board unless an Executive Director objects by the date set forth in the Secretary's cover memorandum.

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14. A PIN on policy discussions will be based on the decision adopted by the Executive Board and/or the Chairman's summing-up, or the Chairman's Concluding Remarks, as the case may be. It will also include a short section setting out background information.

15. a. Prior to the publication of a Fund policy staff report, the Managing Director may make necessary factual corrections, deletions, and related rephrasing with respect to the report (including of highly market-sensitive material and country-specific references). However, staff's proposals in a report shall not be modified prior to its publication. In cases where confusion might arise from differences between staff's proposals in the report and the Executive Board's conclusions regarding those proposals as reflected in the PIN pertaining to the Executive Board discussion, it would be clearly indicated in the published version of the report which staff proposals the Executive Board did not endorse.

b. Paragraph 15(a) shall not apply to the World Economic Outlook and Global Financial Stability Report. In accordance with established practice, staff may modify these documents prior to their publication in order to, inter alia, take into account views expressed at the relevant Executive Board meeting.

Other Changes to Documents

16. Before a document is published, the following shall be removed: (i) references to unpublished Fund documents, (ii) references to certain internal processes that are not disclosed to the public under existing policies, including inquiries regarding possible misreporting and breaches of members' obligations, and (iii) any discussion of a breach of obligation under Article VIII, Section 5 or misreporting under applicable Fund policies that the Managing Director has proposed be treated as de minimis in nature as defined in paragraph 1 of Decision No. 13849-(06/108), December 20, 2006.

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Timing and Means of Fund Publication

17. Documents may be published under this decision only after their consideration by the Executive Board, except for documents that are circulated for information only including: (i) I-PRSPs and PRSPs; (ii) joint staff advisory notes (JSANs); and (iii) Reports on Observance of Standards and Codes (ROSCs) and Assessment of Financial Sector Supervision and Regulation (AFSSR) Reports. Documents under item (ii) may be published only after the stated period within which an Executive Director may request that the document be placed on the agenda of the Executive Board. Other documents covered by this paragraph may be published immediately after circulation to the Executive Board.

18. Publication by the Fund under this decision shall normally mean publication on its website but may include publication through other media.

Article XII, Section 8

19. Nothing in this decision shall be construed to be inconsistent with the power of the Fund to decide under Article XII, Section 8, by a seventy percent majority of the total voting power, to publish a report made to a member regarding its monetary or economic conditions and developments which directly tend to produce a serious disequilibrium in the international balance of payments of members.

Other Matters/Review

20. In the case of a document pertaining to a country which is not a member of the Fund: (i) all references to "member" in this decision shall be taken to mean "country"; and (ii) all references to "Executive Director elected, appointed, or designated by that member" shall be taken to refer to the appropriate authorities of the country concerned.

21. This decision is expected to be reviewed in light of experience no later than 2012 and thereafter at intervals not to exceed five years.

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List of Documents Covered by the Decision

I. Surveillance and Supporting Documents

1. Article IV and Combined Article IV/Use of Fund Resources Staff Reports
2. Selected Issues Papers and Statistical Appendices
3. Reports on Observance of Standards and Codes (ROSCs), Financial Sector Stability Assessment (FSSA)
Reports and Assessment of Financial Sector Supervision and Regulation (AFSSR) Reports
4. Public Information Notices (PINs) following Article IV consultations and regional surveillance discussions

II. Use of Fund Resources by a Member

5. Interim Poverty Reduction Strategy Papers (I-PRSPs), Poverty Reduction Strategy Papers (PRSPs), PRSP
Preparation Status Reports, and PRSP Annual Progress Reports (APRs)
6. Joint Fund/World Bank Staff Advisory Notes (JSANs) on I-PRSPs, PRSPs, PRSP Preparation Status Reports, and APRs
7. Letters of Intent and Memoranda of Economic and Financial Policies (LOIs/MEFPs)
8. Technical Memoranda of Understanding (TMUs) with policy content
9. Use of Fund Resources, Post-Program Monitoring, Ex Post Assessment, and Ex Post Evaluation of exceptional access arrangements Staff Reports (excluding staff reports dealing solely with a member's overdue financial obligations to the Fund)
10. Chairman's Statements
11. Preliminary, decision point, and completion point documents under the Heavily Indebted Poor Countries Initiative
12. Statements on Fund decisions on waivers of applicability, or for nonobservance, of performance criteria, and any other matter as may be decided by the Executive Board from time-to time
13. PINs following Executive Board discussions on post-program monitoring, ex post assessments or ex post evaluations

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III. Fund Policy Documents

14. Fund Policy Issues Papers
15. PINs following Executive Board discussions on policy issues

IV. Staff Monitored Programs (SMPs)

16. LOIs/MEFPs for SMPs
17. Stand-alone Staff Reports on SMPs

V. Policy Support Instrument (PSI)

18. I-PRSPs, PRSPs, PRSP Preparation Status Reports, and APRs in the context of PSIs
19. Joint Fund/World Bank Staff Advisory Notes (JSANs) on I-PRSPs and PRSPs in the context of PSIs
20. Letters of Intent and Memoranda of Economic and Financial Policies (LOIs/MEFPs) for PSIs
21. Technical Memoranda of Understanding (TMUs) with policy content for PSIs
22. Staff Reports for PSIs
23. Chairman's Statements for PSIs
24. Statements on Fund decisions on waivers of nonobservance of assessment criteria, and any other matter as may be decided by the Executive Board from time-to-time.

(SM/05/343, Sup. 1, 9/22/05) (SM/09/264, Sup. 3, 12/9/09)

Decision No. 13564-(05/85),
October 5, 2005,
as amended by Decision Nos.13814-(06/98), November 15, 2006,
13817-(06/98), November 15, 2006,
13849 (06/108), December 20, 2006,
14253-(09/8), January 27, 2009,
14284 (09/29), March 24, 2009,
14354-(09/79), July 23, 2009,
effective January 7, 2010, and
14497-(09/126), December 17, 2009,
effective March 17, 2010

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The Acting Chair's Summing Up—The Fund's Transparency Policy—Issues and Next Steps
Executive Board Meeting 03/87, September 12, 2003

Directors welcomed the opportunity to review the implementation of the Fund's transparency policy and to discuss the next steps. They considered the key issue for this transparency review to be whether to move to a policy of presumed publication of country staff reports. Directors acknowledged that progress had been made in publication rates for most types of documents and in most regions under the policy of voluntary publication, reflecting the broad acceptance among the membership of the benefits of transparency.

Most Directors noted that progress in publication rates has been slow and unevenly distributed across regions, and that further impetus is needed by moving to a policy of presumed publication. These Directors noted that publication of country reports would help strengthen surveillance and provide for greater accountability of the Fund. Extending the presumed publication policy to all documents related to the use of Fund resources (UFR) would help put into context members' requests for the use of Fund resources as set forth in their published Letters of Intent (LOIs)/Memoranda on Economic and Financial Policies (MEFPs), and explain the basis for management's recommendation that the Board approve these requests.

Many other Directors, however, pointed out that the information provided by the staff showed that the present voluntary approach is effective and that it is not clear that a policy of presumed publication would achieve significant additional gains in publication rates. These Directors suggested that a move to presumed publication could undermine the candor of discussions and documents and the advisory role of the Fund.

All Directors emphasized that candor in the Fund's dialogue with members and in reporting to the Board will remain essential for effective surveillance. They looked forward to the opportunity to discuss the potential conflict between transparency and candor in the next Biennial Review of Surveillance, in light of the increased coverage expected in staff reports of such topics as vulnerability, debt sus-

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tainability, currency mismatches, and other balance sheet and capital account developments.

Most Directors noted the significant declines from already low levels of publication rates of staff reports for the use of Fund resources with exceptionally high access. They emphasized the critical importance of transparency for strengthening confidence in these cases, as they typically involve capital account crises where a high premium is placed on increasing public understanding and market support of the program strategy. However, many other Directors were concerned that, given the high degree of market sensitivity in exceptional access cases, publication of these reports might conflict with the need for frank assessments of the risks involved.

On balance, the Board agreed on a set of measures to enhance transparency further. It was agreed to establish a policy of voluntary but presumed publication for all UFR and Post-Program Monitoring (PPM) staff reports, to be effective as soon as the amendments to the Transparency Policy Decision have been circulated to and approved by the Executive Board.

It was also agreed that, in exceptional access cases, the Managing Director will generally not recommend Board approval of a program or completion of a review unless the authorities consent to the publication of the associated staff report. This new publication policy for UFR staff reports in exceptional access cases will apply to new arrangements approved on or after July 1, 2004 that contain exceptional access, and to existing arrangements that, by reason of augmentation after July 1, 2004, will result in exceptional access. Exceptional access arrangements (i.e., those on the same terms and conditions and timing) in place as of July 1, 2004 will be grandfathered. One Director expressed the view that it would be preferable for the Managing Director's recommendation not to depend on the publication of the staff report but on a more comprehensive assessment of the adequacy of the country's transparency policy.

The Board also agreed to move to voluntary but presumed publication for all Article IV staff reports, Article IV Public Information Notices (PINS) and related Article IV papers (Selected Issues papers, Statistical Annexes and Appendices prepared as background material for Article IV consultations). If a member did not wish a PIN

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to be published, a brief press release would be issued promptly by the Fund to inform the public that the Board had concluded the consultation. These changes will be effective July 1, 2004; until July 1, 2004, existing policies will continue to apply.

Directors considered the possibility of moving to a policy of presumed publication for Reports on the Observance of Standards and Codes (ROSCs) and Financial System Stability Assessments (FSSAs). While a number of Directors stressed the value of better informing the public and markets through a policy of presumed publication of these documents, other Directors referred to the voluntary nature of standards and codes, and cautioned that presumed publication could affect participation in the Financial Sector Assessment Program (FSAP). Against this background, Directors decided to retain the existing policy of voluntary publication, while encouraging members to publish these reports.

In the recent FSAP review, a few Directors proposed that the FSAP technical notes (FTNs) constituting background material for the FSAP process should be circulated to the Board to better inform Directors. Directors agreed that, when FTNs raise issues of sufficient relevance to surveillance, they should be included in the background material for Article IV consultations, and thus would be subject to the Fund's publication policy on Article IV and related reports. Whenever such notes are prepared jointly with World Bank staff, their circulation and publication would be coordinated with the World Bank. Publication of FTNs that are not circulated to the Board as background documentation for Article IV consultations would continue to follow the practice applied to technical assistance reports. When the authorities request publication and management consents to it, FTNs would be circulated to the Board prior to publication and subsequently published on the Fund's external website.

Directors discussed the modalities of voluntary but presumed publication for various Fund documents. It was agreed that, under the presumed publication policy, publication would be expected to occur within thirty calendar days of Board consideration of the relevant papers. If the member has not decided on its publication intentions by the time of the Board meeting, the Secretary will remind the member to communicate its publication intentions to the Fund within thirty calendar days following the Board meeting. In this context, Directors

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emphasized that presumption of publication requires the explicit consent of the member prior to publication, without which the report would not be published.

Directors re-examined the issue of allowing deletions of highly politically sensitive material, and the removal of material that would undermine the ability of the authorities to implement policies or would render implementation more costly. While many Directors continued to favor the extension of the deletions policy to highly politically sensitive material, the majority of the Board did not support such a move, noting the practical difficulties of designing an objective test of "high political sensitivity" to implement such a policy, and the risks of undermining the candor and comprehensiveness of Board documents. Directors urged the staff to continue to avoid language that would exacerbate domestic political challenges to implementing reforms.

Against this background, Directors generally agreed that the continued application of the current deletions policy is appropriate, with the scope of deletions covering highly market-sensitive information, including not only exchange and interest rate matters, but also highly market-sensitive material in vulnerability assessments and the banking and fiscal areas. Directors also agreed that, when third party analysis is presented in a staff report, the source should be indicated, or a staff assessment of such analysis should also be included in the paper.

Directors expressed concern that, in the context of increased publication, there could be an intensification of pressures to delete significant elements of documents on grounds of high market sensitivity. They agreed that management may recommend to the Board to withhold publication of the relevant documents when deletions of highly market-sensitive material would undermine the overall assessment of the Fund and its credibility.

Directors agreed to apply the broad principles for deletions and corrections that are now in place for country staff reports to policy papers prepared by the staff. Modifications to such policy papers before publication would be limited to factual corrections and deletions of highly market-sensitive material and of country-specific references. If Directors considered that there was a danger of confusion

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when the summing up differed from the staff recommendations, the published version of the staff policy paper would indicate clearly in the text those staff positions that the Board had not endorsed.

On administrative papers, while a number of Directors favored a move to presumed publication, most agreed that publication should continue to be considered on a case-by-case basis. In all cases, staff recommendations regarding the publication of these papers will be explained to Executive Directors when the paper is circulated.

On other publication-related matters, Directors supported publication of the Board agenda at the same time as it is made available to Executive Directors, with the indication that the agenda is tentative and subject to change. They asked the staff to elaborate on the modalities.

Amendments to the Transparency Policy Decision reflecting the changes agreed to above will be prepared and circulated to the Executive Board for approval. Except for those changes that are to become effective on July 1, 2004, such changes will become effective upon the Board's approval of the amendments to the decision.

The next review of the Fund's transparency policy is expected to take place by June 2005.

Summing Up by the Acting Chairman—Review of Fund Facilities—Proposed Decisions and Implementation Guidelines
Executive Board Meeting 00/113, November 17, 2000

…

Directors agreed that recognition will be given to members' meeting repurchase expectations by mentioning this fact in summings up and, if they are published, Public Information Notices (PINs) following Article IV or post-program monitoring discussions, and by reporting on the member's country-specific page of the web site. Extensions of expectations will be made public in the form of a factual statement posted on the IMF web site on the member's country-specific page, and in the next weekly update of "Fund Financial Activities: Week at a Glance." …

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PUBLICITY UPON SUSPENSION OF VOTING RIGHTS AND TERMINATION OF SUSPENSION

The Fund shall issue a press release upon its decision to suspend the voting rights of a member and thereafter upon termination of suspension and shall also include the information contained in such press releases, where pertinent, in the Annual Report for the year concerned.

Decision No. 10305-(93/32),
March 10, 1993

Concluding Remarks by the Acting Chairman—Strengthening the Application of the Guidelines on Misreporting
Executive Board Meeting 00/77, July 27, 2000[1]

…

Directors also reviewed the current policy on publication of cases of misreporting and decided to retain the current policy, which requires that after the Board makes its determination that misreporting occurred, the Fund proceed to make relevant information public in every case, with Board review of the text for publication. A number of Directors suggested that we think about introducing the concept of the material importance of an instance of misreporting as affecting the decision on whether to publish. The staff will reflect on this issue and consider whether, in the light of recent and further experience, workable proposals can be presented in the forthcoming paper for Board discussion in October.

…

[1] Ed. Note: In the context of PRGF operations, subparagraph 3(d) of the Annex to Decision No. 11436-(97/10) states that "[t]he Fund shall issue press releases on its decisions regarding the circumstances of the misreporting and the applicable remedies."

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Summing Up by the Acting Chairman—Transparency and Use of Fund Resources
Executive Board Meeting 99/135, December 20, 1999

Executive Directors welcomed the opportunity to revisit transparency-related issues, including the questions of the release of use of Fund resources (UFR) staff reports and whether there should be UFR summings up/Public Information Notices (PINs) following Board discussion of a request for the use of Fund resources.

…

Concerning the release of UFR staff reports, a clear majority of the Board agreed with the staff's proposal to complete the reviews of the recent UFR transparency initiatives and the Article IV pilot project that are scheduled for June and August, 2000, before proceeding to a decision on the possible publication of UFR staff reports.

…

In considering the question of whether there should be UFR summings up and PINs, Directors agreed with the proposal to continue publishing Chairman's statements, emphasizing the key points made by the Board in approving or reviewing the program. … Directors considered that the current procedures for the timely publication of Chairman's statements worked well and should not be modified in advance of the June 2000 review. However, it was agreed that, in view of the clarification of the legal situation relating to such statements, the Executive Director for the country concerned would have, separately, an opportunity to review the Chairman's statement, and would need to give a decision on its publication, subject to very minor revisions, if any, within a very short time of the Board meeting. In the event that the Executive Director did not agree to publication of the Chairman's statement, the Fund would release publicly a short factual statement indicating that the Board meeting had been held and that resources were being provided. The Executive Director for the country concerned would inform the Board of the reasons why publication of the Chairman's statement had not been accepted.

Several Directors expressed the view that, for internal purposes, the Chairman should present a summing up at the end of UFR Board discussions, and the Board agreed to institute this practice.

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The Board will review the experience with the transparency initiatives under way in June and August 2000, and will return to the issue of the release of UFR staff reports in the context of the August 2000 review of the pilot project on the voluntary release of Article IV staff reports.

PUBLIC INFORMATION NOTICES—RELEASE

Following the completion of an Article IV consultation for a member, the Fund may release a Public Information Notice reporting on the results of the consultation in accordance with the following terms:

1. Contents of Public Information Notices

The Public Information Notice will be brief (normally 3–4 pages) and will consist of two sections:

(a) A background section with factual information on the economy of a member, including a table of economic indicators. When possible, a draft of this section would be included in the staff report on Article IV consultation discussions to permit an early opportunity for comment.

(b) The Fund's assessment of the member's prospects and policies. This section will correspond closely to the Chairman's summing up of the Executive Board discussion. Editing of the summing up will be minimal, removing only highly market-sensitive information, mainly Fund views on exchange rate and interest rate matters.

2. Member's Consent to the Release of a Public Information Notice

The release of a Public Information Notice shall be subject to the consent of the member concerned, normally to be communicated through its Executive Director, in accordance with the following procedures:

(a) A member may indicate its intention to consent to the release of a Public Information Notice at any time prior to issuance of

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the Chairman's summing up of the Article IV consultation as a Fund document, but is free not to do so.

(b) The Executive Director concerned will have the opportunity to review the draft Public Information Notice prior to its release.

(c) In case of a serious disagreement between the Managing Director and the Executive Director concerned on the draft, either may request the Executive Board to consider the matter.

(d) A Public Information Notice will be released only upon the written consent of the member, normally communicated through the Executive Director concerned, to the proposed draft. The release of each Public Information Notice will require a separate written consent. A consent can be withdrawn at any time prior to the release of the Public Information Notice.

(e) It is understood that no pressure will be exerted on a member to provide consent for the release of a Public Information Notice by the Managing Director, Fund staff, or other members.

3. Timing of Release

The Public Information Notice will be released shortly following the completion of the Article IV consultation. As an indicative target, the Fund will aim to issue the Public Information Notice five to ten working days following the relevant Executive Board meeting, but in any event not before the end of the working day following the circulation of the summing up as a Fund document.

4. Confirmation of Present Practices

(a) The release of Public Information Notices shall not affect the current Article IV consultation summing up process. In particular, the Chairman's summing up will continue to be provided to the Executive Director concerned for review following the Executive Board meeting.

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(b) The possibility of releasing Public Information Notices shall not affect in any way the staff's reporting to the Executive Board on consultation discussions with members.

Decision No. 11493-(97/45),
April 24, 1997

SUMMINGS UP FOR INTERNAL PURPOSES ON USE OF FUND RESOURCES

Following any Executive Board meeting on the use of Fund resources by a member combined with an Article IV consultation, summings up for internal purposes on the use of Fund resources shall no longer be prepared. Instead, a paragraph or paragraphs concerning Executive Directors' views regarding the member's Fund-supported program shall be attached to the summing up of the Board discussion of the Article IV consultation. Such paragraph(s) shall not be published with any Public Information Notice following the meeting.

Decision No. 12663-(02/6),
January 22, 2002

EXTERNAL AUDIT FIRM MANDATORY ROTATION AND LIMITS ON PROVISION OF AUDIT-RELATED SERVICES AND NON-AUDIT-RELATED SERVICES

1. The contract to conduct the annual external audit of the financial statements of the Fund required under Article XII, Section 7(*a*) of the Fund's Articles of Agreement and Section 20 of the Fund's By-Laws shall be subject to bids every five years.

2. There shall be a mandatory rotation of the Fund's external audit firm every 10 years. In cases where the Fund's external audit firm is awarded a second consecutive 5-year contract after the first 5-year period, the new contract will require that the audit firm rotate the engagement partner and the audit manager.

3. The Fund's external audit firm shall not be eligible to bid for, and shall not be awarded, the provision of non-audit-related consulting services to the Fund. The provision of audit-related consulting services to the Fund by the Fund's external audit firm shall be subject

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to the prior approval of the Executive Board after consultation with the External Audit Committee (EAC), provided that, under no circumstances, shall the remuneration of the Fund's external audit firm for such services exceed 33 percent of the value of the five-year contract for conducting the annual audit of the financial statements of the Fund.

4. This decision shall not preclude the Fund's current external audit firm from submitting bids in accordance with this decision and completing any other existing contracts with the Fund.

Decision No. 13323-(04/78),
August 5, 2004

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Article XIV

Restrictions on Payments and Transfers: Withdrawal

MEANING OF "IN EXCEPTIONAL CIRCUMSTANCES" IN ARTICLE XIV, SECTION 4[1]

The following language in Article XIV, Section 4 of the Fund Agreement:

> "The Fund may, if it deems such action necessary in exceptional circumstances, make representations to any member that conditions are favorable for the withdrawal of any particular restriction, or for the general abandonment of restrictions, inconsistent with the provisions of any other article of this Agreement."

(a) applies at any time after the entry into force of the Fund Agreement and

(b) gives to the Fund the power to determine what is meant by "in exceptional circumstances."

Decision No. 117-1,
January 6, 1947

[1] Ed. Note: Corresponds to Article XIV, Section 3 of the Articles of Agreement after the Second Amendment.

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Article XV, Section 2

Valuation of the Special Drawing Right

SDR Valuation Basket—Revised Guidelines for Calculation of Currency Amounts

1. The value of the special drawing right shall be determined on the basis of the four currencies issued by Fund members, or by monetary unions that include Fund members ("monetary unions"), whose exports of goods and services during the five-year period ending 12 months before the effective date of this decision or any subsequent revision had the largest value, and which have been determined by the Fund to be freely usable currencies in accordance with Article XXX(*f*) of the Fund's Articles of Agreement. In the case of a monetary union, the determination of the values of exports of goods and services of the union shall exclude the trade of goods and services among members that are part of the union.

2. The percentage weights of each of the currencies selected in accordance with paragraph 1 above shall reflect (i) the value of the balances of that currency held at the end of 1999, and thereafter at the end of each year of the relevant five-year period referred to in paragraph 1 above, by the monetary authorities of members other than those forming part of the monetary union, and (ii) the value of exports of goods and services, as defined in paragraph 1 above, of the members or monetary unions issuing the currencies over the relevant five-year period referred to in paragraph 1 above.

3. In accordance with the principles set forth in paragraphs 1 and 2 above, effective January 1, 2001, the value of one special drawing right shall be the sum of the values of specified amounts of the four currencies listed below. These amounts shall be determined on December 29, 2000, in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the

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shares of each of the four currencies in the value of the special drawing right correspond to the weights specified below.[1]

Currency	Weights (in currency)
U.S. dollar	0.660
Euro	0.423
Japanese yen	12.1
Pound sterling	0.111

4. The list of the currencies that determine the value of the special drawing right, and the amounts of the currencies, shall be revised with effect on January 1, 2006 and on the first day of each subsequent period of five years in accordance with the following principles, unless the Fund decides otherwise in connection with a revision:

(a) The currencies determining the value of the special drawing right shall be determined in accordance with paragraph 1 above, provided that a currency shall not replace another currency included in the list at the time of the determination unless the value of the exports of goods and services of the member or of members of a monetary union, whose currency is not included in the list, during the relevant period exceeds that of the member or the monetary union issuing the currency included in the list by at least 1 percent.

(b) The amount of the four currencies referred to in (a) above shall be determined on the last working day preceding the effective date of the relevant revision in a manner that will ensure that, at the average exchange rates for the three-month period ending on that date, the shares of these currencies in the value of the special drawing right correspond to percentage weights for these currencies, which shall be established for each currency in accordance with (c) below.

[1] Ed. Note: Effective January 1, 2011, an amendment to Rule O-1, which specifies the amounts of the currencies in the SDR valuation basket, adopted these weights (Decision No. 14821-(11/1), December 30, 2010).

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(c) The percentage weights shall be established in accordance with the principles set forth in paragraph 2 above, in a manner that would maintain broadly the relative significance of the factors that underlie the percentage weights in paragraph 3 above. The percentage weights shall be rounded to the nearest 1 percent or as may be convenient.

5. The determination of the amounts of the currencies in accordance with 3 and 4 above shall be made in a manner that will ensure that the value of the special drawing right in terms of currencies on the last working day preceding the five-year period for which the determination is made will be the same under the valuation in effect before and after revision (SM/00/180, 7/24/00).

Decision No. 12281-(00/98),
October 11, 2000,
as amended by Decision No. 13595-(05/99), November 23, 2005,
effective January 1, 2006

SDR VALUATION BASKET—GUIDELINES FOR THE CALCULATION OF CURRENCY AMOUNTS

1. Under all circumstances, the currency units will be determined in a manner which would ensure that the value of the SDR calculated on December 31 on the basis of the new basket will be the same as that actually prevailing on that day.

2. The currency amounts calculated for the new basket will be expressed in two significant digits provided that the deviation of the percentage share of each currency in the value of the SDR, resulting from the application of the average exchange rates for October–December, from the percentage weight as determined under paragraph 4(c) of Executive Board Decision No. 12281-(00/98), adopted October 11, 2000 is the minimum on average and will not exceed one half percentage point for any currency.

3. If a solution cannot be obtained by the application of the principles set forth in (2) above, the calculation shall be made applying the same principles but expressing the amount of each currency in three significant digits, and if no solution is found with three signifi-

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cant digits then the calculation shall be made applying the same principles but expressing the amount of each currency in four significant digits.

4. If more than one solution is found in the calculation at the level of two, three, or four significant digits, the solution that has the smallest average deviation will be employed.

Decision No. 8160-(85/186) G/S,
December 23, 1985,
as amended by Decision No. 12283-(00/98)
October 11, 2000

REVIEW OF THE METHOD OF VALUATION OF THE SDR

The Executive Board, having reviewed the list and the weights of the currencies that determine the value of the special drawing right (SDR) in accordance with Decision No. 12281-(00/98) G/S, adopted October 11, 2000, decides that, with effect from January 1, 2011, the list of the currencies in the SDR valuation basket shall remain the same, and the weight of each of these currencies to be used to calculate the amount of each of these currencies in the basket will be as follows:

Currency	Weight (in percent)
U.S. dollar	41.9
Euro	37.4
Japanese yen	9.4
Pound sterling	11.3

(SM/10/292, 10/26/10)

Decision No. 14769-(10/110) G/S,
November 15, 2010

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METHOD OF COLLECTING EXCHANGE RATES FOR THE CALCULATION OF THE VALUE OF THE SDR FOR THE PURPOSES OF RULE O-2(a)

1. For the purpose of determining the value of the United States dollar in terms of the special drawing right pursuant to Rule O-2(a), the equivalents in United States dollars of the amounts of currencies specified in Rule O-1 shall be based on spot exchange rates against the United States dollar. For each currency the exchange rate shall be the middle rate between the buying and selling rates at noon in the London exchange market as determined by the Bank of England.

2. If the exchange rate for any currency cannot be obtained from the London exchange market, the rate shall be the middle rate at noon in the New York exchange market determined by the Fund on the basis of the buying and selling rates communicated by the Federal Reserve Bank of New York or, if not available there, the middle rate determined by the Fund on the basis of the euro reference rates of the European System of Central Banks communicated by the European Central Bank. If the rate for any currency against the United States dollar cannot be obtained directly in any of these markets, the rate shall be calculated indirectly by use of a cross rate against another currency specified in Rule O-1.

3. If on any day the exchange rate for a currency cannot be obtained in accordance with 1 or 2 above, the rate for that day shall be the latest rate determined in accordance with 1 or 2 above, provided that after the second business day the Fund shall determine the rate.

Decision No. 6709-(80/189) S,
December 19, 1980,
as amended by Decision No. 12157-(00/24) S,
March 9, 2000

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Article XVII, Section 3

Special Drawing Rights: Other Holders

SPECIAL DRAWING RIGHTS: OTHER HOLDERS

The terms and conditions on which other holders prescribed by the Fund may accept, hold or use SDRs are as follows:

1. Acceptance, Holding, and Use by Prescribed Holders

(a) Acceptance and use

A prescribed holder may accept or use special drawing rights (i) in exchange for an equivalent amount of a monetary asset other than gold in a transaction entered into by agreement with a participant, or another prescribed holder, or (ii) in an operation entered into by agreement with a participant or another prescribed holder in accordance with and on the same terms and conditions established at that time for participants by decisions of the Fund under Article XIX, Section 2(*c*).

(b) Holding

A prescribed holder may hold special drawing rights, subject to the provisions of this decision, accepted in accordance with (a) above or received as interest paid on its holdings of special drawing rights in accordance with Article XX, Section 1.

2. Acceptance and Use by Participants in Transactions and Operations with Prescribed Holders

Participants may enter into transactions and operations by agreement with a prescribed holder in accordance with the prescriptions in paragraph 1(a) of this decision.

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3. Application of General Provisions

The holding of special drawing rights and the acceptance and use of them in transactions and operations by a prescribed holder shall be governed by the provisions of the Articles, By-Laws, Rules and Regulations, and decisions of the Fund that apply from time to time to all holders of special drawing rights.

4. Exchange Rates

The Rules and Regulations and decisions of the Fund that determine the exchange rates applicable at the time of each use or acceptance of special drawing rights by a participant shall apply to each use or acceptance of them by a prescribed holder. A prescribed holder shall not levy any charge or commission in respect of a transaction involving special drawing rights.

5. Information and Recording

The Fund shall inform prescribed holders of matters relevant to the acceptance, holding, and use of special drawing rights by them. A prescribed holder shall inform the Fund promptly of the facts necessary to record any transactions or operations in which a prescribed holder accepts or uses special drawing rights.

6. Consultation and Review

(a) Consultation between the Fund and a prescribed holder shall be held at the request of the Fund or the prescribed holder with respect to the application of this decision or the decision prescribing the holder or with respect to transactions or operations entered into involving special drawing rights.

(b) The Executive Board shall review periodically this decision and decisions prescribing holders.

7. General Undertaking

Each prescribed holder shall collaborate with the Fund, participants, and other prescribed holders with respect to its acceptance, holding, and use of special drawing rights in order to facilitate the effective functioning of the Special Drawing Rights Department and

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the proper use of special drawing rights in accordance with the Articles and the terms and conditions prescribed by the Fund now or in the future for the acceptance, holding, and use of special drawing rights by prescribed holders.

8. Suspension

During any period in which a suspension is in effect under Article XXIII, Section 1 with respect to participants, the suspension shall apply to the same extent to prescribed holders.

9. Termination

(a) The prescription of a holder of special drawing rights may be terminated by the Fund by a decision of the Executive Board or by a notice from the prescribed holder in writing to the Fund at its principal office. Termination shall become effective on the date specified in the decision of the Executive Board but not earlier than the date of the decision, or when notice from the prescribed holder is received by the Fund at its principal office.

(b) A prescribed holder whose status as such has been terminated may continue to hold the special drawing rights it held on termination and to receive special drawing rights as interest on its holdings and may continue to use special drawing rights to dispose of them in transactions or operations in accordance with paragraph 1(a) above. A prescribed holder whose status has been terminated shall make arrangements, with the concurrence of the Fund, to dispose of its holdings of special drawing rights as expeditiously as possible, and shall exchange special drawing rights for a freely usable currency selected by the prescribed holder when requested by the Fund.

Decision No. 6467-(80/71) S,
April 14, 1980

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BANK FOR INTERNATIONAL SETTLEMENTS (BIS)—CHANGE IN TERMS AND CONDITIONS OF PRESCRIPTION AS HOLDER OF SDRS

The Bank for International Settlements is authorized to accept, hold, and use special drawing rights in transactions and operations in accordance with and on the terms and conditions specified in the decision "Terms and Conditions for the Acceptance, Holding, and Use of Special Drawing Rights by Other Holders Prescribed under Article XVII, Section 3," Decision No. 6467-(80/71) S, adopted April 14, 1980. These terms and conditions shall replace those set forth in Board of Governors Resolution No. 29-1, dated January 21, 1974.[1] (EBS/80/86, 4/15/80)

Decision No. 6484-(80/77) S,
April 18, 1980

ANDEAN RESERVE FUND—HOLDER OF SDRS

1. Prescription as a Holder

The Andean Reserve Fund is prescribed, in accordance with Article XVII, Section 3(*i*) of the Articles of Agreement, as a holder of special drawing rights.

2. Terms and Conditions for Acceptance, Holding, and Use of Special Drawing Rights

The Andean Reserve Fund is authorized to accept, hold, and use special drawing rights in transactions and operations in accordance with and on the terms and conditions specified in the decision "Terms and Conditions for the Acceptance, Holding, and Use of Special Drawing Rights by Other Holders Prescribed under Article XVII, Section 3," Decision No. 6467-(80/71) S, adopted April 14, 1980. (EBS/80/86, 4/15/80)

[1] Ed. Note: The BIS was prescribed as a holder of SDRs by Board of Governors Resolution No. 29-1, effective January 21, 1974.

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Decision No. 6486-(80/77) S,[1]
April 18, 1980

USE OF SDRS IN PAYMENT OF TRUST FUND OBLIGATIONS

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

1. A participant, by agreement with a prescribed holder and at the instruction of the Fund, may transfer SDRs to the prescribed holder in repayment of Trust Fund loans, in payment of interest on Trust Fund loans and in payment of special charges in respect of overdue repayments and interest of Trust Fund loans.

2. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

Decision No. 8642-(87/101) S/TR,
July 9, 1987

[1] Ed. Note: Similar decisions were taken for the following entities as holders of SDRs: East Caribbean Currency Authority—Decision No. 6487-(80/77) S, April 18, 1980; Nordic Investment Bank—Decision No. 6488-(80/77) S, April 18, 1980; International Fund for Agricultural Development—Decision No. 6489-(80/77) S, April 18, 1980; Arab Monetary Fund—Decision No. 6609-(80/126) S, August 8, 1980, effective August 26, 1980; International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA)—Decision No. 6718-(81/1) S, December 23, 1980; Central Bank of West African States—Decision No. 6908-(81/101) S, June 29, 1981; Bank of Central African States—Decision No. 7064-(82/26) S, February 26, 1982; Islamic Development Bank—Decision No. 7086-(82/42) S, April 5, 1982; Asian Development Bank—Decision No. 7229-(82/136) S, October 15, 1982; East African Development Bank—Decision No. 7582-(83/174) S, December 15, 1983; Eastern Caribbean Central Bank—Decision No. 7707-(84/79) S, May 17, 1984; African Development Bank and the African Development Fund—Decision No. 8318-(86/104) S, June 25, 1986; and European Central Bank—Decision No. 12329-00/113), November 15, 2000.

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USE OF SDRS IN PAYMENT OF SUBSIDY

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

1. SDRs to the participant in discharge of subsidy payable from the Supplementary Financing Facility Subsidy Account, at the instruction of the Fund as Trustee of that Account.

2. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

Decision No. 8186-(86/9) SBS/S,
January 15, 1986

USE OF SDRS IN OPERATIONS UNDER THE STRUCTURAL ADJUSTMENT FACILITY

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

1. A prescribed holder, by agreement with a participant and at the instruction of the Fund, may transfer SDRs to the participant in disbursement of a loan payable from the Structural Adjustment Facility within the Special Disbursement Account ("the Facility").

2. A participant, by agreement with a prescribed holder and at the instruction of the Fund, may transfer SDRs to the prescribed holder in repayment of loans, and/or payment of interest on loans, under the Facility.

3. The Fund shall record operations pursuant to these prescriptions in accordance with Rule P-9.

Decision No. 8239-(86/56) SAF/S,
March 26, 1986

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USE OF SDRS IN FINANCIAL OPERATIONS UNDER THE ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST OR UNDER AN ADMINISTERED ACCOUNT

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

1. A participant or prescribed holder, by agreement with a prescribed holder and at the instruction of the Fund, may transfer SDRs to that prescribed holder in effecting a payment due to the Fund in connection with financial operations under the Enhanced Structural Adjustment Facility Trust or under an administered account established for the benefit of the Enhanced Structural Adjustment Facility Trust.

2. A prescribed holder, by agreement with a participant or another prescribed holder and at the instruction of the Fund, may transfer SDRs to that participant or other prescribed holder in effecting a payment due from the Fund in connection with financial operations under the Enhanced Structural Adjustment Facility Trust or under an administered account established for the benefit of the Enhanced Structural Adjustment Facility Trust.

3. The Fund shall record operations pursuant to these prescriptions in accordance with Rule P-9. (EBS/88/150, 7/27/88)

Decision No. 8937-(88/118) ESAF/S,
July 28, 1988

USE OF SDRS IN FINANCIAL OPERATIONS UNDER THE PRGF-HIPC TRUST OR UNDER AN ADMINISTERED ACCOUNT

In accordance with Article XVII, Section 3, the Fund prescribes that (i) a participant or a prescribed holder, by agreement with a participant or a 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 Post-SCA-2 Administered Account or in effecting a payment due to or by the Fund in connection with financial operations under the PRGF-HIPC Trust or under an administered ac-

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count established for the benefit of the PRGF-HIPC Trust; (ii) operations pursuant to these prescriptions shall be recorded in accordance with Rule P-9. (EBS/99/215, 11/29/99)

Decision No. 12062-(99/130),
December 8, 1999

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Article XVIII, Section 2

Allocation of Special Drawing Rights

ALLOCATION OF SPECIAL DRAWING RIGHTS FOR THE FIRST BASIC PERIOD

Resolution

WHEREAS the Managing Director has submitted a proposal for the allocation of special drawing rights pursuant to Article XXIV,[1] Section 4, of the Articles of Agreement of the International Monetary Fund; and

WHEREAS in the Report containing his proposal, the Managing Director has declared that, before making the proposal, he had satisfied himself that the proposal will be consistent with the provisions of Article XXIV, Section 1(*a*), and that, after consultation, he has ascertained that there is broad support among participants for the proposal;

WHEREAS the Managing Director, on the occasion of this proposal for the first allocation, has satisfied himself that the provisions of Article XXIV, Section 1*(b)*, have been met and that there is broad support among participants to begin allocations; and

WHEREAS the Executive Directors have concurred in the proposal of the Managing Director;

NOW, THEREFORE, the Board of Governors, being satisfied that the proposal of the Managing Director meets the principles and considerations governing the allocation of special drawing rights set forth in Article XXIV, Section 1, hereby RESOLVES that:

[1] Ed. Note: Corresponds to Article XVIII of the Articles of Agreement after the Second Amendment.

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The Fund shall make allocations to participants in the Special Drawing Account, in accordance with the Articles of Agreement, during a basic period of three years which shall begin on January 1, 1970.

Allocations during the basic period shall be made on January 1, 1970, January 1, 1971, and January 1, 1972.

Allocations shall be on the basis of quotas on the day before the dates of the allocations.

The rate for the first allocation shall be 17.5 percent and the rate for the second and third allocations shall be 15 percent, provided that these rates shall be adjusted, to the nearest one tenth of one percentage point, by multiplying them by the ratio of $20 billion to the total of quotas on the day before allocation of those participants which were members of the Fund on December 31, 1969.

Resolution No. 24-12,
October 3, 1969

ALLOCATION OF SPECIAL DRAWING RIGHTS FOR THE THIRD BASIC PERIOD

Resolution

WHEREAS the Managing Director has submitted a proposal for the allocation of special drawing rights pursuant to Article XVIII, Section 4, of the Articles of Agreement of the International Monetary Fund;

WHEREAS in the Report containing his proposal, the Managing Director has declared that, before making the proposal, he had satisfied himself that the proposal would be consistent with the provisions of Article XVIII, Section 1(*a*), and that, after consultation, he has ascertained that there is broad support among participants for the proposal; and

WHEREAS the Executive Board has concurred in the proposal of the Managing Director;

NOW, THEREFORE, the Board of Governors, being satisfied that the proposal of the Managing Director meets the principles go-

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verning the allocation of special drawing rights set forth in Article XVIII, Section 1(*a*) hereby RESOLVES that:

The third basic period, which began on January 1, 1978, shall end on December 31, 1981.

The Fund shall make allocations to participants in the Special Drawing Rights Department that are eligible, in accordance with the Articles of Agreement, to receive allocations during the third basic period.

Allocations shall be made as of the first day of the month following the date on which this resolution becomes effective and as of the same date in each of the subsequent two years.

The rate for the allocations to participants eligible to receive allocations in accordance with 2 above shall be the percentage, rounded to the nearest one-tenth of one percentage point, resulting from dividing SDR 4 billion by the total of quotas on the day before allocation of those participants that were eligible to receive allocations on the date on which this resolution becomes effective.

This resolution shall become effective if it and the proposed resolution on the Seventh General Review of Quotas are adopted by the necessary majority of the total voting power for each.

Resolution No. 34-3,
effective December 11, 1978

ALLOCATION OF SPECIAL DRAWING RIGHTS FOR THE NINTH BASIC PERIOD

Resolution

RESOLVED:

WHEREAS the Managing Director has submitted a proposal for the allocation of special drawing rights pursuant to Article XVIII, Section 4(c) of the Articles of Agreement of the International Monetary Fund;

WHEREAS in the Report containing his proposal, the Managing Director has declared that, before making the proposal, he had satisfied

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himself that the proposal would be consistent with the provisions of Article XVIII, Section 1(a), and that, after consultation, he has ascertained that there is broad support among participants for the proposal; and

WHEREAS the Executive Board, in accordance with Article XVIII, Section 4(a), has concurred in the proposal of the Managing Director;

NOW, THEREFORE, the Board of Governors, being satisfied that the proposal of the Managing Director meets the principles governing the allocation of special drawing rights set forth in Article XVIII, Section 1(a), hereby resolves that:

1. The Fund shall make an allocation of special drawing rights to participants in the Special Drawing Rights Department that are eligible, in accordance with the Articles of Agreement, to receive allocations during the ninth basic period.

2. The allocation shall be made on the twenty-first day following the date on which this resolution becomes effective.

3. The rate for the allocation shall be 74.1309799813 percent of the quota of each eligible participant on the date on which this resolution becomes effective.

Resolution 64-3,
effective August 7, 2009.

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Article XIX, Section 2

Special Drawing Rights: Additional Uses

USE OF SDRS IN SETTLEMENT OF FINANCIAL OBLIGATIONS

A. In accordance with Article XIX, Section 2(*c*), the Fund prescribes that:

1. A participant, by agreement with another participant, may use SDRs to settle a financial obligation to the other participant, if

(a) the obligation is denominated in

(i) SDRs, or

(ii) the currency of a member, or

(iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(*a*) and Rule O-2; and

(b) the amount of SDRs to be used in the settlement of an obligation referred to in (a)(ii) or (a)(iii) above is equal in value, in terms of the SDR, at the time of settlement, to the amount of the obligation.

2. The calculations under 1(b) above shall be made at the exchange rate of the third business day preceding the value date or of the second business day preceding the value date if agreed between the parties.

3. Participants intending to use or acquire SDRs under 1(a) above shall inform the Fund of the denomination and amount of the obligation and the intended value date of the operation. As required by Rule P-7 the lender and the borrower shall declare that the intended use of SDRs will be in accordance with this prescription.

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4. Transfers of SDRs under this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

B. The Fund shall record operations under this prescription in accordance with Rule P-9.

C. The Fund shall review this decision prior to June 30 of each year.

Decision No. 6000-(79/1) S,
December 28, 1978,
as amended by Decision No. 6438-(80/37) S,
March 5, 1980

USE OF SDRS IN LOANS

A. In accordance with Article XIX, Section 2(*c*), the Fund prescribes that:

1. A participant, by agreement with another participant, may make a loan of SDRs to the other participant, if:

(a) the principal amount of the loan is denominated in

(i) SDRs, or

(ii) the currency of a member, or

(iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(*a*) and Rule O-2; and

(b) the amount of SDRs used in a loan referred to in (a)(ii) or (a)(iii) above is equal in value, in terms of the SDR, at the time of the use, to the amount of the loan; and

(c) the borrower has undertaken the following obligations under the loan agreement:

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(i) if the loan is denominated in SDRs, to repay with the same amount of SDRs, or the equivalent, at the time of repayment, in the currency of a member on the basis of Article XIX, Section 7(*a*) and Rule O-2, or in the currency of a nonmember or another unit of account under (a)(iii) above in accordance with the arrangements for valuation referred to therein;

(ii) if the loan is denominated in the currency of a member and is to be repaid in SDRs, to repay with the equivalent in SDRs, at the time of repayment, on the basis of Article XIX, Section 7(*a*) and Rule O-2;

(iii) if the loan is under (a)(iii) above and is to be repaid in SDRs, to repay with the equivalent in SDRs, at the time of repayment, in accordance with the arrangements for valuation referred to in (a)(iii) above.

2. The calculations under 1(b) and (c) above shall be made at the exchange rate of the third business day preceding the value date or of the second business day preceding the value date if agreed between the parties.

3. Repayment and the payment of interest with SDRs shall be made in accordance with the prescription of the use of SDRs in the settlement of financial obligations.

4. Participants intending to lend or borrow SDRs under this prescription shall inform the Fund of the amount and value date of the loan, the denomination, rate of interest, maturity, and means of repayment agreed between the parties. As required by Rule P-7 the lender and the borrower shall declare that the intended use of SDRs will be in accordance with this prescription.

5. Transfers of SDRs under this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

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B. The Fund shall record operations under this prescription in accordance with Rule P-9.

C. The Fund shall review this decision prior to June 30 of each year.

Decision No. 6001-(79/1) S,
December 28, 1978

USE OF SDRS IN PLEDGES

In accordance with Article XIX, Section 2(*c*), the Fund prescribes that:

1. A participant, by agreement with another participant, may pledge SDRs to secure the performance of a financial obligation to the other participant, if the obligation is denominated in

(i) SDRs, or

(ii) the currency of a member, or

(iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(*a*) and Rule O-2.

2. Participants intending to engage in an operation involving the pledge of SDRs as pledge or pledgee shall inform the Fund of the terms of the pledge relating to the amount and denomination of the obligation to be secured by the pledge, the amount of SDRs to be pledged, the effective date of the pledge, and the party or other entity designated by the parties to the operation to give instructions to the Fund to terminate the pledge in whole or in part or to transfer the pledged SDRs to the pledgee. As required by Rule P-7 the parties to the operation shall declare that the intended use of SDRs will be in accordance with this prescription.

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3. The Fund shall record a pledge of SDRs under this prescription only upon receipt by the Fund of instructions from the parties to the operation. A change in the terms of the pledge referred to in 2 above, if consistent with this prescription, shall take effect upon receipt by the Fund of instructions from the parties to the operation. The amount of SDRs to be pledged shall be set aside and shall not be used during the period of the pledge except in accordance with instructions authorized by the terms of the pledge or in order to discharge an obligation of the pledgor under the Articles of Agreement.

4. The amount of SDRs to be transferred to the pledgee in accordance with instructions authorized by the terms of the pledge in satisfaction of the secured obligation shall discharge an equal amount, in terms of the SDR, of the secured obligation at the time of the transfer. Calculations for this purpose shall be made at the exchange rate of the third business day preceding the date of the transfer or of the second business day preceding the date of the transfer if agreed between the parties.

5. The Fund shall give adequate notice to the parties to an operation under this prescription before pledged SDRs are to be transferred

(a) in accordance with the terms of the pledge; or

(b) in order to discharge an obligation of the pledgor under the Articles of Agreement.

6. The notice under 5(b) above may include advice on the ways in which the obligation could be discharged without the use of pledged SDRs, or in which the pledge of SDRs could be restored.

7. The Fund shall record operations under this prescription in accordance with Rule P-9.

8. The Fund shall review this decision prior to June 30 of each year.

Decision No. 6053-(79/34) S,
February 26, 1979,

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as amended by Decision No. 6438-(80/37) S,
March 5, 1980

USE OF SDRS IN TRANSFERS AS SECURITY FOR THE PERFORMANCE OF FINANCIAL OBLIGATIONS

In accordance with Article XIX, Section 2(*c*), the Fund prescribes that:

1. A participant, by agreement with another participant, may transfer SDRs to the other participant in order to secure the performance of a financial obligations to the other participant, if the obligation is denominated in

(i) SDRs, or

(ii) the currency of a member, or

(iii) the currency of a nonmember or another unit of account that is composed of currencies and is applied under an intergovernmental agreement, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(*a*) and Rule O-2.

2. Participants intending to engage, as transferor or transferee, in an operation involving the transfer of SDRs as security shall inform the Fund of the terms of the security arrangement relating to the amount and denomination of the obligation to be secured, the amount of SDRs to be transferred, the effective date of the transfer, any agreement by the parties regarding SDRs received from the Fund as interest in respect of the transferred SDRs, and the party or other entity designated by the parties to the operation to give instructions to the Fund for the retransfer. As required by Rule P-7 the parties to the operation shall declare that the intended use of SDRs will be in accordance with this prescription.

3. The Fund shall record a transfer of SDRs under this prescription upon the receipt by the Fund of instructions from the parties to the operation. A change in the terms of the security arrangement referred to in 2 above, if consistent with this prescription, shall take ef-

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fect upon receipt by the Fund of instructions from the parties to the arrangement. At the request of the parties, the amount of SDRs transferred as security shall be set aside and shall not be used during the period of the security arrangement except in accordance with instructions authorized by the terms of the arrangement or in order to discharge an obligation of the transferee under the Articles of Agreement.

4. The amount of SDRs transferred as security shall be retransferred in accordance with instructions authorized by the terms of the security arrangement, or retained in the absence of such instructions. The amount of SDRs retained shall discharge an equal amount, in terms of the SDR, of the secured obligation at the time of the retention. Calculations for this purpose shall be made at the exchange rate of the third business day preceding the date of retention or of the second business day preceding the date of retention if agreed between the parties.

5. The Fund shall give adequate notice to the parties to an operation under this prescription before the amount of SDRs held by the transferee as security are to be

(a) retransferred in accordance with the terms of the arrangement; or

(b) reduced in order to discharge an obligation of the transferee under the Articles of Agreement.

6. The notice under 5(b) above may include advice on the ways in which the obligation could be discharged without the use of the SDRs held as security, or in which these holdings could be restored.

7. The Fund shall record operations under this prescription in accordance with Rule P-9.

8. The Fund shall review this decision prior to June 30 of each year.

Decision No. 6054-(79/34) S,
February 26, 1979,

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as amended by Decision No. 6438-(80/37) S,
March 5, 1980

USE OF SDRS IN SWAP OPERATIONS

In accordance with Article XIX, Section 2(*c*), the Fund prescribes that:

1. A participant, by agreement with another participant, may engage in an operation by which (a) one of the parties transfers to the other party SDRs in exchange for an equivalent amount of currency or another monetary asset, other than gold, in respect of which arrangements have been completed for determination by the Fund of equal value in terms of the SDR on the basis of Article XIX, Section 7(*a*) and Rule O-2, and (b) the parties undertake to reverse the exchange within a period and at an exchange rate agreed by them.

2. Calculations for the purpose of 1(a) above shall be made at the exchange rate of the third business day preceding the date of the transfer or of the second business day preceding the date of the transfer if agreed by the parties.

3. The parties may agree on the terms of the operation, and may modify those terms, provided that the terms and any modification of them would be consistent with this prescription.

4. The parties may agree on the payment of compensation in the event that, for any reason, the reversal of the transfer in accordance with 1(b) above is not carried out.

5. Participants intending to use or receive SDRs pursuant to this prescription shall inform the Fund of

(a) the amount of SDRs and the period of the operation;

(b) the monetary asset, the exchange rate and the value date for the exchange under 1(a) above;

(c) the monetary asset, the exchange rate and the value date for the reversal of the exchange;

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(d) any agreement for the payment of interest, or compensation in accordance with 4 above; and

(e) any modification of these terms.

6. As required by Rule P-7 the parties to an operation pursuant to this prescription shall declare that the intended use of SDRs will be in accordance with this prescription.

7. Transfers of SDRs pursuant to this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

8. If the Fund decides to change any of the terms and conditions of this prescription, any outstanding operation that is inconsistent with the new terms and conditions shall be completed within 12 months from the date of the Fund's decision.

9. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

Decision No. 6336-(79/178) S,
November 28, 1979

USE OF SDRS IN FORWARD OPERATIONS

In accordance with Article XIX, Section 2(*c*), the Fund prescribes that:

1. A participant, in agreement with another participant, may engage in an operation by which the participant undertakes to transfer to the other participant SDRs at a specified future date more than three business days after the date of the agreement, in exchange for an agreed amount of currency or another monetary asset, other than gold.

2. The parties may agree on the terms of the operation, and may modify those terms, provided that the terms and any modification of them would be consistent with this prescription.

3. Participants intending to use or receive SDRs pursuant to this prescription shall inform the Fund of

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(a) the amount of SDRs and the period of the operation;

(b) the monetary asset, the exchange rate and the value date for the exchange; and

(c) any modification of these terms.

4. As required by Rule P-7 the parties to an operation pursuant to this prescription shall declare that the intended use of SDRs will be in accordance with this prescription.

5. Transfers of SDRs pursuant to this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

6. If the Fund decides to change any of the terms and conditions of this prescription, any outstanding operation that is inconsistent with the new terms and conditions shall be completed within 12 months from the date of the Fund's decision.

7. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

Decision No. 6337-(79/178) S,
November 28, 1979

USE OF SDRS IN DONATIONS

In accordance with Article XIX, Section 2(*c*), the Fund prescribes that:

1. A participant, by agreement with another participant, may donate SDRs to the other participant.

2. Participants intending to donate or receive SDRs pursuant to this prescription shall inform the Fund of the amount of SDRs and the value date for the transfer.

3. As required by Rule P-7 the parties to an operation pursuant to this prescription shall declare that the intended use of SDRs will be in accordance with this prescription.

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4. Transfers of SDRs pursuant to this prescription shall be made only upon the receipt by the Fund of instructions from the transferor and the transferee.

5. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

Decision No. 6437-(80/37) S,
March 5, 1980

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Article XIX, Section 5

Designation of Participants to Provide Currency

REVIEW OF RULES FOR DESIGNATION AND METHOD OF CALCULATING DESIGNATION AMOUNTS[1]

The Executive Directors approve the summary and conclusions set out in SM/79/183 (7/9/79) on the understanding that if during the first year after a participant receives an allocation for the first time, designation would bring the participant close to the acceptance limit, the staff will take steps to moderate the rate at which the limit is approached.

Decision No. 6209-(79/124) S,
July 24, 1979

SM/79/183

Summary and Conclusions

1. The designation system has a key role in guaranteeing the usability of the SDR. However, provided that the SDR is regarded as an attractive reserve asset, participants may make less use of their SDR holdings in transactions with designation and may rely more on transactions and operations by agreement between participants, as well as payments to the Fund. The volume of transactions with designation would then depend mainly on the extent to which the Fund transfers SDRs to purchasing members that use the SDRs to obtain foreign exchange in transactions with designation.

2. The general structure of the more important provisions relating to designation is as follows:

[1] Ed. Note: See also Decision No. 6273-(79/158) G/S, September 14, 1979, p. 483.

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(a) The major principles of designation are contained in Article XIX, Section 5. A participant whose balance of payments and gross reserve position is sufficiently strong shall be subject to designation; and the Fund shall designate these participants "in such manner as will promote over time a balanced distribution of holdings of special drawing rights among them." These principles can be supplemented by other principles that the Fund may adopt at any time.

(b) To promote a balanced distribution of SDR holdings, the Fund implements the rules for designation in Schedule F. These rules embody the so-called "excess holdings" principle, which aims to promote over time equality in participants' "excess holding ratios," i.e., their holdings of SDRs in excess of their net cumulative allocations as a proportion of their gold and foreign exchange holdings. The rules for designation can be reviewed at any time and changed, if necessary, by a decision of the Executive Board taken by a majority of votes cast.[1]

3. The following conclusions are suggested as regards the principles on which the calculation of the designation amounts is based.

(a) The choice of "excess holdings" rather than total holdings of SDRs tends to concentrate designation on net users of SDRs to restore their holdings to the level of their allocations. The alternative "holdings" principle would tend to shift the incidence of designation away from participants that have used SDRs to those that have relatively large holdings of gold and foreign exchange. The latter approach may become more suitable as the attractiveness of the SDR increases, but it is not recommended at this time.

(b) Participants' gold and foreign exchange holdings are used as a basis for harmonizing excess holdings of SDRs, consistent with the approach that the staff has suggested for preparing the operational budgets. An alternative technique would be to distribute amounts of designation on the basis of participants' unused acceptance obligations in relation to their allocations. It would seem preferable, however, not to divorce the designation amounts from partici-

[1] Ed. Note: For revised designation rules, see Decision No. 11976-(99/59) S, p. 823

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pants' reserve holdings as these are considered to be the best available measure of the ability of participants to provide currency when designated by the Fund.

(c) The speed at which the harmonization of ratios proceeds depends importantly on the particular method adopted for calculating designation amounts for individual participants. The present method has promoted harmonization at a moderate pace, striking a balance between the objective of restoring the holdings of net users of SDRs and the desire to maintain a fairly broad list of participants for designation. The method has the advantage of flexibility and has been adjusted successfully from time to time to meet changing circumstances.

4. Under the Articles of Agreement, the amount of SDRs a participant can be required to accept in designation is restricted to the point where its excess holdings are twice its allocation, i.e., the acceptance limit. For certain participants, this limit is reached rather more rapidly than for others because their reserves are very large in relation to their SDR allocations. While it would be possible to conceive of arrangements that would slow down the approach to the acceptance limit, the staff's view is that such action is neither necessary nor desirable.

5. The method of executing designation plans is established for each quarterly period at the time the plan is adopted by the Executive Board. It is proposed that this procedure be continued. The approach generally followed in the execution of designation plans has been to designate participants in broad proportion to the maximum amounts for which they are included in the plan, while avoiding undue fragmentation of individual transactions. From time to time exceptions may be proposed, such as have been agreed by the Executive Board in the past when circumstances warranted. If during the quarterly period covered by a designation plan a proposal is pending with the Executive Board for the exclusion of a participant from designation, further designation of the participant concerned would be avoided to the extent practicable.

6. Over more than nine years of actual experience, the designation mechanism has functioned satisfactorily. Actual designations have borne out the general emphasis that was expected to result from

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the "excess holdings" principle. About four fifths of total designation has been directed to participants whose holdings of SDRs were below their allocations as a result of prior uses. At the same time, a wide range of both developed and less developed countries has been called upon to provide currency in the designation process.

7. The major volume of transactions with designation over the last two and a half years has resulted from transfers of SDRs to participants making purchases from the General Resources Account; these participants have generally used the SDRs in transactions with designation, although a not insignificant proportion has been retained by the recipients, mainly to meet the reconstitution obligation or to make payments to the Fund.

8. In the future, the attractiveness of the SDR, and the increasing scope for transactions and operations by agreement, may reduce the use of SDRs from participants' own holdings in transactions with designation. However, with the Fund receiving approximately SDR 5 billion as a result of quota increases under the Seventh Review, there is likely to be a continuing volume of transactions with designation as a result of transfers of SDRs by the Fund to members making purchases, as a way of channeling SDRs back into participants' reserves.

9. In the light of the generally satisfactory experience with the designation system, the staff does not feel it necessary to propose any changes in the present principles and procedures for designation.

RULES FOR DESIGNATION—REVISION

Pursuant to Article XIX, Section 5(*c*), the rules for designation in the SDR Department are revised as follows:

(a) Participants subject to designation under Article XIX, Section 5(*a*)(i) shall be designated for such amounts as will promote over time equality in the ratios of the participants' holdings of special drawing rights in excess of their net cumulative allocations to their existing Fund quotas.

(b) The formula to give effect to (a) above shall be such that participants subject to designation shall be designated:

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(i) in proportion to their existing Fund quotas when the ratios described in (a) above are equal; and

(ii) in such manner as gradually to reduce the difference between the ratios described in (a) above that are low and the ratios that are high.

Decision No. 11976-(99/59) S,
June 3, 1999

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Article XIX, Section 6

Reconstitution

ABROGATION OF RULES FOR RECONSTITUTION

The Executive Board, having reviewed the rules for reconstitution in accordance with Article XIX, Section 6(*b*), decides to abrogate with effect from April 30, 1981:

1. The rules for reconstitution under Schedule G, paragraph 1(a); and

2. Rules R-1 through 6 of the Fund's Rules and Regulations; Decision No. 5699-(78/38) G/S (adopted March 22, 1978, effective April 1, 1978); Decision No. 5936-(78/168) S (adopted October 25, 1978, effective December 11, 1978); and Decision No. 6063-(79/43) S (March 14, 1979).

Decision No. 6832-(81/65) S,
April 22, 1981

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Charges

PAYMENT OF NET CHARGES AND ASSESSMENT IN THE SDR DEPARTMENT FOR THE FINANCIAL YEAR ENDED APRIL 30, 1982

The Executive Board notes the course of action set out in EBS/82/80.

Decision No. 7116-(82/68) S,
May 7, 1982

EBS/82/80

The problems arising out of these participants' failure to hold adequate SDRs or to acquire them from other participants or the Fund, to meet net charges and assessments have been dealt with as follows:

(i) Since [members] had sufficient SDRs to pay assessments, these amounts were collected first by debiting their respective SDR accounts. The balance of their SDR holdings was applied toward the payment of net charges.

(ii) [Member], not having any SDRs, was not in a position to pay its assessment of SDR 4,669. This amount will be carried as a receivable in the General Resources Account until such time as it can be collected.

(iii) The unpaid balance of net charges, SDR 15,419,868 will be shown separately in the balance sheet of the Special Drawing Rights Department under the caption "Charges due but not paid." This item will appear below "Net cumulative allocations of SDRs to participants" and the total of the two items will correspond to the total in the balance sheet of holdings of SDRs by participants.

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(iv) When these participants acquire sufficient SDRs to pay the charges due, the entry will be cancelled in accordance with Article XX, Section 5 which states, in part that "special drawing rights acquired by a participant after the date for payment shall be applied against its unpaid charges and cancelled."

…

The course of action outlined above follows from the application of the Articles of Agreement and was adopted in 1978 when one participant did not hold sufficient special drawing rights to pay the assessment and charges due with respect to the financial year ending April 30, 1978. While the procedure has already been adopted by the Executive Board for the situation described, it is considered appropriate that the Executive Board again note the course of action taken.

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Assessments

REVIEW OF THE FUND'S INCOME POSITION FOR FY 2011 AND FY 2012—ASSESSMENT UNDER ARTICLE XX, SECTION 4 FOR FY 2011

Pursuant to Article XVI, Section 2 and Article XX, Section 4 of the Articles of Agreement and Rule T-2 of the Fund's Rules and Regulations, it is decided that: (i) The General Department shall be reimbursed for the expenses of conducting the business of the SDR Department for the period of May 1, 2010 through April 30, 2011; and (ii) An assessment shall be levied on all participants in the SDR Department. The special drawing right holdings accounts of participants shall be debited on April 30, 2011 with an amount equal to 0.00134050 percent of their net cumulative allocations of special drawing rights. The total assessment shall be paid into the General Department. (EBS/11/53, 04/07/11)

Decision No. 14893-(11/37),
April 20, 2011

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Article XXVI

Remedial Measures on Overdue Financial Obligations to the Fund

OVERDUE PAYMENTS TO THE FUND—PURCHASES FROM FUND

…[1]

3. Other stand-by or extended arrangements granted by the Fund after the date of this decision shall include also the provision in 1 or 2 above.

4. The provision in 1 and 2 above shall be included also in an existing stand-by or an extended arrangement when the Fund and the member reach understandings regarding the circumstances in which further purchases may be made under the arrangement.

5. Decision No. 7678-(84/62), April 20, 1984, shall cease to apply in respect of a stand-by or an extended arrangement that includes the provision in 1 or 2 above.

Decision No. 7908-(85/26),
February 20, 1985

Overdue Payments to the Fund—
Experience and Procedures
Executive Board Meeting 84/54, April 5, 1984

The Executive Board unanimously reaffirmed the existing practices…that management will not submit to the Board any requests for the use of Fund resources under a stand-by or extended arrange-

[1] Ed. Note: For paragraphs 1 and 2, see paragraph 4 of Attachment A and paragraph 4 of Attachment B to Decision No. 10464-(93/130), p. 403 and p. 408, respectively.

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ment as long as the member concerned has overdue payments to the Fund.

There was more debate whether the Fund should engage in discussions or resume discussions on the use of Fund resources with a member that is in arrears to the Fund. On the whole, the practice of not entering into discussion in those circumstances was confirmed.

This does not mean that we are not going to continue discussions…with members with overdue payments; but… discussions [are] confined quite precisely to assisting the members to organize their affairs in order to permit the payment of the overdue obligations… Far from cutting our lines of communication, we should do what we can to keep them open. But we should direct the discussions toward enabling the country to make repayments.

The Chairman's Summing Up at the Conclusion of the Discussion on Overdue Financial Obligations to the Fund Executive Board Meeting 85/170, November 25, 1985

…[M]ember countries in arrears should be induced to give priority to actions that are designed specifically to enable them to repay the Fund. In addition, they should introduce corrective measures at an early stage to improve their economic policies and to avoid the emergence and further accumulation of arrears to the Fund.

…[T]he Fund should keep open its channels of communication with countries in arrears in order to help them formulate adjustment policies and to catalyze external assistance so that these concerted efforts can ultimately be supported by Fund assistance and lead prior to the Fund's formal commitment to providing such assistance to settlement of the arrears.

…[I]ntervals between Board reviews should be put to good use; they should never be seen as grace periods or as periods in which a member is excused from making every effort to settle its arrears to the Fund…

A majority of Directors favor reducing the period between the emergence of arrears and the first substantive consideration of a complaint. These Directors felt that the present five-month period was too long, as it has tended to coincide with a buildup of arrears that has

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made it more difficult to tackle the matter; earlier involvement by the Board would have been helpful. Although some Directors favor taking a flexible approach to this period, a majority clearly supports limiting the period to three months. Issuing the complaint two months after arrears have arisen instead of three months would certainly be consistent with today's discussion. The review period following the first substantive consideration would remain three months, but the three months would be considered an outer limit: the decision on the actual timing in each case should take into account the particular circumstances and the performance of the member…

A majority of Directors felt that once a member has been declared ineligible to use the Fund's resources the Board should not wait as long as the next Article IV consultation to discuss the member's arrears situation. The majority of Directors would like to review the member's situation every six months.

The Acting Chairman's Concluding Remarks at the Discussion on Additions to the Special Contingent Account
Executive Board Meeting 88/12, January 29, 1988

…

Some Directors made reference to the Enhanced Structural Adjustment Facility in the context of the arrears problem. The Managing Director has stated several times that members in arrears to the Fund would not have access to the Enhanced Structural Adjustment Facility, just as they do not currently have access to the Structural Adjustment Facility (BUFF/87/260, 12/17/87), or the facilities in its General Resources Account. Thus, the existing arrears policy is not changed or modified in the context of the Enhanced Structural Adjustment Facility. At the heart of dealing with those cases in which arrears exist are the elements of a strong adjustment program which will assist in attracting external resources to help the country clear its arrears. The Fund could then grant access to its facilities as appropriate, including, of course, the Enhanced Structural Adjustment Facility when it becomes operational.

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The Acting Chairman's Summing Up at the Conclusion of the Discussion on Overdue Financial Obligations—Six-Monthly Report
Executive Board Meeting 88/19, February 10, 1988

…

Second, Directors also agreed that the present practice, whereby the general policies and procedures relating to overdue financial obligations to the Fund are not applied to overdue maintenance of value adjustments, should be continued. Again, it was emphasized that prompt settlement of these adjustments constitutes an essential element of members' financial obligations to the Fund, and the staff was encouraged to follow up actively in cases of overdue valuation adjustments in order to achieve a more speedy settlement and to report periodically to the Board in the context of staff papers on individual members.

Procedures for Dealing with Members with Overdue Financial Obligations to the General Department and the SDR Department
Executive Board Meeting 89/101, July 27, 1989

The Fund, as a cooperative institution, relies on the mutually supportive actions of its membership in all areas of its endeavors. Overdue financial obligations are a breach of obligations to the Fund and are demonstrably a noncooperative action, which imposes financial cost on the Fund's membership, impairs its capacity to assist members, and more generally weakens the Fund's ability to perform its broader responsibilities in the international financial system.

As the experience with arrears demonstrates, countries which accumulate arrears to the Fund also damage themselves, in part through the deterioration which inevitably follows in their financial relations with other creditors. When arrears exist the Fund is not able to provide its own assistance and its effectiveness is diminished as a catalyst for helping the country restore regular financial relations with other creditors.

This statement outlines procedures aimed at preventing the emergence of overdue financial obligations to the Fund and the elimination of existing overdues, including protracted arrears. The need for flexibility in the implementation of the Fund's policies dealing with

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overdues has been stressed in the past; flexibility must continue to be exercised in order to take account of the specific circumstances of the member. Nonetheless, a balance must be struck between the need for appropriate flexibility and the need for clear and credible procedures that act as a deterrent to members against incurring arrears and to encourage members with overdues to become current.

Arrears prevention

The importance of preventing new cases of arrears has been stressed by the Executive Board. As noted in the past, our best safeguard is the quality of Fund arrangements and we will continue to direct our efforts to ensure that arrangements of the highest quality are placed before the Board. These efforts would include assisting members to design strong and comprehensive economic programs, careful attention to access levels and phasing, explicit assessment of a member's capacity and willingness to repay the Fund, and adequate assurances regarding external financing during the period of the Fund arrangement. Special understandings with creditors and donors may also need to be sought in certain cases to help assure progress toward external viability. In some cases, specific financial or administrative arrangements designed to ensure that forthcoming obligations to the Fund are settled on time will be used to increase the assurance that the Fund's resources will be repaid on time. Moreover, the importance of members remaining current on obligations falling due and observing the Fund's preferred creditor status will continue to be stressed.

The Fund's response to overdue obligations

The Fund has developed a set of procedures for dealing with members with overdue financial obligations which are designed to bring about a reduction and the eventual elimination of these overdue obligations. In addition to the procedures set out below, the Fund makes an effort to assist members willing to cooperate to eliminate their arrears through the design and implementation of appropriate policies as well as to help members adopting these policies to secure the necessary financial support.

The procedures initiated immediately after a member falls into arrears provide for a sequence of actions by management, the staff, and the Executive Board.

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—Whenever a member fails to settle an obligation on time, the staff immediately sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the Executive Director concerned.

—When an obligation has been outstanding for two weeks, management sends a communication to the Governor for that member stressing the seriousness of the failure to meet obligations to the Fund and urging full and prompt settlement. The Executive Board understands that the Governor will bring this communication and the circumstances that gave rise to it to the attention of his authorities at the highest level. The communication to the Governor would also note that unless payment is received in due course, the Managing Director would intend to raise with the Executive Board the possibility of communicating with Governors of the Fund concerning the situation. The Managing Director has on occasion raised the matter of overdue financial obligations to the Fund directly with the head of government of the member concerned, and he would intend to continue to do so in those cases where he believes it would be a useful procedure.

—The Managing Director notifies the Executive Board normally one month after an obligation has become overdue.

—When the longest overdue obligation has been outstanding for six weeks, the Managing Director informs the member concerned that unless the overdue obligations are settled a complaint will be issued to the Executive Board in two weeks' time.

The Managing Director would in each case recommend to the Executive Board whether a communication should be sent to a selected set of Fund Governors, or to all Fund Governors. If it were considered that it should be sent to a selected set of Fund Governors, an informal meeting of Executive Directors would be held, some six weeks after the emergence of overdues, to consider the thrust of the communication. Alternatively, if it were considered that the communication should be sent to all Fund Governors, a formal Board meeting would be held to consider a draft text and the preferred timing. A sample text for a communication to all Fund Governors is set out in Attachment I.

—A complaint by the Managing Director is issued two months after an obligation has become overdue, and is given substan-

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tive consideration by the Executive Board one month later. At that stage, the Executive Board has usually decided to limit the member's use of the general resources, and if the member has overdue obligations in the SDR Department, to suspend its right to use SDRs, and has provided for a subsequent review of the decision. This and subsequent review periods would normally not exceed three months. It would be understood that the Managing Director may recommend advancing the Executive Board's consideration of the complaint regarding the member's overdues.

When a member has overdue financial obligations outstanding for more than three months, a brief factual statement noting the existence and the amount of such arrears will be posted on the member's country-specific page on the Fund's external website. The statement will be updated as necessary. It will also indicate that the member's access to the Fund, including PRGF and HIPC resources, has been and will remain suspended for as long as arrears remain outstanding.

A press release will be issued following the Executive Board's decision to limit the member's use of the general resources or, if the member has overdue obligations in the SDR Department, to suspend its right to use SDRs. A similar press release will be issued following a decision to lift such limitation or suspension.

—The Annual Report and the financial statements identify those members with overdue obligations outstanding for more than six months.

Beyond these procedures, the Executive Board has expressed its intention to provide that a member must first discharge its overdue financial obligations to the General Resources Account before it would be permitted to pay for an increase in its quota under the Ninth General Review, and that, in the event the quota payment were not made within a prescribed period, the proposal for an increase in the member's quota would lapse.

Another measure being considered by the staff relates to the possibility of withholding SDR allocations for members with arrears in the General Department. This measure would require an amendment of the Articles and will be examined further in the next Six-Monthly Report on Overdue Financial Obligations.

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Declaration of ineligibility

—If a member persists in its failure to settle its overdue obligations to the Fund, the Executive Board declares the member ineligible to use the general resources of the Fund. The timing of the declaration of ineligibility would vary according to the Board's assessment of the specific circumstances and of the efforts being made by the member to fulfill its financial obligations to the Fund. The procedures for dealing with members with protracted arrears that have been declared ineligible include further reviews at intervals of not more than six months.

—For members with protracted arrears willing to cooperate with the Fund in settling those overdues, the Fund has adopted an intensified collaborative approach, which incorporates exceptional efforts by the international financial community.

—For members that are judged not to be cooperating actively with the Fund, remedial measures would be applied.

—Members not showing a clear willingness to cooperate with the Fund have been informed that in these circumstances the provision of technical assistance would be inappropriate, but the Fund would reconsider providing technical assistance once the member has resumed active cooperation. The Managing Director may also limit technical assistance provided to a member, if in his judgment that assistance was not contributing adequately to the resolution of the problems associated with overdues to the Fund.

—A further remedial measure in cases of protracted arrears would be communications with all Governors of the Fund and with heads of certain international financial institutions. Use of such communications would normally be raised for the Executive Board's consideration at the time of the first post-ineligibility review of the member's arrears. At that time the staff would prepare a draft text of a communication along the lines set out in Attachment II to this statement. It should be noted that the Fund's communication to certain other international financial institutions, such as the three main regional development banks (Asian Development Bank, African Development Bank, Inter-American Development Bank), like its communication to the Governors, would not request the addressee to take

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specific actions and would leave any action to the institution's discretion. This does not preclude informal contacts with other international financial institutions. The staff would intend to propose to send this latter type of communication on the occasion of the next post-ineligibility review for members that at present have arrears that have been outstanding for a protracted period, in the event the Executive Board judges that the member concerned is not cooperating actively with the Fund in efforts to resolve the problem of its overdue financial obligations to the Fund.

Censure or declaration of noncooperation

—A declaration of censure or noncooperation would come as an intermediate step between a declaration of ineligibility and a resolution on compulsory withdrawal The decision as to whether to issue such a declaration would be based on an assessment of the member's performance in the settlement of its arrears to the Fund and of its efforts, in consultation with the Fund, to follow appropriate policies for the settlement of its arrears. Three related tests would be germane to this decision regarding (i) the member's performance in meeting its financial obligations to the Fund taking account of exogenous factors that may have affected the member's performance; (ii) whether the member had made payments to other creditors while continuing to be in arrears to the Fund; and (iii) the preparedness of the member to adopt comprehensive adjustment policies. The declaration would follow any communication to Governors after ineligibility and would be considered at a subsequent post-ineligibility review. The period between such communications and the declaration could be about six months, but this time period would be determined on a case-by-case basis.

Upon a declaration of noncooperation, technical assistance to the member will be suspended unless the Executive Board decides otherwise. (EBS/01/122, 7/13/01)

A draft of the declaration is set out in Attachment III. The actual declaration would be based on this draft text taking account of the circumstances of the individual case. The declaration would be adopted by the Executive Board and published.

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Other remedial measures

—On suspension of membership, Directors noted the necessity of amending the Fund's Articles of Agreement to provide for suspension of membership. Some Directors showed an interest in introducing a provision into the Articles of Agreement under which the voting rights of a member that has been declared ineligible to use the Fund's general resources could be suspended. However, most Directors felt that it would not be advisable to propose an amendment of the Fund's Articles of Agreement at this time, but that this matter could be reconsidered in the future.

—Finally, Directors noted the availability to the Fund of procedures under Section 22 of the By-Laws on compulsory withdrawal. These procedures would only be pursued once the Fund has exhausted all other possible avenues to redress the problem of overdue financial obligations and, despite a declaration of noncooperation, the member has not exhibited a willingness to cooperate with the Fund. The Articles of Agreement and the By-Laws provide for procedures for settling claims by the Fund on a member in the event that it withdraws from the Fund. If the procedures were initiated, the staff would prepare an analysis of the effect of the member's withdrawal on the Fund's financial position.

Attachment I

Draft First Letter to All Governors

Dear:

The Executive Board has considered the complaint which was recently issued regarding [member]'s overdue financial obligations to the Fund. In considering this complaint the Executive Board has agreed that I write to all Governors of the Fund to draw their attention to this development. Prompt and effective actions now by [member] and the international community would avoid a further deterioration of this situation including the possibility of declaring [member] ineligible to use the general resources of the Fund, would permit these overdues to be cleared before their magnitude makes the problem more intractable, and before they place a financial burden on other members.

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[Paragraph on background circumstances of member leading to the emergence of arrears, the views of the member regarding its overdue obligations, and the member's intended approach for addressing the problem of its overdue obligations. This paragraph would be tailored to the specific circumstances of the member concerned.]

The Executive Board is very concerned about these developments which have serious potential implications both for the [member] and for the Fund as a whole, if the problem is not resolved early. The existence of these overdue financial obligations to the Fund precludes the Fund from extending financial assistance to the member. In addition, experience to date indicates that when a country incurs arrears to the Fund its financial relations with other creditors are also likely to deteriorate. These arrears also have an adverse impact on the Fund as an international financial cooperative, which is the central monetary institution in the international monetary system. As you are aware, overdue obligations, if they are not settled, place a financial burden on other members: on the Fund's debtor members in the form of higher charges and the Fund's creditors in the form of reduced remuneration.

The Fund would greatly appreciate any assistance in urging the member to effect the full and prompt settlement of its overdue obligations to the Fund.

Sincerely yours,

Michel Camdessus
Managing Director and
Chairman of the Executive Board

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Attachment II

Draft Second Letter to All Governors and Certain International Financial Institutions

Dear:

The Executive Board has reviewed the overdue financial obligations of [member] and its circumstances. In this context it agreed that I write to all Governors of the Fund to seek their assistance in resolving the problem of [member]'s overdue financial obligations to the Fund [and that I inform at the same time the heads of [names of certain international financial institutions].

As you know, [member] was declared ineligible to use the general resources of the Fund on [date], as it had failed to meet its financial obligations to the Fund. As of [date], [member]'s overdue financial obligations to the Fund amounted to SDR[ ] million and the longest overdue obligation had been outstanding for [ ] months. As you are aware, these overdue obligations reduce Fund resources available to help other members and place a financial burden on debtor members in the form of higher charges and on creditor members in the form of reduced remuneration.

[Paragraph on background circumstances of member leading to the emergence of arrears, the views of the member regarding its overdue obligations, and the member's intended approach for addressing the problem of its overdue obligations. This paragraph would be tailored to the specific circumstances of the member concerned.]

The Fund has developed a set of procedures, including the intensified collaborative approach, for dealing, as appropriate, with members that have overdue financial obligations outstanding for a protracted period. The application of the procedures for members in arrears up to now has not resulted in [member] taking steps that could be expected to resolve promptly the problem of its arrears to the Fund. If, in the period prior to the next review of [member]'s arrears, [member] does not take action to demonstrate its willingness to resume active cooperation with the Fund toward the resolution of the problem of its arrears, [member] may be subject to a declaration of noncooperation. This would be a most serious step that would involve

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the publication of this declaration, which would refer, inter alia, to the availability to the Fund of procedures under Section 22 of the By-Laws on compulsory withdrawal of [member] from the Fund. The Fund's Executive Board has emphasized the critical stage that has been reached with respect to [member]'s arrears and has stressed its sincere hope that the consideration of further steps will be unnecessary. The Fund would appreciate your [Government/institution] taking whatever actions it considers appropriate to help bring about an early resolution of this situation.

The Executive Board will review again the position of [member] with regard to its arrears to the Fund not later than [date].

Sincerely yours,

Michel Camdessus
Managing Director and
Chairman of the Executive Board

Attachment III

Draft Declaration on Censure or Noncooperation

The Fund notes that, since the declaration of ineligibility of [date], the member has remained in arrears in its financial obligations to the Fund, thus persisting in its failure to fulfill its obligations under the Articles, and that the level of its arrears has not decreased (or has increased);

[notes that the member has made payments to other creditors while not discharging its financial obligations to the Fund (or not to the same extent), thus ignoring the preferred creditor status that members are expected to give to the Fund;]

finds that the member is not cooperating with the Fund toward the discharge of its financial obligations to the Fund;

urges the member to discharge its financial obligations to the Fund promptly and to cooperate with the Fund;

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reminds the member that arrears to the Fund, which is a cooperative institution, are detrimental to the whole membership of the Fund in that they hamper the proper performance by the Fund of its function of assisting members facing balance of payments difficulties;

reminds the member that members in breach of their obligations to the Fund may be subject to the procedures under Section 22 of the By-Laws leading to compulsory withdrawal.

EBM/89/100 and 89/101,
July 27, 1989,
as amended by Decision No. 12546-(01/84),
August 22, 2001

Statement by the Managing Director on the Strengthened Cooperative Strategy on Overdue Financial Obligations to the Fund
Executive Board Meeting 90/38, March 16, 1990

…

2. *Measures of deterrence*

Measures of deterrence are a second key element of the cooperative strategy that need to be strengthened further. The Fund recently adopted important new procedures in this area and communications to all Fund Governors and selected heads of multilateral financial institutions have been sent in three cases and have borne some fruit.

Executive Directors have agreed that it would be appropriate to widen the scope and strengthen the application of deterrent measures to underscore the Fund's firm resolve to deal with the arrears problem. There is general support for the proposition that a clear timetable and sequence for the implementation of such measures, from the emergence of arrears to the final step of initiation of procedures for compulsory withdrawal, would help remove any misperceptions about the actions to be taken by the Fund when a member falls into arrears or about the consequences of noncooperation. The presumption would be that this timetable would be followed in all cases unless in the Board's judgment a different approach were justified in an individual case.

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As compared with the procedures contained in my statement at (EBM/89/101, 7/27/89), the main changes suggested relate to the (i) periodic reviews by the Executive Board of decisions limiting the use of the general resources by the member in arrears which, if the overdue obligations are not settled, leads to a declaration of ineligibility; and (ii) timing and content of measures taken after a declaration of ineligibility. Previously, the Executive Board has held as many as five reviews of its decision to limit a member's use of the general resources before a declaration of ineligibility was adopted; the total length of time between these two actions has been as long as thirteen months, and the period between the emergence of arrears and a declaration of ineligibility has been as long as two years. Many Directors have expressed the view that the number of reviews before a declaration of ineligibility should in general be limited. As regards the post-ineligibility period, in the event a member continues in its failure to fulfill its financial obligations, present procedures call for communications to be sent to all Governors within six months. It is proposed to shorten that period, and also to make explicit the timing of a declaration of noncooperation and of the initiation of the procedure for compulsory withdrawal.

I believe that there is wide support for new procedures under which a member in arrears to the Fund would be declared ineligible to use the general resources no later than twelve months after the emergence of arrears, with the exact timing depending on the Executive Board's assessment of the specific circumstances and of the efforts being made by the member to fulfill its obligations to the Fund. The sending of communications to all Fund Governors and the heads of selected international financial institutions regarding the member's continued failure to fulfill its financial obligations to the Fund would be considered within three months after the declaration of ineligibility. At present, these communications may be followed by a public declaration of noncooperation if the member continues to fail to cooperate. The Executive Board would be asked to consider such a declaration not later than four months after the dispatch of these communications (i.e., within nineteen months of the emergence of arrears), unless the Executive Board were to conclude that there had been a decisive improvement in the member's cooperation with the Fund.

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A declaration of noncooperation is an intermediate step before compulsory withdrawal. At present, such a declaration of noncooperation would note the availability to the Fund of procedures on compulsory withdrawal. This procedure should be strengthened by the initiation by the Executive Board of procedures for compulsory withdrawal within five months of the declaration of noncooperation (i.e., within two years of the emergence of arrears), if the member continues to fail to comply with its obligations and to cooperate actively with the Fund toward clearance of its arrears. A recommendation of compulsory withdrawal can be made by the Executive Board by a simple majority, although withdrawal can be required only by a majority of Governors having 85 percent of the total voting power.

In our discussion of financing in relation to the arrears strategy we have had a preliminary review of financial and legal aspects of compulsory withdrawal, and I believe that the general provisions on the basis of which we would need to proceed are understood. In such circumstances, the Executive Board might need to consider the appropriate means to rebuild the Fund's precautionary balances, which would normally imply increasing the Fund's operating income or supplementing it by other exceptional means. In this connection, it has been noted that as a last resort, the sale of part of the Fund's gold could help restore the Fund's financial position.

The timetable proposed would help to make clear to members the need to prevent arrears and to act expeditiously to deal with them if they arose, as well as the consequences of not doing so. It would also provide sufficient time for such members to adopt the adjustment measures needed to move toward restoring domestic and external economic balance. Such a timetable is not to be understood as a period of grace, and the Executive Board would need to be prepared to accelerate action when appropriate, particularly in the early stages prior to a declaration of ineligibility. For the eleven members with protracted arrears, some Executive Directors have stressed that it would be appropriate to apply the new schedule with a degree of flexibility. This is reasonable, but we will need also to keep in mind that these members have already been given a great deal of time to demonstrate their cooperation with the Fund.

In all cases, there is a need for tangible and continuous support for the Fund from the international financial community. In cases

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of members that were not cooperating, the Fund would expect bilateral creditors and other multilateral agencies to initiate an intensive dialogue with the member in arrears to persuade it to respect the preferred creditor status of the Fund, and to consider reducing and, if necessary, suspending assistance to members that are not cooperating with the Fund. There is a need to convince creditors and donors that persistent financing of a member's inadequate policies is detrimental to the interests of creditors, donors, and debtors alike. The Fund will also ask other official creditors to follow the practice of Paris Club creditors and not engage in rescheduling in the absence of a Fund arrangement or a Fund-monitored program. Furthermore, I believe Executive Directors have supported the proposition that creditors receiving payments from members in arrears to the Fund should be requested, at the least, to urge such members to direct payments to the Fund.

The Board has agreed that a member must first discharge its overdue obligations to the General Resources Account before it can be permitted to consent or to pay for an increase in its quota in connection with the Ninth General Review; and if a member had not increased its quota within the prescribed period, the proposal for an increase in quota should lapse. The Board's consideration of an extension of the period for consent or payment would take into account the situation of members with overdue obligations that are cooperating with the Fund to resolve their arrears problem in the context of a Fund-monitored program.

The measures of prevention and deterrence described above, if applied firmly in the day-to-day operations of the Fund, can provide a powerful mechanism to prevent the emergency of new arrears cases, lead to their rapid elimination if problems do develop, and, jointly with the measures of support suggested in the next section, offer to noncooperating members a last opportunity to move with no further delay onto a more collaborative path. I believe that we should adopt these measures immediately.

At the same time we should pursue expeditiously the necessary work on an amendment of the Articles to introduce into the Fund's Articles a provision similar in some respects to those already existing in other multilateral financial institutions, notably the World Bank i.e., a provision to suspend voting and related rights for cases of

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continuing breach of obligations to the Fund. Such an amendment would provide an additional instrument of deterrence. The staff will prepare a paper for Executive Board consideration in April which will focus on the substantive issues related to an amendment of the Articles of Agreement. In particular, the following matters would need to be discussed: the scope of suspension; the conditions for suspension; the relationship of suspension to other deterrent measures; the decision making procedures; and the majority required. I continue to believe that the qualified majority for suspension should be set at 70 percent of the total voting power. The staff paper would elaborate on these matters, examining the consequences of different approaches and exploring the modalities of an amendment.

…

Attachment

Measures for Prevention/Deterrence of Overdue Financial Obligations to the Fund—Strengthened Timetable of Procedures

Time after Emergence of Arrears	Action
Immediately	Staff sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the concerned Executive Director. The member is not permitted any use of the Fund's resources nor is any request for the use of Fund resources placed before the Executive Board until the arrears are cleared.
2 weeks	Management sends a communication to the Governor for the member stressing the seriousness of the failure to meet obligations and urging full and prompt settlement.
1 month	The Managing Director notifies the Executive Board that an obligation is overdue.

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6 weeks	The Managing Director notifies the member that unless the overdue obligations are settled promptly a complaint will be issued to the Executive Board. The Managing Director would also consult with and recommend to the Executive Board that a communication concerning the member's situation should be sent to selected Fund Governors or to all Fund Governors in the event that the member has not improved its cooperation with the Fund.
2 months	A complaint regarding the member's overdue obligations is issued by the Managing Director to the Executive Board.
3 months	The complaint is given substantive consideration by the Executive Board. The Board has usually decided to limit the member's use of the general resources and, if overdue SDR obligations are involved, suspend its right to use SDRs.
6–12 months	The Executive Board will review its decision on limitation within three months, with the possibility of a second review if warranted. It is proposed that, depending on the Executive Board's assessment of the specific circumstances and of the efforts being made by the member to fulfill its obligations to the Fund, a declaration of ineligibility be considered to take effect not more than twelve months after the emergence of arrears. It is proposed that the sending of communications to all Fund Governors and the heads of selected international financial institutions regarding the member's continued failure to fulfill its financial obligations to the Fund be considered at the same time as the declaration of ineligibility.
Up to 15 months	It is proposed that a declaration of noncooperation be considered within three months after the dispatch of the communications.
Up to 18 months	In case an amendment of the Articles would be adopted, it is proposed that a decision on suspension of voting and representation rights be considered within three months after the declaration of noncooperation.

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Up to 24 months	It is proposed that the procedures on compulsory withdrawal be initiated within six months after the decision on suspension (in case an amendment of the Articles would be adopted) or nine months after the declaration.

. . .

Summing Up by the Chairman—Operational Modalities of the Rights Approach
Executive Board Meeting 90/97, June 20, 1990

This has been an important discussion, following the guidance of the Interim Committee at its meeting in May 1990, to establish broad guidelines for the application of the "rights" approach and "rights accumulation programs," as we shall now call them. Drawing on our earlier discussions, Executive Directors have endorsed the main features of rights accumulation programs and of the financing of rights as set out in the staff paper for this meeting, while emphasizing the need for flexibility in the different and difficult circumstances that we may face. It is intended that this summing up provide a description of the key characteristics of the rights approach for reference in the decisions that are to be taken on the gold pledge and extended burden sharing.

Under the rights approach, a member in arrears to the Fund will be able to earn rights, conditioned on satisfactory performance under an adjustment program monitored by the Fund, toward a disbursement from the Fund once the member's overdue obligations have been cleared and upon approval of a successor arrangement by the Fund. Utilization of the rights approach will be limited to the eleven members that had financial obligations to the Fund overdue for six months or more at the end of 1989. I would note here that it is not expected that all of these members would make use of the rights approach; indeed, two of them are likely to settle their arrears shortly without recourse to the rights approach. It is intended that utilization of the rights approach would be further limited to those of the eleven members that adopt a comprehensive economic program that can be endorsed by the Executive Board as a rights accumulation program by the time of the Spring 1991 meeting of the Interim Committee. I have noted the view of some Directors that a longer time might need to be

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envisaged, but that this is not the view of the majority. If there were to be a compelling reason, we would be able to return to the question as we approach the Spring 1991 meeting.

Executive Directors considered a three-year period to be appropriate as a norm for a rights accumulation program, but with scope for variation in either direction. The member would be expected, with support as appropriate from other sources, to make maximum efforts to reduce overdue obligations to the Fund during the period of the rights accumulation program, so as to minimize the necessary recourse to rights. We will seek to incorporate a reduction of arrears to the Fund into programs and to introduce appropriate contingency provisions for additional payments to the Fund where developments are more favorable than expected. The magnitude of rights to be accumulated will clearly require case-by-case judgments by the Executive Board. But it is understood that, in cases where it appears unavoidable, rights may accumulate up to the amount of arrears outstanding at the beginning of the rights accumulation program. Some Directors noted that special action might have to be considered in highly exceptional circumstances, but it is not necessary to revisit the understanding placed in the record on this subject during the course of our deliberations prior to the recent meeting of the Interim Committee.

The member would be expected to generate the financing needed to meet the requirements of its economic program under the rights approach and, and at minimum, to remain current with respect to obligations to the Fund and the World Bank falling due during the period of the rights accumulation program. In this effort, it would be envisaged that the member would be assisted by creditors and donors through support groups, consultative groups, and/or other arrangements as appropriate. Resources that become available pursuant to the proposal for voluntary contributions originally made…which has been warmly welcomed by the Interim Committee and is expected to be discussed by the Executive Board in July, would complement these efforts.

Executive Directors agreed that rights accumulation programs should adhere to macroeconomic and structural policy standards associated with programs supported by arrangements under the extended Fund and enhanced structural adjustment facilities and that the Fund would draw, as appropriate, on Fund policies and guidelines

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associated with the use of such facilities. In particular, rights accumulation programs would need to help create the conditions for sustained growth and substantial progress toward external viability.

There was a preference among Directors for even phasing of the accumulation of rights within annual programs, based on quarterly monitoring. Executive Directors did not, however, rule out the possibility of some front-loading of rights within the first annual program if warranted by special circumstances. With respect to performance tests, the Fund's policies on waivers and modifications would be applied so as to allow for continuation of the program and rights accumulation if performance criteria were not observed but performance had been brought back on track. If waivers or modifications were not granted, Executive Directors considered it reasonable to permit the member to retain its previously accumulated rights for six months before they would lapse. Several Directors indicated that they would prefer that rights lapse in their entirety after six months, but most others considered that such a rule would be too rigid. On balance, we will plan that normally rights would lapse at a rate of 25 percent of accumulated rights per quarter; but that this rate could be more or less rapid depending on the circumstances, including, inter alia, the period of satisfactory performance under the rights program before it went off track and the reasons for the nonobservance of performance criteria. Again, the Executive Board will need to consider these questions on a case-by-case basis. If, after rights had begun to lapse, a new rights accumulation program were endorsed by the Executive Board, the member would resume accumulation of rights and the program period would normally be extended to permit the member to accumulate the rights needed to help clear its arrears.

Accumulated rights would be financed by a Fund disbursement upon approval of a successor arrangement with the Fund, following satisfactory performance under the rights accumulation program and once the member's overdue financial obligations to the Fund had been cleared. For SAF-eligible members, the mix of financing between the resources of the structural adjustment and enhanced structural adjustment facilities (SAF/ESAF) and the resources of the Fund's General Resources Account (GRA) would be approved as part of the successor arrangements, although some tentative indication of an anticipated mix could be given earlier. I would not intend to pro-

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pose approval of a commitment to use ESAF Trust resources for the financing of rights before the decision on the gold pledge for the use of ESAF Trust resources for the financing of rights has been adopted.

Where a blend of General Resources Account and SAF/ESAF resources was considered appropriate, use of General Resources Account resources would normally be under an extended arrangement, and in such cases, the extended and SAF/ESAF arrangements would operate concurrently. Total access to the resources of the enhanced structural adjustment facility by a member would in all cases be in accordance with the access limits of that facility. I have taken note of the proposal made concerning the attribution of payments to the SAF/ESAF which would also make possible the application of all of the Fund's deterrent measures should arrears emerge; I suggest that we consider this proposal in connection with the forthcoming review of those facilities.

Our discussion has provided guidance that will enable us to proceed with concrete planning for rights accumulation programs in individual cases and with what we all hope will be a definitive phase in resolution of the arrears problem. Other issues will no doubt emerge as specific programs are developed, and these will need to be addressed case by case as they arise.

Summing Up by the Chairman—Overdue Financial Obligations to the Fund—Six-Monthly Review; Progress Under the Strengthened Cooperative Strategy; and Special Charges—Annual Review
Executive Board Meeting 91/42, March 25, 1991

Executive Directors acknowledged the progress made over the past year in dealing with overdue financial obligations to the Fund and urged the active pursuit of all elements of the strengthened cooperative strategy—by the members in arrears, the Fund, and the membership at large—in order to consolidate and extend recent positive developments.

…

Because the process of formulating necessary adjustment policies securing the requisite financing has been more time consuming

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than anticipated, it has not been possible to bring rights accumulation programs … to the Executive Board by the end of April 1991. Given the progress under way in some cases, Directors agreed on a one-year extension of the deadline established last year for members in protracted arrears to enter into a rights accumulation program. Several Directors wondered whether a shorter extension might not have sufficed and sent a stronger signal regarding the urgency of rapid progress in outstanding cases. Some Directors also emphasized that they would not be willing to consider a further extension beyond the Spring of 1992. A few other Directors questioned whether a one-year extension would suffice in the most difficult cases.

Summing Up by the Acting Chairman—Overdue Financial Obligations to the Fund—Six-Monthly Review; Further Progress Under the Strengthened Cooperative Strategy
Executive Board Meeting 92/58, April 17, 1992

…

Directors considered that the strengthened timetable of procedures for applying remedial measures remained appropriate and had been implemented in accordance with the Executive Board's judgment regarding the degree of a member's cooperation with the Fund in terms of implementation of policies and record of payments as well as the timing and actions appropriate to the particular circumstances of each member.

Directors considered the questions of the criteria and timing for reversing the actions specified in the strengthened timetable of procedures. They noted that for some actions the issue of reversibility did not arise, while other actions were automatically terminated or withdrawn upon full settlement of overdue obligations to the Fund. Directors broadly endorsed the established practices of terminating a declaration of ineligibility immediately following full settlement of arrears to the Fund and publicizing the restoration of eligibility by issuing a press release and sending communications to all Fund Governors.

With respect to the lifting of a declaration of noncooperation, it was generally agreed that the same criteria were relevant in coming to a judgment on the degree of a member's cooperation as were ap-

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plied in deciding whether to issue such a declaration. A member's cooperation would be reviewed on the occasion of the periodic reviews of the member's arrears. Directors felt that the timing of consideration of the withdrawal of a declaration depended on the implementation of the necessary adjustment policies and the member's payments record to the Fund; it would not be feasible to specify in advance a timetable for consideration of the lifting of a declaration of noncooperation. Directors agreed that, as in the case of the issuance of a declaration of noncooperation, the withdrawal of a declaration of noncooperation should be publicized by issuing a press release.

…

As regards the rights approach, the Executive Board decided on a one-year extension of the deadline established last year for eligible members so as to provide time for them to adopt a comprehensive economic program that could be endorsed by the Executive Board as a rights accumulation program.

The Acting Chairman's Summing Up—Overdue Financial Obligations—De-Escalation of Remedial Measures Under the Strengthened Cooperative Strategy—Further Considerations
Executive Board Meeting 99/79, July 22, 1999

In the follow-up to their discussion on March 19, 1999, Executive Directors further considered issues concerning the de-escalation of remedial measures under the Fund's Strengthened Cooperative Strategy. Directors agreed that it was appropriate to establish clear understandings regarding how de-escalation would proceed, so as to further strengthen incentives for members to cooperate with the Fund in solving the problem of their overdue obligations to the Fund. An effective de-escalation process should serve to encourage the member to quickly initiate efforts to reform its economy and establish a solid record of payments to the Fund, with the ultimate objective of full clearance of arrears and regaining access to the Fund's financial resources. A number of Directors emphasized that the de-escalation strategy should be viewed in a broader context that encompasses the clearance of arrears, including, when necessary and appropriate, a rights accumulation program (UP) or some other program aimed at clearing all arrears to the Fund.

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In this regard, Directors agreed that, from a legal and practical point of view, until such time as the member cleared its overdue obligations to the Fund in full, it would be appropriate to consider lifting only a declaration of noncooperation and a suspension of voting rights, as opposed to other remedial measures in the timetable.

Directors agreed that the starting point for de-escalation would be a determination by the Executive Board that a member had credibly begun, or adequately strengthened, its cooperation with the Fund, as evidenced by a sustained track record of performance regarding economic policies and payments to the Fund, with prospects of its continuation. With regard to policies, Directors agreed that there should be reasonable assurance that the member's satisfactory policies were likely to be sustained, so as to give confidence that they would lead to a resolution of the arrears problem. As regards payments to the Fund, it would be expected that the member had been making substantial payments for a sustained period, at least equivalent to newly maturing obligations. In this regard, some Directors called for flexibility, especially in difficult cases of post-conflict countries, recalling the recent Board decision to judge the level of payments needed to sustain cooperation in post-conflict cases on a case-by-case basis. Directors agreed that for members already cooperating with the Fund, as a transitional feature, the Executive Board could take into account a member's record of cooperation and prospects for continued cooperation on a case-by-case basis, in determining the starting point for de-escalation.

Directors agreed that, once a determination had been made that the member had credibly begun to cooperate with the Fund, it would be desirable to establish an evaluation period to assess the member's commitment to resuming a normal relationship with the Fund and to test whether the member's cooperation is sustainable. Directors agreed that, at the outset of the evaluation period, it would be open to the Executive Board to formulate a program of actions and measures that a member would be expected to implement before the lifting of remedial measures would be considered, and to specify the beginning and approximate length of the evaluation period. During the evaluation period, the Board would not proceed, nor recommend proceeding, to the next remedial measure, provided that the member's performance with respect to policies and payments to the Fund re-

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mained satisfactory. Moreover, it would be expected that the member's cooperation on policies and payments would strengthen progressively as a basis for reversal of remedial measures.

Directors agreed with the general principle that the time period between the starting point and the lifting of a remedial measure would be set in proportion to the severity of the measure to be lifted. A case-by-case approach would be appropriate, with cooperation assessed in the context of a staff-monitored or other program, In the case where a member's voting and related rights had been suspended, an evaluation period of about two years' duration would be considered as a guideline before the Board would consider lifting (by a 70 percent majority of the total voting power) the suspension of the member's voting and related rights in the Fund. Depending on the circumstances of the case, a somewhat longer or shorter evaluation period could be appropriate. This evaluation period would be needed to establish a substantial and convincing track record of cooperation and to reduce the chance of having to reimpose this sanction. Directors were of the view that, since the lifting of a declaration of noncooperation has no legal or procedural effect under the Fund's Articles, consideration could be given to removing a declaration of noncooperation before voting rights were restored, to provide a positive signal. However, successful completion of about one year of the evaluation period would be required before the Board would consider the lifting of this measure by a simple majority vote, although the period could be shortened where performance warranted. A similar evaluation period would apply in cases in which a declaration of noncooperation had been issued but the member's voting rights had not been suspended. Many Directors stressed that the timetable suggested by the staff would serve as a guideline and not a rigid rule. A number of Directors were of the view that the resumption of technical assistance and restoration of a resident representative to the country at an early stage could, in some cases, be highly beneficial in strengthening cooperation.

Following the removal of one or more remedial measures, most Directors agreed that, if a member subsequently failed to sustain its cooperation with the Fund, remedial measures could be introduced again at a more accelerated pace than that called for

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under the timetable of remedial measures, taking into account the sequencing of measures required by the Fund's Articles.

REVIEW OF THE FUND'S STRATEGY ON OVERDUE FINANCIAL OBLIGATIONS

The Fund has reviewed progress under the strengthened cooperative strategy with respect to overdue financial obligations to the Fund as described in EBS/11/133. The Fund reaffirms its support for the strengthened cooperative strategy and agrees to extend the availability of the rights approach until end-August 2012. (EBS/11/133, 08/22/11)

Decision No. 14991-(11/88),
August 29, 2011

REVIEW OF THE FUND'S STRATEGY ON OVERDUE FINANCIAL OBLIGATIONS—FLEXIBILITY UNDER THE DE-ESCALATION POLICY FOR MEMBERS HIT BY A QUALIFYING CATASTROPHIC DISASTER

The Fund approves the proposal set forth in paragraph 18 of EBS/10/156. (EBS/10/156, 08/17/10)

Decision No. 14725-(10/84),
August 31, 2010

Attachment

Paragraph 18 of EBS/10/156

18. **It is proposed that flexibility also be applied under the de-escalation policy with respect to payments to the Fund by members in protracted arrears that have been hit by a Qualifying Catastrophic Disaster as defined under the PCDR Trust.** Specifically, in assessing such members' cooperation on payments under the de-escalation policy, the Fund would exercise flexibility in accepting significantly reduced payments particularly during the first two years following such a catastrophic disaster. A draft decision regarding this flexibility is proposed in the next section.

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Calculation of Reserve Tranche: Exclusion of Purchases and Holdings

EXCLUSION OF PURCHASES IN THE CREDIT TRANCHES AND UNDER EXTENDED FUND FACILITY

1. Purchases in the credit tranches or under extended arrangements (Decision No. 4377-(74/114), September 13, 1974, as amended), and holdings resulting from such purchases, shall be excluded pursuant to Article XXX(*c*)(iii) for the purpose of the definition of "reserve tranche purchase."

…

5. The Fund will review this decision before April 30, 1984.

Decision No. 6830-(81/65),
April 22, 1981,
effective May 1, 1981

BALANCES HELD IN ADMINISTRATIVE ACCOUNT

The balances held in the administrative accounts of the Fund, to the extent that they are not in excess of 0.1 percent of a member's quota, shall not be considered as part of the Fund's holdings of a member's currency for the purpose of determining a member's reserve tranche position in the Fund and for the calculation of holdings for the purposes of charges (Article V, Section 8(*b*)(ii)); remuneration (Article V, Section 9(*a*)); and the determination of a member's entitlement to appoint an Executive Director (Article XII, Section 3(*c*)). (SM/82/18, 1/26/82)

Decision No. 7060-(82/23),
February 22,1982

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Article XXX(*f*)

Freely Usable Currencies

FREELY USABLE CURRENCIES

Pursuant to Article XXX(*f*), and after consultation with the members concerned, the Fund determines that, effective January 1, 1999 and until further notice, the euro, Japanese yen, pound sterling, and U.S. dollar are freely usable currencies.

Decision No. 11857-(98/130),
December 17, 1998

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GENERAL

Trust Fund

TRUST FUND: MEANS OF PAYMENT OF INTEREST BY MEMBERS ON THEIR INDEBTEDNESS UNDER LOAN AGREEMENTS

Payments of interest on members' indebtedness under their loan agreements with the Fund as Trustee of the Trust Fund shall be made with U.S. dollars. (TR/79/51, 12/13/79)

Such payments may be made also in SDRs in accordance with Decision No. 8642-(87/101) S/TR, adopted July 9, 1987.

Decision No. 6358-(79/188) TR,[1]
December 19, 1979,
as amended by Decision No. 8640-(87/101) S/TR,
July 9, 1987

TRUST FUND: MEANS OF REPAYMENT BY MEMBERS ON THEIR INDEBTEDNESS UNDER LOAN AGREEMENTS

Repayment of members' indebtedness under their loan agreements with the Fund as Trustee of the Trust Fund shall be made with U.S. dollars. (TR/81/1, 6/14/82)

Such repayment may be made also in SDRs in accordance with Decision No. 8642-(87/101) S/TR, adopted July 9, 1987.

Decision No. 7142-(82/85) TR,
June 18, 1982,
as amended by Decision No. 8640-(87/101) S/TR,
July 9, 1987

[1] Interest due in 1977, 1978, and on June 30, 1979, for example, was paid in U.S. dollars pursuant to decisions adopted in 1977, 1978, and on June 18, 1979.

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TRUST FUND: SPECIAL CHARGES ON OVERDUE FINANCIAL OBLIGATIONS

...[1]

TRUST FUND: FINAL DIRECT DISTRIBUTION OF PROFITS

The Trustee will make the direct distribution of profits from sales of gold for the benefit of developing members through the Trust Fund in accordance with the procedures and in the amounts set out in TR/80/17 (6/10/80)[2] and Correction 1 (6/11/80).[3]

Decision No. 6540-(80/98) TR,
June 25, 1980

TRUST FUND: TERMINATION AND TRANSFER OF RESOURCES TO SPECIAL DISBURSEMENT ACCOUNT

1. Having conducted the review specified in Section II, paragraph 4(d) of the Instrument to Establish the Trust Fund attached to Decision No. 5069-(76/72), of May 5, 1976 (hereinafter called the Trust Instrument), the Fund, as Trustee, decides, with effect from the date disbursements under loans from the Trust Fund are completed, that the repayment terms of such loans from the Trust Fund will not be changed, provided, however, that, if the Trustee finds that repayment of an installment on the due date would result in serious hardship for the borrower the Trustee may reschedule the repayment to a date not later than two years after the date such repayment was originally due.

2. (a) The Fund, as Trustee, decides that the Trust Fund shall be terminated as of April 30, 1981 or the date on which disbursements

[1] Ed. Note: See the text of Decision No. 8165-(85/189) G/TR, effective February 1, 1986, as amended, on pp. 504.

[2] Ed. Note: Not included in this volume.

[3] Ed. Note: Not included in this volume.

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under Trust Fund loans are finally completed, whichever is the later. After that date, the activities of the Trust shall be confined to the completion of any unfinished business of the Trust Fund and the winding up of its affairs.

(b) The resources of the Trust Fund held on the termination date or subsequently received by the Trustee, except those resources still being held for distribution to members or required to satisfy the liabilities specified in Section V, paragraph 2 of the Trust Instrument, shall be transferred, as expeditiously as possible, to the Special Disbursement Account in accordance with Section V, paragraph 2 of the Trust Instrument.

(c) Nothing in this paragraph 2 shall limit the authority of the Trustee, either before or during the winding up of the Trust Fund, to reschedule loan repayments in cases of serious hardship as provided in paragraph 1 above.

3. (a) From the resources received in the Special Disbursement Account of the Fund pursuant to paragraph 2(b) above, the Fund shall make available an amount equivalent to SDR 750 million for use in the Supplementary Financing Facility Subsidy Account (hereinafter called the Subsidy Account). Such amount shall be transferred to the Subsidy Account as provided in Section 4 of the Instrument establishing the Subsidy Account.

(b) Of the resources received in the Special Disbursement Account as a consequence of the termination of the Trust Fund which are not used for the Subsidy Account as provided in (a) above, SDR 1,500 million shall be used to provide balance of payments assistance on concessional terms, on a uniform basis, to low-income developing members in need of such assistance under arrangements similar to those set forth in the Trust Instrument. The remainder shall be used to provide assistance to low-income developing members in accordance with the second sentence of subsection 12 (*f*)(ii) of Article V of the Articles of Agreement under a decision of the Fund to be taken not later than June 30, 1986. If no such decision is taken by that date, the remainder referred to in the preceding sentence shall be used on the same terms as the SDR 1,500 million referred to in the first sentence of this subparagraph.

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Decision No. 6704-(80/185) TR,
December 17, 1980

TERMS OF REPAYMENT OF FINAL LOAN DISBURSEMENT AND AMENDMENT OF TRUST INSTRUMENT

The terms of repayment for the final disbursement of loans to be made to those members on the list in Attachment II to TR/81/3 (3/10/81)[1] and Correction 1 (3/11/81) that will receive as a final disbursement about 0.4 percent of quota shall be one installment equal to the amount of the disbursement to be repaid not later than the end of the tenth year from the date of disbursement, and Section II, paragraph 4(a) of the Trust Instrument annexed to Executive Board Decision No. 5069-(76/72) shall be considered amended accordingly.

Decision No. 6793-(81/45),
March 25, 1981

Subsidy Account

SUPPLEMENTARY FINANCING FACILITY: SUBSIDY ACCOUNT—INSTRUMENT

To help fulfill its purposes, the International Monetary Fund (hereinafter called the Fund) has adopted this Instrument establishing the Supplementary Financing Facility Subsidy Account (hereinafter called the Account), which shall be governed by and administered in accordance with the terms of this Instrument.

Section 1. *Purpose*

The purpose of the Account shall be to reduce the cost to eligible developing members, in accordance with Section 8, of using the Fund's resources under the policies of the Fund referred to in Section 7 of this Instrument.

Section 2. *Resources*

[1] Ed. Note: Not included in this volume.

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The resources of the Account shall consist of:

(a) amounts donated to the Account;

(b) amounts transferred to the Account from the Special Disbursement Account of the Fund;

(c) the proceeds of borrowing by the Fund for the Account; and

(d) the income or net gains from investment of resources of the Account.

Section 3. *Donations*

The Fund may accept donations of resources for the Account in such amounts and under such arrangements as may be agreed between the Fund and the respective donors, consistent with the provisions of this Instrument.

Section 4. *Amounts Transferred from Special Disbursement Account*

(a) Subject to (b) below, a total equivalent to SDR 750 million shall be transferred to the Account from the assets received by the Special Disbursement Account of the Fund on termination of the operation, in its present form, of the Trust Fund established by Executive Board Decision No. 5069-(76/72). These transfers to the Account shall be made as the amounts are received in the Special Disbursement Account.

(b) If, on the basis of reasonable estimates, the Executive Board determines at any time that amounts already transferred to the Account, together with the other assets available to the Account, are sufficient to carry out the operations and to meet the liabilities of the Account in full, it may authorize the suspension of further transfers from, and the re-transfer of any surplus back, to the Special Disbursement Account, provided that transfers shall be resumed, up to the total amount specified in (a), if this proves necessary to complete the operations of the Account and to discharge its liabilities in full.

Section 5. *Borrowing*

(a) The Fund may borrow resources for the Account on such terms and conditions as may be agreed between the Fund and the respective lenders, consistent with the provisions of this Instrument. In

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undertaking such borrowing, the Fund shall make every effort to obtain loans on concessionary terms. The aggregate amount of such borrowing, including the interest payable on the borrowing, shall not exceed the SDR 750 million that could be transferred to the Account from the Special Disbursement Account under Section 4.

(b) Payments of interest and repayments of the principal amount under each such loan shall be made exclusively from the resources of the Account. All resources of the Account shall be available for such payments, except that donations shall not be used for this purpose without the consent of the donor. Resources transferred to the Account from the Special Disbursement Account pursuant to Section 4 shall be applied, as necessary, to make payments due under such loans, including the interest payable thereon, in priority to other uses of such resources.

Section 6. *Investment*

Any balances of currency held in the Account and not immediately needed to carry out the operations or to meet the liabilities of the Account shall be invested promptly in accordance with Section 14.

Section 7. *Authorized Subsidy*

The Fund shall draw upon the resources of the Account, in such order as it may determine, to reduce the cost to eligible members of the periodic charges paid by them to the General Resources Account of the Fund on holdings of their currencies acquired by the Fund as a result of all purchases under the policies referred to below, in respect of the entire periods for which such charges were paid:

(a) under the Supplementary Financing Facility of the Fund established by Executive Board Decision No. 5508-(77/127), and

(b) under the policy on exceptional use of the Fund's resources incorporated in Executive Board Decision No. 5732-(78/65), as amended by Executive Board Decision No. 5998-(79/1).

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Section 8. Eligible Members

(a) Subject to (b) below, members eligible to receive a subsidy under Section 7 shall be those members that, according to the latest data provided by the World Bank before April 30, 1981, had per capita incomes in 1979 not in excess of that of the member with the highest per capita income in 1979 that was eligible to receive assistance from the Trust Fund.

(b) Also eligible to receive a subsidy under Section 7 shall be any other members that, according to the latest data provided by the World Bank before April 30, 1982, had per capita incomes in 1979 not in excess of that of the member with the highest per capita income in 1979 that was eligible to receive assistance from the Trust Fund, that member's per capita income determined according to the same data.

Section 9. *Calculation and Payment of the Subsidy*

(a) The amount of the subsidy shall be calculated as a percentage per annum of the currency holdings referred to in Section 7 and, subject to Section 10, shall be determined by the Fund in the light of the resources available to the Account. The determination and payment shall be made annually after the close of each financial year following the date of the Instrument. The Fund shall as far as practicable seek to ensure that, within the limits specified in Section 10, the percentage at which the subsidy is determined shall be equal over the entire period during which a subsidy is provided from the Account.

(b) Eligible members that, in accordance with Section 8, had per capita incomes in 1979 not in excess of the per capita income used for determining eligibility for assistance from the International Development Association shall receive the full amount of the subsidy calculated pursuant to (a) above. All other eligible members shall receive a subsidy equal to one half of that amount.

(c) The amount of subsidy determined pursuant to (a) and (b) above shall be paid to each eligible member as soon as practicable after the determination is made.

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Section 10. *Amount of Subsidy*

The subsidy provided to any member pursuant to Section 9 shall not exceed the equivalent of three percent per annum of the currency holdings specified in Section 7, nor reduce the effective charges on such holdings:

(a) if the holdings were acquired under a stand-by arrangement, below the charges which would have been applicable had such holdings been acquired under the Fund's policies on the regular use of its resources in the credit tranches; or

(b) if the holdings were acquired under an extended arrangement, below the charges which would have been applicable had such holdings been acquired under the Extended Fund Facility. For the purpose of the calculation of charges under (a) and (b), any adjustment in the rate of charge referred to in Rule I-6(4) that may be made to cover deferred income and placements to the Special Contingent Account shall not be taken into consideration.

Section 11. *Administration of the Account*

The Account shall be administered by the Fund as Trustee. Subject to the provisions of this Instrument, the Fund in administering the Account shall apply the same rules and procedures as apply to operations and transactions in the General Resources Account of the Fund.

Section 12. *Separation of Assets*

(a) The resources of the Account shall be held separately from the resources of all other accounts of the Fund, including other administered accounts, and shall be used only for the purposes of the Account.

(b) Except to the extent contemplated in Section 4, property and assets of the Fund held or administered in its other accounts shall not be available or used to discharge liabilities or to meet losses arising from the operations of the Account.

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Section 13. *Exchange of Resources*

(a) Resources donated pursuant to Section 3 or loaned pursuant to Section 5 shall be paid in a freely usable currency, provided that a donor or lender which is a member or the fiscal agency of a member may, at its option, pay in the currency of the member. Amounts paid in a member's currency shall, at the time of payment, be exchanged by the member for freely usable currency, if so requested by the Fund. Donations and loans may also be made available in special drawing rights in accordance with arrangements made by the Fund for the holding and use of such special drawing rights.

(b) The Fund may sell or exchange any of the resources of the Account, provided that balances of currencies held in the Account may be exchanged only with the concurrence of the issuers of such currencies.

Section 14. *Authorized Investments*

Investments pursuant to Section 6 may be made in any of the following: (a) marketable obligations issued by an international financial organization and denominated in special drawing rights 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 special drawing rights 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 special drawing rights 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.

Section 15. *Administrative Expenses*

In order to compensate the Fund for the expenses of carrying out the business of the Account, the Account shall pay annually to the General Resources Account an amount equivalent to one thousandth per annum of the value of the resources in the Account at the end of each financial year, other than resources attributable to donations made under Section 3, provided that this amount may be varied if the

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Fund, on the basis of a reasonable estimate of its expenses, considers such variation to be appropriate.

Section 16. *Accounts, Audit, and Reports*

(a) The Fund shall maintain separate financial records and prepare separate financial statements for the Account.

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

(c) The Fund shall report on the resources and operations of the Account 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 Account.

Section 17. *Amendment*

The Fund may amend the provisions of this Instrument, except this Section and Sections 1, 4, 5(b), 12, and 18, and the Account and its resources shall thereafter be governed by the Instrument as amended.

Section 18. *Termination Arrangements*

Upon completion of the subsidy operations authorized by this Instrument the Fund shall wind up the affairs of the Account. Any resources remaining in the Account after all outstanding liabilities of the Account have been discharged in full shall be applied first to reimburse the Special Disbursement Account up to the full amount transferred to the Account under Section 4, net of any previous retransfers, and then to reimburse donors pro rata, up to the amounts of their donations. Any remaining balance in the Account shall be transferred to the Special Disbursement Account.

Decision No. 6683-(80/185) G/TR,
December 17, 1980,
as amended by Decision Nos. 8523-(87/25) SBS, February 6, 1987,
and 8941-(88/122) SBS,
August 2, 1988

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REVIEW OF THE FUND'S INCOME POSITION FOR FY 2011 AND FY 2012—PCDR TRUST REIMBURSEMENT FOR FY 2011

In accordance with paragraph 3 of Decision No. 14649-(10/64) PCDR, adopted June 25, 2010, the General Resources Account shall be reimbursed the equivalent of SDR 0.493 million by the PCDR Trust in respect of the expenses of administering SDA resources in the PCDR Trust during FY 2011. (EBS/11/53, 04/07/11)

Decision No. 14895-(11/37),
April 20, 2011

SUPPLEMENTARY FINANCING FACILITY: SUBSIDY ACCOUNT—INVESTMENT

The Managing Director shall place in deposits, denominated in SDRs, with the Bank for International Settlements, or in investments in a call account, denominated in SDRs, with the International Bank for Reconstruction and Development, the currencies received by the SFF Subsidy Account, unless the Managing Director considers that the terms offered are not sufficiently attractive. In that event the Managing Director shall inform the Executive Board promptly and make other proposals to it for investment in SDR-denominated obligations. (EBS/81/135, 5/8/81)

Decision No. 6854-(81/78) SBS,
May 8, 1981,
as amended by Decision No. 8184-(86/9) SBS,
January 15, 1986

SUPPLEMENTARY FINANCING FACILITY: SUBSIDY ACCOUNT—SUSPENSION OF TRANSFERS AND RE-TRANSFER OF SURPLUS

In accordance with Section 4(*b*) of the Instrument establishing the Supplementary Financing Facility Subsidy Account (Decision No. 6683-(80/185) G/TR, transfers from the Special Disbursement Account to the SFF Subsidy Account shall be suspended as soon as arrangements can be made for the investment of resources retained in the Special Disbursement Account. Any resources of the SFF Subsidy

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Account above the amounts necessary to meet its future liabilities shall be promptly re-transferred to the Special Disbursement Account as soon after the date of this decision as possible and as they may be received in the future. (EBS/85/127, 5/14/85; and Sup. 1, 5/24/85)

Decision No. 7989-(85/81) SBS,
May 28, 1985

SUPPLEMENTARY FINANCING FACILITY: SUBSIDY ACCOUNT—
MEANS OF SUBSIDY PAYMENTS

Subsidy payments made after the effective date of this Decision with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument establishing the SFF Subsidy Account may be made, at the discretion of the Fund, in SDRs to beneficiaries agreeing to receive them, or in U.S. dollars, or in a combination of these two assets. Subsidy payments in U.S. dollars shall be made on the basis of the SDR/U.S. dollar exchange rate in effect three business days before the payment date.

Decision No. 8185-(86/9) SBS/S,
January 15, 1986

SUPPLEMENTARY FINANCING FACILITY SUBSIDY ACCOUNT—
EXCHANGE RATE FOR PAYMENT OF SUBSIDIES

All pending subsidy payments under the Supplementary Financing Facility Subsidy Account shall be made on the basis of the SDR/U.S. dollar exchange rate in effect two business days before thepayment date, and, if this rate cannot be used, the rate of the preceding date closest thereto that is practicable. (EBS/03/54, 4/18/03)

Decision No. 13005-(03/39) SBS,
April 25, 2003

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Other Selected Resolutions and Related Documents

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Other Selected Resolutions and Related Documents

A. Request for Interpretation of the Articles of Agreement as to the Authority of the Fund to Use Its Resources

RESOLVED:

That the Executive Directors of the International Monetary Fund are invited, at the request of the Governor for the United States of America, to interpret the Articles of Agreement, pursuant to Article XVIII[1](*a*), as to whether the authority of the Fund to use its resources extends beyond current monetary stabilization operations to afford temporary assistance to members in connection with seasonal, cyclical, and emergency fluctuations in the balance of payments of any member for current transactions, and whether the Fund has authority to use its resources to provide facilities for relief, reconstruction, or armaments, or to meet a large or sustained outflow of capital on the part of any member.[2]

Resolution No. IM-6,
March 18, 1946

[1] Ed. Note: Corresponds to Article XXIX of the Articles of Agreement after the Second Amendment.

[2] Ed. Note: The interpretation was made by the Executive Board on September 26, 1946. See Decision No. 71-2, p. 335.

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B. Resolution of the United Nations General Assembly 377(V) Entitled "Uniting for Peace"

RESOLVED:

WHEREAS THE General Assembly of the United Nations on November 3, 1950, adopted Resolution entitled "Uniting for Peace";

NOW, THEREFORE, the Board of Governors, taking note of said Resolution, hereby resolves:

THAT the Fund, in the conduct of its activities shall have due regard for recommendations of the General Assembly made pursuant to the said Resolution for the maintenance or restoration of international peace and security.

Resolution No. 6-8,
September 13, 1951

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C. Composite Resolution on the Work of the Ad Hoc Committee on Reform of the International Monetary System and Related Issues and on a Program of Immediate Action

The Board of Governors having noted:

That the ad hoc Committee on Reform of the International Monetary System and Related Issues, which was established at the Board's 1972 Annual Meeting to advise and report with respect to all aspects of reform of the international monetary system, has now concluded its work; and

That the Chairman of the ad hoc Committee has transmitted its final report ("Report to the Board of Governors of the International Monetary Fund by the Committee on Reform of the International Monetary System and Related Issues") accompanied by an "Outline of Reform" (hereinafter referred to as the Outline), consisting of Part I ("The Reformed System"), which records the outcome of the Committee's discussions and indicates the general direction in which the Committee believes the system could evolve, and Part II ("Immediate Steps"), which sets out the steps that the Committee agrees should be taken immediately; and

That the Executive Directors have been studying various aspects of the international monetary system and in accordance with the Committee's recommendations on immediate steps in the Report and Outline have adopted certain decisions;

NOW, THEREFORE, the Board of Governors hereby takes the following actions:

Resolution Nos. 29-7, 29-8, 29-9, 29-10,
October 2, 1974

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First Resolution (No. 29-7):

Final Report of the Ad Hoc Committee on Reform of the International Monetary System and Related Issues

The Board of Governors hereby RESOLVES as follows:

1. The Board of Governors notes the report of the ad hoc Committee on Reform of the International Monetary System and Related Issues.

2. The Board expresses its deep appreciation to the Committee and its Chairman, to the Deputies and their Chairman, and to the Bureau upon the conclusion of their work on international monetary reform for the valuable contribution that they have made both in indicating the general direction in which the international monetary system could evolve in the future and in proposing immediate steps and other measures on which members could collaborate in an evolutionary process of reform.

3. The Committee shall cease to exist on October 2, 1974.

Resolution No. 29-7,
October 2, 1974

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Second Resolution (No. 29-8):[1]

Resolution No. 54-9[2]

Transformation of the Interim Committee of the Board of Governors on the International Monetary System into the International Monetary and Financial Committee of the Board of Governors

WHEREAS the Board of Governors of the International Monetary Fund recognizes the need, pending the possible establishment of the Council, to strengthen and transform the Interim Committee of the Board of Governors on the International Monetary System established by Resolution No. 29-8, and

WHEREAS this strengthening and transformation should be reflected in the name of the Committee and its terms of reference to further its role as an advisory committee of the Board of Governors;

NOW, THEREFORE, the Board of Governors hereby RESOLVES as follows:

1. Composition of the International Monetary and Financial Committee

(a) The Interim Committee shall be transformed into the International Monetary and Financial Committee of the Board of Governors. The members of the Committee shall be governors of the Fund, ministers, or others of comparable rank. Each member of the Fund that appoints an executive director and each member or group of members of the Fund that elected an executive director on or after the date on which the last regular election took place shall appoint:

(i) one member of the Committee, and not more than

(ii) seven associates.

[1] Ed. Note: Repealed by Resolution 54-9.

[2] Ed. Note: Adopted September 30, 1999.

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(b) Members of the Committee, associates, and executive directors or in their absence their alternates, shall be entitled to attend meetings of the Committee, unless the Committee decides to hold a more restricted session. Each member of the Fund that appoints an executive director and each group of members of the Fund referred to in (a) above may designate an alternate to participate in the place of the member of the Committee at any meeting when he is not present. Participation in respect of each item on the agenda of a meeting shall be limited to one person, who shall be a member of the Committee, an associate, or an executive director.

(c) The Committee shall select a Chairman, who shall serve for such period as the Committee determines.

(d) The Managing Director shall be entitled to participate in all meetings of the Committee, and may designate a representative to participate in his place at any meeting when he is not present. The Managing Director or his representative may be accompanied normally by not more than two members of the staff, unless the Committee decides to hold a restricted session.

(e) A member of the Fund whose voting rights are suspended pursuant to Article XXVI, Section 2(*b*) shall not appoint, or participate in the appointment of, a member of the Committee and his associates. When the voting rights of a member are suspended, the rules in Schedule L, paragraph 3(c) on the termination of office and replacement of executive directors shall apply to the member of the Committee and associates appointed by the member or in whose appointment the member has participated.

2. Representation of Members Not Entitled to Appoint a Member of the Committee

A member of the Fund not entitled to appoint a member of the Committee may send a representative to participate in any meeting of the Committee when a request made by, or a matter particularly affecting, that member is under consideration. The Committee shall determine, upon request by the member, whether a matter under consideration particularly affects the member.

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3. Terms of Reference

The Committee shall advise and report to the Board of Governors with respect to the functions of the Board of Governors in:

(i) supervising the management and adaptation of the international monetary and financial system, including the continuing operation of the adjustment process, and in this connection reviewing developments in global liquidity and the transfer of real resources to developing countries;

(ii) considering proposals by the Executive Directors to amend the Articles of Agreement; and

(iii) dealing with sudden disturbances that might threaten the system.

In addition, the Committee shall advise and report to the Board of Governors on any other matters on which the Board of Governors may seek the advice of the Committee.

In performing its duties, the Committee shall take account of the work of other bodies having specialized responsibilities in related fields.

4. Procedures

(a) The Committee shall meet ordinarily twice a year. The Chairman may call meetings after consulting the members of the Committee, and shall consult the members of the Committee on calling a meeting if so requested by any member of the Committee. Normally, the Chairman, in consultation with the members of the Committee, will call a preparatory meeting of their representatives ("Deputies").

(b) A quorum for any meeting of the Committee shall be two thirds of the members of the Committee.

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(c) Meetings of the Committee shall be held within the metropolitan area in which the Fund has its principal office, or at such other places as the Committee may provide or, in the absence of such provision, as the Chairman shall determine after consulting the members of the Committee.

(d) Appropriate arrangements shall be made for the effective coordination of the work of the Committee and of the Executive Directors. The Secretary of the Fund shall serve as the Secretary of the Committee.

(e) In reporting any recommendations or views of the Committee, the Chairman shall seek to establish a sense of the meeting. In the event of a failure to reach a unanimous view, all views shall be reported, and the members holding such views shall be identified. Reports of the Committee shall be made available to the Executive Directors.

(f) The Committee may invite observers to attend during the discussion of an item on the agenda of a meeting, and may determine any aspect of its procedure that is not established by this Resolution.

5. Termination of Resolution of 29-8

Resolution No. 29-8, adopted October 2, 1974 is hereby repealed.

Resolution No. 54-9,
September 30, 1999

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Third Resolution (No. 29-9):[1]

Establishment of Joint Ministerial Committee of the Boards of Governors of the Bank and the Fund on the Transfer of Real Resources to Developing Countries

WHEREAS the Committee of the Board of Governors of the International Monetary Fund on Reform of the International Monetary System has recommended the establishment of a joint ministerial committee of the Boards of Governors of the International Monetary Fund (the Fund) and the International Bank for Reconstruction and Development (the Bank) to carry forward the study of the broad question of the transfer of real resources to developing countries and to recommend measures to be adopted in order to implement its conclusions;

WHEREAS it is desirable to consider the question of the transfer of real resources to developing countries in relation to existing or prospective arrangements among countries, including those involving international trade and payments, the flow of capital, investment, and official development assistance;

WHEREAS the said Committee has invited the Managing Director of the Fund to discuss with the President of the Bank the preparation of appropriate parallel draft resolutions on the establishment of such a joint ministerial committee for adoption by the respective Boards of Governors of the Fund and Bank;

WHEREAS pursuant to such discussions the President of the Bank and the Managing Director of the Fund have proposed to the Executive Directors of the Bank and Fund, respectively, and the Executive Directors of the Fund have approved the submission of this Draft Resolution to the Board of Governors of the Fund and the Executive Directors of the Bank have approved the submission of a parallel Draft Resolution to the Board of Governors of the Bank;

[1] Ed. Note: As amended by Resolution No. 48-4, adopted effective April 23, 1993.

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WHEREAS the Committee as envisaged would be helpful in providing a focal point in the structure of international economic cooperation for formation of a comprehensive overview of diverse international activities in the development area, for efficient and prompt consideration of development issues, and for coordination of international efforts to deal with problems of financing development; and

WHEREAS the Board of Governors of the Bank is considering the said parallel resolution;

NOW, THEREFORE, the Board of Governors hereby RESOLVES:

1. *Establishment and Composition of Joint Ministerial Committee*

(a) There is established a Joint Ministerial Committee of the Boards of Governors of the Bank and Fund on the Transfer of Real Resources to Developing Countries (hereinafter called the Development Committee).

(b) The members of the Development Committee shall be governors of the Bank, governors of the Fund, ministers, or others of comparable rank.

(c) The members of the Development Committee shall be appointed in turn for successive periods of two years by the members of the Bank and the members of the Fund. The members of the Bank shall appoint the members of the Committee for the first period of two years, which shall run from the date of the adoption of this Resolution until the date of the regular election of executive directors in 1976.

(d) Each member government of the Bank or the Fund, as the case may be, that appoints or elects an executive director and each group of member governments of the Bank or of the Fund, as the case may be, that elects an executive director shall appoint one member of the Development Committee and up to seven associates, and, for any meeting when the member of the Committee is not present, may

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appoint an alternate with full power to act for the member at such meeting.

(e) Each member and associate shall serve until a new appointment is made by the member government or member governments of the Bank or the Fund, as the case may be, that are entitled to make the appointment or until the next succeeding regular election of executive directors, whichever is earlier.

(f) During the periods when appointments are made by members of the Bank, a member of the Bank whose membership has been suspended pursuant to Article VI, Section 2 of the Articles of Agreement of the Bank shall not appoint or participate in the appointment of a member of the Committee, his alternate and associates. When the membership of a member of the Bank is suspended, and when a suspended member is restored to good standing, the consequences on the Executive Director of the Bank appointed or elected by such member, or in whose election such member participated, shall apply to the member of the Committee, his alternate and associates appointed by that member of the Bank, or in whose appointment such member participated.

(g) During the periods when appointments are made by members of the Fund, a member of the Fund whose voting rights are suspended pursuant to Article XXVI, Section 2(*b*) of the Articles of Agreement of the Fund shall not appoint, or participate in the appointment of, a member of the Committee, his alternate and associates. When the voting rights of a member of the Fund are suspended, the rules in Schedule L, paragraph 3(c) of the Articles of Agreement of the Fund on the termination of office and replacement of executive directors shall apply to the member of the Committee, his alternate and associates appointed by that member of the Fund, or in whose appointment such member participated.

2. *Chairman*

The Development Committee shall select a Chairman from among its members, who shall serve for such period as the Committee determines. The Chairman of the Boards of Governors of the Bank

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and the Fund, or a governor designated by him shall convene the first meeting of the Committee and shall preside over it until the Chairman has been selected.

3. *Meetings*

(a) Members of the Development Committee, associates, and the executive directors of the Bank and the Fund, or in their absence their alternates, shall be entitled to participate in meetings of the Committee, unless the Committee decides to hold a session restricted to members, the President of the Bank, and the Managing Director of the Fund. Participation in respect of each item on the agenda of a meeting shall be limited to one person in respect of each member government or group of member governments that appoint a member of the Committee.

(b) The President of the Bank and the Managing Director of the Fund shall be entitled to participate in all meetings of the Development Committee, and each may designate a representative to participate in his place at any meeting when he is not present. Each may be accompanied normally by two members of his staff, at any unrestricted session of the Committee.

(c) The Development Committee shall invite the heads of other international financial or economic organizations, as well as other persons, to attend or participate in meetings of the Committee relating to their areas of responsibility.

4. *Terms of Reference*

(a) The Development Committee shall maintain an overview of the development process and shall advise and report to the Boards of Governors of the Bank and the Fund on all aspects of the broad question of the transfer of real resources to developing countries, and shall make suggestions for consideration by those concerned regarding the implementation of its conclusions. The Committee shall review, on a continuing basis, the progress made in fulfillment of its suggestions.

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(b) The Development Committee shall establish a detailed program of work, taking account of the topics listed in Annex 10 of the Outline of Reform. The Committee in carrying out its work shall bear in mind the need for coordination with other international bodies.

(c) The Development Committee shall give urgent attention to the problems of (i) the least developed countries and (ii) those developing countries most seriously affected by balance of payments difficulties in the current situation.

5. *Procedures*

(a) The Development Committee shall meet at the time of the annual meetings of the Boards of Governors of the Bank and the Fund and, in addition, as often as required. The Chairman may call meetings after consulting the members of the Committee and shall consult them on calling a meeting if so requested by any member of the Committee.

(b) A quorum for any meeting of the Development Committee shall be two thirds of the members of the Committee.

(c) The Development Committee may establish subcommittees or working groups from time to time.

(d) The Committee shall appoint an Executive Secretary who shall be entitled to participate in all Committee meetings. The Executive Secretary, supported by a small staff as necessary, and drawing on the staffs of the Bank and the Fund to the maximum extent feasible, shall be responsible to the Committee for carrying out the work directed by the Committee.

(e) Appropriate arrangements shall be made for the coordination of the work of the Development Committee and the work of the Executive Directors of the Bank and the Fund.

(f) The President of the Bank and the Managing Director of the Fund shall arrange to carry out technical work requested by the

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Committee and provide administrative support for the Committee within the competence of their organizations.

(g) The Committee may request assistance from international organizations or other bodies or individuals in connection with the preparation of its work.

(h) In reporting any suggestions or views of the Development Committee, the Chairman shall seek to establish a sense of the meeting. In the event of a failure to reach a unanimous view, all views shall be reported, and the members holding such views shall be identified.

(i) The Development Committee shall report not less than once a year to the Boards of Governors on the progress of its work and may publish such other reports as it deems desirable to carry out its purposes.

(j) The Development Committee may determine any aspect of its procedure that is not established by this Resolution.

6. *Administrative Costs*

The Bank and the Fund shall make such financial appropriations, in equal proportions, as are necessary for carrying out the work of the Development Committee.

7. *Review*

At the end of two years from the effective date of this Resolution, the Boards of Governors of the Fund and the Bank shall review the performance of the Committee, and shall take such action as they deem appropriate.

Resolution No. 29-9,
October 2, 1974

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Fourth Resolution (No. 29-10):

Other Immediate Steps

The Board of Governors hereby RESOLVES as follows:

1. *Need for Immediate Steps*

The Board of Governors notes the view of the Committee on Reform of the International Monetary System and Related Issues (hereinafter referred to as the Committee) that it will be some time before a reformed system can be finally agreed and fully implemented, and it endorses the Committee's proposal that, in the interim period, the Fund and its members should pursue the general objectives set out in paragraph 1 of the Outline adopted by the Committee and should observe, so far as they are applicable, the principles contained in Part I of the Outline. The Board notes that in Part II of the Outline the Committee proposes that a number of steps should be taken immediately to begin an evolutionary process of reform and to help meet the current problems facing both developed and developing members. The Board of Governors endorses the proposals of the Committee and the Committee's calls upon members to collaborate with the Fund and with each other to give effect to those proposals.

2. *The Adjustment Process*

The Board of Governors notes that the Committee has recognized that in the interim period, with the prospect of significant changes in the structure of balances of payments in the world, there is need for close international consultation and for surveillance of the adjustment process. The Board endorses the Committee's recommendation that members should be guided in their adjustment action by the general principles set out in paragraph 4 of the Outline. The Board endorses the Committee's call to members to cooperate with one another and with international institutions, during the current period of exceptional and widespread payments imbalances, to find orderly means to deal with these imbalances without adopting policies that would aggravate the problems of other members, and to promote equilibrating capital

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flows. In this connection, the Board of Governors welcomes Decision No. 4241-(74/67), adopted by the Executive Directors on June 13, 1974, to establish a facility in the Fund to assist members in meeting the initial impact of the increase in the cost of oil imports.

The Fund shall exercise surveillance of the adjustment process through the Council when established (and, for the time being, the Interim Committee on the International Monetary System) and the Executive Directors, on the lines of the procedures set out in paragraphs 5–10 of the Outline, and subject for the time being to the following provisos, namely that:

(a) the Fund shall seek to gain further experience in the use of the objective indicators, including reserve indicators, on an experimental basis, as an aid in assessing the need for adjustment, but shall not use such indicators to establish any presumptive or automatic application of pressures;

(b) determination of what is a disproportionate movement in reserves shall be made in the light of the broad objectives of members for the development of their reserves over a period ahead, as discussed with the Fund; and

(c) the pressures that may be applied to members in large and persistent imbalance shall continue to be those at present available to the Fund.

3. *Exchange Rates*

The Board of Governors notes that the Committee has stressed that, during the interim period, exchange rates will continue to be a matter for international concern and consultation, and has attached particular importance to the avoidance of competitive depreciation or undervaluation. The Board endorses these views and notes with satisfaction that in accordance with the Committee's recommendation the Executive Directors have taken Decision No. 4232-(74/67), adopted June 13, 1974, on guidelines for the management of floating exchange rates during the present period of widespread floating.

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4. *Controls*

The Board of Governors endorses the Committee's recommendation that, during the interim period, countries should be guided by the principles set out in paragraphs 14–17 of the Outline in relation to controls and to cooperative action to limit disequilibrating capital flows. The Board endorses the Committee's view that particular importance must be attached to avoiding the escalation of restrictions on trade and payments for balance of payments purposes during the interim period. The Board endorses the invitation to members to subscribe on a voluntary basis to the Declaration concerning trade and other current account measures for balance of payments purposes attached to the Committee's final communiqué, and requests members to consider subscribing to the Declaration if they have not already done so. The Board notes with satisfaction that the Executive Directors are developing the necessary procedures in connection with the Declaration, and are making arrangements for continuing close cooperation with the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade.

5. *Global Liquidity*

The Board of Governors endorses the Committee's call to members to cooperate with the Fund during the interim period in seeking to promote the principle of better management in global liquidity as set out in paragraph 2(d) of the Outline. In accordance with the Committee's recommendation, the Fund shall assess global reserves and take decisions on the allocation and cancellation of special drawing rights consistently with paragraph 25 of the Outline. The Fund shall periodically review the aggregate volume of official currency holdings in accordance with paragraph 19 of the Outline and, if they are judged to show an excessive increase, the Fund shall consider with the members concerned what steps might be taken to secure an orderly reduction.

In accordance with the Committee's recommendation, the Fund shall give consideration to substitution arrangements.

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In accordance with the Committee's recommendation, the Fund shall give further study to arrangements for gold in the light of the agreed objectives of reform.

6. *Valuation of the Special Drawing Right*

The Board of Governors notes with satisfaction that, following the Committee's recommendation concerning the interim valuation and interest rate of the special drawing right, the Executive Directors have taken the following decisions on these questions: No. 4233(74/67) S,[1] adopted June 13, 1974; No. 4234-(74/67) S,[2] adopted June 13, 1974; No. 4236-(74/67) S,[3] adopted June 13, 1974; No. 4257-(74/76), adopted June 28, 1974; and No. 4261-(74/78) S, adopted July 1, 1974. These decisions provide for an interim valuation of the special drawing right without prejudice to the method of valuation to be adopted in a reformed system.

7. *The Special Interests of Developing Countries*

The Committee has recognized the serious difficulties that are facing many developing members, and has agreed that their needs for financial resources will be greatly increased. It has urged all members with available resources to make every effort to supply these needs on appropriate terms. To this end, the Committee has called upon members with available resources and upon development finance institutions to make arrangements to increase the flow of concessionary funds, and to give consideration to various measures including the redistribution of aid effort in favor of members in greatest need, interest subsidies, and short-term debt relief on official loans in the special circumstances of members without access to financial markets. The Board of Governors notes with satisfaction that, following the Committee's recommendation, the Executive Directors have taken Deci-

[1] Ed. Note: See the Annual Report of the Executive Directors for the Fiscal Year ended April 30, 1974, pp. 116–18, 119.

[2] Ed. Note: See footnote 1.

[3] Ed. Note: See footnote 1.

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sion No. 4377-(74/114), adopted September 13, 1974, to establish a new facility in the Fund under which developing members in particular are likely to receive balance of payments finance for longer periods and in amounts larger in relation to quota than has been the practice under existing tranche policies. The Board notes that the Committee is not unanimous on the question of establishing a link between development assistance and the allocation of special drawing rights and invites the Interim Committee established by the Second Resolution to consider the possibility and modalities of establishing such a link simultaneously with the preparation by the Executive Directors of draft amendments of the Articles of Agreement, which it is envisaged would be presented for the approval of the Board by February 1975.

8. *General Review of Quotas*

The Board of Governors endorses the Committee's request to the Executive Directors to complete, as soon as possible, their work on the current general review of quotas, and in doing so to bear in mind the general purposes of the reform.

9. *Amendments to the Articles of Agreement*

The Board of Governors notes that certain of the immediate steps recommended in Part II of the Outline require amendment of the Articles of Agreement, and that, following the Committee's recommendation in paragraph 41 of the Outline, the Executive Directors have begun their consideration of draft amendments of the Articles of Agreement to give effect to this part of the Outline or as otherwise desired.

The Board requests the Executive Directors to transmit any draft amendments that they prepare pursuant to paragraph 41 of the Outline to the Interim Committee for consideration in accordance with paragraph 3(ii) of the Second Resolution and, if agreed, for presentation to the Board of Governors for its approval.

Resolution No. 29-10,
October 2, 1974

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Interim Committee: Rules of Procedure

1. *Committee Members, Associates, and Alternates*

The Secretary of the Fund shall be informed of the appointment of all members of the Committee and their associates and of the designation of alternates. The Secretary shall notify periodically all Governors and members of the Committee of these appointments and shall notify all members of the Committee of these designations.

2. *Meetings*

(a) Except in special circumstances, the Chairman shall cause all members of the Committee and their associates to be notified at least ten days in advance of any meeting.

(b) Persons invited by the Committee to attend during the discussion of an item on the agenda of a meeting may submit documents on that item and join in the discussion.

3. *Agenda*

A provisional agenda to be adopted by the Committee shall be prepared for each meeting by the Chairman after consulting the members of the Committee and the Managing Director of the Fund, and shall be distributed as far in advance of the meeting as possible. Any member of the Committee may propose the addition of an item to the provisional agenda.

Adopted by the Interim Committee
October 3, 1974

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Development Committee: Rules of Procedure

1. *Committee Members, Associates, and Alternates*

The Executive Secretary of the Committee shall be informed of the appointment of all members of the Committee and their associates and of the appointment of alternates. The Executive Secretary shall notify periodically all Governors and members of the Committee of these appointments.

2. *Meetings*

(a) Except in special circumstances, the Chairman shall, after consultation with the members, cause all members of the Committee and their associates to be notified at least 30 days in advance of any meeting, and documents shall be distributed at least 30 days in advance of the meeting, if possible.

(b) Persons invited by the Committee to attend during the discussion of an item on the agenda of a meeting may submit documents on that item and join in the discussion.

3. *Agenda*

A provisional agenda to be adopted by the Committee shall be prepared for each meeting by the Chairman after consulting the members of the Committee, the President of the Bank and the Managing Director of the Fund, and shall be distributed as far in advance of the meeting as possible. Any member of the Committee may propose the addition of an item to the provisional agenda.

Adopted by the Development Committee
January 17, 1975

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Development Committee: Changes in the Organization of Work and Structure of the Secretariat Function

1. The Development Committee would be continued as a Joint Bank/Fund Committee with its present broad mandate to consider all matters relating to the transfer of real resources.

2. The Development Committee's main function would be that of a discussion forum, including its use as a "reserve forum" for the discussions of issues relating to the operations of the institutions when circumstances warrant it.

3. The Chairman of the Development Committee, the Managing Director of the Fund, and the President of the Bank would be jointly responsible for organizing the work of the Development Committee with a view to more effective performance.

4. The independence of the Development Committee would be reflected in the ability to present ideas freely to members of the Committee—the work of the Committee would not be bound by a narrow definition of the responsibilities of the Bank and the Fund.

5. The Boards of the Bank and the Fund would be used as preparatory bodies for the work of the Development Committee including its agenda and work program, as well as reviewing and sharpening issues in papers prepared for Committee consideration.

6. To assure that proposals and views expressed by the Executive Directors are fully reflected in the papers, agenda and work program, when they meet on Development Committee matters, they will do so as Committees of the Whole of the Executive Boards.

7. Senior officials would not be part of the institutional framework. However, Ministerial Deputies could meet on an ad hoc basis, when appropriate, to consider special issues. Since they would be Deputies to Ministers, the decision to convene them would be one for the Ministers.

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8. The Secretariat would be reduced to a senior official who would serve as Executive Secretary. He would assist the Chairman, Managing Director and President in ensuring the effectiveness of the Development Committee's work. The Secretariat service required by the Development Committee would be provided by Bank/Fund staff.

9. The Working Group would be abolished. Task Forces—with a specific limited task and duration—might be used for certain issues with approval of the Development Committee.

10. Studies and papers for the Committee would normally be prepared by regular Fund/Bank staff, but consultants or other agencies may be asked by the Committee to contribute work under certain circumstances.

Adopted by the Development Committee
April 1, 1979

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Selected Documents Relating to the Fund, the United Nations, and Other International Organizations

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A. Agreement Between the United Nations and the International Monetary Fund[1]

Article I

GENERAL

1. This agreement, which is entered into by the United Nations pursuant to the provisions of Article 63 of its Charter, and by the International Monetary Fund (hereinafter called the Fund), pursuant to the provisions of Article X of its Articles of Agreement, is intended to define the terms on which the United Nations and the Fund shall be brought into relationship.

2. The Fund is a specialized agency established by agreement among its member governments and having wide international responsibilities, as defined in its Articles of Agreement, in economic and related fields within the meaning of Article 57 of the Charter of the United Nations. By reason of the nature of its international responsibilities and the terms of its Articles of Agreement, the Fund is, and is required to function as, an independent international organization.

3. The United Nations and the Fund are subject to certain necessary limitations for the safeguarding of confidential material furnished to them by their members or others, and nothing in this agreement shall be construed to require either of them to furnish any information the furnishing of which would, in its judgment, constitute a violation of the confidence of any of its members or anyone from whom it shall have received such information, or which would otherwise interfere with the orderly conduct of its operations.

[1] Ed. Note: The Agreement was approved by the Board of Governors of the Fund on September 17, 1947 and by the General Assembly of the United Nations on November 15, 1947, and it came into force on November 15, 1947.

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Article II

RECIPROCAL REPRESENTATION

1. Representatives of the United Nations shall be entitled to attend, and to participate without vote in, meetings of the Board of Governors of the Fund. Representatives of the United Nations shall be invited to participate without vote in meetings especially called by the Fund for the particular purpose of considering the United Nations point of view in matters of concern to the United Nations.

2. Representatives of the Fund shall be entitled to attend meetings of the General Assembly of the United Nations for purposes of consultation.

3. Representatives of the Fund shall be entitled to attend, and to participate without vote in, meetings of the committees of the General Assembly, meetings of the Economic and Social Council, of the Trusteeship Council and of their respective subsidiary bodies, dealing with matters in which the Fund has an interest.

4. Sufficient advance notice of these meetings and their agenda shall be given so that, in consultation, arrangements can be made for adequate representation.

Article III

PROPOSAL OF AGENDA ITEMS

In preparing the agenda for meetings of the Board of Governors, the Fund will give due consideration to the inclusion in the agenda of items proposed by the United Nations. Similarly, the Council and its commissions and the Trusteeship Council will give due consideration to the inclusion in their agenda of items proposed by the Fund.

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Article IV

CONSULTATION AND RECOMMENDATIONS

1. The United Nations and the Fund shall consult together and exchange views on matters of mutual interest.

2. Neither organization, nor any of their subsidiary bodies, will present any formal recommendations to the other without reasonable prior consultation with regard thereto. Any formal recommendations made by either organization after such consultation will be considered as soon as possible by the appropriate organ of the other.

Article V

EXCHANGE OF INFORMATION

The United Nations and the Fund will, to the fullest extent practicable and subject to paragraph 3 of Article I, arrange for the current exchange of information and publications of mutual interest, and the furnishing of special reports and studies upon request.

Article VI

SECURITY COUNCIL

1. The Fund takes note of the obligation assumed, under paragraph 2 of Article 48 of the United Nations Charter, by such of its members as are also Members of the United Nations, to carry out the decisions of the Security Council through their action in the appropriate specialized agencies of which they are members, and will, in the conduct of its activities, have due regard for decisions of the Security Council under Articles 41 and 42 of the United Nations Charter.

2. The Fund agrees to assist the Security Council by furnishing to it information in accordance with the provisions of Article V of this agreement.

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Article VII

ASSISTANCE TO THE TRUSTEESHIP COUNCIL

The Fund agrees to cooperate with the Trusteeship Council in the carrying out of its functions by furnishing information and technical assistance upon request, and in such other similar ways as may be consistent with the Articles of Agreement of the Fund.

Article VIII

INTERNATIONAL COURT OF JUSTICE

The General Assembly of the United Nations hereby authorizes the Fund to request advisory opinions of the International Court of Justice on any legal questions arising within the scope of the Fund's activities other than questions relating to the relationship between the Fund and the United Nations or any specialized agency. Whenever the Fund shall request the Court for an advisory opinion, the Fund will inform the Economic and Social Council of the request.

Article IX

STATISTICAL SERVICES

1. In the interests of efficiency and for the purpose of reducing the burden on national Governments and other organizations, the United Nations and the Fund agree to co-operate in eliminating unnecessary duplication in the collection, analysis, publication and dissemination of statistical information.

2. The Fund recognizes the United Nations as the central agency for the collection, analysis, publication, standardization and improvement of statistics serving the general purposes of international organizations, without prejudice to the right of the Fund to concern itself with any statistics so far as they may be essential for its own purposes.

3. The United Nations recognizes the Fund as the appropriate agency for the collection, analysis, publication, standardization and

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improvement of statistics within its special sphere, without prejudice to the right of the United Nations to concern itself with any statistics so far as they may be essential for its own purposes.

4. (a) In its statistical activities the Fund agrees to give full consideration to the requirements of the United Nations and of the specialized agencies.

(b) In its statistical activities the United Nations agrees to give full consideration to the requirements of the Fund.

5. The United Nations and the Fund agree to furnish each other promptly with all their non-confidential statistical information.

Article X

ADMINISTRATIVE RELATIONSHIPS

1. The United Nations and the Fund will consult from time to time concerning personnel and other administrative matters of mutual interest, with a view to securing as much uniformity in these matters as they shall find practicable and to assuring the most efficient use of the services and facilities of the two organizations. These consultations shall include determination of the most equitable manner in which special services furnished by one organization to the other should be financed.

2. To the extent consistent with the provisions of this agreement, the Fund will participate in the work of the Coordination Committee and its subsidiary bodies.

3. The Fund will furnish to the United Nations copies of the annual report and the quarterly financial statements prepared by the Fund pursuant to Section 7(*a*) of Article XII of its Articles of Agreement. The United Nations agrees that, in the interpretation of paragraph 3 of Article 17 of the United Nations Charter it will take into consideration that the Fund does not rely for its annual budget upon contributions from its members, and that the appropriate authorities of

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the Fund enjoy full autonomy in deciding the form and content of such budget.

4. The officials of the Fund shall have the right to use the *laissez-passer* of the United Nations in accordance with special arrangements to be negotiated between the Secretary-General of the United Nations and the competent authorities of the Fund.

Article XI

AGREEMENTS WITH OTHER ORGANIZATIONS

The Fund will inform the Economic and Social Council of any formal agreement which the Fund shall enter into with any specialized agency, and in particular agrees to inform the Council of the nature and scope of any such agreement before it is concluded.

Article XII

LIAISON

1. The United Nations and the Fund agree to the foregoing provisions in the belief that they will contribute to the maintenance of effective cooperation between the two organizations. Each agrees that it will establish within its own organization such administrative machinery as may be necessary to make the liaison, as provided for in this agreement, fully effective.

2. The arrangements provided for in the foregoing articles of this agreement shall apply, as far as is appropriate, to relations between such branch or regional offices as may be established by the two organizations, as well as between their central machinery.

Article XIII

MISCELLANEOUS

1. The Secretary-General of the United Nations and the Managing Director of the Fund are authorized to make such supplementary

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arrangements as they shall deem necessary or proper to carry fully into effect the purposes of this agreement.

2. This agreement shall be subject to revision by agreement between the United Nations and the Fund from the date of its entry into force.

3. This agreement may be terminated by either party thereto on six months' written notice to the other party, and thereupon all rights and obligations of both parties hereunder shall cease.

4. This agreement shall come into force when it shall have been approved by the General Assembly of the United Nations and the Board of Governors of the Fund.

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B. United Nations Convention on the Privileges and Immunities of the Specialized Agencies and Annex V[1]

WHEREAS the General Assembly of the United Nations adopted on 13 February 1946 a resolution contemplating the unification as far as possible of the privileges and immunities enjoyed by the United Nations and by the various specialized agencies; and

WHEREAS consultations concerning the implementation of the aforesaid resolution have taken place between the United Nations and the specialized agencies;

CONSEQUENTLY, by resolution 179(II) adopted on 21 November 1947, the General Assembly has approved the following Convention, which is submitted to the specialized agencies for acceptance and to every Member of the United Nations and to every other State member of one or more of the specialized agencies for accession.

Article I

DEFINITION AND SCOPE

Section 1

In this Convention:

(i) The words "standard clauses" refer to the provisions of Articles II to IX.

(ii) The words "specialized agencies" mean:

(a) The International Labour Organisation;

[1] Ed. Note: The Convention was adopted by the United Nations General Assembly on November 21, 1947. The Executive Directors of the Fund accepted the standard clauses of the Convention and approved Annex V with respect to the Fund on April 11, 1949. The Annex became effective on May 9, 1949, when it was received by the United Nations.

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(b) The Food and Agriculture Organization of the United Nations;

(c) The United Nations Educational, Scientific and Cultural Organization;

(d) The International Civil Aviation Organization;

(e) The International Monetary Fund;

(f) The International Bank for Reconstruction and Development;

(g) The World Health Organization;

(h) The Universal Postal Union;

(i) The International Telecommunication Union; and

(j) Any other agency in relationship with the United Nations in accordance with Articles 57 and 63 of the Charter.

(iii) The word "Convention" means, in relation to any particular specialized agency, the standard clauses as modified by the final (or revised) text of the annex transmitted by that agency in accordance with Sections 36 and 38.

(iv) For the purposes of Article III, the words "property and assets" shall also include property and funds administered by a specialized agency in furtherance of its constitutional functions.

(v) For the purposes of Articles V and VII, the expression "representatives of members" shall be deemed to include all representatives, alternates, advisers, technical experts and secretaries of delegations.

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(vi) In Sections 13, 14, 15 and 25, the expression "meetings convened by a specialized agency" means meetings: (1) of its assembly and of its executive body (however designated), and (2) of any commission provided for in its constitution; (3) of any international conference convened by it; and (4) of any committee of any of these bodies.

(vii) The term "executive head" means the principal executive official of the specialized agency in question, whether designated "Director-General" or otherwise.

Section 2

Each State party to this Convention in respect of any specialized agency to which this Convention has become applicable in accordance with Section 37 shall accord to, or in connexion with, that agency the privileges and immunities set forth in the standard clauses on the conditions specified therein, subject to any modification of those clauses contained in the provisions of the final (or revised) annex relating to that agency and transmitted in accordance with Sections 36 or 38.

Article II

JURIDICAL PERSONALITY

Section 3

The specialized agencies shall possess juridical personality. They shall have the capacity (a) to contract, (b) to acquire and dispose of immovable and movable property, (c) to institute legal proceedings.

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Article III

PROPERTY, FUNDS AND ASSETS

Section 4

The specialized agencies, their property and assets, wherever located and by whomsoever held, shall enjoy immunity from every form of legal process except in so far as in any particular case they have expressly waived their immunity. It is, however, understood that no waiver of immunity shall extend to any measure of execution.

Section 5

The premises of the specialized agencies shall be inviolable. The property and assets of the specialized agencies, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation and any other form of interference, whether by executive, administrative, judicial or legislative action.

Section 6

The archives of the specialized agencies, and in general all documents belonging to them or held by them, shall be inviolable, wherever located.

Section 7

Without being restricted by financial controls, regulations or moratoria of any kind:

(a) The specialized agencies may hold funds, gold or currency of any kind and operate accounts in any currency;

(b) The specialized agencies may freely transfer their funds, gold or currency from one country to another or within any country and convert any currency held by them into any other currency.

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Section 8

Each specialized agency shall, in exercising its rights under Section 7 above, pay due regard to any representations made by the Government of any State party to this Convention in so far as it is considered that effect can be given to such representations without detriment to the interests of the agency.

Section 9

The specialized agencies, their assets, income and other property shall be:

(a) Exempt from all direct taxes; it is understood, however, that the specialized agencies will not claim exemption from taxes which are, in fact, no more than charges for public utility services;

(b) Exempt from customs duties and prohibitions and restrictions on imports and exports in respect of articles imported or exported by the specialized agencies for their official use; it is understood, however, that articles imported under such exemption will not be sold in the country into which they were imported except under conditions agreed to with the Government of that country;

(c) Exempt from duties and prohibitions and restrictions on imports and exports in respect of their publications.

Section 10

While the specialized agencies will not, as a general rule, claim exemption from excise duties and from taxes on the sale of movable and immovable property which forms part of the price to be paid, nevertheless when the specialized agencies are making important purchases for official use of property on which such duties and taxes have been charged or are chargeable, States parties to this Convention will, whenever possible, make appropriate administrative arrangements for the remission or return of the amount of duty or tax.

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Article IV

FACILITIES IN RESPECT OF COMMUNICATIONS

Section 11

Each specialized agency shall enjoy, in the territory of each State party to this Convention in respect of that agency, for its official communications, treatment not less favorable than that accorded by the Government of such State to any other Government, including the latter's diplomatic mission, in the matter of priorities, rates and taxes on mails, cables, telegrams, radiograms, telephotos, telephone and other communications, and press rates for information to the press and radio.

Section 12

No censorship shall be applied to the official correspondence and other official communications of the specialized agencies.

The specialized agencies shall have the right to use codes and to dispatch and receive correspondence by courier or in sealed bags, which shall have the same immunities and privileges as diplomatic couriers and bags.

Nothing in this section shall be construed to preclude the adoption of appropriate security precautions to be determined by agreement between a State party to this Convention and a specialized agency.

Article V

REPRESENTATIVES OF MEMBERS

Section 13

Representatives of members at meetings convened by a specialized agency shall, while exercising their functions and during their journeys to and from the place of meeting, enjoy the following privileges and immunities:

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(a) Immunity from personal arrest or detention and from seizure of their personal baggage, and in respect of words spoken or written and all acts done by them in their official capacity, immunity from legal process of every kind;

(b) Inviolability for all papers and documents;

(c) The right to use codes and to receive papers or correspondence by courier or in sealed bags;

(d) Exemption in respect of themselves and their spouses from immigration restrictions, aliens' registration or national service obligations in the State which they are visiting or through which they are passing in the exercise of their functions;

(e) The same facilities in respect of currency or exchange restrictions as are accorded to representatives of foreign Governments on temporary official missions;

(f) The same immunities and facilities in respect of their personal baggage as are accorded to members of comparable rank of diplomatic missions.

Section 14

In order to secure for the representatives of members of the specialized agencies at meetings convened by them complete freedom of speech and complete independence in the discharge of their duties, the immunity from legal process in respect of words spoken or written and all acts done by them in discharging their duties shall continue to be accorded, notwithstanding that the persons concerned are no longer engaged in the discharge of such duties.

Section 15

Where the incidence of any form of taxation depends upon residence, periods during which the representatives of members of the specialized agencies at meetings convened by them are present in a member State for the discharge of their duties shall not be considered as periods of residence.

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Section 16

Privileges and immunities are accorded to the representatives of members, not for the personal benefit of the individuals themselves, but in order to safeguard the independent exercise of their functions in connexion with the specialized agencies. Consequently, a member not only has the right but is under a duty to waive the immunity of its representatives in any case where, in the opinion of the member, the immunity would impede the course of justice, and where it can be waived without prejudice to the purpose for which the immunity is accorded.

Section 17

The provisions of Sections 13, 14 and 15 are not applicable in relation to the authorities of a State of which the person is a national or of which he is or has been a representative.

Article VI

OFFICIALS

Section 18

Each specialized agency will specify the categories of officials to which the provisions of this Article and of Article VIII shall apply. It shall communicate them to the Governments of all States parties to this Convention in respect of that agency and to the Secretary-General of the United Nations. The names of the officials included in these categories shall from time to time be made known to the above-mentioned Governments.

Section 19

Officials of the specialized agencies shall:

(a) Be immune from legal process in respect of words spoken or written and all acts performed by them in their official capacity;

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(b) Enjoy the same exemptions from taxation in respect of the salaries and emoluments paid to them by the specialized agencies and on the same conditions as are enjoyed by officials of the United Nations;

(c) Be immune, together with their spouses and relatives dependent on them, from immigration restrictions and alien registration;

(d) Be accorded the same privileges in respect of exchange facilities as are accorded to officials of comparable rank of diplomatic missions;

(e) Be given, together with their spouses and relatives dependent on them, the same repatriation facilities in time of international crises as officials of comparable rank of diplomatic missions;

(f) Have the right to import free of duty their furniture and effects at the time of first taking up their post in the country in question.

Section 20

The officials of the specialized agencies shall be exempt from national service obligations, provided that in relation to the States of which they are nationals, such exemption shall be confined to officials of the specialized agencies whose names have, by reason of their duties, been placed upon a list compiled by the executive head of the specialized agency and approved by the State concerned.

Should other officials of specialized agencies be called up for national service, the State concerned shall, at the request of the specialized agency concerned, grant such temporary deferments in the call-up of such officials as may be necessary to avoid interruption in the continuation of essential work.

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Section 21

In addition to the immunities and privileges specified in Sections 19 and 20, the executive head of each specialized agency, including any official acting on his behalf during his absence from duty, shall be accorded in respect of himself, his spouse and minor children, the privileges and immunities, exemptions and facilities accorded to diplomatic envoys, in accordance with international law.

Section 22

Privileges and immunities are granted to officials in the interests of the specialized agencies only and not for personal benefit of the individuals themselves. Each specialized agency shall have the right and the duty to waive immunity of any official in any case where, in its opinion, the immunity would impede the course of justice and can be waived without prejudice to the interests of the specialized agency.

Section 23

Each specialized agency shall co-operate at all times with the appropriate authorities of member States to facilitate the proper administration of justice, secure the observance of police regulations and prevent the occurrence of any abuses in connexion with the privileges, immunities and facilities mentioned in this article.

Article VII

ABUSES OF PRIVILEGE

Section 24

If any State party to this Convention considers that there has been an abuse of a privilege or immunity conferred by this Convention, consultations shall be held between that State and the specialized agency concerned to determine whether any such abuse has occurred and, if so, to attempt to ensure that no repetition occurs. If such consultations fail to achieve a result satisfactory to the State and the specialized agency concerned, the question whether an abuse of a privilege or immunity has occurred shall be submitted to the International

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Court of Justice in accordance with Section 32. If the International Court of Justice finds that such an abuse has occurred, the State party to this Convention affected by such abuse shall have the right, after notification to the specialized agency in question, to withhold from the specialized agency concerned the benefits of the privilege or immunity so abused.

Section 25

1. Representatives of members at meetings convened by specialized agencies, while exercising their functions and during their journeys to and from the place of meeting, and officials within the meaning of Section 18, shall not be required by the territorial authorities to leave the country in which they are performing their functions on account of any activities by them in their official capacity. In the case, however, of abuse of privileges of residence committed by any such person in activities in that country outside his official functions, he may be required to leave by the Government of that country provided that:

2. (I) Representatives of members, or persons who are entitled to diplomatic immunity under Section 21, shall not be required to leave the country otherwise than in accordance with the diplomatic procedure applicable to diplomatic envoys accredited to that country.

(II) In the case of an official to whom Section 21 is not applicable, no order to leave the country shall be issued other than with the approval of the Foreign Minister of the country in question, and such approval shall be given only after consultation with the executive head of the specialized agency concerned; and, if expulsion proceedings are taken against an official, the executive head of the specialized agency shall have the right to appear in such proceedings on behalf of the person against whom they are instituted.

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Article VIII

LAISSEZ-PASSER

Section 26

Officials of the specialized agencies shall be entitled to use the United Nations *laissez-passer* in conformity with administrative arrangements to be concluded between the Secretary-General of the United Nations and the competent authorities of the specialized agencies, to which agencies special powers to issue *laissez-passer* may be delegated. The Secretary-General of the United Nations shall notify each State party to this Convention of each administrative arrangement so concluded.

Section 27

States parties to this Convention shall recognize and accept the United Nations *laissez-passer* issued to officials of the specialized agencies as valid travel documents.

Section 28

Applications for visas, where required, from officials of specialized agencies holding United Nations *laissez-passer* when accompanied by a certificate that they are traveling on the business of a specialized agency, shall be dealt with as speedily as possible. In addition, such persons shall be granted facilities for speedy travel.

Section 29

Similar facilities to those specified in Section 28 shall be accorded to experts and other persons who, though not the holders of United Nations *laissez-passer*, have a certificate that they are traveling on the business of a specialized agency.

Section 30

The executive heads, assistant executive heads, heads of departments and other officials of a rank not lower than head of department

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of the specialized agencies, traveling on United Nations *laissez-passer* on the business of the specialized agencies, shall be granted the same facilities for travel as are accorded to officials of comparable rank in diplomatic missions.

Article IX

SETTLEMENT OF DISPUTES

Section 31

Each specialized agency shall make provision for appropriate modes of settlement of:

(a) Disputes arising out of contracts or other disputes of private character to which the specialized agency is a party;

(b) Disputes involving any official of a specialized agency who by reason of his official position enjoys immunity, if immunity has not been waived in accordance with the provisions of Section 22.

Section 32

All differences arising out of the interpretation or application of the present Convention shall be referred to the International Court of Justice unless in any case it is agreed by the parties to have recourse to another mode of settlement. If a difference arises between one of the specialized agencies on the one hand, and a member on the other hand, a request shall be made for an advisory opinion on any legal question involved in accordance with Article 96 of the Charter and Article 65 of the Statute of the Court and the relevant provisions of the agreements concluded between the United Nations and the specialized agency concerned. The opinion given by the Court shall be accepted as decisive by the parties.

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Article X

ANNEXES AND APPLICATION TO INDIVIDUAL SPECIALIZED AGENCIES

Section 33

In their application to each specialized agency, the standard clauses shall operate subject to any modifications set forth in the final (or revised) text of the annex relating to that agency, as provided in Sections 36 and 38.

Section 34

The provisions of the Convention in relation to any specialized agency must be interpreted in the light of the functions with which that agency is entrusted by its constitutional instrument.

Section 35

Draft annexes I to IX are recommended to the specialized agencies named therein. In the case of any specialized agency not mentioned by name in Section 1, the Secretary-General of the United Nations shall transmit to the agency a draft annex recommended by the Economic and Social Council.

Section 36

The final text of each annex shall be that approved by the specialized agency in question in accordance with its constitutional procedure. A copy of the annex as approved by each specialized agency shall be transmitted by the agency in question to the Secretary-General of the United Nations and shall thereupon replace the draft referred to in Section 35.

Section 37

The present Convention becomes applicable to each specialized agency when it has transmitted to the Secretary-General of the United Nations the final text of the relevant annex and has informed him that it accepts the standard clauses, as modified by this annex, and under-

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takes to give effect to Sections 8, 18, 22, 23, 24, 31, 32, 42 and 45 (subject to any modification of Section 32 which may be found necessary in order to make the final text of the annex consonant with the constitutional instrument of the agency) and any provisions of the annex placing obligations on the agency. The Secretary-General shall communicate to all Members of the United Nations and to other States members of the specialized agencies certified copies of all annexes transmitted to him under this section and of revised annexes transmitted under Section 38.

Section 38

If, after the transmission of a final annex under Section 36, any specialized agency approves any amendments thereto in accordance with its constitutional procedure, a revised annex shall be transmitted by it to the Secretary-General of the United Nations.

Section 39

The provisions of this Convention shall in no way limit or prejudice the privileges and immunities which have been, or may hereafter be, accorded by any State to any specialized agency by reason of the location in the territory of that State of its headquarters or regional offices. This Convention shall not be deemed to prevent the conclusion between any State party thereto and any specialized agency of supplemental agreements adjusting the provisions of this Convention or extending or curtailing the privileges and immunities thereby granted.

Section 40

It is understood that the standard clauses, as modified by the final text of an annex sent by a specialized agency to the Secretary- General of the United Nations under Section 36 (or any revised annex sent under Section 38), will be consistent with the provisions of the constitutional instrument then in force of the agency in question, and that if any amendment to that instrument is necessary for the purpose of making the constitutional instrument so consistent, such amendment will have been brought into force in accordance with the constitution-

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al procedure of that agency before the final (or revised) annex is transmitted.

The Convention shall not itself operate so as to abrogate, or derogate from, any provisions of the constitutional instrument of any specialized agency or any rights or obligations which the agency may otherwise have, acquire, or assume.

Article XI

FINAL PROVISIONS

Section 41

Accession to this Convention by a Member of the United Nations and (subject to Section 42) by any State member of a specialized agency shall be effected by deposit with the Secretary-General of the United Nations of an instrument of accession which shall take effect on the date of its deposit.

Section 42

Each specialized agency concerned shall communicate the text of this Convention together with the relevant annexes to those of its members which are not Members of the United Nations and shall invite them to accede thereto in respect of that agency by depositing an instrument of accession to this Convention in respect thereof either with the Secretary-General of the United Nations or with the executive head of the specialized agency.

Section 43

Each State party to this Convention shall indicate in its instrument of accession the specialized agency or agencies in respect of which it undertakes to apply the provisions of this Convention. Each State party to this Convention may by subsequent written notification to the Secretary-General of the United Nations undertake to apply the provisions of this Convention to one or more further specialized agencies. This notification shall take effect on the date of its receipt by the Secretary-General.

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Section 44

This Convention shall enter into force for each State party to this Convention in respect of a specialized agency when it has become applicable to that agency in accordance with Section 37 and the State party has undertaken to apply the provisions of the Convention to that agency in accordance with Section 43.

Section 45

The Secretary-General of the United Nations shall inform all Members of the United Nations, as well as all members of the specialized agencies, and executive heads of the specialized agencies, of the deposit of each instrument of accession received under Section 41 and of subsequent notifications received under Section 43. The executive head of a specialized agency shall inform the Secretary-General of the United Nations and the members of the agency concerned of the deposit of any instrument of accession deposited with him under Section 42.

Section 46

It is understood that, when an instrument of accession or a subsequent notification is deposited on behalf of any State, this State will be in a position under its own law to give effect to the terms of this Convention, as modified by the final texts of any annexes relating to the agencies covered by such accessions or notifications.

Section 47

1. Subject to the provisions of paragraphs 2 and 3 of this section, each State party to this Convention undertakes to apply this Convention in respect of each specialized agency covered by its accession or subsequent notification, until such time as a revised convention or annex shall have become applicable to that agency and the said State shall have accepted the revised convention or annex. In the case of a revised annex, the acceptance of States shall be by a notification addressed to the Secretary-General of the United Nations, which shall take effect on the date of its receipt by the Secretary-General.

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2. Each State party to this Convention, however, which is not, or has ceased to be, a member of a specialized agency, may address a written notification to the Secretary-General of the United Nations and the executive head of the agency concerned to the effect that it intends to withhold from that agency the benefits of this Convention as from a specified date, which shall not be earlier than three months from the date of receipt of the notification.

3. Each State party to this Convention may withhold the benefit of this Convention from any specialized agency which ceases to be in relationship with the United Nations.

4. The Secretary-General of the United Nations shall inform all member States parties to this Convention of any notification transmitted to him under the provisions of this section.

Section 48

At the request of one-third of the States parties to this Convention, the Secretary-General of the United Nations will convene a conference with a view to its revision.

Section 49

The Secretary-General of the United Nations shall transmit copies of this Convention to each specialized agency and to the Government of each Member of the United Nations.

Annex V

International Monetary Fund

In its application to the International Monetary Fund (hereinafter called "the Fund"), the Convention (including this annex) shall operate subject to the following provisions:

1. Section 32 of the standard clauses shall only apply to differences arising out of the interpretation or application of privileges and immunities which are derived by the Fund solely from this Convention and are not included in those which it can claim under its Articles of Agreement or otherwise.

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2. The provisions of the Convention (including this annex) do not modify or amend or require the modification or amendment of the Articles of Agreement of the Fund or impair or limit any of the rights, immunities, privileges or exemptions conferred upon the Fund or any of its members, Governors, Executive Directors, alternates, officers or employees by the Articles of Agreement of the Fund, or by any statute, law or regulation of any member of the Fund or any political subdivision of any such member, or otherwise.

Participants to the UN Convention on Privileges and Immunities of the Specialized Agencies that Have Undertaken to Apply the Convention to the IMF as of July 12, 2012[1]

Participant	**Application**
Albania	15 Dec 2003
Algeria	25 Mar 1964
Angola	9 May 2012
Argentina	10 Oct 1963
Australia	9 May 1986
Austria	21 Jul 1950
Bahrain	17 Sep 1992
Barbados	19 Nov 1971
Belarus	27 Aug 1992
Belgium	14 Mar 1962
Bosnia and Herzegovina	1 Sep 1993
Botswana	5 Apr 1983
Brazil	22 Mar 1963

[1]Ed. Note: The participants' declarations and reservations may be found in http://treaties.un.org/pages/ViewDetails.aspx?src=TREATY&mtdsg_no=III-2-5&chapter=3&lang=en

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Participant	Application
Bulgaria	24 Jan 2000
Burkina Faso	6 Apr 1962
Cameroon	30 Apr 1992
Chile	21 Sep 1951
China	30 Jun 1981
Côte d'Ivoire	4 Jun 1962
Croatia	12 Oct 1992
Czech Republic	22 Feb 1993
Democratic Republic of Congo	8 Dec 1964
Denmark	25 Jan 1950
Dominica	24 Jun 1988
Ecuador	7 Jul 1953
Egypt	28 Sep 1954
Estonia	8 Oct 1997
Finland	31 Jul 1958
France	2 Aug 2000
Gabon	30 Nov 1982
Gambia	1 Aug 1966
Georgia	18 July 2007
Germany	10 Oct 1957
Ghana	9 Sep 1958
Greece	21 Jun 1977
Guatemala	30 Jun 1951
Guinea	29 Mar 1968
Guyana	13 Sep 1973

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Participant	Application
Haiti	16 Apr 1952
Hungary	19 Aug 1982
Iceland	17 Jan 2006
India	19 Oct 1949
Indonesia	8 Mar 1972
Iran (Islamic Republic of)	16 May 1974
Iraq	9 Jul 1954
Ireland	10 May 1967
Italy	30 Aug 1985
Japan	4 Nov 1963
Kenya	1 Jul 1965
Kuwait	7 Feb 1963
Lao People's Democratic Republic	9 Aug 1960
Latvia	19 Dec 2005
Lesotho	26 Nov 1969
Libyan Arab Jamahiriya	30 Apr 1958
Lithuania	10 Feb 1997
Luxembourg	20 Sep 1950
Madagascar	3 Jan 1966
Malawi	2 Aug 1965
Mali	24 Jun 1968
Malta	13 Feb 1969
Montenegro	23 Oct 2006
Morocco	3 Nov 1976
Mozambique	6 Oct 2011

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Participant	Application
Nepal	28 Sep 1965
Netherlands	21 Jul 1949
Nicaragua	6 Apr 1959
Niger	15 May 1968
Norway	25 Jan 1950
Pakistan	7 Nov 1951
Paraguay	13 Jan 2006
Philippines	20 Mar 1950
Poland	11 Jun 1990
Republic of Korea	13 May 1977`
Republic of Moldova	2 Sep 2011
Romania	23 Aug 1974
Russian Federation	29 Jun 1994
Rwanda	23 Jun 1964
Senegal	2 Mar 1966
Serbia	12 Mar 2001
Seychelles	24 Jul 1985
Slovakia	28 May 1993
Slovenia	6 Jul 1992
South Africa	30 Aug 2002
Spain	26 Sep 1974
St. Lucia	2 Sep 1986
Sweden	12 Sep 1951
Thailand	19 Jun 1961
The FYR of Macedonia	11 Mar 1996
Trinidad and Tobago	19 Oct 1965
Tunisia	3 Dec 1957
Uganda	11 Aug 1983
Ukraine	25 Feb 1993

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Participant	Application
United Arab Emirates	11 Dec 2003
United Republic of Tanzania	10 Apr 1963
Uruguay	29 Dec 1977
Uzbekistan	18 Feb 1977
Vanuatu	2 Jan 2008
Zimbabwe	5 Mar 1991

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C. The International Monetary Fund and the World Trade Organization

RELATIONS WITH WORLD TRADE ORGANIZATION (WTO)—FUND-WTO COOPERATION AGREEMENT

The Executive Board approves the proposed Agreement Between the International Monetary Fund and the World Trade Organization as set forth in EBD/96/85 (7/5/96) on the understanding that decisions taken by either party for the implementation of this Agreement will not prevent the effective application of this Agreement in accordance with its provisions.

Decision No. 11381-(96/105),
November 25, 1996

DECISION ADOPTED BY THE GENERAL COUNCIL CONCERNING AGREEMENTS BETWEEN THE WTO AND THE IMF AND THE WORLD BANK AT ITS MEETING ON 7, 8, AND 13 NOVEMBER 1996 (WT/L/194, 18 NOVEMBER 1996)

Recalling the increasing linkages between the various aspects of economic policymaking that fall within the respective mandates of the World Trade Organization ("WTO"), the International Monetary Fund ("IMF") and the International Bank for Reconstruction and Development ("World Bank"), the call for greater coherence among economic policies contained in the Marrakesh Agreement Establishing the World Trade Organization, and the invitation of Ministers for the Director-General of the WTO to review with the Managing Director of the International Monetary Fund and the President of the World Bank the implications of the WTO's responsibilities for its cooperation with the Bretton Woods institutions, as well as the forms such cooperation might take, with a view to achieving greater coherence in global economic policymaking;

Recognizing the close collaborative relationship existing over the past several decades between the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade and the IMF and the World

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Bank, the importance of continuing and strengthening those relationships, and the negotiating mandate contained in the General Council Decision on the Relationship between the WTO and the IMF and World Bank (document WT/GC/M/5);

Taking note of the statement by the Director-General on Consultations and Coherence (WT/L/194/Add.1), and of the budgetary implications of the Agreements (WT/L/194/Add.2);

The General Council hereby *decides*:

(1) The proposed Agreement between the International Monetary Fund and the World Trade Organization ("IMF Agreement") as contained in Annex 1 of WT/GC/W/43 and the proposed Agreement between the International Bank for Reconstruction and Development and the World Trade Organization ("World Bank Agreement") as contained in Annex II of WT/GC/W/43 (collectively the "Agreements") are hereby approved. The Director-General is authorized to sign these Agreements on behalf of the World Trade Organization and to implement the Agreements in accordance with the provisions of this Decision and any subsequent decisions that may be taken by the General Council.

(2) The Director-General shall inform Members and consult with them regularly as to matters relating to the implementation of the Agreements. To this effect, the Director-General shall, inter alia, hold consultations with Members under the auspices of the Chairman of the General Council, as appropriate but at least two times per year. These consultations shall include reports on the coherence consultations between the Director-General and the Managing Director of the IMF and the President of the World Bank, WTO observership in IMF and World Bank bodies, any IMF or World Bank observership in the Dispute Settlement Body (DSB), any written communications between the organizations pursuant to the Agreement, any joint research or technical cooperation projects undertaken pursuant to the Agreements, and the general scope of contacts with the IMF pursuant to paragraph 10 of the IMF Agreement and with the World Bank pursuant to paragraph 8 of the World Bank Agreement.

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(3) The Director-General is invited to build on the Agreements that have been concluded and thus to pursue the consultations on Coherence provided for in paragraph 2 of each Agreement, with a view to meeting the provision established in Article III:5 of the Marrakesh Agreement Establishing the World Trade Organization and the mandate contained in the Declaration on the Contribution of the World Trade Organization to Achieving Greater Coherence in Global Economic Policymaking. Any conclusions reached as a result of such consultations shall be submitted to the General Council for approval.

(4) In respect of the implementation and interpretation of these Agreements, it is decided that:

(a) The procedures for granting IMF observership in the DSB pursuant to paragraph 6 of the IMF Agreement shall be implemented as follows: the Director-General shall convey the invitation of the DSB to the IMF to send a member of its staff as an observer to meetings of the DSB where matters of jurisdictional relevance to the IMF are to be considered. For other meetings of the DSB, the Director-General may propose to the Chairman of the DSB that a member of the IMF's staff be admitted as an observer to a particular meeting, or in respect of particular agenda items proposed for a meeting, of the DSB.

For meetings of other WTO bodies for which attendance is not specifically provided for or excluded in the Agreements or in the above sub-paragraph, the Director-General may propose to the Chairman of a WTO body that a member of the IMF's staff be admitted as an observer to a meeting where particular matters of common interest to the WTO and the IMF will be under discussion; similarly, the Director-General may propose to the Chairman of a WTO body that a member of the World Bank staff be admitted as an observer to a meeting where particular matters of common interest to the WTO and the World Bank will be under discussion.

(b) In light of Articles III:5 and V:1 of the Marrakesh Agreement Establishing the World Trade Organization,

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Article XV of the General Agreement on Tariffs and Trade 1994 (and, in particular, Article XV:2) and Articles XI and XII of the General Agreement on Trade in Services, the General Council considers it appropriate that whenever the IMF wishes to submit its views to a panel on whether an exchange measure within its jurisdiction is consistent with the IMF's Articles of Agreement, it shall submit these views by directing a letter containing those views to the Chairman of the DSB. The Chairman of the DSB shall inform the chairman of the panel of the availability of this communication which, unless the panel decides otherwise, shall remain confidential to the panel and to the parties to the dispute.

Nothing in this Decision nor in the Agreements shall affect the rights and obligations of Members under the Dispute Settlement Understanding, including those provided for in Article 13 thereof.

(c) In the Agreements, each reference to the *WTO*, to the *Fund* or to the *World Bank* as such (and not explicitly to the WTO *Secretariat*, the Fund's *staff* or the World Bank's *staff*), or to the *institution* or the *organization*, is understood to refer to the decision making bodies of the WTO, the IMF and the World Bank, respectively.

(d) In respect of the work of dispute-settlement panels, documentation to be provided to the IMF and the World Bank does not include documents submitted or prepared in the course of the work of panels, but only the panels' final reports to the DSB.

(e) The established competences and practices in budgetary matters will be preserved. In accordance with these competences and practices, the Secretariat will keep the Committee on Budget, Finance and Administration duly informed of the budgetary consequences of the Agreements.

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(5) The General Council reaffirms the importance of the Marrakesh Ministerial Decision on Measures Concerning the Possible Negative Effects of the Reform Programme on Least-Developed and Net Food Importing Developing Countries. In its view, the improved cooperation between the WTO and the IMF and the World Bank provided for in these Agreements should enhance the possibilities for governments to respond effectively to the issues addressed in that Decision.

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D. Agreement Between the International Monetary Fund and the World Trade Organization

Preamble

CONSIDERING the growing interactions between economic policies pursued by individual countries arising from the globalization of markets;

RECOGNIZING the increasing linkages between the various aspects of economic policymaking that fall within the respective mandates of the International Monetary Fund ("Fund") and the World Trade Organization ("WTO"), and the call in the Marrakesh Agreement for greater coherence among economic policies internationally;

RECOGNIZING the close collaborative relationship existing over the past several decades between the Fund and the CONTRACTING PARTIES to the General Agreement on Tariffs and Trade, and the importance of continuing and strengthening such a relationship between the Fund and the WTO;

HAVING REGARD to Article X of the Fund's Articles of Agreement, which provides that "the Fund shall cooperate within the terms of this Agreement with any general international organization and with public international organizations having specialized responsibility in related fields";

HAVING REGARD to Article III.5 of the Marrakesh Agreement Establishing the World Trade Organization, which provides that "with a view to achieving greater coherence in global economic policymaking, the WTO shall cooperate, as appropriate, with the International Monetary Fund";

HAVING REGARD to the Declarations in the Marrakesh Agreement on the Contribution of the World Trade Organization to Achieving Greater Coherence in Global Economic Policymaking and on the Relationship of the WTO with the Fund, and to the provisions of Article XV:1, XV:2, XV:3 and Articles XII and XVIII of the General Agreement on Tariffs and Trade 1994 (GATT 1994) and of Articles XI, XII, and XXVI of the General Agreement on Trade in Ser-

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vices (GATS) concerning cooperation and consultation, including on exchange and trade matters;

The Fund and the WTO agree as follows:

Paragraph 1

The Fund and the WTO shall cooperate in the discharge of their respective mandates in accordance with the provisions of this Agreement.

Paragraph 2

The Fund and the WTO shall consult with each other with a view to achieving greater coherence in global economic policymaking.

Paragraph 3

The Fund shall inform the WTO of any decisions approving restrictions on the making of payments or transfers for current international transactions, decisions approving discriminatory currency arrangements or multiple currency practices, and decisions requesting a Fund member to exercise controls to prevent a large or sustained outflow of capital.

Paragraph 4

The Fund agrees to participate in consultations carried out by the WTO Committee on Balance-of-Payments Restrictions on measures taken by a WTO member to safeguard its balance of payments. For these consultations, existing procedures for Fund participation shall continue and may be adapted as appropriate in accordance with paragraph 14 below.

Paragraph 5

The Fund shall invite the WTO Secretariat to send an observer to the ordinary meetings of the Executive Board of the Fund on general and regional trade policy issues, including the formulation of Fund policies on trade matters, and to discussions of the *World Economic*

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Outlook (WEO) when there is a significant trade content. In addition, when consultations between the Fund's staff and the WTO Secretariat lead to the conclusion that matters of particular common interest to both organizations will be under discussion at other meetings of the Executive Board, including country-specific matters, or at meetings of the Committee on Liaison with the WTO, the Managing Director shall recommend that the WTO Secretariat be invited to send an observer to such meetings.

Paragraph 6

The WTO shall invite the Fund to send a member of its staff as an observer to the meetings of the Ministerial Conference, General Council, Trade Policy Review Body, the three sectoral councils, Committee on Trade and Development, Committee on Regional Trade Agreements, Committee on Trade-Related Investment Measures, and Committee on Trade and the Environment and their subsidiary bodies (excluding the Committee on Budget, Finance and Administration, the Dispute Settlement Body, and dispute settlement panels). The WTO shall invite the Fund to send a member of its staff as an observer to meetings of the WTO Dispute Settlement Body where matters of jurisdictional relevance to the Fund are to be considered. The WTO shall also invite the Fund to send a member of its staff to other meetings of the Dispute Settlement Body as well as of other WTO bodies for which attendance is not provided above (excluding the Committee on Budget, Finance and Administration, and dispute settlement panels), when the WTO, after consultation between the WTO Secretariat and the staff of the Fund, finds that such a presence would be of particular common interest to both organizations.

Paragraph 7

The Fund and the WTO shall make available to each other in advance the agendas, and relevant documents, for the meetings to which they are invited pursuant to the terms of this Agreement. In addition, the Fund shall make available to the WTO Secretariat the agendas of the Executive Board meetings at the time of their circulation in the Fund, and the WTO shall make available to the Fund the agendas of the Dispute Settlement Body at the time of their circulation in the WTO.

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Paragraph 8

Each organization may communicate its views in writing on matters of mutual interest to the other organization or any of its organs or bodies (excluding the WTO's dispute settlement panels) and such views shall become part of the official record of such organs and bodies. The Fund shall inform in writing the relevant WTO body (including dispute settlement panels) considering exchange measures within the Fund's jurisdiction whether such measures are consistent with the Articles of Agreement of the Fund.

Paragraph 9

For the purpose of this Agreement, the Director-General of the WTO and the Managing Director of the Fund shall ensure cooperation between the staffs of the two institutions and, to that end, shall agree on appropriate procedures for collaboration, including access to databases, and exchanges of views on jurisdictional and policy issues.

Paragraph 10

The Fund's staff shall consult with the WTO Secretariat on issues of possible inconsistency between measures under discussion with a common member and that member's obligations under the WTO Agreement. The WTO Secretariat shall consult with the Fund's staff on issues of possible inconsistency between measures under discussion with a common member and that member's obligations under the Fund's Articles of Agreement.

Paragraph 11

The Fund shall provide the WTO, promptly after circulation to the Executive Board, for the confidential use of its Secretariat, with staff reports and related background staff papers on Article IV consultations and on use of Fund resources on common members and on Fund members seeking accession to the WTO, subject to the consent of the member.

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Paragraph 12

The WTO shall provide the Fund, for the confidential use of its management and staff, with Trade Policy Review Reports, summary records and reports of Councils, Bodies and Committees, and reports of WTO Members to these organs.

Paragraph 13

Each party to this Agreement shall ensure that any information communicated under this Agreement shall be used only within the limits specified by the other party.

Paragraph 14

The Director-General of the WTO and the Managing Director of the Fund shall be responsible for the implementation of this Agreement and, to that effect, shall make such arrangements as they deem appropriate.

Paragraph 15

This Agreement shall be reviewed upon the request of either party and may be amended by mutual agreement.

Paragraph 16

This Agreement may be terminated by either party by written notice to the other and, unless otherwise agreed by the parties, shall terminate six months after receipt of such notice.

Paragraph 17

Following approval by the General Council of the WTO and the Executive Board of the Fund, this Agreement shall enter into force on the date of its signature.

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To be added at time of signature:

Signed at Singapore on 9 December 1996 in duplicate.

For the World Trade Organization,	For the International Monetary Fund,
Director-General	Managing Director

Adopted by Decision No. 11381-(96/105), November 25, 1996

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