

INTERNATIONAL MONETARY FUND

**Proposed Reforms to the Exogenous Shocks Facility (ESF)—Proposed Decision**

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1. **This supplement proposes adoption of the decision that is needed to implement the ESF reforms discussed in the main paper.**<sup>1</sup> The supplement also summarizes key aspects and implications of the proposed decision.
2. **The proposed decision would amend three separate decisions:** (i) the PRGF-ESF Trust Instrument (“Trust Instrument”) (in order to effect most of the proposed ESF reforms, including creation of the new rapid-access component and elimination of poverty reduction strategy requirements); (ii) the Policy Support Instrument (“PSI”) framework decision (in order to effect the special modalities proposed for cases where a PSI runs parallel with an ESF arrangement); and (iii) the decision on access limits under the PRGF-ESF Trust (in order to implement the new access limits proposed for the ESF). As discussed in the main paper, following adoption by the Board, the decision would only become effective when all lenders to the Loan Account of the PRGF-ESF Trust, and all bilateral contributors to the Subsidy Accounts of the PRGF-ESF Trust, have consented to the Trust Instrument amendments in the decision.
3. **This paper is organized as follows.** Sections A through C summarize key aspects of the proposed decision as they relate to the three separate provisions mentioned above. Section D discusses general issues related to the applicability of other policies to the modified ESF. Section E contains the proposed decision, to which the amended Trust Instrument is attached. For convenience, Annexes I, II and III show redline changes to the Trust Instrument, PSI decision, and PRGF-ESF access limits decision, respectively.

**A. PRGF-ESF Trust Instrument Amendments**

4. **Consistent with the proposals in the main paper, paragraph 1 of the proposed decision would give effect to the following amendments of the Trust Instrument**

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<sup>1</sup> International Monetary Fund, 2008, *Proposed Reforms to the Exogenous Shocks Facility*.

(parenthetical references are to relevant sections of the Trust Instrument as they are proposed to be amended, as shown in Attachment I and Annex I):

- The ESF’s purposes would be revised, so as to: (a) remove the criterion that covered shocks be “sudden”, and (b) eliminate the mandatory requirement that the ESF support programs to facilitate adjustment to an exogenous shock. In lieu of the latter requirement, support of such programs would now become just one form of the balance of payments assistance that could be provided under the ESF. (Section I, paragraph 1(b)).
- A new set of provisions would be added to the Trust Instrument to govern the new rapid-access component (Section II, paragraph 1(c)(2)). The rapid-access component would make ESF resources available to members through outright loan disbursements, rather than under an arrangement (ESF arrangements would exist only under the high-access component). The approval criteria for the rapid-access component would be similar to those applicable to ENDA, and there is an express provision that a member may be requested to adopt measures prior to approval of a rapid-access disbursement in cases where this is necessary to confirm that the approval criteria are satisfied. The Trust Instrument would also specify that assistance under the rapid-access component will normally be provided in a single disbursement.
- The current provisions on ESF arrangements would apply to ESF arrangements under the new high-access component of the ESF (Section II, paragraph 1(c)(3)). These provisions would remain essentially unchanged.<sup>2</sup>
- The amendment would delete in its entirety the current provision establishing poverty reduction strategy (“PRS”) requirements under the ESF.<sup>3</sup>
- The prohibition on obtaining assistance under the PRGF and ESF at the same time would be relaxed, so as to allow a member with an off-track PRGF arrangement to obtain assistance under the rapid-access component, so long as the requirements for approval of rapid-access support have been met (Section II, paragraph 1(d)(1)).

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<sup>2</sup> While mentioned in the main paper, the Trust Instrument amendment does not specify that conditionality under the high-access component will be limited to macroeconomic and structural measures considered important for adjustment to the shock, as this limitation is already applicable via operation of the Guidelines on Conditionality (which require, inter alia, that conditions in Fund-supported programs must generally be of critical importance in achieving the goals of the member’s program or for monitoring implementation of the program).

<sup>3</sup> The parallel provision specifying PRS requirements under the *PRGF* (Section II, paragraph 1(b)(3)) would remain unchanged for the time being. It is anticipated, however, that a proposal to modify these requirements, including in respect of Joint Staff Advisory Notes, will be brought to the Board shortly.

- The factors for determining individual access under the ESF (Section II, paragraph 2(c)) would be amended to include specific references to capacity to repay and the likelihood of additional donor assistance.<sup>4</sup>
- A number of technical changes would be made to bring outright disbursements within the scope of the PRGF-ESF Trust misreporting provisions (Appendix I of the Trust Instrument), reflecting the fact that ESF assistance will now be available both under an arrangement and in the form of outright disbursements. (By way of comparison, the GRA misreporting guidelines cover both purchases under an arrangement and outright purchases.)

## **B. PSI Framework Amendment**

5. **The ESF reforms outlined in the main paper include two PSI-related changes.** The first change involves a relaxation of the current practice that members should cancel their PSIs before requesting assistance under the ESF; it does not require Executive Board action. The second change requires an amendment of the PSI framework decision to ensure that there will be a single set of program targets, review schedules and program documentation in cases where a member's PSI runs parallel to an ESF arrangement approved for the same member ("parallel PSI/ESF cases").

6. **Paragraph 2 of the proposed decision would prescribe a special PSI regime for parallel PSI/ESF cases:**

- As contemplated in the main paper, one component of this special regime (paragraph 2(b) of the proposed decision) involves a carve out from certain PSI requirements for parallel PSI/ESF cases. Specifically, the following special modalities would apply following the approval of an ESF arrangement for a member implementing a PSI program, and for as long as the ESF arrangement remains in place:<sup>5</sup> (i) reviews of the PSI program would normally be scheduled at the time that reviews under the ESF-supported program are scheduled; (ii) 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; (iii) documentation with respect to the conduct of a scheduled review under the PSI would normally be

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<sup>4</sup> Capacity to repay is generally understood as including, inter alia, an assessment of the strength of the member's adjustment program. See, e.g., "Considerations Governing Amount of Access", in *Selected Decisions and Selected Documents of the International Monetary Fund* (32<sup>nd</sup> Issue), page 355. Although the Trust Instrument already specifies strength of the adjustment program as a factor in determining access in individual cases, the broader concept of capacity to repay is being added to reflect the fact that rapid-access support is available without an adjustment program, including for members with off-track PRGF arrangements.

<sup>5</sup> This clause would only apply in cases where the PSI precedes the ESF arrangement, as it is not contemplated that a member with an ESF arrangement would request or obtain approval of a PSI.

issued to the Board at the same time as documentation for a review under the ESF-supported program is issued (a single set of documents would normally be used in these cases); (iv) at each PSI review, assessment criteria would be required to be established only for the next scheduled review (rather than the next two reviews as is normally the case); and (v) the construct of conducting but not completing a PSI review would not apply (which signifies that the Board would conduct a PSI review in a parallel PSI/ESF case only if it were in a position to complete that PSI review, including by granting waivers where appropriate).

- The second component of the special regime (paragraph 2(c) of the proposed decision) is a new termination provision, pursuant to which the PSI in a parallel PSI/ESF case will terminate if no scheduled review is completed within twelve months after the completion of the last scheduled review. This provision will ensure that a PSI will not continue to linger while the underlying program has been off-track for an extended period, and would thus maintain a key design feature that has made the PSI an effective signaling tool.

### C. Amendment of ESF Access Limits

7. **Paragraph 3 of the proposed decision would establish the proposed limits on access to resources under the rapid- and high-access components of the ESF.** The decision on access limits under the PRGF-ESF Trust currently specifies a 50 percent of quota limit on all outstanding access under the ESF, but allows for this limit to be exceeded in exceptional circumstances. The proposed decision would amend this decision: (a) to establish a firm per-shock limit of 25 percent of quota under the rapid-access component of the modified ESF; (b) to establish a 75 percent of quota per-ESF arrangement limit on access under the high-access component, less any outstanding disbursements to the member for the same shock under the rapid-access component; and (c) to specify that the per arrangement limit mentioned in (b) above may be exceeded in exceptional circumstances. The approach of having a per arrangement limit (rather than a limit on overall access under the facility) would make the ESF's access limits more similar to those under the PRGF.<sup>6</sup>

### D. Applicability of Other Policies

8. Other existing decisions and policies applicable to the use of the Fund's resources under the ESF will apply to the modified ESF by operation of the current terms of those decisions and policies; there would thus be no need for the adoption of any specific new amendments to ensure this result. Key implications include the following:

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<sup>6</sup> However, it is not proposed that the ESF have a ceiling on exceptional access (in contrast, the PRGF effectively has a normal access limit of 140 percent of quota for each three-year commitment under an arrangement, and an exceptional access limit of 185 percent of quota for each such commitment).

- Certain decisions and policies (e.g., the Guidelines on Conditionality, PRGF-HIPC Trust Instrument, policy on longer-term program engagement, Trade Integration Mechanism, Article IV consultation cycles, and policy conditioning Board waivers on accuracy of information regarding performance criteria) have provisions that apply to Fund arrangements in general, to arrangements under the ESF or PRGF-ESF Trust, or to Fund-supported programs. They would thus apply in the context of ESF arrangements under the high-access component, but not in respect of outright disbursements under the rapid-access component.
- Certain other decisions and policies (e.g., on side letters, post-program monitoring, transparency, non-toleration of arrears to official creditors) apply to Fund financing/ use of the Fund’s resources either in general or under the PRGF-ESF Trust. They would thus apply to the use of resources under both the rapid- and high-access components. In practice, and as noted in the main paper, the application of these policies in the context of rapid-access disbursements would generally be expected to be similar to their application under ENDA.<sup>7</sup>
- The policy on safeguards assessments applies to ESF and other Fund arrangements and also to certain forms of outright financing (EPCA) but not others (ENDA and Compensatory Financing Facility).<sup>8</sup> As discussed in the main paper, it is proposed that ESF arrangements—which would now be under the high-access component—would continue to be subject to the current policy on safeguards assessments (which requires, inter alia, that a safeguards assessment be completed by the time of the first review where it cannot be completed prior to approval of the arrangement). As also discussed in the main paper, it is not proposed that rapid-access disbursements would require a safeguards assessment. Accordingly, no amendment of the policy on safeguards assessments is proposed.

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<sup>7</sup> For example, the policy on non-toleration of arrears to official creditors has been applied more flexibly in the case of some members receiving support under ENDA (as well as in some EPCA cases). Similar flexibility would be expected in similar circumstances in cases involving requests for support under the rapid-access component.

<sup>8</sup> See International Monetary Fund, 2005, *The Acting Chair’s Summing Up—Safeguards Assessments—Review of Experience*.

### **E. Proposed Decision**

Accordingly, the following decision, which may be adopted by an eighty-five percent majority of the total voting power, is proposed for adoption by the Executive Board:

1. The Instrument to Establish the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust (PRGF-ESF Trust) annexed to Decision No. 8759-(87/176) ESAF, adopted December 18, 1987, along with its Appendices, shall be amended to read as set forth in the Attachment to this decision.

2. The Policy Support Instrument Framework decision, Decision No. 13561-(05/85), adopted October 5, 2005, shall be amended as follows:

(a) Paragraphs 10-21, respectively, shall be renumbered as paragraphs 11 through 22, respectively, and all cross-references to these paragraphs shall be renumbered accordingly;

(b) A new paragraph 10 shall be added to read as follows:

“10. Notwithstanding paragraphs 8 and 9, and subject to paragraph 20, following the approval of an arrangement under the Exogenous Shocks Facility (“ESF arrangement”) for a member implementing a program under a PSI, and for as long as the ESF arrangement remains in effect: (a) reviews of the implementation of the member’s program under the PSI shall normally be scheduled at such time as reviews of the member’s ESF-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; (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 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.”; and

(c) New paragraph 20 shall be amended to read as follows:

“20. A PSI for a member will terminate upon: (a) the relevant member incurring overdue financial obligations to the GRA or PRGF Trust; 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 to whom paragraph 10 is applicable will terminate if no scheduled review is completed within twelve months of the completion of the last scheduled review.”

3. The Fund as Trustee under the Instrument to Establish the PRGF-ESF Trust decides that the decision on access limits under the PRGF-ESF Trust, Decision No. 8845-(88/61) ESAF, adopted April 30, 1988, shall be amended as follows:

(a) Paragraph 3 shall be revised to read as follows:

“3. In accordance with Section II, paragraph 2(a) of the Instrument to Establish the Poverty Reduction and Growth Facility and Exogenous Shocks Facility Trust: (i) the maximum limit on access of each eligible member to the resources of the Trust under the rapid-access component of the Exogenous Shocks Facility (ESF) shall be 25 percent of the member’s quota in the Fund for each exogenous shock; and (ii) the maximum limit on access of each eligible member to the resources of the Trust under an ESF arrangement under the high-access component of the ESF shall be 75 percent of the member’s

quota in the Fund, minus any outstanding resources disbursed to the member for the same exogenous shock under the rapid-access component. The Trustee may approve access in excess of the limit specified in (ii) above in exceptional circumstances.”; and

(b) In paragraph 4, the clause “access limit under the ESF” shall be revised to read “access limits under the ESF”.

4. This decision shall become effective when all lenders to the Loan Account of the PRGF-ESF Trust and all third party contributors to the Subsidy Accounts of the PRGF-ESF Trust have consented to the amendments set forth in paragraph 1 above.

## ANNEX

*Instrument to Establish the Poverty Reduction and Growth Facility and Exogenous Shocks Facility 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 Facility and Exogenous Shocks Facility Trust (hereinafter called the “Trust”), which shall be administered by the Fund as Trustee (hereinafter called the “Trustee”). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

*Section I. General Provisions**Paragraph 1. Purposes*

The Trust shall assist in fulfilling the purposes of the Fund by providing loans on concessional terms (hereinafter called “Trust loans”) to low-income developing members that qualify for assistance under this Instrument in order to:

(a) support programs under the Poverty Reduction and Growth Facility (hereinafter called the “PRGF”) 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; and

(b) provide support under the Exogenous Shocks Facility (hereinafter called the “ESF”) to resolve their balance of payment difficulties whose primary source is an exogenous shock, including through programs to facilitate an adjustment to the exogenous shock.

*Paragraph 2. Accounts of the Trust*

The operations and transactions of the Trust shall be conducted through a Loan Account, a Reserve Account, a PRGF Subsidy Account, an ESF Subsidy Account and a PRGF-ESF Subsidy Account (the latter three accounts collectively referred to herein as “Subsidy Accounts”). The resources of the Trust shall be held separately in each Account.

*Paragraph 3. Unit of Account*

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

Paragraph 4. *Media of Payment of Contributions and Exchange of Resources*

(a) Resources loaned or donated to the Trust shall be received in a freely usable currency, subject to the provisions of (c) below, and provided that resources may be received by the Subsidy Accounts in other currency.

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

(c) Loans or donations to the Trust may also be made in or exchanged for SDRs in accordance with such arrangements as may be made by the Trust for the holding and use of SDRs.

(d) The Trustee may exchange any of the resources of the Trust, provided that any balance of a currency held in the Trust may be exchanged only with the consent of the issuers of such currencies.

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 PRGF

(1) Assistance under the PRGF shall be committed and made available to a qualifying member under a single three-year arrangement (hereinafter called a "PRGF 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, in line with the objectives and policies of the three-year program. The PRGF 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 important structural reforms. The PRGF 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 closer monitoring is needed, the PRGF 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 PRGF arrangement will 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 subsequent year of the arrangement to further the realization of the objectives of the three-year program, with such modifications as may be necessary to assist it to achieve its objectives in changing circumstances. After the expiration of a PRGF arrangement for an eligible member, or the cancellation of the PRGF arrangement by the member, the Trustee may approve additional PRGF arrangements for that member in accordance with the Instrument.

(2) Before approving a PRGF 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.

(3) The Trustee shall not approve a new PRGF arrangement or complete a review under a PRGF 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 12 months but in any case within the previous 18 months, (ii) the IPRSP, PRSP preparation status report, PRSP, or APR has been the subject of an analysis in a Joint Staff Advisory Note also issued to the Executive Board, provided, however, that no Joint Staff Advisory Note will be required in connection with a PRSP preparation status report, in which case the analysis of the PRSP preparation status report will be included in the staff report on a new PRGF arrangement or a review under a PRGF arrangement, and (iii) if there are any weaknesses in the member's poverty reduction strategy, such as those identified in the Joint Staff Advisory Note, and they are critical to Fund support under a PRGF arrangement, they have been addressed. For purposes of this Instrument, the terms I-PRSP, PRSP preparation status report, PRSP, APR and Joint Staff Advisory Note 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).

(c) Assistance under the ESF

(1) Assistance under the ESF shall be made available under the rapid-access component and high-access component of the ESF.

(2) Assistance under the rapid-access component shall be made available to a qualifying member through outright loan disbursements, where the Trustee is satisfied that inappropriate policies will not compound the difficulties caused by the exogenous shock, and that the member will cooperate with the Trustee in an effort to find, where appropriate, solutions for its balance of payments difficulties. The member requesting assistance under the rapid-access component shall describe in a letter the general policies it plans to pursue, including its intention to avoid introducing or intensifying exchange and trade restrictions. The Managing Director may request that the member implement upfront measures before recommending that the Trustee approve a disbursement under the rapid-access component, in cases where this is necessary to confirm that the approval criteria have been satisfied. Assistance under the rapid-access component will normally be made available in a single

disbursement for each shock. After the disbursement of resources under the rapid-access component in respect of a particular shock, the Trustee may (i) approve additional disbursements for the member under the rapid-access component for a different shock in accordance with the Instrument, or (ii) approve an ESF arrangement for the member under the high-access component in accordance with the Instrument.

(3) Assistance under the high-access component 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. 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 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, provided that a member may not have more than one ESF arrangement for the same shock.

(4) Before approving a disbursement under the rapid-access component or an ESF arrangement under the high-access component, the Trustee shall be satisfied that the member has a balance of payments need whose primary source is an exogenous shock. In addition, disbursements under the rapid-access component and ESF arrangements under the high-access component will normally be approved only where the Trustee determines that, in or-

der to address the balance of payments difficulties caused by the shock, the member does not need to implement structural reforms of the type that would normally be supported by a PRGF arrangement.

(d) General Provisions

(1) A member may not obtain assistance from the Trust under a PRGF arrangement and an ESF arrangement at the same time. In cases where disbursements under a PRGF arrangement are delayed due to delays in program implementation, nonobservance of conditions attached to such disbursements or delays in reaching new understandings when necessary, a member may obtain assistance under the rapid-access component, so long as the requirements under the Instrument for approval of such assistance have been met.

(2) Commitments under arrangements under this Instrument may be made for the period through December 31, 2011.

(3) The Managing Director shall not recommend for approval, and the Trustee shall not approve, a request for a disbursement under the rapid-access component 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 pursuant to paragraphs 17 or 31 of Decision No. 8955-(88/125) on the Compensatory Financing Facility, or a purchase pursuant to Decision No. 11627-(97/123) on the Supplemental Reserve Facility, or is failing to meet a repayment expectation pursuant to Section II, paragraph 3(c) or the provisions of Appendix I to this Instrument, or is failing to meet a repurchase expectation pursuant to paragraph 1(b) of Decision No. 5703-(78/39) or paragraph 10(a) of Decision No. 4377-(74/114).

(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) An initial maximum limit on access to resources under the PRGF shall be established by the Trustee, as a proportion of members' quotas in the Fund, and provisions shall be made for a limit up to which that maximum limit may be exceeded in exceptional circumstances. A maximum limit on access to resources under each of the rapid-access component and the high-access component of the ESF shall be established by the Trustee, as a proportion of members' quotas in the Fund, and provisions shall be made allowing the maximum limit under the high-access component to be exceeded in exceptional circumstances. These access limits shall be subject to review from time to time by the Trustee in the light of actual utilization of resources available to the Loan Account.

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

(c) The access for each member that qualifies for assistance from the Trust under the PRGF or ESF shall be determined on the basis of an assessment by the Trustee of the balance of payments need of the member, the strength of its adjustment program, 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 assistance under the ESF shall also take into account the size and likely persistence of the shock, the member's capacity to repay, and the likelihood of additional donor assistance.

(d) The amount of resources committed to a qualifying member under a PRGF 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 a PRGF arrangement, to support a strengthening of the program. The amount committed to a member under a PRGF 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.

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

### Paragraph 3. *Disbursements*

(a) Any disbursement shall be subject to the availability of 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) a PRGF arrangement for up to one year 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 PRGF and (ii) an ESF arrangement for up to the overall maximum two-year period referred to in Section II, paragraph (c)(3) 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.

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

(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(d)(3) of this Section.

#### Paragraph 4. *Terms of loans*

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

(b) Trust loans shall be disbursed in a freely usable currency as decided by the Trustee. They shall be repaid, and interest paid, in U.S. dollars or other 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.

(c) The Trustee may not reschedule the repayment of loans from the Trust.

(d) Trust loans 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.

Paragraph 5. *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*

The resources held in the Loan Account shall consist of:

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

Paragraph 2. *Borrowing authority*

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

Paragraph 3. *Commitments*

Commitments for drawings under loan agreements to the Loan Account of the ESAF Trust that were entered into before November 30, 1993 shall extend through December 31, 1997, and under loan agreements that are entered into after November 30, 1993 shall extend through December 31, 1999. The drawdown period under loan agreements to the Loan Account of the PRGF-ESF Trust for loans entered into or amended after September 19, 2001 shall normally extend through December 31, 2014. The drawdown period may be extended by mutual agreement between the Trustee and the lender. The Managing Director is authorized to conclude such agreements on behalf of the Trustee.

Paragraph 4. *Drawings on loan commitments*

(a) Drawings on the commitments of individual lenders over time shall be made so as to maintain broad proportionality of these drawings relative to commitments, provided that the Trustee will aim to draw fully all loans entered into prior to August 31, 2001 before calling on loans entered into after that date.

(b) Calls on a lender's commitment shall be suspended temporarily if, at any time prior to June 30, 1997, in case of a commitment under a loan agreement entered into

before November 30, 1993, or prior to June 30, 1999, in case of a commitment under a loan agreement entered into after November 30, 1993, or prior to June 30, 2014, in case of a commitment under a loan agreement entered into after August 31, 2001, the lender represents to the Trustee that it has a liquidity need for such suspension and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. The suspension shall not exceed three months, provided that it may be extended for further periods of three months by agreement between the lender and the Trustee. No extension shall be agreed which, in the judgment of the Trustee, would prevent drawing of the full amount of the lender's commitment.

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

Paragraph 5. *Payments to lenders*

a) The Trust shall make payments of principal and interest on its borrowing for the Loan Account from the payments into that account of principal and interest made by borrowers under Trust loans. Payments of the authorized subsidy shall be made from the Subsidy Accounts in accordance with Section IV of this Instrument, and, as required, payments shall be made from the Reserve Account in accordance with Section V of this Instrument.

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

Section IV. *Subsidy Accounts*

Paragraph 1. *Resources*

(a) The resources held in the PRGF-ESF Subsidy Account shall consist of:

(i) the proceeds of donations made to the Trust for the Subsidy Account of the PRGF Trust prior to January 5, 2006, unless a donor notifies the Trustee that it wishes to transfer the proceeds of its outstanding donation to another Subsidy Account by March 6, 2006;

(ii) the proceeds of loans made to the Trust for the Subsidy Account of the PRGF Trust prior to January 5, 2006, unless a lender notifies the Trustee that it wishes to transfer the proceeds of its outstanding loan to another Subsidy Account by March 6, 2006;

(iii) the proceeds of donations made to the Trust for the PRGF-ESF Subsidy Account;

- (iv) the proceeds of loans made to the Trust for the PRGF-ESF 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; and
  - (vii) net earnings from investment of resources held in that Account.
- (b) The resources held in the ESF Subsidy Account shall consist of:
- (i) the proceeds of donations made to the Trust for that Account;
  - (ii) the proceeds of loans made to the Trust for that Account; and
  - (iii) net earnings from investment of resources held in that Account.
- (c) The resources held in the PRGF Subsidy Account shall consist of:
- (i) the proceeds of donations made to the Trust for that Account;
  - (ii) the proceeds of loans made to the Trust for that Account;
  - (iii) transfers from the Trust for Special PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations (PRGF-HIPC Trust) in accordance with Section III *bis* of the Instrument establishing that Trust; and
  - (iv) 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 May 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.

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 prefinaanced; 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 subsidy*

(a) The Trustee shall draw upon the resources available in the PRGF-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 PRGF or the ESF, provided that resources available in the PRGF-ESF Subsidy Account shall be drawn upon for these purposes only if there are no other resources immediately available in the PRGF Subsidy Account or the ESF Subsidy Account, as the case may be, for these purposes. For purposes of the preceding sentence, resources in the PRGF-HIPC Trust that are transferable to the PRGF Subsidy Account shall not be considered resources immediately available in the PRGF Subsidy Account.

(b) 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.

(c) The Trustee shall draw upon the resources available in the PRGF 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 PRGF.

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 PRGF and ESF are highly concessional facilities and, to the extent possible, of reducing the rate of interest charged on Trust loans to 0.5 percent, (ii) the rate of interest on resources available to the Loan Account, and (iii) the availability and prospective availability of resources to the Subsidy Accounts.

(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 either PRGF or ESF loans to 0.5 percent throughout the operation of the Trust, the Trustee shall seek such additional resources as may be necessary to achieve this objective.

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

(d) If the interest due to lenders under the PRGF or ESF 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 lenders of that difference has been made from the Reserve Account in accordance with Section V, paragraph 2, then 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) Upon completion of the subsidy operations authorized by this Instrument, the Fund shall wind up the affairs of the Subsidy Accounts.

(i) Any resources remaining in the PRGF-ESF Subsidy Account shall be used in a manner consistent with paragraph 4(a) of this Section to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers on PRGF and ESF loans, by means of payments to such borrowers. Any resources remaining after that subsidization shall be distributed to the Fund, donors, and lenders that have contributed to the PRGF-ESF subsidy operation, in proportion to their contributions. The resources representing the Fund's share in such distribution shall be transferred to the Special Disbursement Account.

(ii) Any resources remaining in the ESF Subsidy Account shall be used to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers on ESF loans, by means of payments to such borrowers. Any resources remaining after that subsidization shall be distributed to donors and lenders that have contributed to the ESF subsidy operation, in proportion to their contributions.

(iii) Any resources remaining in the PRGF Subsidy Account shall be used to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers on PRGF loans, by means of payments to borrowers. Any resources remaining after that subsidization shall be distributed to donors and lenders that have contributed to the PRGF subsidy operation, in proportion to their contributions.

(iv) 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 difference, if positive, between the SDR rate of interest and the interest on such loans, applied to the amount of the loans during the period they were outstanding.

(b) Prior to the termination of the PRGF-ESF Subsidy Account in accordance with (a)(i) above, the equivalent of SDR 1.12 billion of the resources in that Account that are not derived from the Special Disbursement Account shall be transferred from the Subsidy Account to the Multilateral Debt Relief Initiative-II Trust established pursuant to paragraph 2 of Decision No. 13588-(05/99) MDRI, upon the notification by sufficient contributors that up to the full amount of their outstanding contributions may be used for such a transfer.

## *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 Account 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 lender 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 lender due to a difference in timing between scheduled principal repayments to the lender 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 Trust loans, to the extent that the amounts available from receipts of repayments and interest from borrowers under Trust loans, together with the authorized subsidy under Section IV, paragraph 4, are insufficient to cover the payments to lenders as they become due and payable.

Paragraph 3. *Payments to the Reserve Account*

Any repayment of principal under Trust loans, to the extent that repayment to a lender has been made from the Reserve Account due to differences in timing between scheduled principal repayments to the lender 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 lender from the Reserve Account, shall be made to the Reserve Account.

Paragraph 4. *Review of resources*

If resources in the Reserve Account are, or are determined by the Trustee likely to become, insufficient to meet the obligations of the Trust that may be discharged from the Reserve Account as they become due and payable, the Trustee shall review the situation in a timely manner.

Paragraph 5. *Reduction of resources and liquidation*

(a) Whenever the Trustee determines that amounts in the Reserve Account of the Trust exceed the amount that may be needed to cover the total liabilities of the Trust to lenders that are authorized to be discharged by the Reserve Account, the Trustee shall retransfer such excess amount to the Fund's Special Disbursement Account.

(b) Notwithstanding (a) above, 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 PRGF Operations for the Heavily Indebted Poor Countries and Interim PRGF Subsidy Operations. Transfers 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 lenders*

(a) Any lender 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.

##### Paragraph 2. *Transfers among electing lenders*

(a) Any lender to the Loan Account (“electing lenders”) may inform the Trustee that it stands ready, upon request by the Trustee, to purchase claims on the Trust from any other electing lender, provided that the holdings of claims so acquired shall at no time exceed the amount communicated to the Trustee and subject to the other provisions of this section. A list of electing lenders and the amounts communicated by them shall be established separately by the Trustee. This list may be extended and the amounts therein increased in accordance with communications received subsequently.

(b) An electing lender shall have the right to transfer temporarily to other electing lenders part or all of any claim arising from its loans to the Trust under Section III, if the electing lender represents to the Trustee that it has a liquidity need to make such transfer and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees.

(c) The Trustee shall allocate each transfer by an electing lender under this provision to all other electing lenders in proportion to the amounts by which the respective maximum holdings listed in the attachment exceed actual holdings of claims acquired under this provision; provided, however, that no allocation shall be made to an electing lender if it represents to the Trustee that it has a liquidity need for exclusion from an allocation and the Trustee agrees, in which case allocations to the remaining electing lenders shall be adjusted accordingly.

(d) The purchaser of any claim transferred under this provision shall assume, as a condition of the transfer, any obligation of the transferor, relating to the transferred claim, with respect to the renewal of drawing on loans to the Trust and to new

drawings on loans in the event a renewal, having been requested, is not agreed by the transferor.

(e) Transfers of claims under this provision shall be made in exchange for freely usable currency and shall be reversed in the same media within three months, provided that such transfers may be renewed, by agreement between the transferor and the Trustee, for further periods of three months up to a total of one year. Notwithstanding the above, the transferor shall reverse a transfer under this provision not later than the date on which the transferred claim is due to be repaid by the Trust.

(f) Interest on claims transferred under this Section shall be paid by the Trust to the transferor in accordance with the provisions of the transferor's lending agreement with the Trust. The transferor shall pay interest to the transferee(s) on the amount transferred, so long as the transfer remains outstanding, at a daily rate equal to that set out in Rule T-1 of the Fund's Rules and Regulations; such interest shall be payable three months after the date of a transfer or of its renewal, or on the date the transfer is reversed, whichever is earlier.

## Section VII. *Administration of the Trust*

### Paragraph 1. *Trustee*

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

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

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

(i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, which shall be accounts of the Fund as Trustee, with such depositories of the Fund as the Trustee deems necessary; and

(ii) to take all other administrative measures that the Trustee deems necessary to implement the provisions of this Instrument.

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

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

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

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

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

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

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

Paragraph 3. *Investment of resources*

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

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

Section VIII. *Period of Operation and Liquidation*

Paragraph 1. *Period of operation*

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

Paragraph 2. *Liquidation of the Trust*

(a) Termination and liquidation of the Subsidy 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); Section VIII, paragraph 2(b).

#### APPENDIX I

##### *Misreporting and Noncomplying Disbursements Under the Poverty Reduction and Growth Facility and the Exogenous Shocks Facility—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 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.

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 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 Facility and Exogenous Shocks Facility Trust*

The following procedures aim at preventing the emergence or accumulation of overdue financial obligations to the Poverty Reduction and Growth Facility (“PRGF”) and Exogenous Shocks Facility (“ESF”) 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 PRGF, ESF 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 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 PRGF, ESF 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 PRGF-ESF-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 PRGF-ESF-eligible countries. Any reinstatement of the member on the list of PRGF-ESF eligible countries will require a new decision of the Executive Board.

The Fund shall issue a press release upon the decision to remove a member from the list of PRGF-ESF-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.