

INTERNATIONAL MONETARY FUND

**A New Architecture of Facilities for Low-Income Countries and Reform of the Fund’s
Concessional Financing Framework—Supplementary Information**

Prepared by the Finance, Legal, and Strategy, Policy, and Review Departments
(In consultation with other departments)

Approved by Sean Hagan, Reza Moghadam, and Andrew Tweedie

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I. INTRODUCTION

1. This supplement modifies the proposed reforms of the Fund's facilities and financing framework for low-income countries (LICs) set out in *A New Architecture of Facilities for Low-Income Countries*. In the Executive Board discussion of these papers on July 17, 2009, there was broad support for the reforms in most areas. However, differences of views remained on some aspects. Staff has revised some of the reform proposals, as set out below, to address several of the remaining concerns and offer a compromise between the different views expressed by Executive Directors. The decision and Trust Instrument giving effect to these changes is available as *A New Architecture of Facilities for Low-Income Countries and Reform of the Fund's Concessional Financing Framework – Decision*.¹

2. The paper is organized as follows: Section I describes the revised proposed interest rate structure and adjustment mechanism. Section II elaborates on the linkages between the new facilities and poverty reduction. Section III discusses precautionary Standby Credit Facility (SCF) arrangements. Section IV specifies a revised proposed structure of the new Poverty Reduction and Growth Trust (PRGT). Section V revises the proposal on the approval mechanism for future PRGT amendments. Section VI discusses a proposed increase in the borrowing limit under the PRGT. Section VII contains the revised proposed decision.

II. FINANCING TERMS

3. **As noted in *A New Architecture of Facilities for Low-Income Countries*, some refinements to Poverty Reduction and Growth Facility-Exogenous Shocks Facility (PRGF-ESF) financing terms are appropriate in the context of the reform of facilities.** In particular, the new architecture should provide adequate concessionality, including during this period of global economic crisis and low world interest rates. Moreover, in light of the delineation of facilities according to the type of balance of payments need, some degree of differentiation in financing terms across facilities appears warranted. A reduction in interest rates is the most efficient and immediate way to enhance the concessionality of the Fund's financial support to LICs.²

4. **In their discussion on July 17, Executive Directors expressed a range of views on the design of the new financing terms.** A number of—partly conflicting—objectives were highlighted: (i) making the financing term structure more concessional, especially in the near

¹ The decision and Trust Instrument include a number of additional technical revisions.

² As argued in *A New Architecture of Facilities for Low-Income Countries*, extending the repayment period would not be a well-targeted way of leveraging the Fund's scarce subsidy resources as it would provide additional liquidity in the outer years, when it may no longer be needed, while constraining resources for other members who may have liquidity problems at that point. An alternative would be to extend the grace period alone, but this would entail a bunching of debt service, potentially creating debt vulnerabilities.

term, (ii) preserving the Fund's scarce concessional resources, (iii) avoiding permanently zero interest rates, (iv) tailoring financing terms to needs and capacity of LICs, and (v) limiting fluctuations in concessionality and subsidy costs.

5. To balance these objectives and views, it is proposed to introduce somewhat lower interest rates for the Extended Credit Facility (ECF) and Rapid Credit Facility (RCF), alongside a review-based mechanism under which interest rates would be periodically adjusted. The original proposal was for a uniform interest rate of 0.25 percent across all three facilities, with repayment periods of 5 ½ to 10 years for the ECF and RCF, and 4 to 8 years for the SCF. There was no presumption of any future change to this structure. By contrast, the revised proposal has the following features:

- The interest rate structure would initially be set at 0.0/0.0/0.25 percent for the ECF, RCF and SCF respectively. The repayment periods remain as in the original proposal.³
- The interest rates would be subject to periodic Board reviews to take account of developments in world interest rates.⁴ The first such review would be scheduled for the end of the proposed period of PRGT temporary interest forgiveness (December 2011), with subsequent reviews every three years thereafter.*
- At each review, interest rates would normally be adjusted if warranted by the prevailing SDR rate, based on the mechanism specified in Table 1, which includes three possible interest rate structures.
- The interest rate for each facility determined at each review would apply upon its effectiveness to all existing and subsequent credit disbursed under that facility.

6. The revised proposal would provide greater concessionality upfront. This is particularly important in light of the severe impact of the global crisis on low-income

³ Regarding the financing terms for existing facilities, credit outstanding under Emergency Natural Disaster Assistance (ENDA) and Emergency Post Conflict Assistance (EPCA) at the time of the PRGT reform and all ESF loans (existing and future) will have unchanged repayment terms and a reduced interest rate of 0.25 percent (which would not be subject to scheduled reviews, i.e. would be expected to remain unchanged until the final maturity of these loans), whereas the PRGF would be automatically converted into the ECF, with ECF repayment terms and interest rate.

⁴ Given the desirability of limiting fluctuations in concessionality, allowing for changes in interest rates is more practical and easier from a technical standpoint than changing maturities.

* This staff proposal was not endorsed by the Executive Board. Instead, Executive Directors decided on reviews every two years (See *A New Architecture of Facilities for Low-Income Countries and Reform of the Fund's Concessional Financing Framework – Decision*.)

countries. Lower interest rates are also appropriate in the context of exceptionally low world interest rates, which have eroded the grant element of PRGF-ESF terms. The new proposal would raise the average grant element by about one percentage point relative to the original proposal (Table 2). Moreover, the proposed mechanism would help ensure that the level of concessionality would generally exceed this initial level as world interest rates are expected to rise and the resulting upward adjustments in PRGT rates implied by Table 1 would be significantly smaller.⁵

Table 1. Interest Rate Mechanism for the Fund's Concessional Facilities

	Interest rate for concessional facility		
	ECF	RCF	SCF
	(in percent)		
SDR rate ¹ < 2	0.00	0.00	0.25
2 ≤ SDR rate ≤ 5	0.25	0.25	0.50
SDR rate > 5	0.50	0.50	0.75

¹ The average SDR rate is based on most recently observed 12-month period.

7. **The new structure would tailor financing terms to expected needs and vulnerabilities of different users.** As in the original proposal, differential repayment periods are an appropriate mechanism for reflecting differences in the duration of the needs that are inherent in the new facilities architecture. The revised proposal adds to this a modest differentiation in the interest rate to reflect the likelihood that ECF and RCF users will have weaker capacity to service debt than SCF users.

8. **In contrast to the original proposal, the new financing term structure would have a built-in mechanism that limits fluctuations in concessionality and subsidy costs.** Compared to a standard fixed rate, the mechanism helps reduce uncertainty with respect to concessionality, which may benefit both borrowers and contributors.

9. **The proposed mechanism is not expected to entail additional costs relative to the projected financing needs under the original proposal.** Based on the assumption that the interest rate structure is adjusted upward by ¼ percentage point at the first review in December 2011 and remains in the central interest band thereafter, as would be implied under the current WEO projections for world interest rates, financing options are available that would be adequate to cover the expected subsidy needs.⁶

⁵ The SDR rate is used as a proxy for world interest rates. It tends to co-move with the CIRR, which is the standard reference rate for calculating the grant element of a loan.

⁶ The proposed mechanism helps stabilize subsidy costs in the face of fluctuation in SDR rates. If the proposed mechanism in Table 1 were not applied while world interest rates rise as projected, keeping the PRGT rates at their initial level would entail an additional subsidy cost of about SDR 0.2 billion.

10. As generally the case under the current PRGF-ESF Trust, future decisions regarding the specific interest rate for PRGT facilities would require an Executive Board decision adopted by a majority of the votes cast.⁷ In any event, as under the current Trust, interest rates under the PRGT would in all cases be expressly conditioned on the availability of subsidy resources in the Trust.⁸

Table 2. Options for Financing the Fund's Concessional Lending to Low-Income Countries 1/
(In billions of SDRs; end-2008 NPV terms unless otherwise specified)

	Pre-reform scenario	Original Proposal	Revised Proposal
1. Assumptions			
Interest rate (ECF/RCF/SCF) (in percent)	0.5/0.5/0.5	0.25/0.25/0.25	0/0/0.25 thru end-2011 and 0.25/0.25/0.5 beyond
Grace period/maturity for ECF/RCF (in years)	5.5/10	5.5/10	5.5/10
Grace period/maturity for SCF (in years)	...	4/8	4/8
2. Additional subsidy needs	1.5	1.5	1.5
3. Reserve Account "self-sustained" capacity beyond 2014/15 (assuming RA transfers of SDR 0.62 billion for financing LIC subsidy needs)	0.67	0.69	0.70
4. Grant element (based on current CIRR of 4.27%) 2/			
i. ECF	28.3	29.8	31.4 4/
ii. SCF	...	24.0	24.0 4/
iii. RCF	16.4 3/	29.8	31.4 4/
5. Grant element (based on historical average CIRR of 6.4%)			
i. ECF	38.2	39.7	41.2 4/
ii. SCF	...	32.5	32.5 4/
iii. RCF	23.0 3/	39.7	41.2 4/

Source: Finance Department.

1/ Assuming loan demand of SDR 11.5 billion through 2014/15 and composition of future credit under ECF/RCF/SCF of 45%, 15%, and 40%, respectively. The estimated subsidy needs also include the cost of a temporary interest payment relief for targeted LICs for the next two or three years.

2/ CIRR refers to the Commercial Interest Reference Rate published by OECD to represent the market interest rate for loans with maturity of less than 15 years.

3/ Assuming on current EPCA/ENDA terms with grace and maturity of 3.25 years and 5 years, respectively.

4/ Based on concessional interest rates through end-2011.

⁷ The level of interest rate on Trust loans is not specifically mentioned in the protected provision that governs permissible ongoing uses of subsidy resources (Section IV, Paragraph 4), although it currently is part of the technical protected provision governing winding-down subsidization payments for each of the Subsidy Accounts (Section IV, Paragraph 6). Going forward, it is proposed that no specific interest rate would be included in the winding down provision; rather the subsidization would apply to the interest rate established in accordance with Section II, Paragraphs 4(a), (b) and (c) (see proposed revised Section IV, Paragraph 6).

⁸ As under the current Trust, interest rates under the PRGT would in all cases be made expressly conditional on the availability of subsidy resources. As resources borrowed for the Loan Account(s) generally bear market-based interest rates, the feasibility of any particular interest rate for a facility is ultimately a function of the amount of subsidies available to that facility, as these subsidies are used to pay the difference between the interest rate paid by members borrowing from the Trust and the interest rate payable by the Trust to Loan Account lenders (Section IV, Paragraph 4). Accordingly, the PRGT will continue to provide that the interest rate in all cases (including those resulting from application of the review-based adjustment mechanism) is subject to the availability of resources to the Trust.

III. LINKS TO POVERTY REDUCTION AND GROWTH

11. **Poverty reduction is established in the new Trust as an explicit purpose of all three facilities.** Specifically, programs under the ECF, SCF, and RCF are aimed at assisting low-income countries in achieving and maintaining a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth. Under all facilities, any financing request or program review would be accompanied by a statement of how the program advances the country's poverty reduction and growth objectives. At the same time, the new facilities architecture would make Poverty Reduction Strategy Paper (PRSP) requirements more flexible, as set out in *A New Architecture of Facilities for Low-Income Countries*.

12. **To address concerns expressed by several Executive Directors, operational guidance to staff will ensure appropriate linkages between programs under the three facilities and countries' poverty reduction and growth objectives, including when a PRSP does not exist.** This guidance will include an elaboration of the following aspects:

- If a Poverty Reduction Strategy (PRS) document exists, the program should be consistent with the objectives of the PRS in the context of promoting a stable and sustainable macroeconomic environment consistent with strong and durable poverty reduction and growth.
- If a PRS document does not exist, the program documentation should outline the country's medium-term poverty reduction and growth objectives and policies, for instance in an attachment to the Letter of Intent/Memorandum of Economic and Financial Policies (LOI/MEFP).
- There should be close collaboration with the World Bank and other development partners on the poverty reduction and growth-related objectives and reforms.
- Under all three facilities, social and other priority spending should be safeguarded—and, whenever appropriate, increased. This should be monitored through explicit program targets wherever possible. In this context, members will be encouraged to develop adequate expenditure tracking systems, which may require technical assistance.

13. **Separately, staff will consult with the World Bank and explore options for streamlining the PRS process.** This would be an opportunity to address concerns expressed by some country authorities, echoed by several Executive Directors, that the PRSP production process has become overly cumbersome.

IV. PRECAUTIONARY USE OF THE SCF

14. **The option of using the SCF in case of a potential balance of payments need serves a distinct purpose under the new facilities architecture.** Specifically, it provides rapid access to financial support for countries that have established a stable macroeconomic position, but face short-term risks, for instance related to external volatility. As discussed in *The Fund's Facilities and Financing Framework for Low-Income Countries*, such risks are now more important as LICs have become increasingly exposed to private financial flows and global volatility. A country facing these short-term risks needs primarily “insurance” from the Fund, both quickly, and typically for a limited period. As discussed in *A New Architecture of Facilities for Low-Income Countries*, the PSI cannot substitute for a true precautionary facility, as it cannot provide immediate or pre-committed access to financing on demand.

15. **Nevertheless, in light of concerns by some Executive Directors over the identification of adequate resource commitments, the revised proposal is to activate the precautionary option under the SCF at the beginning of 2010.** Specifically, the revised decision will permit financing requests under the SCF based on a potential balance of payments need, but the possibility to use this option would be made effective on January 1, 2010. This will have the advantage that, by then, the Fund should have secured most or all of the commitments for the new resources on which the overall framework depends.

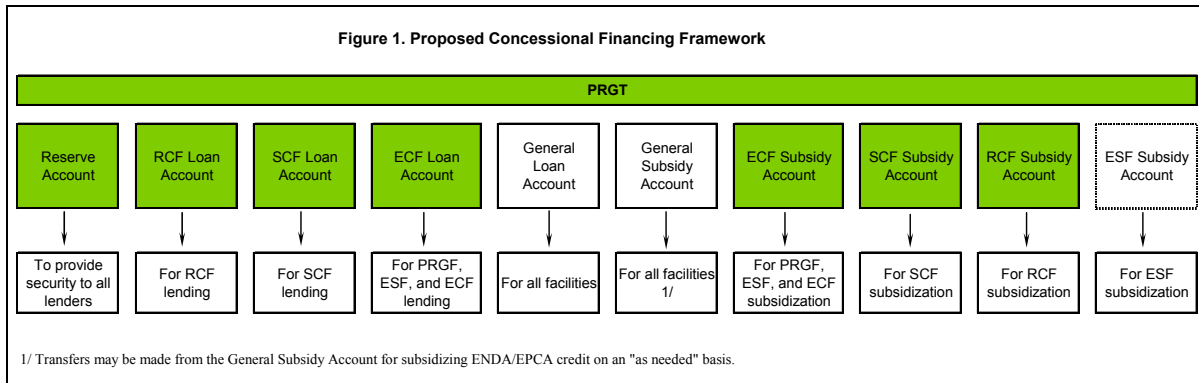
16. **In addition, the first Board review of the new facilities architecture will include an assessment of experience with the precautionary option for the SCF.** The review will offer an opportunity to assess the effectiveness of the new precautionary option in light of concerns by some Directors over a possible overlap with the PSI and concerns by other Directors over the appropriateness of the availability fee and the sub-limit on access.

V. LOAN ACCOUNT UNDER THE PRGT

17. **In contrast to the proposal to retain a single Loan Account under the PRGT, some Directors suggested that the financing framework allow for earmarking of loan resources to specific facilities.** This would have the advantage of accommodating possible donor preferences, which is important for securing necessary loan resources. To this end, this section sets out a revised proposal to create four separate loan accounts under the PRGT: a General Loan Account (GLA) and three Special Loan Accounts (SLAs). As a result, the setup for loan accounts would largely mirror the proposal for subsidy accounts.⁹ The purpose and structure of the Reserve Accounts of the PRGT would remain the same. In particular, a single Reserve Account would continue to provide security for loans under all facilities of the

⁹ As discussed below, there would be no separate Loan Account for the ESF, despite continued existence of the ESF Subsidy Account.

PRGT. Accordingly, under the revised proposal, the PRGT would have four Loan Accounts, one Reserve Account, and five Subsidy Accounts (Figure 1).



18. **The GLA would receive and provide loan resources for new loan commitments under all facilities of the PRGT.** The SLAs would accommodate lenders' preferences for earmarking their loan contributions for specific facilities. For this purpose, it is proposed that three separate special loan accounts be created—one each for the ECF (and ESF), SCF, and RCF.

- The **ECF Loan Account** would receive and provide loan resources for all existing loan commitments under the PRGF and ESF, any new commitments made under the ESF during the transition period,¹⁰ and new commitments made under the ECF.
- The **SCF Loan Account** and **RCF Loan Account** would receive and provide loan resources for loan commitments under the SCF and RCF, respectively.

19. **Lenders would have the flexibility of providing loan resources to the GLA or the SLAs.** Additional loan resources of SDR 9 billion will need to be mobilized urgently to ensure full funding of the PRGT through 2014–15. To enable flexible use of loan resources, potential lenders would be strongly encouraged to provide new loan resources, including potential use of SDRs from the upcoming general allocation, to the GLA. Similar to the arrangements for the Subsidy Accounts, it is proposed as a default position that the existing loan agreements to the Loan Account of the PRGF-ESF Trust be transferred to provide resources for the ECF Loan Account, unless a lender requests the transfer of its share in the uncommitted amounts under such loans to be available for the benefit of the GLA or the other SLAs. The SCF and RCF Loan Accounts would be available to receive any new loan contributions, or transfers of a lender's share in uncommitted amounts under its existing loan

¹⁰ The Board would be able to approve new ESF arrangements for a three-month period after effectiveness of the decision.

agreement, from lenders that may wish to earmark their uncommitted loan contributions either for the SCF or the RCF.

20. **Similar to the sequencing for the Subsidy Accounts of the PRGT, the GLA would serve as a second line of disbursement of loan resources.** The Trustee would first draw on loan resources of the SLAs for making loan disbursements under the respective facilities. The resources in the GLA would be used for a facility when resources in the relevant SLA are exhausted.

VI. APPROVAL MECHANISMS UNDER THE PRGT

21. Some Directors expressed concern about staff's proposal to streamline approval procedures for certain future amendments to the Trust by broadening the purposes of the Trust and delinking it from the specific facilities under the Trust. In light of these concerns, staff proposes that the provisions to streamline approval procedures be dropped from the original proposal and that the specific facilities of the Trust continue to be an integral part of its purposes (which signifies, inter alia, that lender and contributors' consents would continue to be required for any addition of new facilities to the Trust).

VII. INCREASING THE BORROWING LIMIT UNDER THE PRGT

22. **Additional concessional loan resources of SDR 9 billion will need to be mobilized to meet projected demand through 2014-15.** It is envisaged that these resources will be mobilized as part of a broad fund-raising effort once the new LIC facilities architecture and financing framework are agreed.

23. **To accommodate the additional loan resources, the current borrowing limit—which allows for total borrowing of SDR 20 billion under the Loan Account of the existing PRGF-ESF Trust—will need to be increased.** To date, cumulative loan commitments from bilateral lenders have amounted to SDR 16.5 billion, leaving scope for additional borrowing of SDR 3.5 billion. This would imply that the current borrowing limit would need to be increased by SDR 5.5 billion at least, to SDR 25.5 billion. However, in light of substantial uncertainties associated with loan demand over the medium term, it would seem appropriate to set the limit at a somewhat higher level. Accordingly, staff proposes that the current borrowing limit be increased by an additional SDR 10 billion (compared to the target resource mobilization of SDR 9 billion), to SDR 30 billion. The new limit would apply to the aggregate loan resources committed under all loan accounts of the PRGT.

24. **The establishment of a new borrowing limit for the Trust will require prior consultations with the current lenders of the PRGF-ESF Trust regarding the justification for additional borrowing and the adequacy of the Trust's Reserve Account.** Following the Executive Board's endorsement of the proposed increase in the borrowing limit, staff will consult with Trust lenders on the proposed increase. A decision (which

requires a majority of the votes cast) will then be proposed for adoption by the Executive Board.

A New Architecture of Facilities for Low-Income Countries and Reform of the Fund's Concessional Financing Framework—Decision No. 14385-(09/79), adopted July 23, 2009

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.
3. All arrangements under the Poverty Reduction and Growth Facility that are in force on the effective date of this decision shall be renamed 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. The name of the Trust established pursuant to Decision No. 11436-(97/10), adopted February 4, 1997, shall be changed to “the Trust for Special Poverty Reduction and Growth Operations for the Heavily Indebted Poor Countries and Interim ECF Subsidy Operations” (“PRG-HIPC Trust”). Accordingly:

(a) Decision No. 11436-(97/10) and the title of the Annex to that Decision shall be amended by replacing “Special PRGF Operations” with “Special Poverty Reduction and Growth Operations”, and by replacing “Interim PRGF” with “Interim ECF”;

(b) The Instrument annexed to Decision No. 11436-(97/10) (“PRG-HIPC Trust Instrument”) shall be amended by revising the Introductory Section to read as follows:

“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.”; and

(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”.

7. Section III *bis* of the PRG-HIPC Trust Instrument governing the potential use of PRG-HIPC Trust resources for PRGT subsidy purposes shall be revised to read as follows:

“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.”

8. With respect to the duration of the period for interim ECF subsidy operations, Section I, Paragraph 1(vii) of the ECF-HIPC Trust Instrument shall be amended by replacing “2001/02—2011” with “2001/02—2014/15”.

9. With respect to the eligibility and qualification requirements for HIPC Initiative assistance, the PRG-HIPC Trust Instrument shall be amended as follows:

(a) Section III, Paragraph 1(b)(i) governing the policy performance criterion for HIPC Initiative eligibility shall be amended to read as follows:

“(i) supported by the Fund through ECF, SCF, PRGF, ESF or Extended Arrangements, or, on a case-by-case 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;”

(b) The fourth sentence of Section III, paragraph 2(c) governing policy performance requirements for the decision point shall be amended to read as follows:

“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 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.”; and

(c) The sixth sentence of Section III, paragraph 2(c) governing policy performance requirements for the completion point shall be revised to read as follows:

“In the case of the second performance period, such programs shall be programs supported by ECF, SCF, PRGF, ESF or Extended Arrangements.”

C. Amendment of the Policy Support Instrument

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

(a) Paragraph 1 shall be revised by replacing the term “Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF)” with the term “Poverty Reduction and Growth Trust (PRGT)”.

(b) Paragraph 6 shall be amended to read as follows:

“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.”

(c) A new third sentence shall be added in paragraph 8 to read as follows:

“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.”

- (d) The introductory sentence to Paragraph 10 and subparagraphs 10(a), (b), and (c) shall be revised 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”) 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;”

- (e) 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 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.”

D. Amendment of the Administered Account for EPCA/ENDA Subsidies to PRGT-Eligible Members

11. The Instrument to Establish the Post-Conflict and Natural Disaster Emergency Assistance Subsidy Account for PRGT-Eligible Members that is annexed to Decision No. 12481-(01/45), adopted May 4, 2001, shall be amended as follows:

(a) The first sentence of subparagraph 7(a) shall be revised to read as follows:

“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 ----- [effective date of this decision] (“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.”

(b) All other references in Paragraph 7 to “0.5 percent” shall be replaced with references to “0.25 percent”;

(c) A new subparagraph (d) shall be added to Paragraph 7 to read as follows:

“(d) Notwithstanding subparagraphs (a) through (c) of this Paragraph 7, for the period from ----- [effective date of this decision] through January 31, 2012, 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 qualifying PRGT-eligible members as of ----- [effective date of this decision], 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), “qualifying 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 qualifying 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.”; and

- (d) Paragraph 11(a) shall be revised to read as follows:

“(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 ----- [effective date of this decision].”

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.

13. Paragraph 2 of Decision No. 11832-(98/119) ESAF, adopted November 20, 1998, on *Arrangements under the Enhanced Structural Adjustment Facility-Selected Operational Issues*, shall be amended by adding the following language at the end of the paragraph:

“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.”

14. Decision No. 12253-(00/77), adopted July 27, 2000, on *Establishment of General Policy to Condition Decisions under the Poverty Reduction and Growth Facility and Exogenous Shocks Facility on Accuracy of Information Regarding Implementation of Prior Actions*, shall be amended by replacing the terms “Poverty Reduction and Growth Facility and Exogenous Shocks Facility” with the terms “Extended Credit Facility, Standby Credit Facility and Exogenous Shocks Facility”.

15. Decision No. 12254-(00/77), adopted July 27, 2000, on *Establishment of General Policy to Condition Waiver Decisions under the Poverty Reduction and Growth Facility and Exogenous Shocks Facility on Accuracy of Information Regarding Performance Criteria* shall be amended by replacing the terms “arrangement under the Poverty Reduction and Growth Facility and Exogenous Shocks Facility” in the first and second paragraphs with the terms “arrangement under a facility of the Poverty Reduction and Growth Trust”.

16. Paragraph 18(a)(ii) of Decision No.13183-(04/10), adopted January 30, 2004, on *Strengthening the Effectiveness of Article VIII, Section 5* shall be amended by replacing the terms “arrangement under the Poverty Reduction and Growth Facility or the Exogenous Shocks Facility” with the terms “arrangement under a facility of the Poverty Reduction and Growth Trust”.

17. Paragraph 1 (iii) of Decision No. 13229-(04/33), adopted April 2, 2004 on *Trade-Integration Mechanism* shall be amended by replacing the terms “the Poverty Reduction and Growth Facility and Exogenous Shocks Facility” with the terms “arrangements under the Poverty Reduction and Growth Trust”;

18. Paragraph 4(a)(i) of Decision No.13564-(05/85), adopted October 5, 2005, on *Transparency and Fund Policies-Publication Policies* shall be amended by replacing the terms “a Poverty Reduction and Growth Facility and Exogenous Shocks Facility arrangement” with the terms “an ECF arrangement”.

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.

ATTACHMENT

*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:

(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 ----- [effective date of PRGT reforms], 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 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 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 currencies.

(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 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 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 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, 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 effort 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.

(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 ----- [effective date of PRGT reforms], (i) the total amount of resources committed to the member under the PRGF 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 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) 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.

Paragraph 4. *Terms of Loans*

(a) Effective ----- [effective date of PRGT reforms], 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.

(c) Notwithstanding subparagraph (a) and subject to the provisions of Section IV, paragraph 5 of this Instrument, for the period from ----- [effective date of PRGT reforms] through December 31, 2011, 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, as such list may be amended from time to time, 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 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) The resources held in the General Loan Account shall consist of:

(i) the proceeds of loans made to the Trust for the General Loan Account ; and

(ii) payments of principal and interest on loans funded with drawings under loan agreements to the General Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.

(b) 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 --- -----, unless a lender notifies the Trustee by ----- [15 days after effective date of PRGT reform decision] 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 loans made to the Trust for the ECF Loan Account; and
 - (iii) payments of principal and interest on loans funded with drawings under loan agreements to the ECF Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.
- (c) The resources held in the SCF Loan Account shall consist of:
- (i) the proceeds of loans made to the Trust for the SCF Loan Account; and
 - (ii) payments of principal and interest on loans funded with drawings under loan agreements to the SCF Loan Account, subject to the provisions of Section V, paragraph 3 of this Instrument.
- (d) The resources held in the RCF Loan Account shall consist of:
- (i) the proceeds of loans made to the Trust for the RCF Loan Account; and
 - (ii) payments of principal and interest on loans funded with drawings under loan 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 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 Accounts of the Trust.

Paragraph 3. Commitments

Commitments for drawings under loan agreements to the Loan Accounts of the 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 Accounts of the Trust for loans entered into or amended after September 19, 2001 shall normally extend through December 31, 2018. 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) The Trustee may draw under loan 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 loan agreements to the ECF Loan Account for purposes of ECF and ESF loan disbursements, (ii) under loan agreements to the SCF Loan Account for purposes of SCF loan disbursements, and (iii) under loan agreements to the RCF Loan Account for purposes of RCF loans disbursements. Drawings on the commitments of individual lenders 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

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, 2018, 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 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 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 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. ----- [PRGT reform decision].
- (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 ----- [effective date of PRGT reform decision], unless a donor notifies the Trustee that it wishes to transfer the proceeds of its outstanding donation to another Subsidy Account by ----- [date 15 days after effective date of PRGT reform decision];

(ii) the proceeds of loans made to the Trust for the PRGF-ESF Subsidy Account and the PRGF Subsidy Account as of ----- [effective date of PRGT reform decision] , unless a lender notifies the Trustee that it wishes to transfer the proceeds of its outstanding loan to another Subsidy Account by ----- [date 15 days after effective date of PRGT reform decision];

(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

(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 ----
----[effective date of PRGT reform decision], unless a donor notifies the Trustee that it

wishes to transfer the proceeds of its outstanding donation to another Subsidy Account by ---
----- [date 15 days after effective date of PRGT reform decision];

(ii) the proceeds of loans made to the Trust for the ESF Subsidy Account as of -----
[effective date of PRGT reform decision], unless a lender notifies the Trustee that it wishes
to transfer the proceeds of its outstanding loan to another Subsidy Account by ----- [date
15 days after effective date of PRGT reform decision]; 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.

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 prefunded; 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 immediately 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 purchases 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 lenders 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) The ESF Subsidy Account shall be terminated after its resources as of ----- [effective date of PRGT reform decision] 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 lenders that have contributed to the General Subsidy Account, in proportion to their contributions, including donors and lenders 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.

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

Section V. *Reserve Account*

Paragraph 1. *Resources*

The resources held in the Reserve Account shall consist of:

(a) transfers by the Fund from the Special Disbursement Account in accordance with Decision No. 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, (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 (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 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 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 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); 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 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 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 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 Executive 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.

APPENDIX III

Assistance Under the Exogenous Shocks Facility (ESF)

Until ----- [date 3 months after effective date of PRGT reform decision], 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 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.