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Preface

The International Monetary Fund was conceived in July 1944, at a United Nations conference in Bretton Woods, New Hampshire, United States. The 44 participating governments sought to build a framework for economic cooperation that would forestall any repetition of the disastrous policies, including competitive devaluations, that contributed to the Great Depression of the 1930s and, ultimately, to World War II.

The IMF now has 189 member countries and has evolved over time as the global economy has expanded, become more integrated, and endured both boom and bust. But the IMF's mission has remained the same: to ensure the stability of the international monetary system—the system of exchange rates and international payments that enables countries (and their citizens) to transact with one other and that is essential for promoting sustainable economic growth, increasing living standards, and reducing poverty.

This publication provides a broad introduction to how the IMF fulfills this mission through its financial activities. It covers the financial structure and operations of the IMF and also provides background detail of the financial statements for the IMF's activities during the most recent financial year. Making such financial information publicly available is part of the IMF's overarching commitment to transparency. Transparency in economic policy and the availability of reliable data on economic and financial developments is critical for sound decision-making and for the smooth functioning of the international economy. Toward that end, this publication also contains numerous links to other publicly available information on IMF finances, including on the IMF's website, www.imf.org.

Chapter 1 reviews the evolution of the IMF's financial structure and operations, its role and functions, governance structure, and the nature of recent reforms. Chapters 2 and 3 explain how the IMF provides lending to member countries experiencing actual or potential balance of payments problems, meaning that the country cannot find sufficient financing on affordable terms to meet its net international payments (for example, for imports

or external debt redemptions). This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while undertaking policies to correct underlying problems. Chapter 2 reviews IMF lending made at market rates (that is, nonconcessional lending facilities), and Chapter 3 describes the various concessional facilities by which the IMF lends to low-income member countries at favorable rates (currently, a zero interest rate).

Chapter 4 reviews the SDR mechanism; Chapter 5 outlines the sources of income for the IMF; and Chapter 6 outlines the institution's approach to financial risk management. The publication also includes a list of common abbreviations, a glossary, and an index.

What's New

This publication updates a previous report entitled *Financial Organization and Operations of the IMF*, first published in 1986 and last issued in 2001 (the sixth edition). That 2001 report reflected the seismic shifts in the global economy and in the IMF's structure and operations that occurred after the fall of the Soviet Union and the various currency and financial crises of the 1990s. This revised and updated report covers more recent developments, including reform of the IMF's income model, measures taken in response to the global financial crisis of 2007–09, and the institutional reforms aimed at ensuring that the IMF's governance structure evolves in line with developments in the global economy.

The IMF significantly bolstered its lending capacity in the wake of the global financial crisis. This was done to meet the unprecedented financing needs of a number of countries hit hard by the crisis and to help strengthen global economic and financial stability. IMF lending capacity was expanded in several ways, including through borrowing, completion of a general quota review that resulted in a doubling of its quota resources (with a

corresponding rollback of previously increased resources under the New Arrangements to Borrow), and implementation of two SDR allocations. Moreover, the IMF refined its general lending framework to better meet member country needs and, in particular, to emphasize measures to prevent crises in the future.

The IMF also reformed its policies toward low-income countries and significantly increased the resources available to the world's poorest countries. In January 2016, IMF member countries ratified a historic governance reform that creates a more representative, all elected Executive Board and increases the voting power of emerging market and developing economies, while simultaneously preserving the voice of the low-income members.

How to Use This Document

This publication includes descriptions of the IMF's financial organization, its policies and lending arrangements, and details on its financial statements. These are meant only to explain and synthesize official IMF documents, records, and agreements. For authoritative versions of these materials, readers should directly consult the official institutional records, which are available at www.imf.org/external/fin.htm.¹

¹ In addition, a complete archive of the Annual Reports issued by the Executive Board is available on the IMF eLibrary at www.elibrary.imf.org.

Digital technology and the Internet make it easier to create and distribute this type of compendium in multiple formats and also to keep it up to date. This publication will be updated on an annual basis, and in line with the IMF's financial year on April 30, and it will be available in multiple digital and print formats, including print copies, PDF files available for online viewing and print-on-demand, and formats for eReaders (eBook, iBook, Mobi, Kindle, Nook, and more).² We will update individual chapters more regularly if there are significant changes to IMF structures or lending facilities or if we uncover errors in the published edition. These updates will be available online and will note the date of the last revision. The version of record will be the latest electronic version published on the IMF's website and eLibrary.

We invite your feedback and comments. This publication is meant to answer your questions about the IMF. If some of your questions remain unanswered, please contact us at publicaffairs@imf.org.

Andrew Tweedie
Director, Finance Department

² For web PDF files, visit www.imf.org; for other digital formats, visit www.elibrary.imf.org.

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IMF Financial Operations (now in its third edition) provides a summary of financial operations and policies of the International Monetary Fund. It represents a thorough updating of a previous report entitled *Financial Organization and Operations of the IMF*, first published in 1986 and last issued in 2001. Many descriptions have been simplified in a reader-friendly manner and should not be treated as authoritative statements on IMF policies. The views expressed in this publication are those of IMF staff and do not necessarily represent the views of the Executive Board or their national authorities.

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Abbreviations

BIS	Bank for International Settlements	IFS	International Financial Statistics
BPM6	<i>Balance of Payments Manual</i> , sixth edition	IMF	International Monetary Fund
CCRT	Catastrophe Containment and Relief Trust	IMFC	International Monetary and Financial Committee
CEP	Committee of Eminent Persons	LIC	Low-Income Country
EAC	External Audit Committee	MDRI	Multilateral Debt Relief Initiative
ECF	Extended Credit Facility	NAB	New Arrangements to Borrow
EDD	Economic Development Document	NPV	Net Present Value
EFF	Extended Fund Facility	OECD	Organisation for Economic Co-operation and Development
ENDA	Emergency Natural Disaster Assistance	OPEC	Organization of the Petroleum Exporting Countries
EPCA	Emergency Post Conflict Assistance	PCDR	Post-Catastrophe Debt Relief
ESAF	Enhanced Structural Adjustment Facility	PLL	Precautionary and Liquidity Line
ESF	Exogenous Shocks Facility	PPP	Purchasing Power Parity
FCC	Forward Commitment Capacity	PRGT	Poverty Reduction and Growth Trust
FCL	Flexible Credit Line	PRSP	Poverty Reduction Strategy Paper
FSAP	Financial Sector Assessment Program	PSI	Policy Support Instrument
FTP	Financial Transactions Plan	QPC	Quantitative Performance Criteria
FY	Financial Year	RA	Reserve Account
GAB	General Arrangements to Borrow	RAP	Rights Accumulation Program
G-20	Group of Twenty	RCF	Rapid Credit Facility
GDP	Gross Domestic Product	REIT	Real Estate Investment Trust
GFSR	<i>Global Financial Stability Report</i>	RFI	Rapid Financing Instrument
GLA	General Loan Account	RMP	Resource Mobilization Plan
GRA	General Resources Account	SBA	Stand-By Arrangement
GSA	General Subsidy Account	SCA	Special Contingent Account
HAPA	High Access Precautionary Arrangement	SCF	Standby Credit Facility
HIPC	Heavily Indebted Poor Countries	SDA	Special Disbursement Account
IA	Investment Account	SDR	Special Drawing Right
IDA	International Development Association	SLA	Special Loan Accounts
IFI	International Financial Institution	SMP	Staff Monitored Program
IFRS	International Financial Reporting Standards		

SSA	Special Subsidy Account
TBRE	Time-Based Repurchase Expectation Policy
TF	Trust Fund
TIM	Trade Integration Mechanism
TMU	Technical Memorandum of Understanding
UCT	Upper-Credit Tranche
VTA	Voluntary Trading Arrangements

The following symbols have been used throughout this publication:

- ... to indicate that data are not available
- to indicate that the figure is zero or less than half the final digit shown, or that the item does not exist
- between years or months (for example, 2012–13 or January–June) to indicate the years or months covered, including the beginning and ending years or months

/ between years (for example, 2012/13) to indicate a fiscal or financial year

“Billion” means a thousand million; “trillion” means a thousand billion.

“Basis points” refer to hundredths of 1 percentage point (for example, 25 basis points are equivalent to $\frac{1}{4}$ of 1 percentage point).

FY refers to the IMF’s financial year (May 1–April 30) unless otherwise noted.

“n.a.” means “not applicable.”

Minor discrepancies between sums of constituent figures and totals are due to rounding.

As used in this publication, the term “country” does not in all cases refer to a territorial entity that is a state as understood by international law and practice. As used here, the term also covers some territorial entities that are not states but for which statistical data are maintained on a separate and independent basis.

1

Overview of the IMF as a Financial Institution

The International Monetary Fund was founded some 70 years ago near the end of World War II. The founders aimed to build a framework for economic cooperation that would forestall the kinds of economic policies that contributed to the Great Depression of the 1930s and the global conflict that ensued. The world has changed dramatically since 1944, bringing extensive prosperity to many countries and lifting millions out of poverty. The IMF has evolved as well, but in many ways its main purpose—to support the global public good of financial stability and prosperity—remains the same today as when the organization was established.

Throughout its history, the organization has played a central role within the international financial architecture. With its near-global membership of 189 countries, the IMF is uniquely positioned to help member governments take advantage of the opportunities and manage the challenges posed by globalization and economic development more generally.

More specifically, the IMF continues to serve a number of critical international functions, including to provide a forum for cooperation on international monetary issues; facilitate the growth of international trade, thus promoting job creation, economic growth, and poverty reduction; promote exchange rate stability and an open system of international payments; and lend countries foreign exchange when needed, on a temporary basis and under adequate safeguards, to help them address balance of payments problems. Marked by massive movements of capital and shifts in comparative advantage, globalization has affected IMF member countries' policy choices in many areas. Helping its members benefit from globalization, while avoiding potential pitfalls, is an important task for the IMF.

A core responsibility of the IMF is to provide resources to member countries experiencing actual or potential balance of payments problems, meaning that the country cannot find sufficient financing on affordable terms to meet its net international payments (for example, for imports or external debt redemptions). This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while implementing policies to correct underlying problems without resorting to measures that could be destructive to national or international prosperity. Unlike development banks, the IMF does not lend for specific projects.

The global financial crisis of 2007–09 highlighted how economically interconnected countries have become. During the crisis, the IMF mobilized on many fronts to support its members. To meet the ever-increasing financing needs of countries hit by the crisis and help strengthen global economic and financial stability, the IMF significantly bolstered its lending capacity. It did so both by securing large bilateral borrowing agreements from individual member countries and/or their agencies and by expanding the New Arrangements to Borrow (NAB) as a first step, as well as obtaining commitments to increase quota subscriptions of member countries—the IMF's main source of financing. The IMF has refined its general lending framework to make it better suited to member countries' needs, in particular to give greater emphasis to crisis prevention. The IMF also undertook an unprecedented reform of its policies toward low-income countries and significantly boosted the resources and concessional lending available to the world's poorest countries. To increase its permanent resource

base and strengthen its legitimacy, in December 2010, the IMF's member countries also agreed to a historic quota and governance reform to double quotas and increase the role of emerging market and developing economies in the decision-making of the institution while simultaneously preserving the voice of the low-income members.

This chapter describes the evolution of the IMF's financial structure and operations, its role and functions, governance structure, and the nature of recent reforms. It provides an overview of the material covered in detail in subsequent chapters, looking in turn at the IMF's nonconcessional financing (Chapter 2), concessional financing (Chapter 3), the Special Drawing Rights (SDR) mechanism (Chapter 4), income generation (Chapter 5), and financial risk management (Chapter 6). The chapter concludes with suggested sources for further information on IMF finances.

1.1 Role and Purposes of the IMF

The IMF is a cooperative international monetary organization whose nearly universal membership comprises 189 countries.¹ It was established in 1945, together with the International Bank for Reconstruction and Development (known as the World Bank), under agreements reached by delegates from 44 countries who convened during July 1944 at the Bretton Woods Conference.

The responsibilities of the IMF derive from the basic purposes for which the institution was established, as set out in Article I of the IMF Articles of Agreement—the charter that governs all policies and activities of the IMF:

- To promote international monetary cooperation through a permanent institution which provides the machinery for consultation and collaboration on international monetary problems.
- To facilitate the expansion and balanced growth of international trade, and to contribute thereby to the promotion and maintenance of high levels of employment and real income and to the development of the productive resources of all members as primary objectives of economic policy.
- To promote exchange stability, to maintain orderly exchange arrangements among members, and to avoid competitive exchange depreciation.
- To assist in the establishment of a multilateral system of payments in respect of current transactions between members and in the elimination of foreign exchange restrictions which hamper the growth of world trade.
- To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity

to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity.

- In accordance with the above, to shorten the duration and lessen the degree of disequilibrium in the international balances of payments of members.

In pursuit of these objectives, the key activities of the IMF can be classified under three areas—lending, surveillance, and the provision of capacity-building services:

- **Lending functions** of the IMF are tailored to address the specific circumstances of its diverse membership. The IMF is probably best known as a financial institution that provides resources to member countries experiencing temporary balance of payments problems (actual or potential). This financial assistance enables countries to rebuild their international reserves, stabilize their currencies, continue paying for imports, and restore conditions for strong economic growth, while implementing policies to correct underlying problems. The IMF is also actively engaged in promoting economic growth and poverty reduction for its poorer members facing a protracted or short-term balance of payments need by providing financing on concessional terms. Nonconcessional loans are provided mainly through Stand-By Arrangements, the Flexible Credit Line, the Precautionary and Liquidity Line, and the Extended Fund Facility. The IMF may also provide emergency assistance via the Rapid Financing Instrument to all its members facing urgent balance of payments needs. Low-income countries may borrow on concessional terms from the IMF as a trustee of the Poverty Reduction and Growth Trust, currently through the Extended Credit Facility, the Standby Credit Facility, and the Rapid Credit Facility.
- **Surveillance functions** stem primarily from the IMF's responsibility for overseeing the international monetary system and the policies of its members, a task entrusted to the IMF following the collapse of the Bretton Woods fixed exchange rate system in the early 1970s. These activities include bilateral surveillance, which is the regular monitoring and peer review by other members of economic and financial developments and policies in each member country. Regional and multilateral surveillance is conducted through ongoing reviews of world economic conditions, financial markets, fiscal developments and outlooks, and through oversight of the international monetary system. Following the global financial crisis, the IMF undertook several major initiatives to strengthen surveillance in a more globalized and interconnected world and adopted an Integrated Surveillance Decision in July 2012.²

¹ On April 12, 2016, the IMF welcomed the Republic of Nauru as its newest member.

² This Decision became effective in January 2013 and provides the legal framework for surveillance to cover spillovers (how economic policies in

- **Capacity building** and other services to members of the IMF include provision of technical assistance and external training; creation and distribution of international statistical information and methodologies; and establishment and monitoring of standards and codes for international best practice in several areas, including timely country economic and financial statistics, monetary and fiscal transparency, assessment of financial sector soundness, and promotion of good governance.

To sum up, the IMF is much more than a lending institution. It is concerned not only with the economic problems of individual member countries but also with the working of the international monetary system as a whole. Its activities are aimed at promoting policies and strategies through which its members can work together to ensure a stable world financial system and sustainable economic growth. The IMF provides a forum for international monetary cooperation, and thus for an orderly evolution of the global system, and it subjects wide areas of international monetary affairs to the covenants of law, moral suasion, and mutual understanding. The IMF must also stand ready to deal with financial crises, which not only affect individual members but can also threaten the entire international monetary system.

All operations of the IMF are conducted under a decision-making structure that has evolved over time (Box 1.1). The governance structure attempts to strike a balance between representation of its members and the operational necessities of managing an effective financial institution. Although every member country is represented separately on the Board of Governors, most members form combined constituencies on the much smaller Executive Board, which conducts the day-to-day business of the IMF. Members' voting power is based mainly on the size of their quotas, or capital subscriptions, which are intended to reflect members' relative economic positions in the world economy. This structure gives the greatest voice to the institution's largest contributors, although smaller members are protected through a system of basic votes.³ Moreover, the Executive Board bases most of its decisions on consensus, without a formal vote. This procedure ensures the thorough consideration of all points of view.

The IMF is a quota-based institution, and quotas play a number of key roles; they not only determine a country's voting power and maximum financial commitment but are also relevant for access to IMF resources. The IMF normally conducts general reviews of quotas every 5 years. These reviews provide an opportunity to assess the appropriate size of the Fund and the distribution of quotas among its members. In the past, general quota

increases have been distributed largely in proportion to existing quota shares with a smaller amount of the quota increases generally allotted to realign members' quotas with their relative positions in the world economy as reflected in their calculated quota shares, which are based on a quota formula designed for this purpose.⁴

Because earlier adjustments have been largely proportional to existing quotas, changes in the distribution of actual quotas have lagged behind global economic developments. Consequently, in order to safeguard and enhance the institution's credibility and effectiveness, in 2006 the IMF began a process to review and reform the quota and voice of its member countries. The specific aim was to better align members' quota shares with their economic positions in the world economy and to enhance the voice of low-income countries in the governance of the IMF.

At its annual meeting in Singapore in September 2006, the Board of Governors adopted a resolution requiring the IMF Executive Board to implement a comprehensive program of reforms that, when complete, would increase the representation of dynamic economies (many of which are emerging market economies) whose position and role in the global economy has increased and would make quota and voting shares in the Fund more reflective of changes in global economic realities in the future. Similarly, the voice and participation of low-income countries was to be enhanced through an increase in basic votes which, at a minimum, would be sufficient to preserve their voting shares.

During the first stage of this reform, the Board of Governors agreed that the countries whose quota shares were most out of line with their relative positions in the world economy—namely, China, Korea, Mexico, and Turkey—would receive ad hoc quota increases as a down payment on an adjustment for a broader set of countries based on a new formula. An ad hoc increase for 54 underrepresented members was agreed in 2008; it used a simpler and more transparent quota formula as the basis and became effective in March 2011. The 2008 Quota and Voice Reforms strengthened the representation of dynamic economies, many of which are emerging market economies. They also enhanced the voice and participation of low-income countries through (1) a tripling of basic votes—the first such increase since the IMF's creation in 1945, (2) a mechanism to keep constant the ratio of basic votes to total IMF voting power, and (3) a measure enabling Executive Directors representing seven or more members to each appoint a second Alternate Executive Director.

Building on this reform, in December 2010, the Board of Governors approved a major Quota and Governance Reform in connection with the completion of the Fourteenth General Review of Quotas and a proposed amendment of the IMF's Articles of

one country affect others) as well as deepening the IMF's analysis of risks and financial systems. www.imf.org/external/np/exr/facts/isd.htm.

³ A member's voting power is equal to its basic votes, which are the same for all members, plus one additional vote for each SDR 100,000 in quota. Basic votes therefore help to strengthen the relative voting power of those members with the smallest quotas. See Appendix 1 for the IMF's quota structure.

⁴ The major variables in the quota formula have been GDP, external openness, variability of external receipts, and reserves. The central role of quotas and the quota formula are discussed in Chapter 2.

Agreement on the reform of the Executive Board. The reform package, which became effective on January 26, 2016 (1) doubles quotas to approximately SDR 477 billion (about \$659 billion), (2) shifts more than 6 percent of quota shares to dynamic emerging market and developing economies and from overrepresented to underrepresented countries, and (3) protects the quota shares and voting power of the poorest members. With this shift, the four largest emerging market economies (Brazil, China, India, and Russia) are now among the IMF's 10 largest shareholders, alongside France, Germany, Italy, Japan, the United Kingdom, and the United States. In addition, the 2010 reform moves the IMF to an all-elected Executive Board. The combined representation of advanced European economies on the Executive Board is set to decrease by two Executive Director chairs, and multi-country constituencies with seven or more members may now appoint a second Alternate Executive Director to enhance their representation on the Executive Board.

1.2 Evolution of the IMF's Financial Structure

The most salient feature of the IMF's financial structure is that it is continuously evolving. The IMF has introduced and refined a variety of lending facilities and policies over the years to address changing conditions in the global economy or the specific needs and circumstances of its members.⁵ It has also discontinued or modified such adaptations when appropriate.

- 1945–60: The IMF facilitated a move to convertibility for current payments, meaning that member countries were able to freely convert the currencies of one member country into those of another. Restrictions on trade and payments that had been put in place before and during World War II were removed, and there was relatively little financing by the IMF.
- 1961–70: To meet the pressures on the Bretton Woods fixed exchange rate system, the IMF developed a new supplementary reserve asset, the Special Drawing Right or SDR. It also developed a standing borrowing arrangement with the largest creditor members to supplement its resources during times of systemic crisis.
- 1971–80: The two world oil crises led to an expansion in IMF financing and the development of new lending facilities

funded from borrowed resources. It also marked the IMF's expansion into concessional lending to its poorest members.

- 1981–90: The developing country debt crisis triggered a further sharp increase in IMF financing, with higher levels of assistance provided to individual countries than in the past. These programs were also financed in part by borrowed resources.
- 1991–2000: The IMF established a temporary lending facility to smooth the integration into the world market system of formerly centrally planned economies, primarily in Central and Eastern Europe. IMF financing facilities also were restructured to meet members' demands in an environment of increasingly globalized financial markets, where large and sudden shifts in international capital flows led to payment imbalances originating in the financial account rather than the current account of the balance of payments.
- 2001–06: The world economy experienced a period of sustained economic growth, expanding trade and capital flows, and relatively low inflation and interest rates. This extended period of relatively benign economic conditions—and, in many cases, high commodity prices—spurred rapid growth, produced strong external positions, and led to a sharp decline in outstanding IMF credit. At the same time, the IMF's focus turned to the growing challenges posed by the acceleration of globalization, including the need to strengthen and modernize the surveillance process, seek new ways to support emerging market economies, and deepen its engagement with low-income countries.

1.3 Measures Taken since the Onset of the Financial Crisis

In 2007, the U.S. subprime mortgage market soured, ushering in the global financial crisis that struck with full force in the fall of 2008 with the collapse of Lehman Brothers. In response, the IMF mobilized on a number of fronts to support its member countries. In particular, the IMF significantly increased its lending capacity through borrowing; completed a general quota review that resulted in an agreement to double its quota resources; and implemented two SDR allocations. It refined its general lending framework to place greater emphasis on crisis prevention, reformed its policies toward low-income countries, increased its concessional lending resources, strengthened its surveillance mechanisms, and reformed its governance framework.

1.3.1 Borrowing

A key element of international efforts to overcome the global financial crisis was the agreement of the Group of Twenty industrialized and emerging market economies (G20) in April 2009 to increase borrowed resources available to the IMF, complementing its quota resources by up to \$500 billion. This resulted in a

⁵ The provision of financial assistance by the IMF to its members through the General Resources Account (GRA) is not "lending" either technically or legally. IMF financial assistance provided through the GRA takes place by means of an exchange of monetary assets, similar to a swap. Nevertheless, this purchase and repurchase of currencies from the IMF, with interest charged on outstanding purchases, is functionally equivalent to a loan and its subsequent repayment. Accordingly, for ease of reference, the terms "lending," and "loans" are used throughout this publication to refer to these arrangements, as explained in Section 2.2.

tripling of the IMF's lending resources, which were about \$250 billion before the crisis. The International Monetary and Financial Committee (IMFC) endorsed this broad goal. The overall financing increase was accomplished in two steps, first through bilateral financing from IMF member countries (the 2009 round of bilateral agreements) and second by incorporating (folding) this financing into the expanded and more flexible New Arrangements to Borrow (NAB).⁶

In April 2012, the IMFC and G20 jointly called for further enhancement of IMF resources for crisis prevention and resolution through temporary bilateral loans and note purchase agreements. In response, in June 2012, the Executive Board endorsed modalities for a new round of bilateral borrowing—the 2012 Borrowing Agreements (see Borrowing by the IMF).

1.3.2 Quotas

As discussed in Section 1.1, the 2010 Quota and Governance Reform and the completion of the Fourteenth General Review of Quotas in December 2010 resulted in a doubling of quotas to approximately SDR 477 billion (about \$659 billion). Once the reform package became effective in early 2016, there was a roll-back in the NAB credit arrangements from about SDR 370 billion to about SDR 182 billion.

1.3.3 SDRs

Postcrisis measures also included a new general allocation of SDRs. In 2009, in addition to increasing the IMF's lending capacity, the membership agreed to make a general allocation of SDR 161.2 billion (or approximately \$250 billion), resulting in a nearly tenfold increase in SDRs. This represented a significant increase in reserves available to help member countries, including many low-income countries.

1.3.4 General Lending Framework

The IMF also refined its lending framework to offer higher loan amounts and tailor its lending toolkit to the evolving needs of the membership. New facilities were introduced in the General Resources Account (GRA) to complement existing instruments. The Flexible Credit Line (FCL), introduced in April 2009 and further enhanced in August 2010, is a lending tool for countries with very strong fundamentals. It provides large, up-front access to IMF resources as a form of insurance for crisis prevention and involves no policy conditions once a country is approved. Benefits to countries that have used the FCL include lower borrowing costs and more room for policy maneuver.

In 2011, the Executive Board approved a further set of reforms to bolster the flexibility and scope of the GRA lending toolkit.

There were two key reforms. First, existing GRA emergency assistance tools were consolidated under a single instrument, the Rapid Financing Instrument (RFI). This increased the flexibility of support to countries facing urgent balance of payments needs, including those stemming from exogenous shocks. Second, the Precautionary Credit Line (PCL) was replaced by the Precautionary and Liquidity Line (PLL), a more flexible instrument that can be used not only to address potential but also actual balance of payments needs. This added flexibility provides IMF members that have strong fundamentals with policy insurance against future shocks.

1.3.5 Resources and Lending to Low-Income Countries

Since 2009, the IMF has advanced its support for low-income countries through the Poverty Reduction and Growth Trust (PRGT), reflecting the changing nature of economic conditions in these countries and their increased vulnerability as a result of the global financial crisis. The PRGT provides three lending windows, which were established in January 2010. These three lending vehicles are tailored to provide flexible support to the increasingly diverse needs of low-income members: (1) the Extended Credit Facility (ECF) provides medium- to long-term support; (2) the Standby Credit Facility (SCF) provides flexible support to address low-income countries' short-term financing and adjustment needs; and (3) the Rapid Credit Facility (RCF) provides rapid support through a single up-front payout for low-income countries facing urgent financing needs.

The IMF has introduced a new interest rate structure that links the concessional interest rates paid on PRGT lending to the SDR interest rate and is subject to regular review. Exceptional interest relief has been extended to all low-income countries—zero interest on all concessional loans until the end of 2016. The IMF also set up a more flexible concessional financing framework. This included establishing a General Loan Account (GLA) and a General Subsidy Account (GSA) to receive and provide financing for all PRGT facilities and special loan and subsidy accounts to accommodate donors' preference for making contributions to specific facilities. In September 2012, the Executive Board approved a strategy to make the PRGT self-sustaining. The strategy relies on the use of resources from the partial distribution of the IMF's general reserves linked to the windfall from earlier gold sales. In July 2015, the Board approved changes to access policies for the IMF's concessional facilities, raising access limits and norms in general by 50 percent and rebalancing the funding mix of concessional to nonconcessional financing under blended arrangements with a view to target concessional financing better on the poorest and most vulnerable members while preserving the self-sustained lending capacity of the PRGT. The Board set the interest rate on loans under the RCF to zero percent. It also undertook its biennial review of eligibility for concessional financing, approving a list of 69 countries that will be able to borrow under the PRGT.

⁶ The NAB is a set of credit arrangements between the IMF and 38 member countries and institutions, including a number of emerging market economies. Further details are provided in [Chapter 2](#).

In June 2010, the IMF established a Post-Catastrophe Debt Relief (PCDR) Trust, which allowed the Fund to join international debt relief efforts for very poor countries hit by catastrophic natural disasters. In February 2015, the IMF expanded the circumstances under which it can provide exceptional assistance to its low-income members to include public health disasters. The PCDR was transformed into the Catastrophe Containment and Relief (CCR) Trust, as a vehicle to provide exceptional support to countries confronting major natural disasters, including not just catastrophic disasters such as massive earthquakes, but also life-threatening, fast-spreading epidemics.

1.4 The IMF's Financial Structure and Lending Mechanisms

The IMF provides financing to its members through three channels, all of which serve the common purpose of transferring reserve currencies to member countries: regular (nonconcessional) lending from the GRA; concessional lending from the PRGT; and the SDR Department. Regular and concessional lending operations involve the provision of financing to member countries under “arrangements” with the IMF that are similar to lines of credit. A large majority of IMF lending arrangements condition use of these lines of credit (facilities) on achievement of economic stabilization objectives agreed between the borrowing member and the IMF. The IMF may also create international reserve assets by allocating SDRs to members, which can use them to obtain foreign exchange from other members. Use of SDRs is unconditional, although a market-based interest rate is charged.

The basic financial structure of the IMF is summarized in [Figure 1.1](#), which includes references to the chapters of this publication where each of the three financing channels is discussed in detail (regular lending in [Chapter 2](#), concessional lending in [Chapter 3](#), and use of SDRs in [Chapter 4](#)). [Chapter 5](#) explains how the IMF generates income through lending and investment activities to finance its administrative expenditures. [Chapter 6](#) describes the IMF's financial risk-management framework. Brief summaries of the contents of these chapters follow.

1.4.1 Nonconcessional Financing (Chapter 2)

Unlike other international financial institutions such as the World Bank or regional development banks, the IMF is not technically a lending institution. Instead, the IMF is a repository for its members' currencies and a portion of their foreign exchange reserves. The IMF uses this pool of currencies and reserve assets to extend credit to member countries when they face economic difficulties as reflected in their external balance of payments.

The IMF's regular lending is financed from the fully paid-in capital subscribed by member countries. Such lending is conducted through the General Resources Account of the General Department, which holds the capital subscribed by members. A country's capital subscription is its IMF quota. At the time it

joins, each country is assigned a quota based broadly on its relative position in the world economy, and this represents its maximum financial commitment to the IMF.⁷

The IMF's quota-based currency holdings can be supplemented by GRA borrowing. Borrowing by the IMF to finance the extension of credit through the GRA is an important complement to the use of quota resources. Borrowing is currently conducted under its main standing borrowing arrangement, the New Arrangements to Borrow (NAB), as well as through bilateral agreements.⁸ However, as the IMF is a quota-based institution, borrowing is understood to be a temporary supplement, in particular during periods of financial crisis but also as a bridge to general quota increases.

The lending instruments of the IMF have evolved over the years. Initially, IMF lending took place exclusively on the basis of general policies governing access to its resources in what became known as the credit tranches and, in particular, under Stand-By Arrangements (SBA). Beginning in the 1960s, special policies—such as the Extended Fund Facility (EFF) established in 1974 to help countries address medium- and longer-term balance of payments problems—were developed to deal with various balance of payments problems that had particular causes.

After 2008, in the wake of the global financial crisis, the IMF strengthened the GRA lending toolkit to meet member countries' financing needs while safeguarding IMF resources. Existing lending instruments were modified and new ones were created, including the Flexible Credit Line (FCL), the Precautionary and Liquidity Line (PLL), and the Rapid Financing Instrument (RFI).

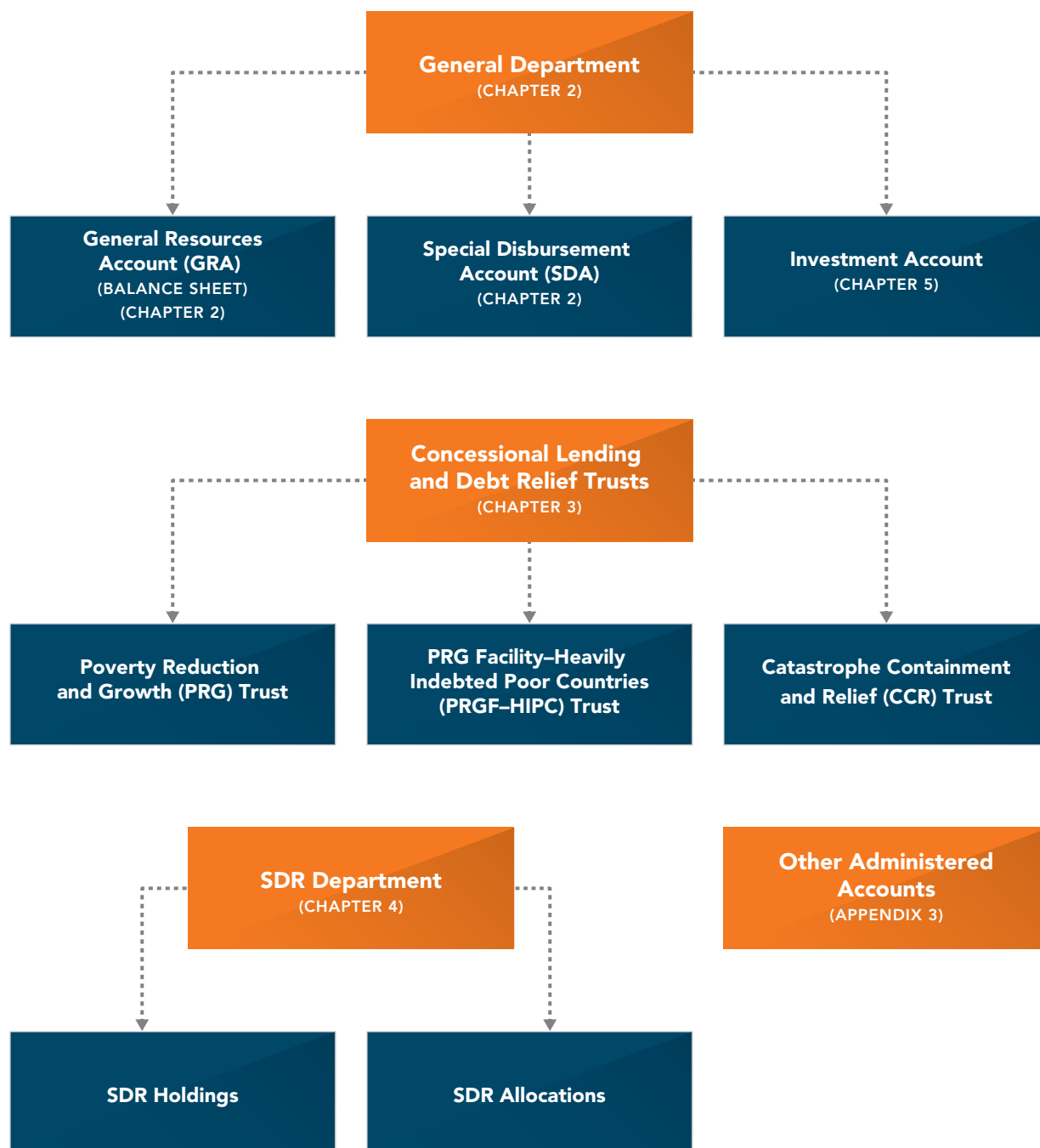
1.4.2 Concessional Financing (Chapter 3)

The IMF lends to poor countries on concessional terms that involve interest rates of zero to no more than 0.75 percent. Until the end of 2016, the interest rate on concessional lending will be zero. Concessional lending is meant to enhance these countries' ability to pursue sustainable macroeconomic policies to promote growth and reduce poverty. The IMF also provides assistance on a grant basis to heavily indebted poor countries (HIPC) to help them achieve sustainable external debt positions. Concessional lending began in the 1970s and was strengthened over time. In July 2009, the Executive Board approved a comprehensive reform of the IMF's concessional facilities. Such assistance is now provided mainly through the facilities of the Poverty Reduction and Growth Trust (PRGT).

Concessional lending activities are undertaken separately from the IMF's regular lending operations, using resources provided voluntarily by members (independently of their

⁷ Quotas also determine a country's voting power in the IMF, define the basis for its access to IMF financing, and determine its share of SDR allocations.

⁸ Another standing borrowing arrangement, the General Arrangements to Borrow (GAB), can also be used in limited cases.

Figure 1.1 Financial Structure of the IMF

Source: Finance Department, International Monetary Fund.

Note: Chapter numbers refer to where in this publication each topic is discussed. [Chapter 6](#) covers “Financial Risk Management.”

SDR = Special Drawing Right.

IMF capital subscriptions) along with some of the IMF's own resources. The concessional lending and debt relief operations are trust based, which allows for more flexibility in differentiating among members and mobilizing resources. The use of trusts also removes certain credit and liquidity risks from the balance sheet of the GRA. The resources are administered under the PRGT for concessional lending and, for debt relief, under the Poverty Reduction and Growth—Heavily Indebted Poor Countries (PRG-HIPC) Trust, and the Catastrophe Containment and Relief (CCR) Trust.⁹ The IMF acts as trustee for these trusts, mobilizing and managing resources for all the concessional operations.

1.4.3 The SDR (Chapter 4)

The SDR is a reserve asset created by the IMF and allocated to participating members in proportion to their IMF quotas to meet a long-term global need to supplement existing reserve assets. A member may use SDRs to obtain foreign exchange from other members and to make international payments, including to the IMF. The SDR is not a currency, nor is it a liability of the IMF; instead, it serves primarily as a potential claim on freely usable currencies. Members are allocated SDRs unconditionally and may use them to obtain freely usable currencies in order to meet a balance of payments financing need without undertaking economic policy measures or repayment obligations. A member that makes net use of its allocated SDRs pays the SDR interest rate on the amount used whereas a member that acquires SDRs in excess of its allocation receives the SDR interest rate on its excess holdings.

Decisions to allocate SDRs are made for successive basic periods of 5 years. As of April 30, 2016, there have been only three general allocations of SDRs and one special allocation under the Fourth Amendment to the Articles of Agreement. Most recently in 2009, a general allocation was made to help mitigate the effects of the global financial crisis, and the special allocation under the Fourth Amendment to enable all members of the IMF to participate in the SDR system on an equitable basis also became effective. The 2009 allocations raised total cumulative SDR allocations to about SDR 204 billion.

The SDR serves as the unit of account for the IMF, and the SDR interest rate provides the basis for calculating the interest charges on regular IMF financing and the interest rate paid to members that are creditors to the IMF. The value of the SDR is based on a basket of currencies and is determined daily based on exchange rates quoted in the major international currency markets. In November 2015, the Executive Board decided to add the Chinese renminbi to the SDR basket effective October 1, 2016. The new basket comprises the U.S. dollar, euro, Chinese renminbi, Japanese yen, and pound sterling (see Section 4.2.1).

⁹ As part of the strategy to fund the CCR Trust, the MDRI-I, and MDRI-II trusts were liquidated in 2015.

1.4.4 Income Generation (Chapter 5)

The IMF generates income primarily through lending activities and investment activities. Since its establishment, the IMF has relied primarily on lending activities to fund its administrative expenses, including its pension and employee benefit expenses. Lending income is derived from the charges (interest on loans) that are levied on the outstanding use of credit in the General Resources Account. In addition to the basic rate of charge, the use of IMF credit under certain circumstances is subject to surcharges, and all IMF credit is subject to service charges, commitment fees on credit lines, and special charges. A small amount of income is also generated by receipt of interest on the IMF's SDR holdings.

Over the years, a number of measures have allowed the IMF to diversify its sources of income. In 1978, the Second Amendment to the IMF's Articles of Agreement authorized establishment of the Investment Account (IA). The Investment Account was activated in 2006 (largely in light of the deterioration in the IMF's income position as a result of a decline in credit outstanding) with a transfer from the General Resources Account of SDR 5.9 billion. In 2008, the Executive Board endorsed a new income model to allow the IMF to diversify its sources of income through the establishment of an endowment in the Investment Account funded with the profits from a limited sale of gold holdings and to expand investment authority to enhance returns.

Broadening the IMF's investment authority required an amendment to the Articles of Agreement, which became effective in 2011, following ratification by the required majorities of the members. The amendment authorized expansion of the range of instruments in which the IMF could invest according to the rules and regulations to be adopted by the Executive Board. New rules and regulations for the Investment Account came into effect in January 2013 and were amended in March 2014 and again in August 2015.

1.4.5 Financial Risk Management (Chapter 6)

The Articles of Agreement require that the IMF establish adequate safeguards for the temporary use of its resources. The IMF has an extensive risk-management framework in place, including strategies to address the institution's strategic and operational risks as well as more traditional financial risks.

The financial structure of the IMF, especially the need for its resources to revolve for use by other members, requires that members with financial obligations to the institution repay them as they fall due. The IMF has implemented a multilayered framework to mitigate the full range of financial risks it faces in fulfilling its mandate, including credit, liquidity, income, and market risks.

Credit risks typically dominate, reflecting the IMF's core role of providing balance of payments support to members when other financing sources are not readily available. Credit risks can fluctuate widely because the IMF does not target a particular level of lending or lending growth, and so it must rely on a comprehensive set of measures to mitigate credit risk. The IMF's primary

tools are its strong lending policies governing access, phasing, program design, and conditionality. These policies include assessments of members' capacity to implement adjustment policies and repay the IMF. An exceptional access framework for larger commitments subjects potential borrowers to higher scrutiny, including eligibility criteria and a supplemental assessment of financial risks to the IMF whenever such lending is considered by the Executive Board.

The IMF also has systems in place to assess safeguards procedures at members' central banks and address overdue financial obligations. In the event a country falls into arrears, the IMF has an agreed strategy that includes a burden-sharing mechanism to cover any income losses. There is also a framework to assess the adequacy of precautionary balances, which serve as a buffer against the financial consequences of residual credit risks, helping to ensure that members' reserve positions remain of high quality and readily available to meet their balance of payments needs, even under adverse circumstances.

1.5 Information Sources on IMF Finances

1.5.1 IMF Website

Comprehensive and timely data on IMF finances are available on the IMF website (www.imf.org). Financial data are presented in aggregate form for the institution as a whole and for each member country. The IMF Finances portal (www.imf.org/external/fin.htm) provides ready access to current and historical data on all aspects of IMF lending and borrowing operations.

The IMF Finances portal links to general information on the financial structure, terms, and operations of the institution,

including electronic versions of this publication. Data sets include the following and are updated regularly as indicated:

- exchange rates (twice daily)
- IMF interest rates (weekly)
- financial activities and status of lending arrangements (weekly)
- financial resources and liquidity (monthly)
- financial statements (monthly)
- financing of IMF transactions (quarterly)
- financial position of members in the IMF (monthly)
- disbursements and repayments (monthly)
- projected obligations to the IMF (monthly)
- IMF credit outstanding (monthly)
- lending arrangements (monthly)
- SDR allocations and holdings (monthly)
- arrears to the IMF (monthly).

Additional information is available through a mobile app, IMF Finances, free for download on mobile devices. The app currently displays 10 years of IMF financial data in aggregate and country formats, including credit outstanding, lending arrangements, past transactions, projected payments, and SDR interest rates.

1.5.2 Contacts in the Finance Department

Questions concerning any aspect of the financial structure and operations of the IMF should be sent by email directly to the staff of the Finance Department at IMFfinances@imf.org.

Box 1.1 The Decision-Making Structure of the IMF

The IMF's decision-making structure consists of a Board of Governors, an Executive Board, a Managing Director, and a staff of nearly 3,000 that roughly reflects the diversity of its membership. The Board of Governors is the highest decision-making body of the IMF; it consists of one Governor and one Alternate appointed by each member country. The members of the Board of Governors are usually ministers of finance, heads of central banks, or officials of comparable rank, and they normally meet once a year.

An International Monetary and Financial Committee (IMFC), currently composed of 24 IMF Governors, ministers, or others of comparable rank (reflecting the composition of the Executive Board and representing all IMF members), usually meets twice a year. The IMFC advises and reports to the Board of Governors on the management and functioning of the international monetary system, proposals by the Executive Board to amend the Articles of Agreement, and any sudden disturbances that might threaten the international financial system. The Development Committee, which is currently composed of 25 World Bank Governors, Ministers, or others of comparable rank (reflecting the composition of the World Bank Executive Board and representing all IMF members), has a similar composition, surveys the development process, reports to the Board of Governors of the World Bank and the IMF, and makes suggestions on all aspects of the broad question of the transfer of resources to developing economies.

The IMF Executive Board is responsible for "conducting the business of the Fund" and exercises the powers delegated to it by the Board of Governors.¹ It functions in continuous session at IMF headquarters, currently consists of 24 Executive Directors, and is chaired by the Managing Director.² The Managing Director is selected by the Executive Board and is the chief of the operating staff of the IMF and "conduct[s], under the direction of the Executive Board, the ordinary business of the Fund." The Deputy Managing Directors are appointed by the Managing Director, and their appointment and terms of service are subject to the approval of the Executive Board.

The current 24 Executive Directors were either appointed or elected by the IMF's membership. The five member countries with the largest quotas each appointed an Executive Director while 19 of the Executive Directors were elected by the membership. A key feature of the 2010 Quota and Governance Reform was an amendment to the Articles of Agreement to eliminate the category of appointed Executive Directors (Board Reform Amendment). In January 2016, when the Board Reform Amendment became effective, the category of appointed Executive Directors was eliminated and, going forward, all Executive Directors will be elected.³

The Articles of Agreement provide that the number of elected Executive Directors may be increased or decreased by the Board of Governors for each regular election. The flexibility accorded to the Board of Governors by the Articles allows it to (1) determine the size of the Executive Board in light of developments in the size of the IMF's overall membership and (2) recalibrate the size of the Executive Board if desired in the event one or two members were entitled to appoint an Executive Director pursuant to Article XII, Section 3(c).

In addition to the Board Reform Amendment and the doubling of quotas, the 2010 reform package included two important commitments that became operational after the three conditions for effectiveness of the 2010 Quota and Governance Reform were met.⁴ First, in order to achieve greater representation for emerging market and developing economies, the number of Executive Directors representing advanced European economies will be reduced by two no later than the first regular election of Executive Directors following the entry into force of the Seventh Amendment. Second, an Executive Board consisting of 24 elected Executive Directors will be maintained, and the number of directors will be reviewed every 8 years.

A number of important decisions specified in the Articles of Agreement require either 70 percent or 85 percent of the total voting power; other decisions are made by a majority of the votes cast.⁵

¹Article XII, Section 3 (a).

²The default size of the Executive Board is 20 but may be increased or decreased by the Board of Governors for the purposes of each regular election by an 85 percent majority of the total voting power.

³For further information, see Historic Quota and Governance Reforms Become Effective, January 27, 2016: www.imf.org/external/np/sec/pr/2016/pr1625a.htm

⁴The Fourteenth General Review of Quotas became effective on January 26, 2016, after three general effectiveness conditions were met: (1) members with no less than 70 percent of the total of quotas on November 5, 2010, consented to the increases in their quotas (this threshold was met on July 12, 2012), (2) the Sixth Amendment on Voice and Participation entered into force (which occurred on March 2, 2011), and (3) the proposed Board Reform Amendment became effective (this occurred on January 26, 2016). The Board Reform Amendment entered into force when the IMF certified that three-fifths of the members representing 85 percent of the total voting power had accepted it.

⁵See [Appendix 2](#) on Special Voting Majorities for Selected Financial Decisions.

Additional Reading

Articles of Agreement of the International Monetary Fund:
www.imf.org/external/pubs/ft/aa/index.htm

Historic Quota and Governance Reforms Become Effective, Press Release No. 16/25, January 27, 2016: www.imf.org/external/np/sec/pr/2016/pr1625a.htm

Integrated Surveillance Decision, *IMF Factsheet*: www.imf.org/external/np/exr/facts/isd.htm

IMF Articles of Agreement—*Articles XII, Section 3. Executive Board*: www.imf.org/external/pubs/ft/aa/index.htm#a12s3

IMF Board of Governors Approves Major Quota and Governance Reforms, Press Release No. 10/477, December 16, 2010: www.imf.org/external/np/sec/pr/2010/pr10477.htm

IMF Board of Governors Approves Quota and Related Governance Reform, Press Release No. 06/205, September 18, 2006: www.imf.org/external/np/sec/pr/2006/pr06205.htm

IMF Executive Board Adopts Decisions to Enhance the Financial Safety Net for Developing Countries, Press Release

No. 15/324, July 8, 2015: www.imf.org/external/np/sec/pr/2015/pr15324.htm

IMF Executive Board Approves Major Overhaul of Quotas and Governance, Press Release No. 10/481, November 5, 2010: www.imf.org/external/np/sec/pr/2010/pr10481.htm

IMF Finances portal: www.imf.org/external/fin.htm

IMF website: www.imf.org

Members Date of Entry to the IMF: www.imf.org/external/np/sec/memdir/memdate.htm

Republic of Nauru becomes IMF's 189th Member, Press Release No. 16/167, April 12, 2016: www.imf.org/en/news/articles/2015/09/14/01/49/pr16167

The Catastrophe Containment and Relief Trust, *IMF Factsheet*: www.imf.org/external/np/exr/facts/ccr.htm

"To Help Countries Face Crisis, IMF Revamps its Lending," *IMF Survey Magazine*, March 24, 2009: www.imf.org/external/pubs/ft/survey/so/2009/new032409a.htm

2

Nonconcessional Financial Operations

The IMF resources are held in the General Department, which consists of three separate accounts: the General Resources Account (GRA), the Special Disbursement Account (SDA), and the Investment Account (IA). The GRA is the principal account of the IMF and handles by far the largest share of transactions between the IMF and its members. The GRA can best be described as a pool of currencies and reserve assets largely built from members' fully paid capital subscriptions in the form of quotas ([Box 2.1](#)).

Quotas are the building blocks of the IMF's financial and governance structure. An individual member's quota broadly reflects its relative economic position in the world economy and also takes into account the quotas of similar countries. Quotas determine the maximum amount of financial resources that a member is obliged to provide to the IMF, its voting power in the IMF, and its share of Special Drawing Right (SDR) allocations. The financial assistance a member may obtain from the IMF is also generally based on its quota.

Quota subscriptions are the basic source of financing for the GRA. The IMF may also supplement its quota resources by borrowing. Borrowing by the IMF to finance the extension of credit through the GRA is an important complement to the use of quota resources, but it remains the exception rather than the rule and is used to supplement quota resources on a temporary basis (generally used only during periods of economic crisis).

This chapter starts by explaining the resources and liabilities of the GRA and the IMF's quota system, including the quota formula and the periodic reviews of the overall size of the IMF in the context of the general quota reviews. It then reviews recent

quota, governance, and voice reforms. It describes the borrowing arrangements used to supplement quota resources, including the General Arrangements to Borrow (GAB), New Arrangements to Borrow (NAB), and bilateral borrowing agreements. This is followed by a description of the IMF's Financing Mechanism of the General Resources Account and how the IMF makes resources available to member countries.

The second part of the chapter describes the asset side of the GRA. It outlines the lending toolkit and traces the evolution and responsiveness of lending policies to changes in the nature of balance of payments disturbances and to the recent expansion of IMF credit in the wake of the 2007–09 global financial crisis, including the review of IMF lending terms and conditions. The remainder of the chapter consists of a historical review of the sources and uses of gold in the IMF. The chapter concludes with a review of the balance sheet and income statement.

2.1 Financing Nonconcessional Lending Operations: Resources and Liabilities

2.1.1 Quotas

The IMF is a quota-based institution. Each member country is assigned a quota based broadly on its relative economic position in the world economy and pays a capital subscription to the IMF equal to that quota. Quotas are expressed in SDRs, and their size is determined by the IMF's Board of Governors. The Fourteenth

General Review, which became effective on January 26, 2016, doubles quotas and as of April 30, 2016, total quotas of all members amounted to approximately SDR 472 billion.¹ A list of members and their quotas is provided in [Appendix 1](#).

Quotas constitute the primary source of the IMF's financial base and play several key roles in its relationship with its members.

- **Subscriptions:** A member's quota subscription determines the maximum amount of financial resources it must provide to the IMF. The IMF's regular lending is financed from the fully paid-in capital subscribed by member countries.² A quarter of a member's quota subscription is normally paid in reserve assets (SDRs or foreign currencies acceptable to the IMF), with the remainder paid in the member's own currency ([Box 2.2](#)). The IMF has made arrangements to help members with insufficient reserves pay the reserve asset portion of their quota subscription payment through a same-day no-cost IMF lending operation (see [Box 4.6](#)).
- **Voting power:** Quotas largely determine the distribution of voting power to IMF members and thereby their decision-making and representation on the Executive Board. A member's total votes are equal to its basic votes plus one additional vote for each SDR 100,000 in quota. The number of basic votes is the same for all members, which helps strengthen the relative voting power of members with smaller quotas. In the context of the 2008 Quota and Voice Reforms, basic votes tripled from 250 a member, where they had stood since the IMF's inception. In addition, a mechanism was adopted to fix the ratio of total basic votes to total votes. This became effective in March 2011. The total number of basic votes now adjusts automatically when quotas are increased to ensure that basic votes (for all members) represent 5.502 percent of total votes. Many decisions are made by a simple majority vote, although special voting majorities are required for some important financial decisions (see [Appendix 2](#)).
- **Access to financing:** Quotas continue to play a role in determining member countries' access to IMF resources, subject to limits set by the Articles of Agreement and the Executive Board. For example, under Stand-By and Extended Arrangements, a member can borrow up to 145 percent of its quota annually and 435 percent cumulatively under normal access (Article V, Section 3(b) (iii)). In exceptional circumstances,

these access limits may be exceeded (see the subsection on access policy).

- **SDR holdings:** Quotas also determine a member's share in a general allocation of SDRs (Article XVIII, Section 2(b)).

The initial quotas of the original members of the IMF were determined at the Bretton Woods Conference in 1944 (Schedule A of the Articles of Agreement); those of subsequent members have been determined by the IMF's Board of Governors, based on principles consistent with those applied to existing members. The IMF can adjust quotas within the context of five-year general reviews and on an ad hoc basis outside of general reviews. An 85 percent majority of voting power in the Board of Governors is needed to change quotas.

The determination of the quota of a new member is based on the principle that a member's quota should be in the same range as the quotas of existing members of comparable economic size and characteristics. Operationally, this principle has been applied through the use of quota formulas and use of comparator countries. Since the IMF's inception, the calculated quota shares derived from the quota formulas have been used to help guide decisions regarding the relative size and distribution of members' actual quotas ([Box 2.3](#)).

2.1.2 The Quota Formula

Quota formulas have evolved over time. The original formula devised at Bretton Woods in 1944 contained national income, official reserves, imports, export variability, and the ratio of exports to national income.

A multi-formula approach was adopted in the early 1960s, when the Bretton Woods formula was revised and supplemented by four other formulas containing the same basic variables but with larger weights for external trade and export variability. The Bretton Woods formula, with its relatively high weight on national income, generally favored large economies, while the additional four formulas tended to produce higher quotas than the Bretton Woods formula for smaller, more open economies. This multi-formula approach was further modified in the early 1980s.

In 2008, as part of the Quota and Voice Reforms, the complex multi-formula approach was greatly simplified and made more transparent. A single formula was adopted that relates a member's quota to its output, external openness, economic variability, and international reserves ([Box 2.3](#)). The revised approach was based on four principles—the formula should be (1) simple and transparent; (2) consistent with the multiple roles of quotas; (3) produce results that are broadly acceptable to the membership; and (4) feasible to implement statistically based on timely, high-quality, and widely available data. It was widely agreed that GDP should be the most important variable in the formula because of its central role in determining the relative economic position of members.

¹ Approved quotas are slightly higher at SDR 477 billion, reflecting the fact that some members have not yet paid for approved quota increases.

² The IMF's quota-based currency holdings can be supplemented by GRA borrowing. However, as the IMF is a quota-based institution, borrowing is understood to be a temporary supplement, in particular during periods of financial crisis but also as a bridge to general quota increases.

There were differences of view among members over whether GDP should be calculated at market exchange rates or purchasing-power-parity (PPP) rates. The final blended variable represents a compromise and comprises 60 percent market-based GDP and 40 percent GDP at PPP. External openness retained its traditional importance in the quota formula, reflecting members' relative participation in global trade and finance, and variability and reserves were also retained as indicators of relative potential need by members for IMF resources and of potential to contribute to IMF resources, respectively. The formula contains a compression factor that mitigates the high correlation (and impact of size) of the quota variables.³ Both the use of PPP GDP and the compression factor are compromise elements that the Executive Board agreed to include subject to review after 20 years.

In December 2010, the Board of Governors approved a major Quota and Governance Reform (discussed in [Chapter 1](#) and here under General Reviews). As part of this reform a comprehensive review of the quota formula was called for by January 2013.

In 2012, the Executive Board held several discussions on the quota formula review and, in January 2013, submitted a report on the outcome of the review to the Board of Governors.⁴ In this report, the Executive Board noted that important progress had been made in identifying key elements that could form the basis for a final agreement on a new quota formula. It was agreed that achieving broad consensus on a new quota formula would best be done in the context of the Fifteenth General Review of Quotas rather than through a stand-alone process. The principles spelled out in 2008 would continue to apply. The Executive Board agreed that GDP should remain the most important variable. It was also agreed that openness was an important aspect of the formula. There was also considerable support for retaining the reserves variable. Extensive consideration was given to the role of variability, which seeks to capture members' potential need for IMF resources; however, given the lack of empirical evidence between variability and actual demand for IMF resources, there was considerable support for dropping variability from the formula. It was generally agreed that the quota formula should continue to include a compression factor to help moderate the influence of size in the quota formula.

2.1.3 Quota Increases under General Reviews

The IMF conducts general reviews of all members' quotas at least every five years.⁵ Such reviews allow the IMF to assess the adequacy of quotas in terms of members' needs for conditional liquidity and the IMF's ability to finance those needs. A general review also allows for adjustments to members' quotas to reflect changes in their relative positions in the world economy. Of the general reviews conducted to date, only one (in 1958/59) was outside the five-year cycle.

The main issues addressed in general quota reviews are the size of an overall increase in quotas and the distribution of the increase among the members. General reviews do not always result in quota increases. Six reviews concluded that no increase in overall quotas was needed. In the other eight reviews, the overall quota increase ranged from 31 percent to 100 percent ([Tables 2.1](#) and [2.2](#)). Once all members have paid for their quota increases under the Fourteenth General Review, the IMF's total quotas will double to SDR 477 billion.

Quota increases during general reviews have comprised one or more of three possible elements: (1) an equiproportional element distributed to all members according to their existing quota shares; (2) a selective element distributed to all members in accordance with the quota formula; and (3) an ad hoc element distributed to a subset of members according to an agreed key. The selective element results in changes in quota shares among members. For any overall increase in quotas, the larger the selective increase, the greater the redistribution of quota shares. In the past, the selective component has tended to be relatively small, but its use and ad hoc distributions have increased recently to accelerate redistribution of quota shares to reflect changing global economic dynamics, particularly the greater role of emerging market and developing economies. For example, under the Fourteenth Review, the selective element (in accordance with the quota formula) represented 60 percent of the total. The remaining 40 percent was allocated as ad hoc increases based primarily on the GDP-blend variable, which resulted in significant changes in the distribution of quota shares. The poorest members were also protected.⁶

³ A compression factor of 0.95 is applied to the weighted sum of the four variables in the quota formula. This reduces the dispersion in calculated quota shares across members and has the effect of reducing the share calculated under the formula for the largest members and raising those for all other countries (see [Box 2.3](#)).

⁴ The Executive Board's report to the Board of Governors is available on the IMF's website: www.imf.org/external/np/pp/eng/2013/013013.pdf.

⁵ Article III, Section 2(a).

⁶ See IMF Quota and Governance Reform—Elements of an Agreement—Report of the Executive Board to the Board of Governors, and Board of Governors' Resolution 66-2, adopted December 15, 2010: www.imf.org/external/np/pp/eng/2010/103110.pdf.

Table 2.1 General Reviews of Quotas
(Percent)

Review of Quotas	Board of Governors' Adoption of Resolution	Equiproportional Increase ¹	Selective Increase ²	Ad Hoc Increase ³	Overall Increase	Entry into Effect
First Quinquennial	March 8, 1951		n.a.	n.a.		
Second Quinquennial	January 19, 1956		n.a.	n.a.		
1958/59	February 2, 1959/April 6, 1959 ⁴	50.0	0.0	10.7	60.7	April 6, 1959
Third Quinquennial	December 16, 1960		n.a.	n.a.		
Fourth Quinquennial	March 31, 1965	25.0	0.0	5.7	30.7	February 23, 1966
Fifth General	February 9, 1970	25.0	0.0	10.4	35.4	October 30, 1970
Sixth General ⁵	March 22, 1976	variable	variable	variable	33.6	April 1, 1978
Seventh General	December 11, 1978	50.0	0.0	0.9	50.9	November 29, 1980
Eighth General	March 31, 1983	19.0	28.5	0.0	47.5	November 30, 1983
Ninth General	June 28, 1990	30.0	20.0	0.0	50.0	November 11, 1992
Tenth General	January 17, 1995		n.a.	n.a.		
Eleventh General	January 30, 1998	33.75	6.75	4.5	45.0	January 22, 1999
Twelfth General	January 30, 2003		n.a.	n.a.		
Thirteenth General	January 28, 2008		n.a.	n.a.		
Fourteenth General ⁶	December 15, 2010	0.0	60.0	40.0	100.0	January 26, 2016

Source: Finance Department, International Monetary Fund.

Note: n.a. = not applicable, no increase proposed.

¹ Distributed to all members in proportion to existing quota shares.

² Distributed to all members in proportion to calculated quota shares.

³ Distributed to a subset of countries based on agreed criteria.

⁴ The February 1959 resolution provided for an equiproportional increase of 50 percent and special increases for three members. The resolution adopted in April 1959 provided for special increases for 14 additional members.

⁵ The quota shares of the major oil exporters were doubled with the stipulation that the collective share of the developing economies would not fall. Different increases applied to different groups of countries, and individual countries' increases within groups varied considerably.

⁶ Between the Thirteenth and Fourteenth General Reviews, the Executive Board approved the 2008 Reform on April 28, 2008, which provided ad hoc increases for 54 countries. These raised total quotas by 11.5 percent and became effective March 3, 2011. (The 11.5 percent includes the 2006 ad hoc increases for four countries: China, Korea, Mexico, and Turkey.)

2.1.4 Ad Hoc Quota Increases

A member may request an ad hoc quota adjustment at any time outside of a general review.⁷ Since 1970, there have been several ad hoc increases in quotas outside the framework of a general review. An ad hoc quota increase for China in 1980 was associated with the change in representation of China in the IMF (The People's Republic of China replaced Taiwan Republic of China) and took into account the fact that China's initial quota had never been increased. Saudi Arabia received an ad hoc increase in 1981 to better reflect its position in the world economy and also from the desire to strengthen the IMF's liquidity position during the developing economy debt crisis before completion of the Eighth

Review. A quota increase for Cambodia occurred in 1994, on the resumption of its active relations with the IMF, since its quota had not been increased since 1970. China received a further ad hoc quota increase in 2001 to better reflect its position in the world economy following its resumption of sovereignty over Hong Kong SAR.

The ad hoc increase for Japan in the context of the Ninth Review represents the only ad hoc increase for an individual country agreed within the context of a general quota review since 1970. Ad hoc increases were an important aspect of the 2008 Reforms. The IMF Board of Governors in 2006 agreed on initial ad hoc quota increases for four clearly underrepresented countries—China, Korea, Mexico, and Turkey—which became effective immediately. In 2008, there was agreement on ad hoc increases for a total of 54 underrepresented members (again including the initial four), which became effective in March 2011 (Table 2.3).

⁷ Under Article III, Section 2(a), the IMF may, "if it thinks fit, consider at any other time the adjustment of any particular quota at the request of the member concerned."

Table 2.2 Agreed Changes in IMF Quotas
(Millions of SDRs)¹

Year	Number of IMF Members	Proposed Quotas	Change in Proposed Quotas				
			New Members ²		General Review	Ad Hoc and Other	Total ^{3,4}
			Number	Quotas			
1944 ⁵	40	7,514.00	40	7,514.00	—	—	—
1950	49	8,036.50	10	649.50	—	(2.00) ⁶	522.50
			(1)	(125.00)	—	—	—
1955	58	8,750.50	10	837.00	—	2.00 ⁶	714.00
			(1)	(125.00)	—	—	—
1959	69	14,640.25	11	404.50	5,328.75	156.50 ⁷	5,889.75
1965	102	20,932.00	34	756.75	4,791.75	793.25	6,291.75
			(1)	(50.00)	—	—	—
1970	116	28,776.00	14	204.25	7,393.50	246.25	7,844.00
1976	133	38,976.40	17	445.40	9,755.00	—	10,200.40
1978	141	59,605.50	8	140.10	19,839.00	650.00	20,629.10
1983	146	89,236.30	5	394.40	28,176.50	1,059.90	29,630.80
1990	154	135,214.70 ⁸	10	1,016.75	45,082.15	—	45,978.40
			(2)	(120.50)	—	—	—
1998	183 ⁹	212,029.00	31	12,736.65	65,802.95	40.00	76,814.30
			(2)	(1,765.30)	—	—	—
2001	183	213,711.00	—	—	—	1,682.00 ¹⁰	1,682.00
2006 ¹¹	184	217,528.10	1	8.20	—	3,808.90	3,817.10
2008 ¹¹	185	238,327.80	1	27.50	—	20,772.20	20,799.70
2010 ¹²	189	477,026.40 ¹³	4	185.8 ¹⁴	238,512.80 ¹⁵	—	238,698.60

Source: Finance Department, International Monetary Fund.

¹ Quotas in the IMF were expressed in U.S. dollars at the equivalent of the 1934 official gold price until the Sixth General Review of Quotas in 1976, when the IMF's unit of account switched to the SDR, again valued at the 1934 official gold price. Consequently, the U.S. dollar and SDR, through 1970, are directly comparable at an exchange rate of SDR 1 = US\$1.

² Countries that withdrew from membership or whose memberships were conferred to successor countries are shown in parentheses.

³ As of the dates of adoption of Board of Governors' resolutions proposing adjustments in members' quotas.

⁴ Total change in proposed quota equals quota increases for new members, plus increases under General Quota Reviews, as well as ad hoc and other increases.

⁵ Excluding Australia, Haiti, Liberia, New Zealand, and the U.S.S.R., which did not join the IMF at the time of the Bretton Woods Agreement (see Schedule A of the Articles of Agreement), and including increases agreed for Egypt, France, the Islamic Republic of Iran, and Paraguay shortly after the IMF began operations.

⁶ The quota of Honduras was reduced at its request for 1948 but was restored to the original amount in 1951.

⁷ Includes SDR 121.0 million of special allocations for countries with small quotas.

⁸ Includes Cambodia, which did not participate in the Ninth General Review.

⁹ Includes the Federal Republic of Yugoslavia, which had not yet succeeded to IMF membership. On December 20, 2000, the Executive Board of the IMF determined that the Federal Republic of Yugoslavia had fulfilled the necessary conditions for membership.

¹⁰ Ad hoc increase for China.

¹¹ The Quota and Voice Reform was implemented in two rounds. In 2006, initial ad hoc quotas increases were agreed for four of the most out-of-line members (China, Korea, Mexico, and Turkey). This was followed by a second round of ad hoc quota increases for 54 members that were agreed in 2008.

¹² The conditions for the effectiveness of the Fourteenth General Review and proposed amendment to the Articles of Agreement on the reform of the Executive Board were met on January 26, 2016.

¹³ Includes Kosovo, Nauru, South Sudan, and Tuvalu. South Sudan and Nauru joined in 2012 and 2016, respectively, but their membership resolutions provide for an initial quota as well as an increase once the Fourteenth General Review becomes effective.

¹⁴ Includes the initial quotas of Kosovo, Nauru, South Sudan, and Tuvalu.

¹⁵ Reflects the quota increases proposed in the respective membership resolutions of Nauru and South Sudan, after the effectiveness of the Fourteenth General Review.

Table 2.3 Countries Eligible for the Ad Hoc Quota Increases Agreed under the 2008 Quota and Voice Reforms*(Millions of SDRs)*

Member	New Quota	Member	New Quota
Albania	60.0	Lebanon	266.4
Austria	2,113.9	Lithuania	183.9
Bahrain	176.4	Luxembourg	418.7
Bhutan	8.5	Malaysia	1,773.9
Botswana	87.8	Maldives	10.0
Brazil	4,250.5	Mexico	3,625.7
Cabo Verde	11.2	Norway	1,883.7
Chad	66.6	Oman	237.0
China	9,525.9	Palau	3.5
Costa Rica	187.1	Philippines	1,019.3
Cyprus	158.2	Poland	1,688.4
Czech Republic	1,002.2	Portugal	1,029.7
Denmark	1,891.4	Qatar	302.6
Ecuador	347.8	San Marino	22.4
Equatorial Guinea	52.3	Seychelles	10.9
Eritrea	18.3	Singapore	1,408.0
Estonia	93.9	Slovak Republic	427.5
Germany	14,565.5	Slovenia	275.0
Greece	1,101.8	Spain	4,023.4
India	5,821.5	Syria	346.8
Ireland	1,257.6	Thailand	1,440.5
Israel	1,061.1	Timor-Leste	10.8
Italy	7,882.3	Turkey	1,455.8
Japan	15,628.5	Turkmenistan	98.6
Kazakhstan	427.8	United Arab Emirates	752.5
Korea	3,366.4	United States	42,122.4
Latvia	142.1	Vietnam	460.7

Source: Finance Department, International Monetary Fund.

2.1.5 Recent Quota, Voice, and Governance Reforms

In September 2006, the Board of Governors adopted a resolution on Quota and Voice Reform (the “Singapore Resolution”). It included ad hoc quota increases for China, Korea, Mexico, and Turkey, implying an aggregate increase in quotas of 1.8 percent. The resolution also envisaged a second round of ad hoc quota increases based on the new formula to be developed, and proposed that any future increases be distributed with a view to achieving better alignment of members’ quotas with their relative positions in the global economy. It also called for at least a doubling of the basic votes that each member possessed, for keeping the share of the basic votes in total voting power subsequently unchanged, and for steps to enable each Executive Director elected by a large number of members to appoint more than one Alternate Executive Director.

A set of reforms was approved by the Board of Governors in April 2008 that came into effect on March 3, 2011, with the entry into force of the “Voice and Participation” amendment to the Articles of Agreement. The 2008 Quota and Voice Reforms strengthened the representation of dynamic economies, many of which

are emerging market economies, through ad hoc quota increases for 54 member countries. These quota increases were based on a simpler and more transparent quota formula that was adopted as part of the reform package. The reforms also enhanced the voice and participation of low-income countries through (1) a tripling of basic votes—the first increase since the IMF was established in 1945 and exceeding the minimum target set under the 2006 Singapore Resolution, (2) a mechanism that will keep constant the ratio of basic votes to total votes (set at 5.502 percent), and (3) a measure enabling each Executive Director representing 19 or more members to appoint a second Alternate Executive Director.

In December 2010, the Board of Governors approved a Quota and Governance Reform which included the completion of the Fourteenth General Review of Quotas and a proposed amendment to the Articles of Agreement on the reform of the Executive Board (called the Board Reform Amendment). It was agreed that the quota increases under the Fourteenth General Review of Quotas would become effective when three general effectiveness conditions were met: (1) members with no less than 70 percent of the total of quotas on November 5, 2010, consented to the increases in their quotas (this threshold for member consents was reached on July 12, 2012); (2) entry into force of the Sixth

Amendment on Voice and Participation (this occurred on March 2, 2011); and (3) entry into force of the Board Reform Amendment, which would occur once the IMF certified that three-fifths of the members representing 85 percent of the total voting power had accepted it. (This condition was met on January 26, 2016, making the 2010 reforms effective.)

The 2010 quota reform package: (1) doubles quotas to approximately SDR 477 billion (about \$659 billion), (2) shifts more than 6 percent of quota shares to dynamic emerging market and developing economies and from overrepresented to underrepresented countries (exceeding the 5 percent target set by the International Monetary and Financial Committee [IMFC] in 2009), and (3) protects the quota shares and voting power of the poorest members.⁸ With this shift, the four largest emerging market economies (Brazil, China, India, and Russia) are now among the IMF's 10 largest shareholders, along with France, Germany, Italy, Japan, the United Kingdom, and the United States. In addition, under the 2010 reform, all members of the Executive Board will be elected, ending the category of appointed Executive Directors. Previously the members with the five largest quotas appointed an Executive Director. Multicountry constituencies with seven or more members may appoint a second Alternate Executive Director so that the constituency is better represented on the Executive Board. The 2010 reforms also included an agreement to decrease the combined representation of advanced European economies on the Executive Board by two Executive Director positions. As of April 30, 2016, 177 members, accounting for 99.3 percent of total quotas had consented to quota increases and 167 members had completed the payments of their quota increases. With these payments, total quotas in the IMF reached SDR 471.6 billion.

In February 2016, the Board of Governors expressed regret that the Fifteenth Review of Quotas had not been completed by December 15, 2015, and called on the Executive Board to work on the Fifteenth Review with the aim of completing it by the 2017 Annual Meetings.

2.1.6 Borrowing by the IMF

While quota subscriptions of member countries are its primary source of financing, the IMF can supplement its quota resources through borrowing if it believes that resources may fall short of members' needs. Borrowing has played an important role in providing temporary, supplemental resources to the institution at critical junctures. The IMF maintains two standing borrowing arrangements with official lenders: the General Arrangements to Borrow (GAB) and the New Arrangements to Borrow (NAB). The NAB is the first and principal recourse in the event of a need for

supplementary resources. In 2011, the NAB was enlarged and its participation broadened to strengthen IMF liquidity. At times of heightened global risk, a broad group of member countries have also moved to strengthen the IMF's resources through bilateral loan and note purchase agreements. The IMF may also borrow from private markets, but it has not done so to date.

Official borrowing has at times played a critical role in ensuring that there are sufficient resources to assist IMF members (Figure 2.1). Since 2009, borrowing from bilateral sources and under the enlarged NAB has enabled the IMF to provide substantial financial support to help members deal with the adverse effects of the global financial crisis, both on a precautionary basis and to meet actual balance of payments needs. At the same time, access to borrowed resources has also allowed the IMF to maintain a strong commitment capacity to meet all members' new requests for financial support, even as outstanding credit and undrawn financing under IMF arrangements rose to record levels.

2.1.6.1 GENERAL ARRANGEMENTS TO BORROW

The General Arrangements to Borrow (GAB) has been in place since 1962 (Table 2.4). It was originally conceived as a means by which the main industrialized countries could stand ready to lend to the IMF up to a specified amount of their currencies. These loans would be made when supplementary resources were needed by the IMF to help finance drawings by GAB participants when such financing would forestall or cope with an impairment of the international monetary system. The industrialized countries have the largest quotas and may, when necessary, claim a large proportion of the IMF's usable resources; the GAB provided support for the IMF's financial soundness and ensured that resources available to other countries would not be reduced.

In 1983, primarily in response to emerging strains in the international monetary system, the IMF and the GAB participants agreed to revise and enlarge the GAB from the equivalent of about SDR 6.3 billion to the present total of SDR 17 billion. At that time, the IMF also entered into an associated borrowing agreement with Saudi Arabia for an amount equivalent to SDR 1.5 billion. Subsequently, in connection with the establishment of the New Arrangements to Borrow (NAB) in 1998 (see below), the GAB was revised to allow calls only when a proposal for an activation period under the NAB is rejected by NAB participants.⁹ The GAB does not add to the IMF's overall lending envelope, as outstanding drawings and available commitments under the NAB and the GAB may not exceed the total amount of NAB credit arrangements. In addition, GAB resources may

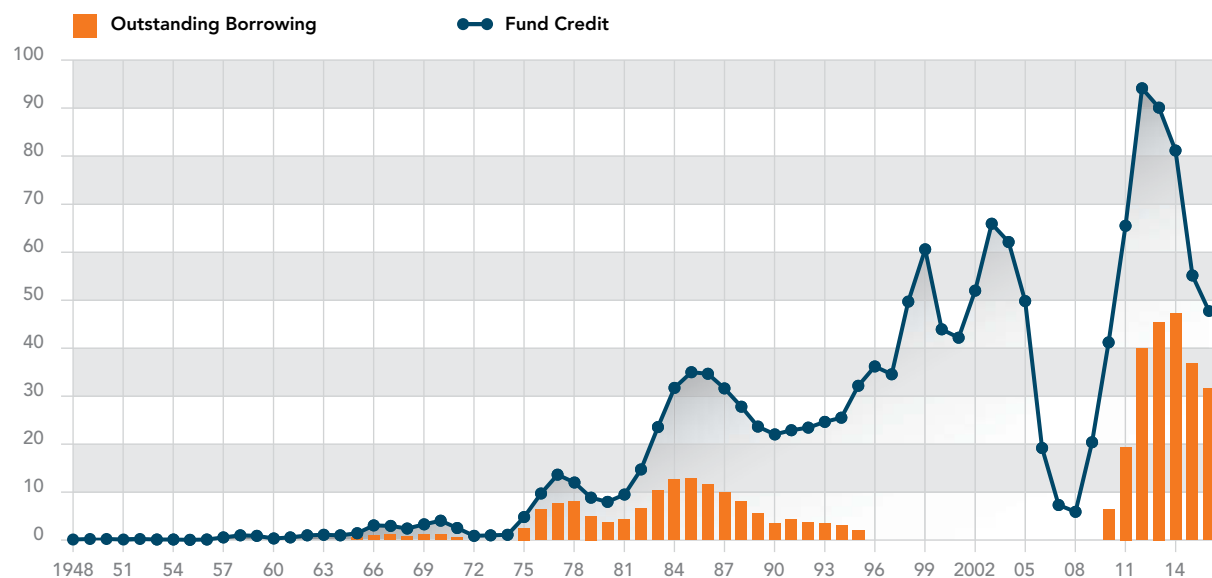
⁸ A comparative table of quota shares before and after implementation of the reform is detailed in Quota and Voting Shares Before and After Implementation of Reforms Agreed in 2008 and 2010. http://imf.org/external/np/sec/pr/2011/pdfs/quota_tbl.pdf

⁹ With the 2011 amendment of the NAB (see Section 2.1.6.2), the Fund continues to be guided by the principle that the NAB shall be the facility of first and principal recourse except in the event that a proposal for the establishment of an activation period under the NAB is not accepted, when a proposal for calls may be made under the GAB—and outstanding drawings and available commitments under the NAB and the GAB shall not exceed SDR 367 billion or such other amounts that may be in effect.

Figure 2.1 The Size of the IMF

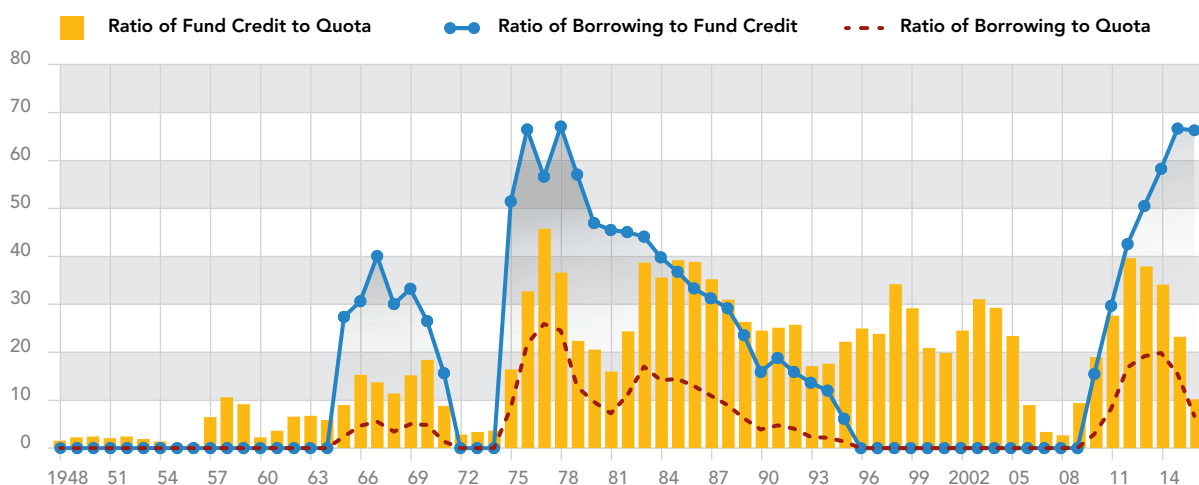
A. Levels of Fund Credit and Borrowing¹

(Billions of SDRs at Fiscal Year-End)



B. Borrowing and Credit Ratios²

(Percent)



Source: Finance Department, International Monetary Fund.

¹ Fund credit outstanding increased rapidly in response to the global financial crisis. A large portion of this rise in credit was financed by borrowing, which can be mobilized more quickly than increases in quotas.

² The relative size of borrowing to Fund credit outstanding has recently approached levels last seen in the 1970s.

be used only to finance purchases under Stand-By and Extended Arrangements, and GAB claims have a maximum maturity of 5 years. The GAB and the associated agreement with Saudi Arabia have been renewed six times, most recently for a period of 5 years beginning December 26, 2013.

The GAB was last activated in July 1998 for an amount equivalent to SDR 6.3 billion (SDR 1.4 billion of which was drawn) in connection with the financing of an extended arrangement for Russia. This activation, the first in 20 years, took place after the Executive Board made the decision to establish the NAB but before the NAB went into effect. This was the first time that the GAB was activated for the benefit of a nonparticipant. The activation for Russia was terminated in March 1999, when the IMF repaid the outstanding amount borrowed on implementation of the Eleventh General Review of Quotas and payment of the bulk of the quota increases.

2.1.6.2 NEW ARRANGEMENTS TO BORROW

The New Arrangements to Borrow (NAB) is a set of credit arrangements between the IMF and 38 member countries and institutions, including a number of emerging market economies (Table 2.4). Similar to the GAB, the NAB aims to provide supplementary resources to the IMF to forestall or cope with impairment of the international monetary system or to deal with an exceptional threat to the stability of that system. The NAB is used when the IMF needs to supplement its quota resources for lending purposes and is reviewed on a regular basis. The NAB decision is in effect for five years from its effective date and may be renewed. An IMF member or institution that is not currently a participant in the NAB may be accepted as a participant at any time if the IMF and participants representing 85 percent of the total credit arrangements agree to the request.

The original NAB was proposed at the 1995 Group of Seven (G7) Halifax Summit following the Mexican financial crisis.¹⁰ Growing concern that substantially more resources might be needed to respond to future financial crises prompted summit participants to call on the Group of Ten (G10) and other financially strong countries to develop financing arrangements that would double the amount available to the IMF under the GAB.¹¹ In January 1997, the IMF's Executive Board adopted a decision establishing the NAB, which became effective in November 1998. The NAB is the facility of first and principal recourse for temporary supplementation of quota resources. Before it was expanded in 2009, the NAB was a set of credit arrangements between the IMF and 26 members and institutions.

In April 2009, as part of efforts to overcome the global financial crisis, and following agreements reached by the Group of Twenty (G20) industrialized and emerging market economies, the IMFC

Table 2.4 General and New Arrangements to Borrow

(Millions of SDRs; as of April 30, 2016)

Participant	NAB		GAB
	Before Rollback	After Rollback ¹	
Australia	4,370	2,220	—
Austria	3,579	1,818	—
Banco Central de Chile	1,360	691	—
Banco de Portugal	1,542	784	—
Bank of Israel	500	340	—
Belgium	7,862	3,994	595
Brazil	8,741	4,441	—
Canada	7,624	3,874	893
China	31,217	15,860	—
Cyprus	340	340	—
Danmarks Nationalbank	3,208	1,630	—
Deutsche Bundesbank	25,371	12,890	2,380
Finland	2,232	1,134	—
France	18,657	9,479	1,700
Greece ²	1,655	841	—
Hong Kong Monetary Authority	340	340	—
India	8,741	4,441	—
Ireland ²	1,886	958	—
Italy	13,578	6,899	1,105
Japan	65,953	33,509	2,125
Korea	6,583	3,345	—
Kuwait	341	341	—
Luxembourg	971	493	—
Malaysia	340	340	—
Mexico	4,995	2,538	—
Netherlands	9,044	4,595	850
New Zealand	624	340	—
Norway	3,871	1,967	—
Bangko Sentral ng Pilipinas	340	340	—
National Bank of Poland	2,530	1,285	—
Russian Federation	8,741	4,441	—
Saudi Arabia	11,126	5,653	—
Singapore	1,277	649	—
South Africa	340	340	—
Spain	6,702	3,405	—
Sveriges Riksbank	4,440	2,256	383
Swiss National Bank	10,905	5,541	1,020
Thailand	340	340	—
United Kingdom	18,657	9,479	1,700
United States	69,074	28,202	4,250
Total	369,997	182,371	17,001
Saudi Arabia ³			1,500

Source: Finance Department, International Monetary Fund.

Note: Totals may not equal sum of components due to rounding. NAB = New Arrangements to Borrow; GAB = General Arrangements to Borrow.

¹ Following the payments for quota increase under the Fourteenth Review in February 2016, the NAB was rolled back from SDR 370 billion to SDR 182 billion.

² The credit arrangements for Greece and Ireland have not yet become effective.

³ Under an associated credit arrangement.

¹⁰ The G7 comprises Canada, France, Germany, Italy, Japan, the United Kingdom, and the United States.

¹¹ The G10 comprises the countries of the G7 and Belgium, the Netherlands, and Sweden.

agreed to substantially increase the resources available to the IMF through an expanded and more flexible NAB.¹² Specifically, it was agreed to triple total precrisis lending capacity from about \$250 billion to \$750 billion in two steps—first, through bilateral financing from IMF member countries (the 2009 round of bilateral agreements) and, second, by incorporating (folding) this financing into the expanded and more flexible NAB. In April 2010, following discussions with participants, including new participants to the NAB, the Executive Board adopted a proposal to expand the NAB to SDR 367.5 billion (compared with SDR 34 billion under the original NAB), to make it more flexible, and to add 13 participants.¹³ The amended NAB became effective March 11, 2011.

To make the expanded NAB a more effective tool of crisis prevention and management, the loan-by-loan activation under the original NAB was replaced by the establishment of general activation periods of up to 6 months. The activation periods are subject to a specified maximum level of commitment. The enlarged NAB became effective on March 11, 2011, and on November 2011, the National Bank of Poland joined the NAB as a new participant, bringing total resources to about SDR 370 billion and the number of new participants to 14.¹⁴

In the context of the agreement in December 2010 to double the IMF's quota resources under the Fourteenth General Review, it was agreed that this would be accompanied by a corresponding rollback of the NAB, resulting in a shift in the composition of the Fund's lending resources from the NAB to quotas. The rollback of the NAB credit arrangements took place in February 2016. For each participant, this rollback became effective on the same day as the payment of the respective member's quota increase. As a result, the NAB has been rolled back from SDR 370 billion (about \$514 billion) to SDR 182 billion (about \$253 billion).

2.1.6.3 BILATERAL LOAN AND NOTE PURCHASE AGREEMENTS

The unprecedented shocks resulting from the global financial crisis led to a sharp increase in the demand for IMF financing, which was met by a multilateral response to increase the IMF's available lending resources. In February 2009, the IMF considered the options for supplementing its resources and decided that borrowing from the official sector was the most appropriate way to meet these short-term needs, including through bilateral loan and note purchase agreements, and enlargement and expansion of the NAB. However, it was reaffirmed that quota subscriptions are, and should remain, the basic source of IMF financing. During the 2009 bilateral borrowing round, the IMF

signed 19 bilateral loan agreements and three note purchase agreements.

On April 20, 2012, the IMFC and G20 jointly called for further enhancement of IMF resources for crisis prevention and resolution through temporary bilateral loans and note purchase agreements. The Executive Board endorsed modalities for this new round of bilateral borrowing in June 2012. Total pledges under these 2012 Borrowing Agreements, made by 38 members or their central banks, amounted to \$461 billion.¹⁵ As of April 30, 2016, the IMF had approved 35 agreements of which 34 had become effective, under the 2012 Borrowing Agreements (bilateral loan and note purchase agreements) in the amount of SDR 281 billion.^{16,17} This combined with NAB resources plus usable quota resources brought the IMF's total usable resources (taking into account prudential balances of 20 percent) at the end of April 2016 to SDR 688 billion (about \$975 billion). The 2012 Borrowing Agreements provide a second line of defense after quota and NAB resources.¹⁸

Borrowing arrangements have many common characteristics. For example, the IMF has consistently denominated its borrowing in SDRs, thereby avoiding exchange rate risk, and the interest rate under borrowing agreements has for many years been limited to the SDR interest rate in order to contain risk to the IMF's income.

2.2 The IMF's Financing Mechanism

The IMF's lending is primarily financed from the quotas (capital) subscribed by member countries. Each country is assigned a quota and, as detailed above, this determines its maximum financial commitment to the IMF. A portion (25 percent) of the

¹² The G20 comprises the countries in the G7 and Argentina, Australia, Brazil, China, India, Indonesia, Korea, Mexico, Russia, Saudi Arabia, South Africa, Turkey, and the European Union (EU).

¹³ For conversion of NAB commitments to SDRs, the exchange rate on the date NAB participants agreed to its expansion, November 24, 2009, is used (1 SDR = US\$1.602).

¹⁴ The credit arrangements for Greece and Ireland have not become effective.

¹⁵ The IMF also amended the Guidelines for Borrowing by the Fund ("Borrowing Guidelines"). The agreed borrowing modalities build on the framework for the 2009 bilateral borrowing agreements and, with respect to certain operational matters, on the subsequent reforms of the New Arrangements to Borrow.

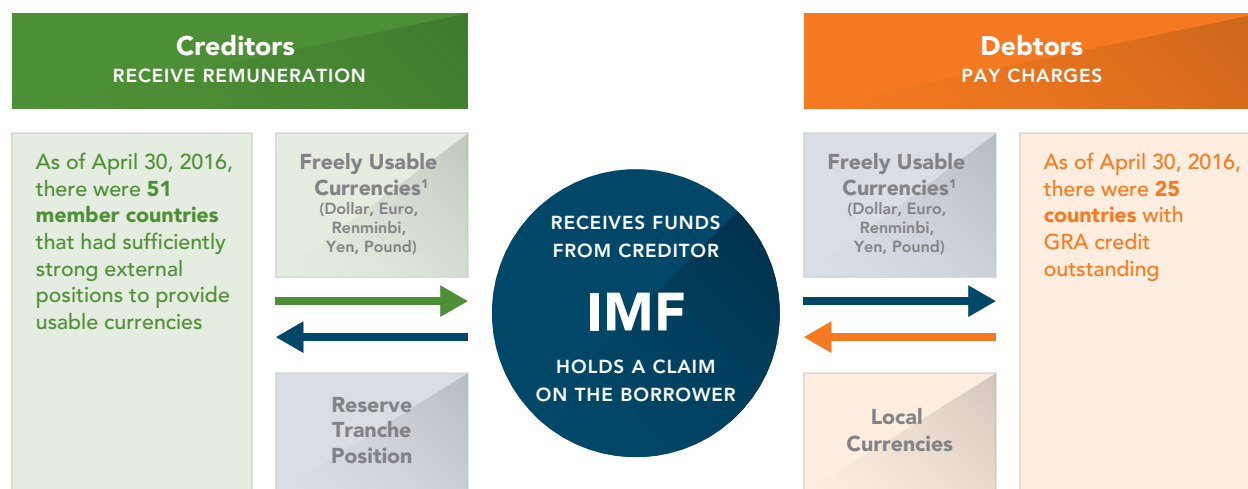
¹⁶ The IMF approved agreements with Australia, Banca d'Italia, Banco de Mexico, Bank Negara Malaysia, Bank of Algeria, Bank of Finland, Bank of Malta, Bank of Slovenia, Bank of Thailand, Bangko Sentral ng Pilipinas, Brunei Darussalam, Central Bank of the Russian Federation, Central Bank of the Republic of Turkey, Czech National Bank, Danmarks Nationalbank, De Nederlandsche Bank NV, Deutsche Bundesbank, France, Japan, Korea, Luxembourg, Narodowy Bank Polski, National Bank of Belgium, New Zealand, Norges Bank, Oesterreichische Nationalbank, People's Bank of China, Saudi Arabia, Slovak Republic, Spain, South African Reserve Bank, Sveriges Riksbank, Reserve Bank of India, the Monetary Authority of Singapore, and the United Kingdom.

¹⁷ In 2014, following consultations with lenders, the initial two-year term of agreements was extended by one year. In July 2015, the term was extended with consent from the lenders for another year to the maximum term of four years.

¹⁸ Specifically, these resources cannot be drawn upon unless the agreements are activated in accordance with the Fund's Borrowing Guidelines, that is, the modified Forward Commitment Capacity (FCC) falls to or below SDR 100 billion taking into account all available uncommitted NAB resources and the NAB is activated or there are no available uncommitted resources under the NAB.

Figure 2.2 The IMF Lending Mechanism: An Exchange of Assets

Claims on the IMF are international reserves.



Source: Finance Department, International Monetary Fund.

Note: GRA = General Resources Account.

¹From October 1, 2016, the Chinese renminbi is included in the SDR basket as a freely usable currency.

quota subscription payment is provided by the member country in reserve assets in the form of SDRs or the currencies of other financially strong members selected by the Fund and the remainder in its own currency. The IMF extends financing by selling IMF currency holdings and SDRs to borrowing members in exchange for their own domestic currency.

Members draw on the IMF's pool of members' currencies and SDRs through a purchase-repurchase mechanism. The member purchases either SDRs or the currency of another member in exchange for an equivalent amount (in SDR terms) of its own currency; the borrowing member later reverses the transaction through a repurchase of its currency held by the IMF with SDRs or the currency of another member.¹⁹ The Fund only draws for its GRA financing operations on those members that are considered to be in a sufficiently strong balance of payments and reserve position. These members are included in the Financial Transactions Plan (FTP) which is reviewed by the Board on a quarterly basis (Section 2.2.1).

The currency of a member that the IMF considers to be in a sufficiently strong external position that its currency can be used

to finance IMF transactions with other members through the Financial Transactions Plan is classified as a "usable currency." These members included in the FTP are obliged at the request of the purchasing member to convert their currency into a freely usable currency.²⁰ As an operational matter, all FTP members whose currency is not one of the five freely usable currencies always convert the balances of their currency sold into a freely usable currency of their choice, effectively providing reserve assets. A member that provides SDRs or other member's currency to the IMF as part of its quota subscription payment or whose currency is used in GRA lending operations receives a liquid claim on the IMF (reserve tranche position) that can be encashed on demand to obtain reserve assets to meet a balance of payments financing need.²¹ These claims earn interest (remuneration) based on the SDR interest rate and are considered by members as part of their international reserve assets (Figure 2.2).

¹⁹ This financing mechanism has its roots in the credit facilities between central banks before the IMF was established. In making a purchase, the member provides domestic currency to the IMF additional to the amount previously paid to the IMF to fulfill the member's quota subscription.

²⁰ A freely usable currency is one that the IMF has determined is widely used to make payments for international transactions and widely traded in principal markets. From October 1, 2016, these are the U.S. dollar, euro, Chinese renminbi, yen, and pound sterling (see Box 4.3).

²¹ Article XXX(c) states "Reserve tranche purchase means a purchase by a member of special drawing rights or the currency of another member in exchange for its own currency which does not cause the Fund's holdings of the member's currency in the General Resources Account to exceed its quota."

When IMF loans are repaid (repurchased) by the borrower with reserve assets, these funds are transferred to the creditor countries in exchange for their currencies, and their creditor position in the IMF (reserve tranche) is reduced accordingly.

The purchase-repurchase approach to IMF lending affects the composition of the IMF's resources but not the overall size. An increase in loans outstanding reduces the IMF's holdings of usable currencies and increases the IMF's holdings of the currencies of countries that are borrowing from the IMF²² (Figure 2.2).

The total of the IMF's holdings of SDRs and usable currencies broadly determines the IMF's overall (quota-based) lending capacity (liquidity). Although the purchase-repurchase mechanism is not technically or legally a loan, it is the functional equivalent of a loan.²³ Financial assistance is typically made available to members under IMF lending arrangements that provide for the phased disbursement of financing consistent with relevant policies and depending on the needs of the member (Section 2.3). The arrangement normally provides specific economic and financial policy conditions that must be met by the borrowing country before the next installment is released. As a result, these arrangements are similar to conditional lines of credit. The IMF levies a basic rate of interest (charges) on loans that is based on the SDR interest rate and imposes surcharges (level and time based surcharges; see Chapter 5).

Alternative financial positions of members in the IMF's pool of resources in the GRA are illustrated in Figure 2.3. A member's purchase of currency reduces the IMF's holdings of that currency, enlarges the reserve tranche position of the country whose currency is purchased, and increases the IMF's holdings of the purchasing member's currency. Charges (interest) are levied on the use of IMF credit, which is obtained through purchases outside of the reserve tranche. Charges (interest) are not levied on purchases within the reserve tranche, as these resources are the member's own reserves. A member may choose whether or not to use its reserve tranche before utilizing IMF credit (Box 2.4).

The purchase-repurchase mechanism explains why the IMF's total resources do not vary from an accounting perspective as a result of its financial assistance—only the composition of the IMF's assets changes. Moreover, the overall value in SDR terms of member currencies held in the GRA's pool of resources is held constant over time through periodic additions to the amounts of currencies that are depreciating against the SDR and reductions of those that are appreciating.²⁴ This so-called maintenance of

value provision is an obligation of members under the Articles of Agreement.²⁵

2.2.1 The Financial Transactions Plan

The quarterly Financial Transactions Plan (FTP) is used to manage the lending, repayment, and other (nonadministrative) operations and transactions of the GRA. A member is selected for inclusion in the plan for financing transactions based on a periodic finding by the Executive Board that the member's external position is sufficiently strong. The assessment of the external position relies on traditional indicators set out in the Articles of Agreement (balance of payments, reserve position, and exchange rate developments) supplemented by a small set of additional indicators, including in particular indicators of short-term external debt and debt service. The currencies of these members are considered usable for IMF lending and repayment operations for the duration of the quarter, while all other members' currencies are not considered usable for such purposes.

Broadly speaking, financial resources contributed by members in accordance with the FTP are used for purchases (loan disbursements to borrowing members); as borrowers make repurchases (loan repayments) these resources are returned to FTP members. As noted, FTP members have an obligation to convert balances of their currency purchased from the IMF by other members into a freely usable currency of their choice. The IMF determines which members are in a sufficiently strong balance of payments position to meet this currency exchange obligation when drawing up its FTP. Accordingly, to facilitate their participation in the FTP, creditor members in the plan have standing arrangements with the IMF under which they have indicated which freely usable currency they are willing to exchange for their own currency used in purchase and repurchase transactions. All members whose currency is being used by the IMF to provide financing under the FTP receive liquid claims on the IMF (reserve tranche positions) that can be encashed to obtain freely usable currencies or SDRs at very short notice solely on presentation of a balance of payments need. Hence, reserve tranche positions are part of an individual member's international reserve assets (Box 2.4). From the perspective of its members, reserve tranche positions resulting from the use of a member's currency by the IMF are equivalent to the most creditworthy government paper, and the interest paid is market based but does not include a country or credit risk premium.

The currency allocation in the quarterly FTP seeks to broadly maintain even participation among members in relation to their quotas and is based on guidelines established by

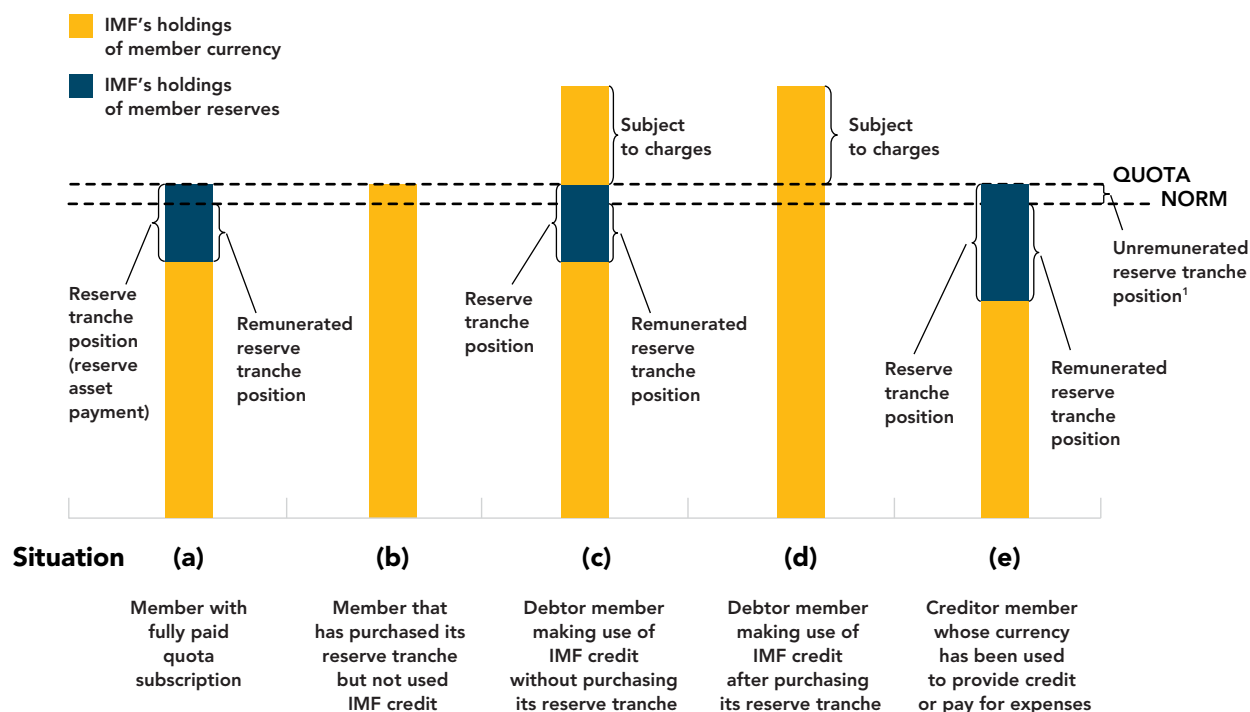
²² To safeguard the liquidity of creditor claims and take account of the potential erosion of the IMF's resource base, a prudential balance is maintained. This prudential balance is calculated as 20 percent of the quotas of members that are used in the financing of IMF transactions. (Section 6.1.2).

²³ For ease of reference, "loan" and "line of credit" are sometimes used in this publication instead of the internal IMF terminology.

²⁴ A member's currency held by the IMF is revalued in SDR terms (1) whenever the currency is used by the IMF in a transaction with another member, (2) at the end of the IMF's financial year (April 30), (3) at the request of

a member during the year, (4) with respect to the euro and U.S. dollar, on the last business day of the month or on a daily basis respectively, and (5) on such other occasions, as the IMF decides.

²⁵ Article V, Section 11 (a).

Figure 2.3 Member Positions in the General Resources Account

Situation (a): A member has paid its quota subscription in full; IMF has not used the currency in operation or transaction and member has not drawn on its reserve tranche position. The remunerated reserve tranche position excludes certain holdings (holdings acquired as a result of a member's use of IMF credit and holdings in the IMF No. 2 Account that are less than one-tenth of 1 percent of quota; see "IMF Accounts in Member Countries" in Section 2.6).

Situation (b): The member has drawn its reserve tranche position in full. The reserve tranche purchase is not subject to charges.

Situation (c): The member is using IMF resources but has not drawn its reserve tranche position. The level of holdings in excess of the member's quota is subject to charges.

Situation (d): The member is using IMF resources, in addition to having drawn its reserve tranche position. The level of holdings in excess of the member's quota is subject to charges.

Situation (e): The IMF has made use of the member's currency and pays the member remuneration accordingly.

Source: Finance Department, International Monetary Fund.

¹The unremunerated portion of the reserve tranche position is associated with 25 percent of members' quota on April 1, 1978. Prior to the Second Amendment, this portion of quota was paid in gold and was unremunerated. The remuneration of members' reserve tranche portion is determined in reference to the norm. The norm of remuneration is the sum of (1) 75 percent of a member's quota before the Second Amendment of the Articles, and (2) subsequent quota increases. Reserve tranche positions above the norm are not remunerated.

the Executive Board.²⁶ Transfers of currencies are allocated in direct proportion to members' quotas. Receipts are allocated to members to ensure that FTP members' positions in the IMF (from use of quota resources and claims under borrowing arrangements) remain broadly balanced over time in relation

to quotas. These guidelines tend to equalize FTP members' positions in the IMF as a share of quota, although this balancing process is less rapid when there are relatively few receipts of currency.²⁷ There are also operational considerations, which

²⁶ See *Selected Decisions and Documents of the International Monetary Fund*, Twenty-Fifth Issue (Washington: IMF, 2000), pp. 260–65.

²⁷ If the currencies of some members are used relatively less in transfers and/or more in receipts during the quarter than initially planned, these members will have lower reserve positions relative to the average

explain temporary deviations from full proportionality. Both currencies and SDRs are used in the FTP for transfers (credits) from the Fund to GRA borrowing members but only currencies are included in the transactions plan for receipts (repayments) from borrowing members; repayments in SDRs are not managed through the plan.

The IMF closely monitors its liquidity position in order to maintain an adequate lending capacity. The 1-year-Forward Commitment Capacity, or FCC, indicates the amount of resources available for new lending over the next 12 months (Chapter 6).

2.2.2 NAB Resource Mobilization Plan

The Resource Mobilization Plan (RMP), which was introduced under the amended NAB in April 2011, balances the flexibility that allows for effective use of the NAB for crisis prevention with the principle of adequate burden sharing (that is, proportionality) among NAB participants. The RMP is approved on a quarterly basis by the Executive Board for use of NAB resources to fund GRA financing. Previously, the NAB could be activated only on a loan-by-loan basis through procedures that were complex and relatively lengthy (for example, more than 3 weeks when the NAB was activated in 1998).

The RMP specifies for each participant the maximum amount of calls under its NAB credit arrangements during the plan period and is generally considered in conjunction with the Financial Transactions Plan.²⁸ In considering the RMP and the FTP jointly, the Executive Board decides on the use of quota and NAB borrowed resources in the IMF's operations and transactions conducted through the GRA. When the RMP is approved by the Board, the maximum amount of calls that would be allocated to individual participants under their credit arrangement would normally be determined in such a way that would result in the available commitments (that is, undrawn balances) of participants being of equal proportion relative to their credit arrangements (assuming calls for the maximum authorized amount would be made under each credit arrangement).

The procedure for using NAB resources to fund GRA financing involves three steps: (1) establishment of an activation period; (2) approval of a Resource Mobilization Plan; and (3) calls on participants. The three steps are designed to provide participants with increasingly specific notice of the IMF's intention to draw under their arrangements.

Under the NAB, a proposal by the IMF's Managing Director for the establishment of an activation period must be accepted by participants representing 85 percent of total credit arrangements of participants eligible to vote and be approved by the IMF's Executive Board. The NAB has been activated 11 times.

envisaged under the plan. Fewer receipts will automatically be allocated to those members in subsequent periods, so as to maintain, over time, balanced reserve positions in the Fund.

²⁸ A participant that is not included or is not proposed to be included in the FTP because of its balance of payments and reserve position would also not be included in the RMP for the relevant period.

- In December 1998, the NAB was activated to finance a Stand-By Arrangement for Brazil, when the IMF called on funding of SDR 9.1 billion, of which SDR 2.9 billion was used.
- In April 2011, the amended NAB was activated for a maximum period of six months in the amount of SDR 211 billion (about \$319 billion).
- The amended NAB has been activated a further nine times for a maximum period of 6 months beginning October 1, 2011; April 1, 2012; October 1, 2012; April 1, 2013; October 1, 2013; April 1, 2014; October 1, 2014, April 1, 2015; and October 1, 2015. On February 25, 2016, the IMF Executive Board terminated early the activation period under the NAB (which had originally covered October 1, 2015 through March 31, 2016), in light of the effectiveness of the Fourteenth General Review of Quotas on January 26, 2016.

2.3 The Asset Side

2.3.1 Financial Policies and Facilities: The GRA Lending Toolkit

The lending instruments of the IMF have evolved over time. In the early years, IMF lending took place exclusively on the basis of general policies governing access in what became known as the credit tranches and, in particular, under Stand-By Arrangements. Beginning in the 1960s, special policies were developed to deal with balance of payments problems of particular origin, resulting over time in a variety of policies on the use of IMF resources.²⁹

All decisions on the extension of IMF credit are made by the Executive Board. These decisions follow a formal request from the member country and are supported by an assessment by the IMF staff of the nature and magnitude of the balance of payments problem, the adequacy of the policy response, and the capacity of the member to repay the IMF. In 1995, the IMF specified streamlined procedures under an Emergency Financing Mechanism to allow for expedited Executive Board approval of IMF financial support. This mechanism is used in circumstances representing, or threatening, a crisis in a member's external accounts that requires an immediate response from the IMF.

Since the early 1990s, a number of factors have driven changes in the IMF's financial role: the emergence of volatile private capital flows as a principal source of financing for emerging market economies, increasing integration and liberalization of capital markets, and, more generally, increasing globalization and growing financial interdependence among IMF members. In response to the changes in the global environment and in the nature of members' balance of payments difficulties, the IMF has adapted

²⁹ A comprehensive review of the IMF lending instruments, conducted in 2009 is available on the Internet: Review of Fund Facilities—Analytical Basis for Fund Lending and Reform Options: www.imf.org/external/pp/longres.aspx?id=4322.

the policies governing its financing facilities and instruments, access, and conditionality.

In response to the Asian crisis of 1997–98, changes were introduced in early 2000 to the nature and terms of access in the credit tranches. For members facing capital account crises, new facilities were made available with higher access and shorter repayment periods, consistent with the revolving nature of IMF resources.

In the wake of the 2007–09 global financial crisis, the IMF strengthened the GRA lending toolkit to better help member countries meet their financing needs while safeguarding IMF

resources (Table 2.5). A major aim was to enhance crisis-prevention tools to accompany the existing tools for crisis resolution. New lending instruments were created, including the Flexible Credit Line (FCL), Precautionary and Liquidity Line (PLL), and Rapid Financing Instrument (RFI). These measures were designed to bolster confidence and reduce balance of payments pressures during periods of heightened systemic risk (Figure 2.4).

2.3.1.1 STAND-BY ARRANGEMENTS

Stand-By Arrangements (SBAs) have long been the core lending instrument of the institution and are still the first option for

Table 2.5 Financial Terms under IMF General Resources Account Credit

Credit Facility (year adopted) ¹	Purpose	Conditions	Phasing and Monitoring	Access Limits ¹	Charges ²	Repayment Schedule (years)	Installments
Stand-By Arrangements (SBA) (1952)	Short- to medium-term assistance for countries with short-term balance of payments difficulties	Adopt policies that provide confidence that the member's balance of payments difficulties will be resolved within a reasonable period	Generally quarterly purchases (disbursements) contingent on observance of performance criteria and other conditions	Annual: 145% of quota; cumulative: 435% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months) ³	3¼–5	Quarterly
Extended Fund Facility (EFF) (1974) (Extended Arrangements)	Longer-term assistance to support members' structural reforms to address long-term balance of payments difficulties	Adopt up to 4-year program, with structural agenda and annual detailed statement of policies for the next 12 months	Quarterly or semiannual purchases (disbursements) contingent on observance of performance criteria and other conditions	Annual: 145% of quota; cumulative: 435% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 51 months) ³	4½–10	Semiannual
Flexible Credit Line (FCL) (2009)	Flexible instrument in the credit tranches to address all balance of payments needs, potential or actual	Very strong ex ante macroeconomic fundamentals, economic policy framework, and policy track record	Approved access available up front throughout the arrangement period; 2-year FCL arrangements are subject to a midterm review after 1 year	No preset limit	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months) ³	3¼–5	Quarterly

(Continued)

Table 2.5 (Continued)

Credit Facility (year adopted) ¹	Purpose	Conditions	Phasing and Monitoring	Access Limits ¹	Charges ²	Repayment Schedule (years)	Installments
Precautionary and Liquidity Line (PLL) (2011)	Instrument for countries with sound economic fundamentals and policies	Sound policy frameworks, external position, and market access, including financial sector soundness	Large front-loaded access, subject to semiannual reviews (for 1- to 2-year PLL)	125% of quota for 6 months; 250% of quota available upon approval of 1- to 2-year arrangements for the first year; total of 500% of quota after 12 months of satisfactory progress	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months) ³	3¼–5	Quarterly
Rapid Financing Instrument (RFI) (2011)	Rapid financial assistance to all member countries facing an urgent balance of payments need	Efforts to solve balance of payments difficulties (may include prior actions)	Outright purchases without the need for full-fledged program or reviews	Annual: 37.5% of quota; cumulative: 75% of quota	Rate of charge plus surcharge (200 basis points on amounts above 187.5% of quota; additional 100 basis points when outstanding credit remains above 187.5% of quota for more than 36 months) ³	3¼–5	Quarterly

¹ The IMF's lending through the General Resources Account (GRA) is primarily financed from the capital subscribed by member countries; each country is assigned a quota that represents its financial commitment. A member provides a portion of its quota in Special Drawing Rights (SDRs) or the currency of another member acceptable to the IMF and the remainder in its own currency. An IMF loan is disbursed or drawn by the borrower's purchase of foreign currency assets from the IMF with its own currency. Repayment of the loan is achieved by the borrower's repurchase of its currency from the IMF with foreign currency.

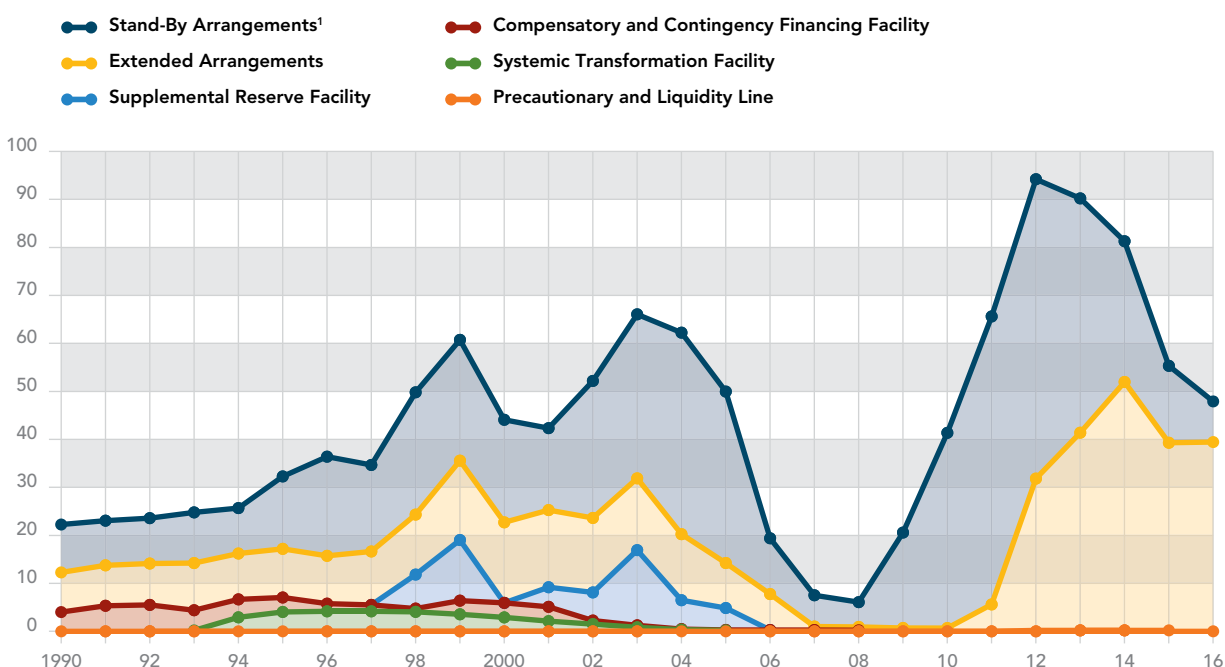
² The rate of charge on funds disbursed from the GRA is set at a margin (currently 100 basis points) over the weekly SDR interest rate. The rate of charge is applied to the daily balance of all outstanding GRA drawings during each IMF financial quarter. In addition, a one-time service charge of 0.5 percent is levied on each drawing of IMF resources in the GRA, other than reserve tranche drawings. An up-front commitment fee (15 basis points on committed amounts of up to 115 percent of quota; 30 basis points for amounts in excess of 115 percent and up to 575 percent of quota; and 60 basis points for amounts in excess of 575 percent of quota) applies to the amount available for purchase under arrangements (SBAs, EFFs, PLLs, and FCLs) that may be drawn during each (annual) period; this fee is refunded on a proportionate basis as subsequent drawings are made under the arrangement.

³ Surcharges were introduced in November 2000. A new system of surcharges took effect August 1, 2009, and was updated on February 17, 2016, with some limited grandfathering for existing arrangements.

assisting members with balance of payments needs. These are lines of credit from the IMF under which a “member is assured that it will be able to make purchases from the General Resources Account in accordance with the terms of the decision during a specified period and up to a specified amount.”³⁰ SBAs were initially intended as precautionary instruments to be drawn only if payment difficulties emerged, but they have become a common source of external financing.

The SBA is designed broadly to help countries address short- to medium-term balance of payments problems. Program targets are designed to address these problems, and purchases are conditional on achieving these targets. The length of an SBA is typically 12 to 24 months, but no more than 36 months, and repurchase is due within 3¼ to 5 years of purchase. SBAs may be provided on a precautionary basis—under which countries choose not to draw approved amounts but retain the option to do so if conditions deteriorate—both within the normal access limits and in cases of exceptional access (Section 2.3.2.2). The SBA provides for flexibility with respect to phasing, with front-loaded access when appropriate.

³⁰ Article XXX (b).

Figure 2.4 Outstanding IMF Credit by Facility, 1990–2016*(Billions of SDRs; as of April 30 each year)*

Source: Finance Department, International Monetary Fund.

¹ Includes small amounts from outright purchases under the credit tranches and emergency assistance.

2.3.1.2 EXTENDED FUND FACILITY

This facility was established in 1974 to help countries address medium- and longer-term balance of payments problems that reflect structural impediments requiring fundamental economic reform. Extended arrangements under the Extended Fund Facility (EFF) are thus longer than SBAs—typically no longer than 3 years at approval, with a maximum extension of an additional year when appropriate. However, a maximum duration of 4 years is also allowed at the time of approval, predicated on a balance of payments need beyond 3 years, the prolonged nature of the adjustment required to restore macroeconomic stability, and adequate assurance of the member's ability and willingness to implement deep and sustained structural reform. Repurchase is due within 4½ to 10 years of purchase.

2.3.1.3 FLEXIBLE CREDIT LINE

The FCL is for countries with very strong fundamentals, policies, and track records of policy implementation and is useful for both crisis prevention and crisis resolution. It is established as a window in the credit tranches, permitting its use in addressing any balance of payments problem. FCL arrangements are approved at the member country's request if certain qualification criteria are met

(ex ante conditionality). The length is 1 or 2 years (with an interim review of continued qualification after a year), and the repurchase period the same as for the Stand-By Arrangement. Access is determined on a case-by-case basis, is not subject to the exceptional access framework, and is available through a single up-front purchase. Purchases are not subject to ex post conditionality like the SBA or extended arrangements because countries meeting the FCL qualification criteria are expected to implement appropriate macroeconomic policies. There is flexibility to draw on the credit line any time after approval or to treat it as precautionary.

2.3.1.4 PRECAUTIONARY AND LIQUIDITY LINE

The PLL constitutes an additional financing tool of the IMF to meet flexibly the needs of member countries with sound economic fundamentals but with some remaining vulnerabilities that preclude them from using the FCL. The PLL is established as a window in the credit tranches, permitting its use in addressing any balance of payments problem. It is designed as a credit line, with large and frontloaded financing available, that can be granted at the member country's request if the member meets certain qualification criteria (ex ante conditionality), with purchases subject to applicable ex-post conditionality.

PLL arrangements can have duration of either 6 months, or 1 to 2 years. The 6-month duration is available for countries with actual or potential short-term balance of payments needs that can make credible progress in addressing their vulnerabilities during the 6-month period. Up to 125 percent of a member country's quota can normally be made available upon approval of a 6-month PLL arrangement. However, if a country's balance of payments need results from the impact of an exogenous shock, including heightened regional or global stress, access could be up to 250 percent. Renewal of 6-month PLL arrangements is normally possible only after a 2-year cooling-off period from the date of approval of the previous 6-month PLL arrangement unless the member's balance of payments need is longer than originally anticipated due to the impact of exogenous shocks. PLL arrangements of 1 to 2 years are subject to an annual access limit of 250 percent of quota upon approval and a cumulative limit of 500 percent of quota.

2.3.1.5 RAPID FINANCING INSTRUMENT

The RFI provides rapid and low-access financial assistance to member countries that face an urgent balance of payments need without the need for a full-fledged program.³¹ It can provide support to meet a broad range of urgent needs, including those arising from commodity price shocks, natural disasters, postconflict situations, and emergencies resulting from fragility. As a single, flexible mechanism with broader coverage, the RFI replaced the IMF's previous emergency assistance policy which encompassed Emergency Natural Disaster Assistance (ENDA) and Emergency Post-Conflict Assistance (EPCA).

Access under the RFI is limited to 37.5 percent of quota a year and 75 percent of quota on a cumulative basis. The level of access depends on the country's balance of payments need. Financial assistance provided under the RFI is subject to the same financing terms as under an SBA.

Financial assistance under the RFI is provided in the form of outright purchases without the need for a full-fledged program or reviews. A member country requesting emergency assistance is required to cooperate with the IMF to make efforts to solve its balance of payments difficulties and to describe the general economic policies it proposes to follow.

2.3.1.6 TRADE INTEGRATION MECHANISM

The Trade Integration Mechanism (TIM) aims to mitigate concerns, particularly in developing economies, about financing balance of payments shortfalls that are a result of multilateral liberalization. The TIM is not a special facility to provide new resources under special terms; financial support for balance of payments difficulties arising from trade-related adjustment is already provided under the IMF's existing lending facilities. Instead, the TIM is designed to increase the predictability of

resources available under existing facilities. The explicit emphasis is on trade adjustment in order to ensure that its impact is carefully estimated and incorporated into any IMF-supported programs. In addition, the TIM contains a "deviation feature," which provides countries with a greater degree of certainty that IMF financing will be available to assist with larger-than-anticipated adjustment.

2.3.2 Credit Outstanding

Credit outstanding represents loans already provided to members under the various IMF facilities and instruments. This section describes the general terms and conditions of IMF lending.

2.3.2.1 BALANCE OF PAYMENTS NEED

The Articles of Agreement charge the IMF with implementing policies on the use of its general resources to assist members in resolving their balance of payments problems. Commitments of Fund resources can be approved when the member has an actual, prospective, or potential balance of payments need. However, a member may purchase the amounts committed only if the member represents that it has an actual balance of payments need and up to the amount of said need, even in the case of reserve tranche purchases. Fund resources may be made available to members through different IMF financing facilities and instruments. Fund financing usually takes place under an IMF arrangement, which is similar to a conditional line of credit and is associated with the implementation of an economic reform program in the member country.

The concept of a balance of payments need refers to (1) the balance of payments position of the member, (2) its foreign reserve position, and (3) developments in its reserves.³² These three elements are regarded as separate, and a representation of need may be based on any one. An operational framework has been developed over the years to assess the magnitude of balance of payments deficits and the adequacy of foreign reserves. In the implementation of this framework, the member's particular circumstances are taken into account.

To make a purchase the member has to represent that it has a balance of payments need which may not be challenged *ex ante* by the Fund. However, the IMF may take remedial action after a purchase under an arrangement or after a reserve tranche purchase has been made if it finds that the conditions for the purchase were not met, including the balance of payments need.

2.3.2.2 ACCESS POLICY

The policy governing access by members to IMF financial resources has changed over time to reflect members' changing financing needs balanced against the need to safeguard the revolving nature of the institution's resources and liquidity needs. Access policy is intended to meet members' balance of payments

³¹ The Rapid Financing Instrument is similar to the Rapid Credit Facility (RCF) for member countries eligible for the Poverty Reduction and Growth Trust.

³² Article V, Section 3(b)(ii).

need, reassure them about the scale of possible financing, and serve as an IMF risk-management tool. Quantitative limits on access are based on the members' quotas and are used to ensure uniformity of treatment of members. The policies are intended to encourage members to approach the institution for assistance at an early stage of any potential balance of payments difficulties to avoid the need for more drastic policy action and to limit the impact of the adjustment on other members.

The Exceptional Access Framework, approved in 2002 (and modified subsequently), was intended to enhance clarity and predictability for both members and markets about the IMF's response to crises, while at the same time strengthening the safeguards of IMF resources. The framework clarified the circumstances under which above-normal-level access is appropriate and imposed constraints as access increased. This was achieved by defining exceptional access criteria and enhanced procedures.

The four substantive criteria for exceptional access are (1) the member is experiencing or could experience balance of payments pressures that cannot be met within normal financing limits; (2) there is a high probability that debt is sustainable in the medium term, based on a rigorous and systematic analysis;³³ (3) the member has prospects for gaining or regaining private capital market access within a timeframe and on a scale sufficient to meet its obligations falling due to the Fund; and (4) a member's policy program provides a reasonably strong prospect of success, including not only the member's adjustment plans but also its institutional and political capacity to deliver that adjustment.

The framework also sets out stronger procedures for decisions on proposals for exceptional access. The strengthened Exceptional Access Policy requires (1) early consultation with the Executive Board; (2) a concise note for such informal Board meetings, outlining a diagnosis of the problem, the policy measures needed, the appropriateness of and necessity for exceptional access, and the likely timetable for discussions; (3) a staff report evaluating the case for exceptional access based on the above-mentioned four criteria; and (4) an ex post evaluation (EPE) of all programs with exceptional access within 1 year of the end of the arrangement.

Current policies governing access to IMF resources in the General Resources Account can be summarized as follows:

- The criteria for determining access in individual cases concern a member's (1) actual, prospective, or potential balance

of payments need, taking into account other sources of financing and the desirability of maintaining a reasonable level of reserves; (2) capacity to repay, the critical component of which is the strength of the member's adjustment policies; and (3) outstanding use of, and record in using, IMF resources.

- Access by a member to the GRA is subject to the following limits: (1) 145 percent of quota on purchases over a 12-month period; and (2) 435 percent of quota cumulatively, net of scheduled repurchase obligations. Access to the GRA above the following limits is subject to the Exceptional Access Policy. Hard access ceilings, of 250 percent of quota annually and 500 percent of quota cumulatively, apply to the Precautionary and Liquidity Line. Similarly, hard limits of 37.5 percent annually and 75 percent cumulatively apply to the Rapid Financing Instrument (Figures 2.5 and 2.6).

2.3.2.3 CONDITIONALITY AND PHASING

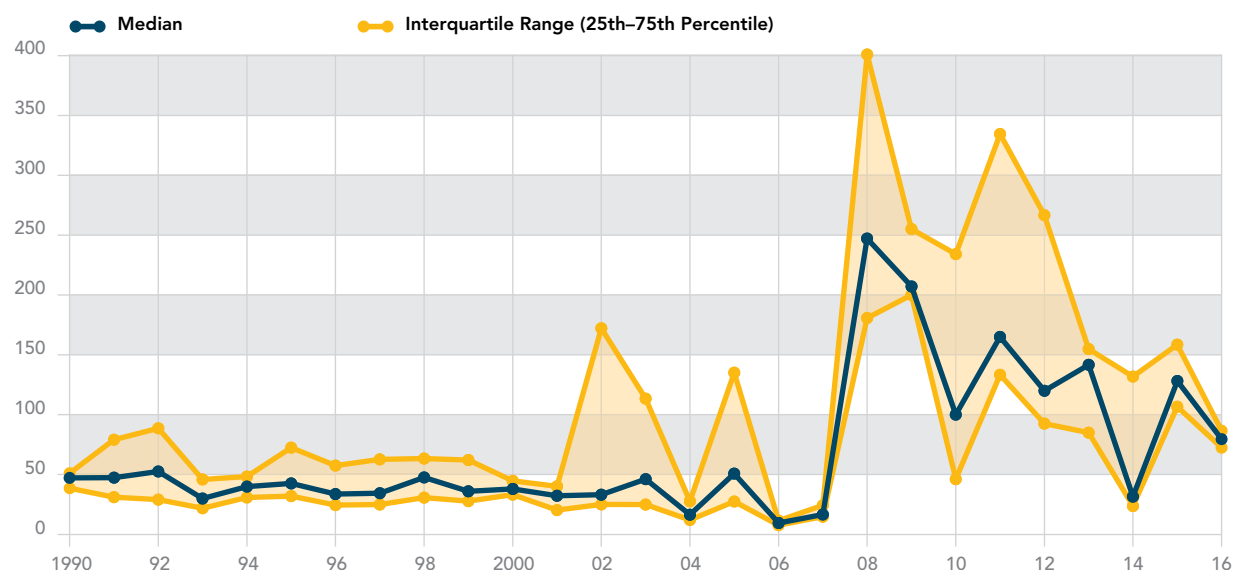
Two important features of IMF lending are policy conditionality and the phasing of disbursements. Conditionality serves two important functions: (1) to help member countries solve their balance of payments problems within the period of a Fund-supported program and (2) to provide the needed assurances that the member will be able to repay the IMF. Phasing is the mechanism that supplies conditionality with the necessary traction and supports liquidity management.

Conditionality covers both the design of IMF-supported programs—that is, the macroeconomic and structural policies—and the specific tools used to monitor progress toward the goals outlined by the country in cooperation with the IMF. Conditionality helps countries solve balance of payments problems without resorting to measures that are harmful to national or international prosperity. At the same time, the conditional measures are meant to safeguard IMF resources by ensuring that the country's balance of payments will be strong enough to permit repayment of the loan. Hence, conditionality tends to increase with access, and requests for use of IMF resources beyond the first credit tranche require higher justification of the member's expectation that its balance of payments difficulties will be resolved within the period of its program. All conditionality under an IMF-supported program must be critical to the achievement of macroeconomic program goals or for monitoring of the program, or necessary for the implementation of specific provisions under the Articles of Agreement or policies adopted under them.

To support program ownership, the member country has primary responsibility for selecting, designing, and implementing the policies that will make the IMF-supported program successful. The program is described in a letter of intent (often with a more detailed memorandum of economic and financial policies attached). The program's objectives and policies depend on country circumstances, but the overarching goal is always to restore

³³ Where the member's debt is assessed to be unsustainable ex ante, exceptional access will only be made available where the financing being provided from sources other than the Fund restores debt sustainability with a high probability. Where the member's debt is considered sustainable but not with a high probability, exceptional access would be justified if financing provided from sources other than the Fund, although it may not restore sustainability with high probability, improves debt sustainability and sufficiently enhances the safeguards for Fund resources. Financing provided from sources other than the Fund may include, inter alia, financing obtained through any intended debt restructuring.

Figure 2.5 Median and Interquartile Range for Annual Average Access under Stand-By and Extended Arrangements¹
(Percent of quota)

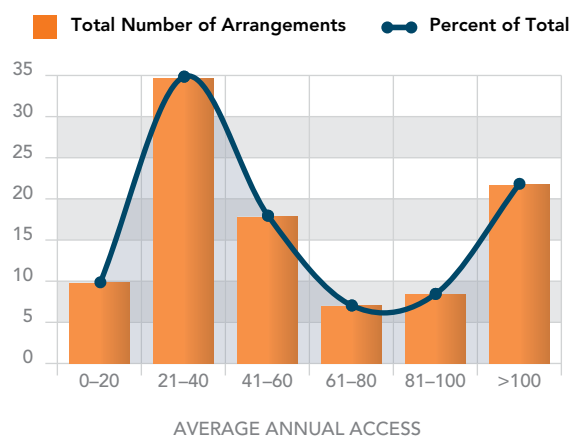


Source: Finance Department, International Monetary Fund.

Note: Annual average access is calculated as a percent of a member's quota on approval divided by the number of years under the arrangement.

¹Differences from prior publication are due to inclusion of Fund arrangements previously omitted, adjustments to annual average access, or extension of ongoing arrangements from prior years.

Figure 2.6 Distribution of Average Annual Access under Stand-By and Extended Arrangements, 1990–2016
(Percent of total arrangements)



Source: Finance Department, International Monetary Fund.

Note: Annual average access is calculated as total access as a percent of a member's quota on approval of the program divided by the number of years under the arrangement.

or maintain balance of payments viability and macroeconomic stability while setting the stage for sustained, high-quality growth and, in low-income countries, for reducing poverty (Box 2.5).

Most IMF financing features disbursements made in installments that are linked to demonstrable policy actions. Program reviews provide a framework for the IMF's Executive Board to assess periodically whether the IMF-supported program is on track and whether modifications are necessary.

Conditionality takes various forms:

- Prior actions are measures that the member needs to undertake before the IMF's management is prepared to recommend Executive Board approval of financing, completion of a review, or granting of a waiver. This is necessary when it is critical for the successful implementation of the program that such actions be taken to underpin the up-front implementation of important measures.
- Quantitative performance criteria (QPCs) are specific and measurable conditions that are so critical so as to stop the disbursements in the event of nonobservance. QPCs normally include targets on monetary and credit aggregates, international reserves, fiscal balances, and external borrowing.

- Indicative targets supplement QPCs to assess progress. Sometimes they take the place of QPCs when the data about economic trends is uncertain (for example, for the later months of a program). As uncertainty is reduced, these targets typically are converted to QPCs, with appropriate modifications.
- Structural benchmarks are (often unquantifiable) reform measures that are critical to achieve program goals and are intended as markers to assess program implementation during a review.

If a QPC is not met, the Executive Board may approve a formal waiver to enable a review to be completed if it is satisfied that the program will nonetheless be successfully implemented, either because the deviation was minor or temporary or because the country authorities have taken or will take corrective actions. Structural benchmarks and indicative targets do not require waivers if they are not met but are assessed in the context of a review of the overall program performance.

The choice between even phasing and uneven phasing of disbursements depends on the balance of payments need and the path of adjustment. These choices are made on a case-by-case basis: resources are typically fairly evenly disbursed over the arrangement period, but a concentration of adjustment at the beginning of an arrangement may justify front-loading of purchases. The frequency of purchases may also be affected by the length of lags in the reporting of data related to performance criteria.

2.3.2.4 EXTENDED RIGHTS TO PURCHASE: BLACKOUT PERIODS

The Extended Rights to Purchase (ERP) Policy instituted in October 2009 and subsequently amended aims to remedy problems arising from “blackout periods” in Stand-By Arrangements and extended arrangements. These blackout periods refer to the temporary interruption of access to accumulated but undrawn purchase rights. These occur when the test date for relevant periodic performance criteria is reached but the data on such performance criteria are unavailable. Blackout periods reflect the IMF’s need to safeguard its resources; interrupting purchase rights when data are stale reduces the risk that a member will draw when its program is off track. Currently, access is maintained for a maximum period (an “extension period”) of 45 days following each test date.³⁴

Before the ERP Policy was put in place, whenever access to accumulated but undrawn purchase rights was interrupted, such access was reinstated only when (1) all data on the relevant performance criteria for that test date were available and showed that the performance criteria were met or (2) when waivers of applicability were granted by the Executive Board for data not

yet reported. The ERP Policy was reviewed in January 2013 and was left practically unchanged, and the decision on the reduction of blackout periods from 2009 was extended to all GRA arrangements that have periodic performance criteria.³⁵

2.3.2.5 REPURCHASE POLICIES

The repurchase policies of the IMF are intended to ensure the revolving character of its resources and are an essential element of its overall risk-mitigation framework. All purchases from the IMF are subject to predetermined repurchase schedules.³⁶ The length of the repurchase period and the number of repurchase installments vary according to the policy or facility under which the credit is extended. While credit tranche terms allow for specific repurchase periods under Article V, Section 7(b) of the Articles of Agreement, the expectation is that members will repay the IMF as soon as their balance of payments and reserve positions allow.

A member is free to make advance repurchases at any time. At the discretion of the member, advance repurchases may be attributed to any outstanding purchases. In this way, a member is free to reduce the IMF’s holdings of its currency corresponding to prior purchases and thereby reduce or eliminate its obligation to pay interest. Repurchases may be made, at the choice of the repurchasing member, in SDRs or in currencies selected by the IMF according to the policies and procedures for the use and receipt of currencies under the quarterly Financial Transactions Plan.³⁷

Under the Articles, the IMF has the authority to postpone the date for the discharge of a repurchase within the maximum repurchase period by a majority of the votes cast, provided that the postponement does not cause the repurchase to exceed the maximum repurchase period (Article V, Section 7(g)).³⁸ However no such decision has been taken in the last 30 years.

2.3.3 Gold Holdings

Gold played a central role in the international monetary system until the collapse of the Bretton Woods system of fixed exchange rates in 1973. Since then, the role of gold has been gradually

³⁴ Under the ERP Policy, the extension period is up to 45 days but can be shorter if the data-reporting deadlines in the Technical Memorandum of Understanding (TMU) expire before the 45-day extension. In IMF-supported programs, TMUs typically specify that data must be reported in less than 45 days.

³⁵ See Blackout Periods in GRA Arrangements and the Extended Rights to Purchase Policy—A Review, January 2013.

³⁶ An 85 percent majority of the total IMF voting power is required to change the repurchase schedules, and any such periods apply to all members Article V, Section 7(c) and (d).

³⁷ See discussion in Section 2.2.1. Under a decision adopted in the late 1970s, members are permitted to combine all repurchases due within a calendar month provided the combined repurchase is completed no later than the last day of the month and that no single repurchase remains outstanding for a period exceeding the maximum permitted under the relevant policy of the IMF. This option has been rarely used (Zambia in 1985 and Greece in June 2015).

³⁸ Postponement beyond the maximum repurchase period allowed under the arrangement could be considered only in the event that the IMF determined that discharge on the due date would result in exceptional hardship for the member and if the longer period for repurchase is consistent with the revolving nature of the use of IMF resources. Such a decision requires approval by a 70 percent majority of the total voting power (Article V, Section 7(g)). The IMF has not approved any extensions in repurchases beyond the maximum repurchase period.

reduced. However, it is still an important asset in the reserve holdings of a number of countries, and the IMF remains one of the largest official holders of gold in the world with 90.474 million ounces (2,814 metric tons) of gold, held at designated depositories. The IMF's total gold holdings are valued on its balance sheet at SDR 3.167 billion on the basis of historical cost. As of April 30, 2016, the IMF's holdings amounted to SDR 82.1 billion (at market prices). Consistent with the IMF's new income model, the Executive Board agreed in April 2008 to a strictly limited gold sale of 403.3 metric tons to be used to establish an endowment to bolster the IMF's income. Resources linked to these gold sales were also used to boost the IMF's capacity for concessional lending to eligible low-income countries.

2.3.3.1 GOLD IN THE ARTICLES OF AGREEMENT

The IMF acquired virtually all its gold holdings through four main types of transactions included in the original Articles of Agreement. First, the original Articles prescribed that 25 percent of initial quota subscriptions and subsequent quota increases be paid in gold. This has been the largest source of the IMF's gold. Second, all payments of charges (interest on members' use of IMF credit) were generally made in gold. Third, a member wishing to purchase the currency of another member could acquire it by selling gold to the IMF. The major use of this provision was the sale of gold to the IMF by South Africa in 1970–71. Finally, members could use gold to repay the IMF for credit previously extended.

The Second Amendment to the Articles of Agreement in April 1978 eliminated the use of gold as the common denominator of the post–World War II exchange rate system and as the basis of the value of the SDR. It also abolished the official price of gold and abrogated the obligatory use of gold in transactions between the IMF and its members. It furthermore required that the IMF, when dealing in gold, avoid managing its price or establishing a fixed price.

The Articles of Agreement now limit the use of gold in the IMF's operations and transactions. The IMF may sell gold outright on the basis of prevailing market prices and may accept gold in the discharge of a member's obligations at an agreed price, based on market prices at the time of acceptance. These transactions in gold require an 85 percent majority of total voting power. The IMF does not have the authority to engage in any other gold transactions—such as loans, leases, swaps, or use of gold as collateral—nor does it have the authority to buy gold.

The Articles of Agreement also allow for the restitution of the gold the IMF held on the date of the Second Amendment (April 1978) to countries that were members as of August 31, 1975. Restitution involves the sale of gold to this group of members at the former official price of SDR 35 an ounce, with such sales made to members who agree to buy it in proportion to their quotas on the date of the Second Amendment. A decision to restitute gold would require an 85 percent majority of the total voting power in the Executive Board. The Articles of Agreement do not provide for the restitution of gold acquired by the IMF after the date of the Second Amendment.

2.3.3.2 THE IMF'S POLICY ON GOLD

The IMF's policy on gold is governed by the following five principles:

1. As an undervalued asset held by the IMF, gold provides fundamental strength to its balance sheet. Any mobilization of IMF gold should avoid weakening its overall financial position.
2. Gold holdings provide the IMF with operational maneuverability both in the use of its resources and by adding credibility to its precautionary balances. In these respects, the benefits of the IMF's gold holdings are passed on to the membership at large, including both creditors and borrowing members.
3. The IMF has a systemic responsibility to avoid causing disruptions that would adversely impact gold holders and gold producers or the functioning of the gold market.
4. The IMF should continue to hold a relatively large amount of gold among its assets, not only for prudential reasons, but also to meet unforeseen contingencies.
5. Profits from any gold sales should be retained, and only the investment income should be used for purposes that may be agreed by IMF members and are permitted under the Articles of Agreement.

2.3.3.3 IMF GOLD SALES, 2009–10

On September 18, 2009, the Executive Board approved the sale of 403.3 metric tons of gold (12.97 million ounces), which amounted to one-eighth of the IMF's total holdings of gold. The gold authorized for sale was acquired after the Second Amendment of the IMF's Articles of Agreement in April 1978.

The decision to sell gold was a key step toward implementing the new income model agreed in April 2008 to help put the IMF's finances on a sound long-term footing. A central component of the new income model was the establishment of an endowment funded by the profits from the sale of a strictly limited portion of the IMF's gold. The modalities for the gold sales were set to avoid disruption to the gold market.

In August 2009, the European Central Bank and 18 other European central banks announced the renewal of their agreement on gold sales (Central Bank Gold Agreement), which limited total annual gold sales by these institutions to 400 metric tons annually and 2,000 metric tons over the 5 years beginning on September 27, 2009. The announcement noted that the IMF's planned sale of 403 metric tons of gold could be accommodated within these ceilings. This ensured that gold sales by the IMF would not add to the announced volume of sales from official sources.

The first phase in the gold sales consisted of exclusively off-market sales to interested central banks and other official holders, which were conducted at market prices at the time of the transactions. In October and November 2009, the IMF sold 212 metric tons of gold in separate off-market transactions to three central banks: 200 metric tons to the Reserve Bank of India;

Table 2.6 Balance Sheet of the General Department*(Millions of SDRs; as of April 30, 2016)*

Assets		Liabilities, Reserves and Retained Earnings	
Currencies Usable		Other Liabilities	1,319
Currencies	360,036	Special Contingent Account	1,188
Other Currencies	65,575	Borrowings	31,671
Credit Outstanding	47,798	Quotas, Represented By:	
SDR Holdings	31,842	Reserve Tranche Positions	45,967
Investments	14,968	Subscription Payments	425,601
Gold Holdings	3,167	Total Quotas	471,568
Other Assets	997	Reserves of the General Resources Account	18,438
		Retained Earnings of the Investment Account and Resources of the Special Disbursement Account	199
Total Assets	524,383	Total Liabilities, Reserves, Retained Earnings, and Resources	524,383

Source: Finance Department, International Monetary Fund.

Note: Numbers may not add to totals due to rounding.

2 metric tons to the Bank of Mauritius; and 10 metric tons to the Central Bank of Sri Lanka.

In February 2010, the IMF announced the beginning of sales of gold on the market. At that time, a total of 191.3 metric tons of gold remained to be sold. In order to avoid disrupting the market, the sales were to be conducted in a phased manner, following an approach adopted successfully by the central banks participating in the Central Bank Gold Agreement. The start of market sales did not preclude further off-market gold sales directly to interested central banks or other official holders. In September 2010, the IMF sold 10 metric tons to the Bangladesh Bank, reducing the amount of gold to be placed on the market.

In December 2010, the IMF concluded the gold sales after total sales of 403.3 metric tons of gold (12.97 million ounces), as authorized by the Executive Board. Total proceeds amounted to SDR 9.5 billion, of which SDR 4.4 billion was used to establish an endowment as stipulated under the new income model.

In February 2012, the Executive Board approved a distribution of SDR 700 million of the general reserve, attributed to windfall gold sale profits that resulted from a higher gold price than assumed in the new income model, subject to assurances that new subsidy contributions equivalent to at least 90 percent of the amount would be made available for the Poverty Reduction and Growth Trust (PRGT). This distribution, which became effective in October 2012, was part of a financing package endorsed by the Executive Board in July 2009, aimed at boosting the IMF's concessional lending capacity in 2009–14. In September 2012, the Executive Board approved the distribution of SDR 1.75 billion in reserves from the remaining windfall gold sale profits as part of a strategy to generate subsidy resources to ensure the longer-term sustainability of the PRGT. As with the earlier distribution, this was subject to assurances that new subsidy contributions

equivalent to at least 90 percent of the amount to be distributed would be made available to boost the PRGT. In October 2013, a critical mass of 151 member countries committed the required new subsidy contributions, including by transferring their share in the partial distribution of the general reserve of SDR 1.75 billion to the PRGT.³⁹

2.4 The IMF's Balance Sheet and Income Statement

2.4.1 The Balance Sheet

The balance sheet of the General Department summarizes the sources and uses of resources (Table 2.6).

The payment of quota resources is at the core of the IMF balance sheet. The payment of quotas results in currency holdings on the assets side of the balance sheet and resources on the liability side. As discussed in Section 2.2.1, the currencies of some members are considered to be usable for IMF lending and repayment operations, and these amounted to SDR 360 billion at the end of April 2016, representing the bulk of assets on the General Resources Account (GRA) balance sheet. Financing to debtor members is largely funded by use of these currencies, giving rise to credit outstanding and a corresponding reserve tranche position for the provider of the currencies (creditors to the Fund).

³⁹ In April 2014, the Executive Board adopted the necessary amendments to the PRGT Instrument to implement the self-sustained PRGT. This amendment became effective in November 2014 with the necessary consents from all lenders to the PRGT. See Chapter 3 for the discussion on the self-sustained PRGT.

Currencies that are not usable (other currencies) amounted to SDR 65.6 billion.⁴⁰

The second major item is credit outstanding, which is the value of financing extended by the IMF to its members and was SDR 47.8 billion at the end of FY2016. Members with outstanding credit pay a market-related rate of interest on these loans, which fully covers the payment of interest to the creditors providing the resources to the IMF. Gold, valued at SDR 3.2 billion, represents a relatively small share of total assets.⁴¹ The IMF receives no interest on its gold or currency holdings that do not result from the extension of IMF credit. The only interest-bearing asset held by the GRA other than its outstanding credit is its holdings of SDRs, which were SDR 31.8 billion at end FY2016.⁴² The Investment Account (IA) holds resources transferred from the GRA for purposes of investment to generate additional income for the Fund. The IA held investments of SDR 15.0 billion at the end of April 2016 and as discussed in [Chapter 5](#), these investments are an important aspect of the Fund's new income model. With the addition of some minor receivables and other assets, total assets of the General Department as of April 30, 2016, amounted to SDR 524.4 billion.

Total quota resources were SDR 472 billion as of April 30, 2016. Reserve tranche positions of member countries, which result from initial quota payments and changes due to the use and receipt of currencies in the IMF's financial operations, stood at SDR 46.0 billion. The amount of borrowing outstanding was SDR 31.7 billion. Adding reserves, the Special Contingent Account (see [Chapter 6](#)) and some other liabilities gives a total of SDR 524.4 billion in resources and liabilities in the General Department.

2.4.2 Operational Income

The IMF's income is derived mostly from charges levied on its lending activities and investment income. [Chapter 5](#) provides detailed analysis of the various charges paid by Fund borrowers and reviews the history of these charges. It also provides further

⁴⁰ In the balance sheet of the General Resources Account, the IMF distinguishes between usable currencies and unusable (other) currencies (see Section 2.2. for the definition of "usable currency"). Unusable currencies include the currencies of borrowers from the General Resources Account and of members with weaker external positions that are not being used for credit purposes. The currencies of nonborrowers could become usable if the members' balance of payments positions improved.

⁴¹ The IMF's holding of gold are valued at historical cost. For most of the gold holdings, this is SDR 35 a fine ounce. Market prices for gold are much higher, which imparts a fundamental strength to the IMF's financial position.

⁴² The IMF does not receive allocations of SDRs, but rather obtains its SDRs in payment for the reserve asset portion of quota subscriptions and in settlement of charges and, to a lesser degree, repayment of credit. The IMF, in turn, uses these SDRs to pay interest on creditor positions and to provide credit to members. Since SDRs were created as a supplement to existing reserve assets, the IMF does not maintain large holdings of SDRs for long periods of time, but instead recirculates them to the membership.

Table 2.7 Income Statement of the General Department

(Millions of SDRs; as of April 30, 2016)

Operational income	
Interest and charges	1,327
Interest on SDR holdings	9
Net income from investments	(20)
Service charges and commitment fees	120
	1,436
Operational expenses	
Remuneration	12
Interest expense on borrowings	18
Administrative expenses	951
	981
Net operational income	455
Other comprehensive income ¹	543
Total comprehensive income	998
Total comprehensive income of the General Department comprises:	
Total comprehensive income of the General Resources Account	1,018
Total comprehensive (loss)/income of the Investment Account	(20)
Total comprehensive loss of the Special Disbursement Account	—
	998

Source: Finance Department, International Monetary Fund.

¹ Other comprehensive income relates to the remeasurement of the defined benefit obligation as required by International Financial Reporting Standards, the IMF's accounting framework.

discussion of the Fund's investment mandate and objectives. The IMF had operational income in the financial year ended April 30, 2016, of SDR 1.4 billion, reflecting primarily income from the high levels of financing activity ([Table 2.7](#)).

2.4.3 Operational Expenses

The IMF pays interest (remuneration) to members on their creditor positions in the General Resources Account (the reserve tranche positions) except on a small portion as indicated above ([Box 2.4](#)). The Articles of Agreement provide for a rate of remuneration that is neither higher than the SDR interest rate nor lower than 80 percent of that rate. The current rate of remuneration is equal to the SDR interest rate. Whenever the IMF has borrowing arrangements in place, it also pays interest on any outstanding borrowing normally at the SDR interest rate.

2.4.4 Administrative Expenses

The IMF's administrative expenses include personnel, travel, building occupancy, and the like. Personnel and travel-related

outlays typically account for the largest of total administrative expenses. The General Resources Account is reimbursed for the cost of administering the SDR Department through an assessment levied in proportion to each participant's allocation of SDRs. The General Resources Account is also reimbursed for other administrative expenses such as expenses incurred in administering the Poverty Reduction and Growth Trust.

2.4.5 Net Income

The net income of the IMF is added each year to its reserves following the completion of the annual external audit. The Articles of Agreement also allow the IMF to distribute net income to its members; apart from the distribution of the windfall gold profits (see Section 2.3.3.3) no other distributions have been made by the IMF. The net income contributes to the accumulation of precautionary balances which helps ensure the value of members' reserve positions and safeguards the IMF's financing mechanism (see Chapter 6).

The IMF's net income in FY2016 amounted to SDR 1.0 billion. This reflected net operational income of SDR 0.5 billion (the difference between operational income of SDR 1.4 billion and operational expenses of SDR 1.0 billion) and actuarial gains of SDR 0.5 billion arising from the application of the International Accounting Standard 19 (amended IAS 19, Employee Benefits). The IAS 19 requires immediate recognition of all changes in the IMF's defined benefit obligation of postemployment benefit plans and the associated plan assets. Actuarial gains or losses are not included in net operational income, but instead are included in other comprehensive income to arrive at the overall income position for the Fund.

2.4.6 Valuation of Currencies

Currencies and securities held in the General Resources Account's pool of resources are valued in terms of the SDR on the basis of each member country's representative rate of exchange. Each member is obligated to maintain, in SDR terms, the value of the balances of the IMF's holdings of its currency in the General Resources Account but not of other holdings, such as those in the Special Disbursement Account or the Administered Accounts.⁴³ The total SDR value of the IMF's holdings of currencies in the General Resources Account is kept constant through changes to the amount of members' currency balances. Members must pay additional currency if their currency depreciates against the SDR, and the IMF refunds some of these currency holdings if a currency appreciates. This requirement is referred to as the "maintenance-of-value obligation," and it ensures that the IMF's resources are insulated from exchange rate fluctuations.

⁴³ Revaluation changes in members' currencies in relation to the SDR in the other IMF accounts (the SDA and the Administered Accounts) are reported as valuation gains and losses for those accounts.

A member's currency held by the IMF is revalued in SDR terms under the following circumstances:

- when the currency is used by the IMF in a transaction with another member
- at the end of the IMF's financial year (April 30)
- at the end of the month for the euro and daily for the U.S. dollar
- at the request of a member during the year—for example, at the end of the member's financial year
- on such other occasions as the IMF may decide.

Whenever it becomes necessary to adjust the rate at which the IMF has recorded the use of a member's currency, the new rate becomes effective in the IMF's accounts at the close of business on that date. All holdings of a member's currency in the General Resources Account, including any unsettled obligations resulting from an earlier revaluation, are revalued at the new rate. The new rate is applied to all transactions in that currency, including administrative receipts and payments, until such time as the rate is again adjusted.

The currency valuation adjustments are part of the IMF's holdings of members' currencies. Whenever the IMF revalues its holdings of a member's currency, reflecting a change in its exchange rate with the SDR, an account receivable or an account payable is established for the amount of currency payable by or to the member in order to maintain the value of holdings of the member's currency in terms of the SDR.

2.5 Special Disbursement Account

The Special Disbursement Account (SDA) is the vehicle used to receive profits from the sale of gold held by the IMF at the time of the Second Amendment of the IMF's Articles of Agreement (1978). SDA resources can be used for various purposes as specified in the IMF's Articles of Agreement, including transfers to the GRA for immediate use in operations and transactions, transfers to the Investment Account, or to provide balance of payments assistance on special terms to developing economy members in difficult circumstances.

2.6 IMF Accounts in Member Countries

The IMF conducts its financial dealings with a member through the fiscal agency and the depository designated by the member. The fiscal agency may be the member's treasury (ministry of finance), central bank, official monetary agency, stabilization fund, or other similar agency. The IMF only deals with a member for financial operations through the designated fiscal agency. In addition, each member is required to designate its central bank as a depository for the IMF's holdings of the member's currency ("designated depository") or, if it has no central bank, a monetary

agency or a commercial bank acceptable to the IMF. Most members of the IMF have designated their central bank as both the depository and the fiscal agency. The depository is required to pay out of the IMF's holdings of the member's currency, on demand and without delay, sums to any payee named by the IMF and to hold securities on behalf of the IMF should the member decide to issue nonnegotiable, non-interest-bearing notes or similar instruments in substitution for part of the IMF's currency holdings. Each member guarantees all assets of the IMF against loss resulting from failure or default on the part of the depository. Thus, the IMF's pool of currencies and reserve assets in the General Resources Account are not held at the IMF but in depositories in the member countries.

The depository maintains, without any service charge or commission, two accounts that are used to record the IMF's holdings of the member's currency: the IMF No. 1 Account and the IMF No. 2 Account. The No. 1 Account is used for IMF transactions, including subscription payments, purchases and repurchases (use and repayment of General Resources Account resources), and repayment of resources borrowed by the IMF. Payment of charges on the use of IMF credit and the IMF's payment of interest on reserve tranche positions are conducted in SDRs and therefore are not recorded in these accounts. Provided a minimum balance is maintained in the No. 1 Account, as explained below, all these transactions alternatively may be carried out through an IMF Securities Account. A member may establish an IMF Securities Account in order to substitute part of the holdings in the IMF No. 1 Account with nonnegotiable, non-interest-bearing notes or similar instruments payable to the IMF on demand when the currency is needed for the IMF's transactions. The depository holds these notes for safekeeping and acts as the agent of the IMF to obtain encashment of the notes in order to maintain, at all times, the minimum required balance in the No. 1 Account.⁴⁴ The No. 2 Account is used for the IMF's administrative expenditures and receipts (for example, from sales of IMF publications) in the member's currency and within its territory.

The balances in both the No. 1 and No. 2 Accounts that originate from the payment of the local currency portion of quota subscriptions do not yield any interest for the IMF. The local currency portion of the subscribed capital, while fully paid, is held in non-interest-bearing form and generates no income for the IMF until used and converted into claims on members in the form of use of IMF credit.

⁴⁴ If any payment by the IMF reduces the balance in the No. 1 Account below a minimum of $\frac{1}{4}$ of 1 percent of the member's quota, the balance must be restored to that level by the next business day through the deposit of currencies or encashment of sufficient notes.

2.6.1 Disclosure of Financial Position with the IMF by Member Countries

The accounting treatment of IMF transactions should reflect the member's legal and institutional arrangements and the substance of the transactions and should comply with the applicable financial reporting framework.⁴⁵ For this reason, the disclosure of financial position with the IMF sometimes differs between members.

The financial position with the IMF is commonly presented in full in the member's central bank balance sheet. This means that the position in both the General Department and the SDR Department are included in the central bank's balance sheet. Membership in the SDR Department is typically presented by showing SDR holdings as an asset and the cumulative SDR allocation as a liability.

The member's position in the General Department can be shown either on a gross or a net basis. Under the gross method, the IMF No. 1, No. 2, and Securities Accounts are shown as liabilities, and the member's quota is shown as an asset. Members may also choose to reflect their financial position on a net basis. A member that has a reserve tranche position in the IMF and is not using IMF credit would present its reserve tranche position as an asset (Box 2.4). Members with a reserve tranche position that are also using credit in the General Resources Account would disclose the reserve tranche as an asset and currency holdings stemming from the use of IMF credit as a liability, since the IMF is not entitled to demand settlement or offset a member's use of credit from its reserve tranche position.

Additional considerations may arise when a member uses credit in the General Resources Account that is channeled to the state treasury for budget financing. If the IMF position is shown in the balance sheet of the central bank, the member may present the full liability related to the IMF holdings of the member's currency resulting from the use of such IMF credit with a corresponding asset due from the treasury, reflecting an on-lending arrangement.⁴⁶ Some central banks reflect the underlying securities issued by the member for the use of IMF credit directed to the state treasury in off-balance-sheet accounts and the resources received from the IMF as government deposits.

Appendix 4 illustrates how IMF membership could be presented on either a gross or a net basis in the balance sheet of a central bank.

⁴⁵ This discussion presents IMF member positions in the General and SDR Departments.

⁴⁶ Borrowing under the Poverty Reduction and Growth Trust (PRGT) is also typically reflected in the central bank's balance sheet.

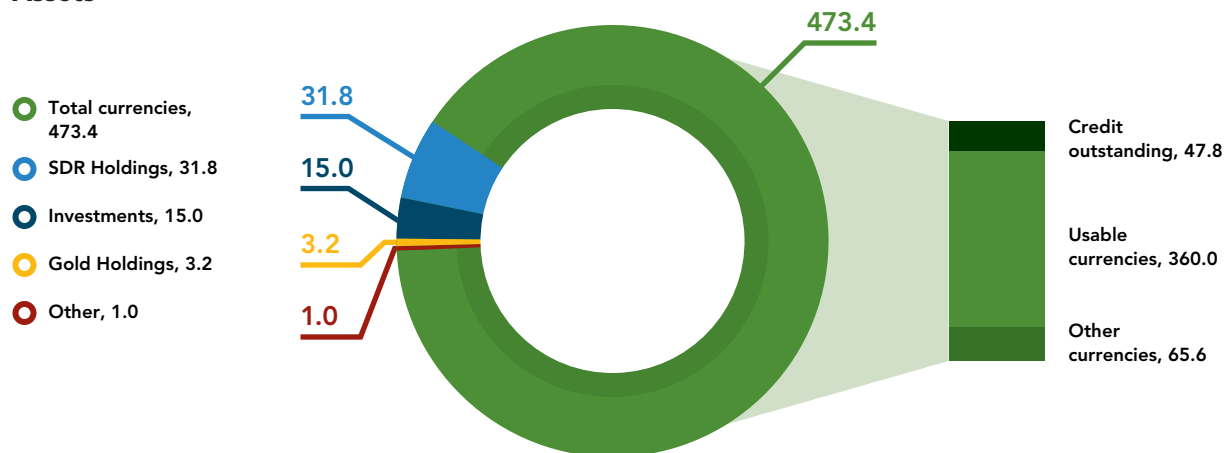
Box 2.1 GRA Balance Sheet Snapshot

(Billions of SDRs; as of April 30, 2016)

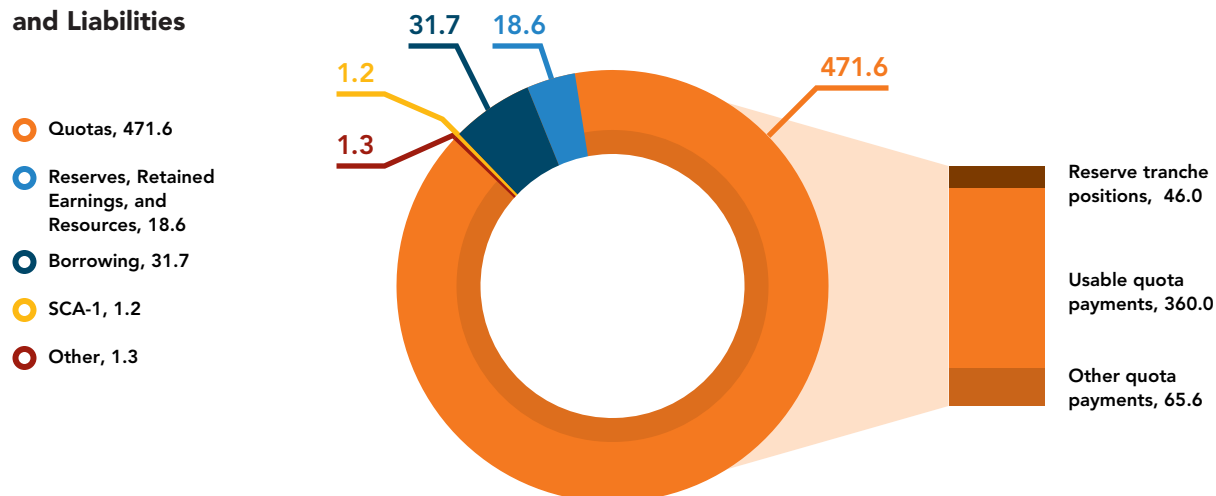
On the asset side of the balance sheet, financing for debtor members is largely funded by use of currencies of creditor members. Members with outstanding credit pay a market-related rate of interest on these loans which fully covers the payment of interest to the creditors providing resources to the IMF.

On the resources side of the balance sheet, the IMF pays interest (remuneration) to the providers of finance as well as on borrowed resources. The IMF does not remunerate available quota resources until they are used. Unusable currencies are composed of quota payments by members whose position is assessed by the Fund to be insufficiently strong to be included in the Financial Transactions Plan and be used in credit operations (see Section 2.2.1).

Assets



Resources and Liabilities



Source: Finance Department, International Monetary Fund.

Note: SCA-1 = Special Contingent Account.

Box 2.2 Quota Payment Procedures

The rules and regulations concerning the payment of a member's quota are stipulated in Article III (Quotas and Subscriptions) of the IMF's Articles of Agreement. Eligible members that consent to an increase in their quotas must typically pay their quota increases as follows:

- **Reserve asset portion:** Twenty-five percent of the quota increase must be paid in reserve assets. Originally, this portion was payable in gold. Since the Second Amendment of the IMF's Articles of Agreement in 1978, it is payable in SDRs or in the currencies of other members specified by the IMF, with their concurrence, or in any combination of SDRs and such currencies. In the event the specified currency of another member is not freely usable (see Section 2.2), balances of that member's currency are normally obtained by the paying member from the member whose currency was specified in exchange for a freely usable currency acceptable to that member. To effect this payment, (1) a member may use its own reserves (for example, its own SDRs or reserve currency holdings) or (2) if it lacks sufficient reserves, it may ask the IMF to arrange for an intraday interest-free SDR bridge loan from a willing creditor. To repay the bridge loan, a member must immediately draw down its newly created reserve tranche position in the same amount and use the proceeds to repay the loan.
- **Local currency portion:** The remainder of the quota increase (75 percent) is payable in a member's own currency to either the IMF No. 1 Account (Section 2.6) or through issuance of a promissory note to be held in the IMF's Securities Account with the member's designated depository, typically its central bank.

Payments of both portions of the quota must be made on the same agreed value date within 30 days of the later of (1) the date on which the member notifies the IMF of its consent to its new quota or (2) the date on which the increase in quota goes into effect. The Executive Board has the authority to extend the payment period.

Box 2.3 The Quota Formula

The quota formula includes four quota variables: GDP, openness, variability, and reserves. These are expressed as shares of the global totals, with the variables assigned weights totaling to 1.0. The formula also includes a compression factor that reduces dispersion in calculated quota shares.

The formula is

$$CQS = (0.5*Y + 0.3*O + 0.15*V + 0.05*R)^k,$$

in which

CQS = calculated quota share;

Y = a blend of GDP converted at market rates and purchasing-power-parity (PPP) exchange rates averaged over a 3-year period (the weights of market-based and PPP GDP are 0.60 and 0.40, respectively);

O = the annual average of the sum of current payments and current receipts (goods, services, income, and transfers) for a recent 5-year period;

V = variability of current receipts and net capital flows (measured as a standard deviation from the centered 3-year moving average over a recent 13-year period);

R = the 12-month average over a recent year of official reserves (foreign exchange, SDR holdings, reserve position in the IMF, and monetary gold); and

k = a compression factor of 0.95. The compression factor is applied to the uncompressed calculated quota shares, which are then rescaled to sum to 100.

Box 2.4 The Reserve Tranche Position

In exchange for the reserve asset portion of its quota payment, an IMF member acquires a liquid claim on the IMF—much like a demand deposit in a commercial bank. This claim is called the reserve tranche position, and it is equal to the member's quota minus the IMF's holdings of the member's currency in the General Resources Account (excluding currency holdings that stem from the member's own use of credit and holdings—one tenth of 1 percent of the member's quota—held in the No. 2 Account for administrative payments).

The share of a member's subscription maintained in reserve assets is initially about 25 percent of the quota payment but varies over time: the reserve tranche position increases when the IMF uses the member's currency to lend to other members (or for administrative payments) and decreases when borrowing members use the currency to make repayments. Reserve tranche positions are part of each member's liquid international reserves because, when a member has a balance of payments need, it may convert its SDR-denominated reserve asset into SDRs or one or more freely usable currencies by drawing on the IMF. A member may also be obligated to provide if necessary reserve assets of up to 100 percent of its quota.

The reserve tranche can be considered as the "facility of first resort." It stands apart from the various financing facilities and instruments (see Section 2.3) in that a member's reserve tranche position is part of its own foreign exchange reserves. Purchases in the reserve tranche do not therefore constitute use of IMF credit. To preserve this character as a reserve asset available at the discretion of the member, the IMF has adopted reserve tranche policies:

- The definition of the reserve tranche (quota less holdings of the member's currency) explicitly excludes currency holdings arising from past use of IMF credit. This is intended to enable members to make purchases in the credit tranches without having first to use their reserve tranche. The member can choose which resources to use first.
- Purchases in the reserve tranche are subject to a representation by the member of a balance of payments need, as with any use of IMF resources, but the member's representation of need cannot be challenged by the IMF at the time the purchase request is made. (The IMF could, however review ex post whether the reserve tranche purpose was contrary to the purposes of the Fund and take remedial action.)
- Reserve tranche purchases are not subject to conditionality, charges, or repurchase expectations and obligations.

Balances of a member's currency are held by the IMF in designated depositories which are the members' central banks. Payment of the non-reserve-asset portion of quota subscriptions is normally in the form of promissory notes (nonnegotiable, non-interest-bearing securities) that are converted to currency on demand and are covered in the IMF No. 1 Account.

The IMF pays interest, called remuneration, on a member's reserve tranche position in the IMF, except on a small portion that is unremunerated. This unremunerated (non-interest-bearing) portion of the reserve tranche position was equal to 25 percent of the member's quota on April 1, 1978—that part of the quota that was paid in gold prior to the Second Amendment of the Articles of Agreement.

Historically, the gold tranche was never remunerated, and so this same amount was set aside as unremunerated when gold payment of subscriptions was ended. For members joining the IMF after that date, the unremunerated portion of the reserve tranche is set at the average unremunerated reserve tranche of all other members at that time.

The unremunerated portion of the reserve tranche remains fixed for each member in nominal terms, but because of subsequent quota increases, it is now significantly lower when expressed as a percentage of quotas.

Box 2.5 The Evolution of Conditionality

IMF lending has always involved policy conditions. Until the early 1980s, IMF conditionality focused largely on macroeconomic policies. Subsequently, the complexity and scope of structural conditions increased, reflecting the IMF's growing involvement in low-income and transition economies, where severe structural problems hamper economic stability and growth.

Since 2000, the IMF has become more flexible in the way it engages with countries on issues related to structural reform of their economies. In 2002, the IMF concluded an extensive review of conditionality using a consultative process, including public involvement aimed at enhancing the effectiveness of IMF programs through stronger country ownership. Accordingly, the IMF has been striving to focus more sharply on and be clearer about the conditions attached to its financing and to be flexible and responsive in discussing alternative policies with countries requesting financial assistance.

As part of a wide-ranging review of the IMF's lending toolkit in 2009, the IMF further modernized its conditionality framework in the context of a comprehensive reform to strengthen its capacity to prevent and resolve crises. The revised operational guidance to the IMF staff stipulates that structural conditions be focused on and tailored to member countries' individual policies and economic starting points. Moreover, structural performance criteria requiring formal waivers were eliminated, leaving structural reforms to be covered under regular reviews of overall program performance.

The 2011 Review of Conditionality concluded that conditionality in general has become better tailored to individual country needs, more streamlined, and better focused on core areas of IMF expertise. Programs are also better adapted to changing economic circumstances, which has helped increase the achievement of program objectives and safeguard social protection during crises (particularly in low-income countries).

Box 2.6 Key Gold Transactions

Outflows of gold from the IMF's holdings occurred under the original Articles of Agreement through sales of gold for currency and payments of remuneration and interest. Since the Second Amendment of the Articles of Agreement in April 1978, outflows of gold may occur only through outright sales. Key gold transactions included the following:

Sales for replenishment (1957–70): The IMF sold gold on several occasions during this period to replenish its holdings of currencies.

South African gold (1970–71): The IMF sold gold to members in amounts roughly corresponding to purchases during those years from South Africa.

Investment in U.S. government securities (1956–72): In order to generate income to offset operational deficits, some IMF gold was sold to the United States, and the proceeds were invested in U.S. government securities. Subsequently, a significant buildup of IMF reserves prompted the IMF to reacquire this gold from the U.S. government.

Auctions and "restitution" sales (1976–80): The IMF sold approximately one-third of its gold holdings (50 million ounces) following an agreement by its members to reduce the role of gold in the international monetary system. Half this amount was sold in restitution to members at the official price of SDR 35 per ounce; the other half was auctioned to the market to finance the Trust Fund established to support concessional lending by the IMF to low-income countries.

Off-market transactions in gold (1999–2000): In December 1999, the Executive Board authorized off-market transactions in gold of up to 14 million ounces to help finance IMF participation in the Heavily Indebted Poor Countries (HIPC) Initiative. Between December 1999 and April 2000, separate but closely linked transactions involving a total of 12.9 million ounces of gold were carried out between the IMF and two members (Brazil and Mexico) that had financial obligations falling due to the IMF. In the first step, the IMF sold gold to the member at the prevailing market price, and the profits were placed in a special account invested for the benefit of the HIPC Initiative. In the second step, the IMF immediately accepted back, at the same market price, the same amount of gold from the member in settlement of that member's financial obligations. The net effect of these transactions was to leave the balance of the IMF's holdings of physical gold unchanged.

Gold sales to fund endowment (2009–10): In September 2009, the Executive Board approved the sale of 403.3 metric tons of gold (12.97 million ounces) as a key step toward implementing a new income model agreed in April 2008 to help put the IMF's finances on a sound long-term footing. A central component of the new income model was the establishment of an endowment funded by the profits from the sale of a strictly limited portion of the IMF's gold which was acquired after the Second Amendment of the Articles.

Additional Reading

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- Acceptances of the Proposed Amendment of the Articles of Agreement on Reform of the Executive Board and Consents to 2010 Quota Increase: www.imf.org/external/np/sec/misc/consents.htm
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- Financial Statements of the International Monetary Fund: www.imf.org/external/pubs/ft/quarter/index.htm
- Financing IMF Transactions: www.imf.org/cgi-shl/create_x.pl?ftp
- Guidelines for Quarterly Financial Transactions Plan: www.imf.org/external/np/tre/ftp/pdf/0408.pdf
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- IMF Articles of Agreement—Article V, Section 7(b), *Repurchase by a Member of its Currency held by the Fund*: www.imf.org/external/pubs/ft/aa/#a5s7
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- IMF Executive Board Approves Distribution of US\$1.1 Billion Gold Sales Profits to Facilitate Contributions to Support Concessional Lending to Low-Income Countries, Press Release No. 12/56, February 24, 2012: www.imf.org/external/np/sec/pr/2012/pr1256.htm
- IMF Executive Board Recommends Quota and Related Governance Reforms: www.imf.org/external/np/sec/pr/2006/pr06189.htm
- IMF Executive Board Recommends Reforms to Overhaul Quota and Voice, Press Release No. 08/64, March 28, 2008: www.imf.org/external/np/sec/pr/2008/pr0864.htm
- IMF Executive Board Reports to the Board of Governors on the 2010 Reforms and the Fifteenth General Review of Quotas, Press Release No. 14/22, January 23, 2014: www.imf.org/external/np/sec/pr/2014/pr1422.htm
- IMF Executive Board Reports to the Board of Governors on the 2010 Reforms and the Fifteenth General Review of Quotas, Press Release No. 15/20, January 28, 2015: www.imf.org/external/np/sec/pr/2015/pr1520.htm
- IMF Executive Board Reports to the Board of Governors on the Fifteenth General Review of Quotas, Press Release No. 16/36, February 1, 2016: www.imf.org/external/np/sec/pr/2016/pr1636.htm
- IMF Reforms Policy for Exceptional Access Lending, IMF Survey, January 29, 2016: www.imf.org/external/pubs/ft/survey/so/2016/pol012916a.htm
- IMF Executive Board Reviews Access Limits, Surcharge Policies, and Other Quota Related Policies, Press Release No. 16/166, April 11, 2016: www.imf.org/external/np/sec/pr/2016/pr16166.htm
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- IMF Financial Activities: www.imf.org/cgi-shl/create_x.pl?fa
- IMF Financial Resources and Liquidity Position: www.imf.org/cgi-shl/create_x.pl?liq
- IMF Members' Quotas and Voting Power, and IMF Board of Governors: www.imf.org/external/np/sec/memdir/members.aspx
- IMF Quotas, Factsheet: www.imf.org/external/np/exr/facts/quotas.htm
- IMF Quota and Governance Publications: www.imf.org/external/np/fin/quotas/pubs/index.htm
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3

Financial Assistance for Low-Income Countries

The IMF's financial assistance for low-income countries (LICs) is composed of concessional loans and debt relief.

Concessional lending began in the 1970s and has expanded since. In July 2009, the IMF's Executive Board approved a comprehensive reform of the IMF's concessional facilities. Such assistance is now provided through the facilities of the Poverty Reduction and Growth Trust (PRGT), which assists eligible countries in achieving and maintaining a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth.

Debt relief is currently supported under two initiatives:

- The Heavily Indebted Poor Countries (HIPC) Initiative helps eligible countries achieve a sustainable external debt position.
- Assistance through the Catastrophe Containment and Relief (CCR) Trust allows the IMF to provide debt relief to eligible poor countries hit by catastrophic natural disasters or by epidemics with international spillover potential.

Debt relief was previously also provided under the Multilateral Debt Relief Initiative (MDRI), which was intended to complement the HIPC Initiative by providing additional resources to help eligible countries achieve the Millennium Development Goals. The IMF Executive Board adopted the MDRI in November 2005, and it became effective on January 5, 2006. There is no longer any outstanding IMF debt eligible for MDRI debt relief, and the MDRI trust accounts have been unwound.

The IMF's concessional lending and debt relief operations are trust based. The use of trusts permits greater flexibility in differentiating among members and mobilizing resources. It also removes certain credit and liquidity risks from the balance sheet of the General Resources Account (GRA).

Resources for the IMF's concessional operations are provided through contributions by a broad segment of the membership, as well as by the IMF. These resources are currently administered under the PRGT for concessional lending, and under the PRG-HIPC and CCR Trusts for debt relief. The IMF acts as trustee for all these trusts, mobilizing and managing resources for all the concessional operations.

Section 3.1 provides an overview of concessional financing at the IMF. Section 3.2 describes concessional lending through the PRGT, and Sections 3.3, and 3.4, describe the debt-relief initiatives. Section 3.5 explains the financing structure and resources for concessional assistance and debt relief.

3.1 The Evolution of Concessional Lending

The IMF's concessional assistance to eligible low-income countries began in the mid-1970s and has expanded significantly over time. The initial assistance was financed entirely through profits from the sale of IMF gold and was disbursed with limited conditionality, first through Trust Fund (TF) loans and later through loans from the Structural Adjustment Facility

Table 3.1 Concessional Lending Facilities

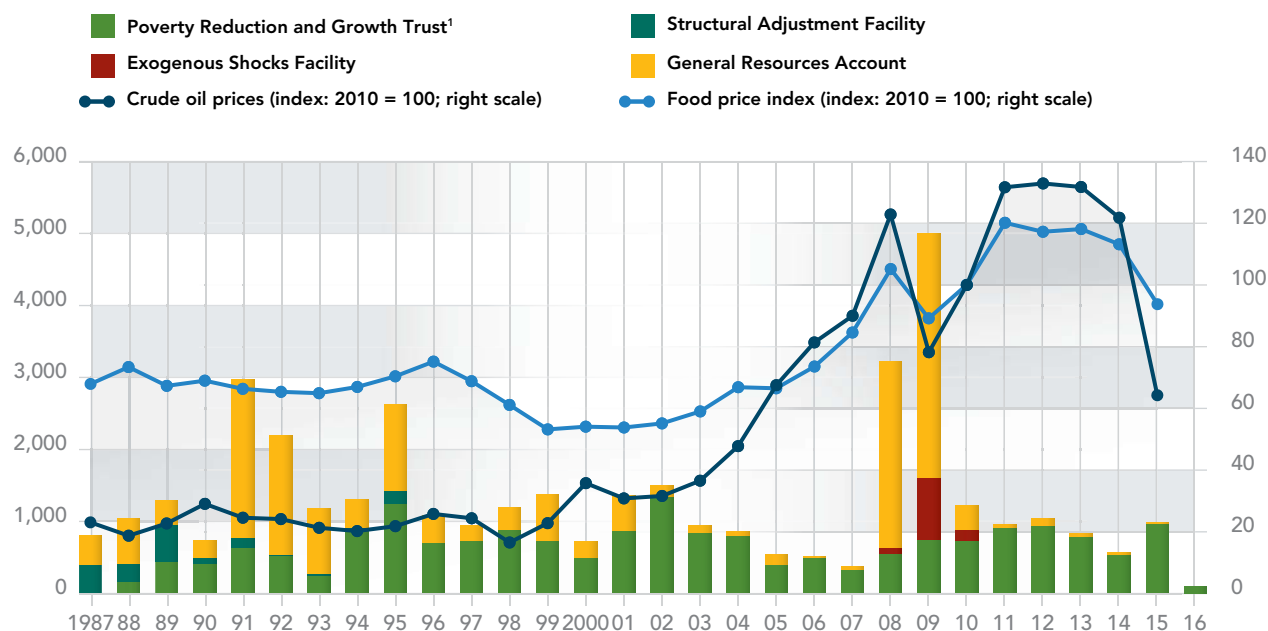
	Extended Credit Facility (ECF)	Standby Credit Facility (SCF)	Rapid Credit Facility (RCF)
Supersedes	Poverty Reduction and Growth Facility (PRGF)	Exogenous Shocks Facility–High-Access Component (ESF-HAC)	Exogenous Shocks Facility–Rapid Access Component (ESF-RAC), subsidized Emergency Post-Conflict Assistance (EPCA), and Emergency Natural Disaster Assistance (ENDA)
Objective	Help low-income countries achieve and maintain a stable and sustainable macroeconomic position consistent with strong and durable poverty reduction and growth		
Purpose	Address protracted balance of payments problems	Resolve short-term balance of payments needs	Low-access financing to meet urgent balance of payments needs
Eligibility	Countries eligible under the Poverty Reduction and Growth Trust (PRGT)		
Qualification	Protracted balance of payments problem; actual financing need over the course of the arrangement, though not necessarily when lending is approved or disbursed	Potential (precautionary use) or actual short-term balance of payments need at the time of approval; actual need required for each disbursement	Urgent balance of payments need when upper-credit-tranche (UCT) program is either not feasible or not needed ¹
Poverty Reduction and Growth Strategy	IMF-supported program should be aligned with country-owned poverty reduction and growth objectives and should aim to support policies that safeguard social and other priority spending Submission of Poverty Reduction Strategy (PRS) document	Submission of PRS document not required; if financing need persists, SCF user would request an ECF arrangement with associated PRS documentation requirements	Submission of PRS document not required
Conditionality	UCT; flexibility on adjustment path and timing	UCT; aim to resolve balance of payments need in the short term	No UCT and no conditionality based on ex post review; track record used to qualify for repeat use (except under shocks window)
Access Policies	Annual limit of 75% of quota; cumulative limit (net of scheduled repayments) of 225% of quota. Limits are based on all outstanding PRGT credit. Exceptional access: annual limit of 100% of quota; cumulative limit (net of scheduled repayments) of 300% of quota Norms and sublimits ² The access norm is 90% of quota per 3-year ECF arrangement for countries with total outstanding concessional IMF credit under all facilities of less than 75% of quota, and is 56.25% of quota per 3-year arrangement for countries with outstanding concessional credit of between 75% and 150% of quota.	The access norm is 90% of quota per 18-month SCF arrangement for countries with total outstanding concessional IMF credit under all facilities of less than 75% of quota, and is 56.25% of quota per 18-month arrangement for countries with outstanding concessional credit of between 75% and 150% of quota.	There is no norm for RCF access Sublimits (given lack of UCT conditionality): total stock of RCF credit outstanding at any point in time cannot exceed 75% of quota (net of scheduled repayments). The access limit under the RCF over any 12-month period is set at 18.75% of quota and under the shocks window at 37.5% of quota. Purchases under the Rapid Financing Instrument (RFI) made after July 1, 2015, count towards the applicable annual and cumulative limits.
Financing Terms ³	Interest rate: Zero Repayment terms: 5½–10 years	Interest rate: 0.25% Repayment terms: 4–8 years Availability fee: 0.15% on available but undrawn amounts under precautionary arrangement	Interest rate: Zero Repayment terms: 5½–10 years
Blending	Based on income per capita and market access; linked to debt vulnerability		
Precautionary Use	No	Yes, annual access at approval is limited to 56.25% of quota while average annual access at approval cannot exceed 37.5% of quota.	No
Length and Repeated Use	3–4 years (extendable to 5); can be used repeatedly	12–24 months; use limited to 2½ of any 5 years ⁴	Outright disbursements; repeated use possible subject to access limits and other requirements
Concurrent Use	General Resources Account (Extended Fund Facility/Stand-By Arrangement)	General Resources Account (Extended Fund Facility/Stand-By Arrangement) and Policy Support Instrument	General Resources Account (RFI and Policy Support Instrument); credit under the RFI counts towards the RCF limits

Source: Finance Department, International Monetary Fund.

¹UCT standard conditionality is the set of program-related conditions intended to ensure that IMF resources support the program's objectives, with adequate safeguards to the IMF resources.²Access norms do not apply when outstanding concessional credit is above 150% of quota. In those cases, access is guided by consideration of the access limit of 225% of quota (or exceptional access limit of 300% of quota), expectation of future need for IMF support, and the repayment schedule.³The IMF reviews interest rates for all concessional facilities under the PRGT every 2 years; the last review happened in December 2014, where the Executive Board approved the extension of the interest waiver on concessional loans through the end of December 2016 in view of the prolonged effects of the global economic crisis. In July 2015, the Executive Board set the interest rate on the RCF to zero (Box 3.5).⁴SCFs treated as precautionary do not count toward the time limits.

Figure 3.1 PRGT-Eligible Countries: GRA Purchases and Concessional Loan Disbursements, 1987–2016

(Millions of SDRs; as of April 30 each year)



Source: Finance Department, International Monetary Fund.

¹ Includes lending under the Enhanced Structural Adjustment Facility (ESAF), its successor the Poverty Reduction and Growth Facility (PRGF), and currently under the Extended, Standby, and Rapid Credit Facilities.

(SAF).¹ Since 1987, concessional loans have been financed in large part by bilateral contributions and have been extended through the Enhanced Structural Adjustment Facility (ESAF) Trust and its successors. The ESAF was renamed as the Poverty Reduction and Growth Facility (PRGF) Trust in 1999, as the Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF) Trust in 2006, and, since January 2010, as the Poverty Reduction and Growth Trust (PRGT).

A sweeping reform of concessional assistance in 2009 (see Section 3.2 and Table 3.1) established two new facilities—the Standby Credit Facility (SCF) for short-term balance of payments needs and the Rapid Credit Facility (RCF) to provide low-access financing for urgent balance of payments needs—while continuing to address protracted balance of payments needs through the Extended Credit Facility (ECF). The aim of the reform was to provide low-income countries more flexible and tailored support

to meet their diverse needs, in light of their heightened exposure to global volatility. Access policies were revised (and access levels doubled), and a new interest rate mechanism was introduced to increase concessionalality. In addition, temporary interest relief on all concessional credit was approved, and subsequently extended to the end of 2016. Disbursements of concessional loans and GRA resources to low-income countries peaked during 2008–09, as a result of the food and fuel crises and the global financial crisis (Figure 3.1).

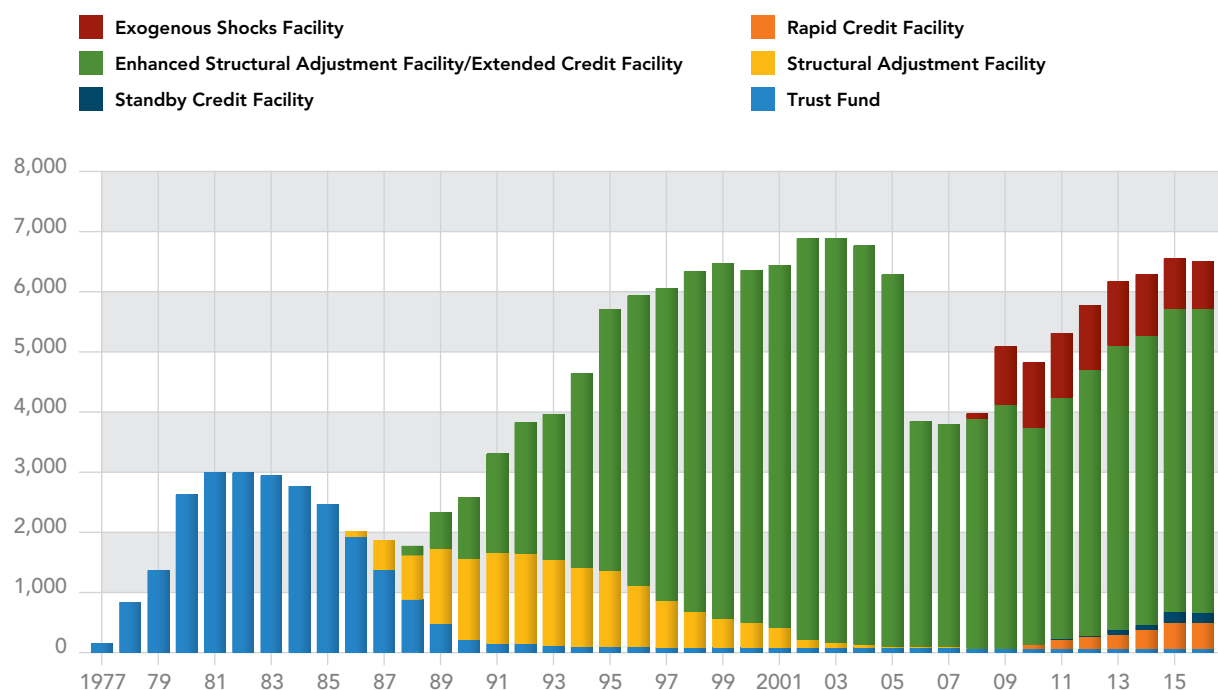
3.2 Poverty Reduction and Growth Trust

In July 2009, the IMF's Executive Board approved a comprehensive reform of the IMF's concessional facilities. The objective was to increase the flexibility of IMF support to low-income countries and better tailor assistance to these countries' diverse needs, particularly given their heightened exposure to global volatility. The Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF) Trust was renamed Poverty Reduction and Growth Trust (PRGT) with the entry into force of the 2009 reforms (effective January 7, 2010). These are the key aspects of the current IMF architecture for low-income countries:

¹ Before the TF and SAF loans, the IMF provided loans under the Oil Facility at below-market rates to 25 fuel-importing countries deemed particularly hard hit by the increased cost of oil imports. The Oil Facility was subsidized with contributions from donor countries deposited in the Oil Facility Subsidy Account established for this purpose. However, this Oil Facility did not differentiate among members based on income as did the TF and SAF.

Figure 3.2 Outstanding Concessional Credit by Facility, 1977–2016

(Millions of SDRs; as of April 30 each year)



Source: Finance Department, International Monetary Fund.

Note: The sharp decrease in credit outstanding in 2006 reflects the impact of the Multilateral Debt Relief Initiative (MDRI).

A more effective structure for LIC facilities: All concessional lending was consolidated within the PRGT, which replaced and expanded the PRGF-ESF Trust. Three concessional lending facilities for low-income countries (LICs) are available (Table 3.1) and one nonfinancial instrument:

- The Extended Credit Facility (ECF) succeeds the PRGF as the IMF's main tool for medium-term financing to low-income countries. ECF arrangements support programs that enable members with protracted balance of payments problems to make significant progress toward stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth.
- The Standby Credit Facility (SCF) provides financing to low-income countries with short-term balance of payments needs, similar to Stand-By Arrangements (SBAs). SCF arrangements support programs that enable members with actual or potential short-term balance of payments needs to achieve, maintain, or restore stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth.
- The Rapid Credit Facility (RCF) provides rapid, low-access financing with limited conditionality when an upper-credit-tranche (UCT) program with adjustment is either

not needed, for instance due to the transitory and limited nature of the need, or not feasible, for instance if policy capacity is constrained.² Examples of such financing needs include those caused by exogenous shocks, natural disasters, and emergence from conflict or other episodes of fragility or instability. RCF disbursements support members facing urgent balance of payments needs to help them achieve or restore stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth.

- The Policy Support Instrument (PSI) is the IMF's nonfinancial policy support tool for countries that may not need or want IMF financial assistance but seek to consolidate their economic performance with IMF monitoring and support and seek explicit Executive Board endorsement of their program and policies. A PSI can also facilitate access to the SCF and RCF (Box 3.4).

Enhanced focus on poverty reduction and growth: All PRGT facilities place a strong emphasis on poverty alleviation

² UCT standard conditionality is the set of program-related conditions intended to ensure that IMF resources support the program's objectives, with adequate safeguards to the IMF resources.

and growth rooted in country-owned poverty-reduction strategies. Formal requirements for submission to the IMF of Poverty Reduction Strategy (PRS) documents exist for ECF- and PSI-supported programs. Furthermore, under all PRGT facilities social and other priority spending should be safeguarded, and whenever appropriate increased, and this should be monitored through explicit targets, wherever possible.

Lower interest rates: A lower interest rate structure was established for the three concessional facilities, and the interest rates are reviewed regularly to preserve a higher level of concessionality than in the past. In addition, low-income countries received exceptional relief on all outstanding concessional loan interest payments due to the IMF, initially through the end of 2011, and subsequently extended through end of 2016 (Box 3.5). In July 2015, the Executive Board set the interest rate on the RCF to zero, thus increasing the concessionality of fast-disbursing financial assistance to countries facing urgent balance of payments needs which may be caused by fragile situations, conflict, or natural disasters.³

3.2.1 PRGT Terms

Availability: Assistance under the ECF arrangement is available for an initial 3- or 4-year term. An ECF arrangement may be extended for an overall maximum duration of 5 years. Assistance under an SCF arrangement is available for 12 to 24 months. Because the SCF is intended to address episodic short-term needs, its use is normally limited to 2½ of any 5 years, assessed on a rolling basis (SCFs treated as precautionary do not count toward the time limits). Assistance under the RCF is provided in the form of one-time disbursements or repeated disbursements over a limited period in case of recurring or ongoing financing needs, subject to RCF-specific access limits (see below) and other requirements on repeat use.⁴

³ This was part of a set of proposals adopted by the Executive Board of the IMF in July 2015 in the context of the “Financing for Development” initiative to enhance the financial safety net for developing economies to IMF financial support. The measures include: (1) increasing access to Fund concessional resources for all countries eligible for the Fund’s PRGT; (2) rebalancing the mix of concessional to nonconcessional financing toward more use of nonconcessional resources for better-off PRGT-eligible countries that receive “blended” financial support from the Fund; (3) increasing access to fast-disbursing concessional and nonconcessional resources for countries in fragile situations, hit by conflict, or natural disasters, and (4) setting the interest rate on loans under the RCF at zero percent. For more information, see Financing for Development: Enhancing the Financial Safety Net for Developing Countries, www.imf.org/external/np/pp/eng/2015/061115b.pdf

⁴ Under the PRGT Instrument: If a member has received a disbursement under the RCF within the preceding 3 years, then any additional disbursements under the RCF may be approved only where the Trustee is satisfied that: (1) the member’s balance of payments need was caused primarily by a sudden and exogenous shock, or (2) the member has established a track record of adequate macroeconomic policies for a period of normally about 6 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.

Financial: Repayment of ECF and RCF credits are made semi-annually in equal installments, subject to a 5½-year grace period and 10-year maturity. SCF credit payments are made semiannually in equal installments, subject to a 4-year grace period and an 8-year maturity. Interest is paid semiannually and is subject to regular Executive Board reviews that take world interest rates into account, except for the RCF, which carries zero interest (Box 3.5). Precautionary use of the SCF carries a small availability fee of 0.15 percent a year, payable on the full amount of disbursements available during each 6-month period under an SCF arrangement, or any shorter period that is remaining under the SCF arrangement, to the extent that such disbursements are not drawn by the member. The ECF and RCF cannot be used on a precautionary basis.

Conditionality: ECF and SCF arrangements are subject to UCT standard conditionality (see Table 3.1)—as noted, this is a set of program-related conditions intended to ensure that IMF resources support the program’s objectives, with adequate safeguards to the IMF’s resources. Conditionality is established only on the basis of those variables or measures that are reasonably within the member’s direct or indirect control and that are generally, either (1) of critical importance for achieving the goals of the member’s program or for monitoring program implementation, or (2) necessary for the implementation of specific provisions of the Articles of Agreement or policies adopted under them. If a UCT conditionality standard is either not necessary or feasible, an RCF is used.

Access limits and norms: Global annual and cumulative limits apply to each member’s total access under all concessional facilities.⁵ Total access to concessional financing should normally not exceed 75 percent of quota a year and 225 percent of quota cumulatively (net of scheduled repayments) across all concessional facilities. However, access above the normal limits can be made available to countries that (1) experience an exceptionally large balance of payments need that cannot be met within the normal limits, (2) have a comparatively strong adjustment program and ability to repay the IMF, (3) do not have sustained past and prospective access to capital markets, and (4) have income at or below the prevailing operational cutoff for assistance from the International Development Association (IDA). Exceptional

⁵ In July 2015, the Executive Board adopted a set of proposals to raise access norms; and limits for the PRGT facilities by 50 percent, as these had eroded relative to economic indicators since these were last increased in 2010. The Executive Board also agreed that, in blended cases, any purchases under the Rapid Credit Facility (RCF) should count toward the applicable RCF annual and cumulative limits to eliminate an anomaly in the rules and guidelines that allowed some PRGT-eligible countries to “double dip” in PRGT and GRA resources. At that time, the Executive Board also decided that, upon effectiveness of the quota increase under the Fourteenth General Review of Quotas, access limits and norms as a percentage of quota would be reduced by half to broadly preserve the higher access in SDR terms. The conditions for implementing the Fourteenth General Review of Quotas were satisfied on January 26, 2016 with the entry into force of the Board Reform Amendment.

Table 3.2 Access Limits and Norms for Poverty Reduction and Growth Trust Facility¹
(Percent of quota unless indicated otherwise)

Facility	Normal Access	Exceptional Access
Extended Credit Facility		
Annual Access Limit	75% of quota	100% of quota
Cumulative Access Limit	225% of quota	300% of quota
Norms per 3-year	90% of quota if outstanding credit is less than 75% of quota; 56.25% of quota if outstanding credit is greater than or equal to 75% of quota	
Standby Credit Facility		
Annual Access Limit ²	75% of quota	100% of quota
Cumulative Access Limit	225% of quota	300% of quota
Norms per 18-month Arrangement	90% of quota if outstanding credit is less than 150% of quota; 56.25% of quota if outstanding credit is greater than or equal to 75% of quota	
Rapid Credit Facility		
Annual Access Limit	18.75% of quota (shocks window: 37.5% of quota)	
Cumulative Access Limit	75% of quota	

¹In July 2015, the Executive Board decided to raise access norms and limits by 50 percent for the PRGT facilities and to reduce these by half upon the effectiveness of the quota increase under the Fourteenth General Review of Quotas (thus broadly preserving higher access in SDR terms). The conditions for implementing the Fourteenth General Review of Quotas were satisfied on January 26, 2016.

²Standby Credit Facility arrangements that are treated as precautionary are subject to an annual access limit at approval of 56.25% of quota and an average annual access limit of 37.5% of quota.

access above the normal limits is subject to hard caps of 100 percent of quota annually and 300 percent of quota cumulatively (net of scheduled repayments) across all concessional facilities. To help ensure that the RCF does not support continued weak policies or create moral hazard, in addition to the global and cumulative limits under all concessional facilities, access to RCF financing is subject to sub-ceilings of 18.75 percent of quota a year and 75 percent of quota cumulatively (Table 3.2). The annual sub-ceiling is raised to 37.5 percent of quota if the urgent balance of payments need was caused primarily by a sudden, well-defined exogenous shock. ECF and SCF disbursements are also subject to access norms, which provide general guidance and represent neither ceilings nor entitlements. Specifically, the access norm is 90 percent of quota when outstanding concessional credit for the member is less than 75 percent of quota and 56.25 percent of quota when outstanding concessional credit is 75–150 percent of quota or more.⁶ Access norms do not apply when outstanding concessional credit is above 150 percent of quota. In those cases, access is guided by consideration of the cumulative access limit of 225 percent of quota (or 300 percent of quota in exceptional access cases), expectation of future need for IMF support, and the repayment schedule.

⁶ Norms applicable to an ECF arrangement with 3-year duration and an SCF arrangement with 18-month duration. SCF arrangements that are treated as precautionary are subject to an annual access limit at approval of 56.25 percent of quota and an average annual access limit of 37.5 percent of quota.

Blending: “Blending” of concessional PRGT with nonconcessional General Resources Account (GRA) resources is presumed for PRGT-eligible countries whose income per capita is either above the prevailing IDA operational cutoff or that have market access and income per capita exceeding 80 percent of the IDA cutoff. There is no presumption of blending for countries at a high risk of debt distress or in debt distress as assessed by the most recent LIC Debt Sustainability Analysis (DSA). The blending policy stipulates a 1:2 mix of PRGT and GRA resources, with access to concessional resources capped at the norm applicable to unblended arrangements.⁷ All access above the applicable PRGT norm must be met from the GRA.

Poverty Reduction Strategy (PRS): All PRGT facilities place a strong emphasis on poverty alleviation and growth rooted in country-owned poverty-reduction strategies, and countries seeking any type of IMF financial assistance, including under the SCF and RCF, must indicate how a program will reduce poverty and enhance growth. All programs should aim to support policies that safeguard social and other priority spending, and such spending is tracked through specific program targets. Formal requirements for submission to the IMF of country-owned poverty-reduction

⁷ The 1:2 blend of PRGT and GRA resources applies to the annual sublimits for the RCF and to the access limit under an SCF arrangement treated as precautionary.

Table 3.3 Countries Eligible for the Poverty Reduction and Growth Trust and the Heavily Indebted Poor Countries Initiative
(as of April 30, 2016)

1. Afghanistan*	19. Ethiopia*	38. Marshall Islands	56. Somalia*
2. Bangladesh	20. The Gambia*	39. Mauritania*	57. South Sudan
3. Benin*	21. Ghana*	40. Micronesia	58. Sudan*
4. Bhutan	22. Grenada	41. Moldova	59. Tajikistan
5. Burkina Faso*	23. Guinea*	42. Mozambique*	60. Tanzania*
6. Burundi*	24. Guinea-Bissau*	43. Myanmar	61. Timor Leste
7. Cabo Verde	25. Guyana*	44. Nepal	62. Togo*
8. Cambodia	26. Haiti*	45. Nicaragua*	63. Tonga
9. Cameroon*	27. Honduras*	46. Niger*	64. Tuvalu
10. Central African Republic*	28. Kenya	47. Papua New Guinea	65. Uganda*
11. Chad*	29. Kiribati	48. Rwanda*	66. Uzbekistan
12. Comoros*	30. Kyrgyz Republic	49. St. Lucia	67. Vanuatu
13. Democratic Republic of the Congo*	31. Lao P.D.R.	50. St. Vincent and the Grenadines	68. Yemen
14. Republic of Congo*	32. Lesotho	51. Samoa	69. Zambia*
15. Côte d'Ivoire*	33. Liberia*	52. São Tomé and Príncipe*	
16. Djibouti	34. Madagascar*	53. Senegal*	
17. Dominica	35. Malawi*	54. Sierra Leone*	
18. Eritrea*	36. Maldives	55. Solomon Islands	
	37. Mali*		

Source: Finance Department, International Monetary Fund.

Note: * indicates PRGT-eligible countries that are also HIPC-eligible.

strategies (PRS documents) exist for IMF support under the ECF and PSI (Box 3.6).⁸

3.2.2 PRGT Eligibility

Before 2010, PRGT eligibility was determined by the IMF Executive Board primarily on the basis of IDA eligibility. In 2010, a framework was established for updating the PRGT eligibility list, based on transparent and rules-based criteria and a regular review process.⁹ Table 3.3 lists the PRGT- and HIPC-eligible members as of April 30, 2016.¹⁰

The eligibility framework comprises differentiated criteria for entry and graduation. In broad terms, countries become eligible if their annual income per capita is below the IDA cut-off for gross national income per capita and they are unable to access international financial markets on a durable and

substantial basis. PRGT-eligible countries graduate if they have either persistently high income (significantly exceeding the threshold for entry) or can access international financial markets on a durable and substantial basis, provided they do not face serious short-term vulnerabilities. A member that exceeds the income graduation threshold by 50 percent or more will be graduated from the PRGT eligibility without the need for an assessment of serious short-term vulnerabilities.¹¹ The framework also has special criteria for entry and graduation for small states, defined as those with a population below 1.5 million. The 2013 Eligibility Review extended eligibility to very small states (microstates)—members whose population is below 200,000—resulting in PRGT eligibility for Marshall Islands, Micronesia, and Tuvalu effective April 8, 2013. Eligibility reviews take place every 2 years and the last one took place in July 2015. As a result, 69 countries are currently eligible for PRGT financing.

⁸ In June 2015 the Executive Board of the IMF agreed to proposed reforms to the Fund's PRS policy in the context of ECF arrangements and PSIs. For more information, see Reform of the Fund's Policy on Poverty Reduction Strategies in Fund Engagement with Low-Income Countries—Proposals: www.imf.org/external/np/sec/pr/2015/pr15371.htm

⁹ See Eligibility to Use the Fund's Facilities for Concessional Financing, January 2010. www.imf.org/external/np/pp/eng/2010/011110.pdf

¹⁰ Zimbabwe has protracted arrears to the PRGT and was removed from the list of PRGT-eligible countries effective September 24, 2001.

¹¹ However, if the member has an "IDA-only" or "IDA loan-grant mix" status at the World Bank, such an assessment by the Executive Board will be required.

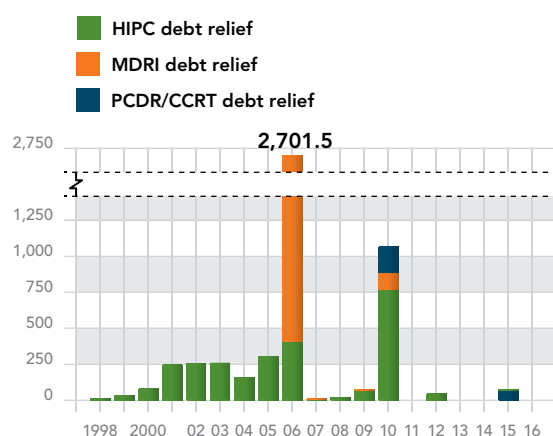
3.3 Heavily Indebted Poor Countries Initiative

Debt relief for the most heavily indebted poor countries has been provided through the HIPC Initiative. In 1996, the IMF and the World Bank jointly launched the HIPC Initiative to help relieve an external debt burden that had become unsustainable for a number of low-income countries, mostly in Africa. The HIPC Initiative involves coordinated action by the international financial community, including multilateral institutions, to reduce the external debt burden of these countries to sustainable levels. The HIPC Initiative complements traditional debt-relief mechanisms, concessional financing, and the pursuit of sound economic policies designed to place these countries on a sustainable external footing.

The initiative marked a significant advance from traditional debt-relief mechanisms. It introduced key innovations in the treatment of low-income countries' debt, such as a systematic treatment of multilateral debt, the notion of debt sustainability, and a focus on poverty reduction. The initiative was enhanced in 1999 to provide deeper, broader, and faster debt relief to eligible members. The enhancements also aimed to strengthen the links between debt relief and poverty reduction, particularly through social policies (Box 3.7 and Figure 3.3).

Figure 3.3 IMF Debt Relief to Low-Income Countries, 1998–2016

(Millions of SDRs; as of April 30 each year)



Source: Finance Department, International Monetary Fund.

Note: CCRT = Catastrophe Containment and Relief Trust; HIPC = Heavily Indebted Poor Countries; MDRI = Multilateral Debt Relief Initiative; PCDR = Post-Catastrophe Debt Relief.

Table 3.4 HIPC Thresholds for the Present Value of External Debt

Ratios	Thresholds (percent)
Present value of external public debt to exports	150
Present value of external public debt to fiscal revenues	250
The fiscal revenue threshold applies only if	
Exports-to-GDP ratio is at least	30
Revenue-to-GDP ratio is at least	15

Source: Finance Department, International Monetary Fund.

3.3.1 HIPC Eligibility and Qualification Criteria

A country is deemed eligible for assistance under the enhanced HIPC Initiative if it meets the income and indebtedness criteria and adopts a program supported by the IMF:

- **Income criterion:** A country is eligible for HIPC if it is eligible to borrow from the IMF's PRGT.
- **Indebtedness criterion:** A country is eligible if its debt burden indicators at the end of 2004 and the end of 2010 are above the HIPC Initiative thresholds, after application of traditional debt relief mechanisms (Table 3.4).¹²
- **Program requirement:** A country must adopt a program supported by the IMF (and IDA) at any time after October 1, 1996.

A HIPC Initiative decision point is arrived at when the IMF and World Bank formally decide on a country's qualification for debt relief, and the international community commits to reducing the country's debt to a sustainable level. An eligible country qualifies if:

- It is eligible to borrow from the World Bank's IDA and from the IMF's PRGT.
- Its debt burden indicators are above the HIPC Initiative thresholds using the most recent data for the year immediately preceding the decision point and its unsustainable debt burden cannot be addressed through traditional debt relief mechanisms.
- It has established a satisfactory track record of strong policy performance under respective IMF- and IDA-supported programs.

¹² See "Heavily Indebted Poor Countries (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI)—Status of Implementation and Proposals for the Future of the HIPC Initiative," November 2011. www.imf.org/external/np/pp/eng/2011/110811.pdf

- It has a satisfactory poverty-reduction strategy in place (in the form of a full PRSP, an Interim PRSP, a PRSP preparation status report, or a PRSP Annual Progress Report) (Box 3.6).

Once an eligible country has met the objectives set at the decision point, including implementing key structural policy reforms (completion point triggers), it qualifies for the HIPC Initiative completion point—when the country receives the balance of debt relief committed at the decision point. At the completion point, all creditors are expected to provide full and irrevocable debt relief by reducing their claims on the country to the agreed sustainable level in net present value (NPV) terms.

3.3.2 Provision of Debt Relief

Under the HIPC framework, the IMF and the World Bank determine whether a member qualifies for debt relief—specifically, that they demonstrate the capacity to use the expected assistance prudently by establishing a satisfactory track record under IMF- and IDA-supported programs and have a poverty-reduction strategy in place. The IMF and World Bank also determine the amount of HIPC assistance to be committed at the decision point.

The IMF provides its share of assistance under the HIPC Initiative in the form of grants, which are used to help meet debt-service payments to the IMF. Beginning at the decision point, a qualifying member may receive interim assistance from the IMF of up to 20 percent annually and 60 percent in total (or, in exceptional circumstances, 25 percent and 75 percent, respectively) of the committed amount of HIPC assistance between the decision point and the floating completion point. Interim assistance may be provided in annual installments to an account of the member administered by the IMF. These resources are used for debt-service payments to the IMF as they fall due. The member's account earns interest on any balance during the interim period. At the completion point, the IMF deposits the remaining amount of undisbursed committed assistance in the member's account. After the completion point, the IMF delivers the remaining HIPC assistance to the member through a stock-of-debt reduction operation¹³ (Box 3.8).

The HIPC Initiative is now largely completed. As of April 30, 2016, 36 of 39 countries eligible or potentially eligible for HIPC Initiative assistance had reached their completion points. In total, the IMF has provided debt relief of SDR 2.6 billion under the HIPC Initiative (Table 3.5).

¹³ Additional debt relief beyond that committed at the decision point can be committed at the time of the completion point on a case-by-case basis (Box 3.9).

3.4 Catastrophe Containment and Relief Trust

In February 2015, the IMF transformed the Post-Catastrophe Debt Relief (PCDR) Trust, established in June 2010, to create the Catastrophe Containment and Relief (CCR) Trust. The CCR Trust allows the IMF to assist its poorest members with grants for debt relief when they are hit by the most catastrophic of natural disasters as well as those battling public health disasters with international spillover potential. The purpose of debt relief under the CCR Trust is to free additional resources to meet exceptional balance of payments needs that arise from the need to recover from or contain such catastrophes, complementing fresh donor assistance and the IMF's concessional financing under the PRGT.

Assistance through the CCR Trust is available to low-income countries eligible for concessional borrowing through the PRGT whose annual income per capita is below the prevailing income threshold for IDA.¹⁴ CCR support is available through two windows, each with different purposes, qualification criteria, and assistance terms:

- A Post-Catastrophe Relief (PCR) window, to provide exceptional assistance in the wake of the most catastrophic natural disasters, specifically those that directly affect at least a third of a country's population and destroy more than a quarter of its productive capacity or cause damage deemed to exceed 100 percent of GDP. Eligible countries receive debt flow relief to cover all payments falling due on their eligible debt to the PRGT and the General Resources Account from the date of the debt flow relief decision to the second anniversary of the disaster. Early repayment by the CCR Trust of a country's full stock of eligible debt to the PRGT and the GRA is also available when the disaster and subsequent economic recovery efforts cause substantial and long-lasting balance of payments disruptions that make the resources freed up by debt stock relief critical. Such debt stock relief is conditional on concerted debt-relief efforts by the country's other official creditors, the availability of CCR Trust resources, as well as an assessment of the country's implementation of macroeconomic policies in the period preceding the decision to disburse debt relief.
- A Catastrophe Containment (CC) window, to provide assistance in containing a public health disaster that has the capacity to spread rapidly both within and across

¹⁴ CCR support is also available to PRGT-eligible countries with a population of less than 1.5 million and whose annual income per capita is below twice the IDA cutoff.

Table 3.5 Implementation of the HIPC Initiative
(Millions of SDRs; as of April 30, 2016)

	Decision Point	Completion Point	Amount Committed	Amount Disbursed ¹
Completion point countries (36)			2,406	2,595
1 Afghanistan ²	July 2007	January 2010	—	—
2 Benin	July 2000	March 2003	18	20
3 Bolivia	February 2000	June 2001	62 ³	65
4 Burkina Faso	July 2000	April 2002	44 ³	46
5 Burundi	August 2005	January 2009	19	22
6 Cameroon	October 2000	April 2006	29	34
7 Central African Republic	September 2007	June 2009	17	18
8 Chad	May 2001	April 2015	14	17
9 Comoros	July 2010	December 2012	3	3
10 Democratic Republic of the Congo	July 2003	July 2010	280	331
11 Republic of Congo	March 2006	January 2010	5	6
12 Côte d'Ivoire	April 2009	June 2012	43 ³	26 ⁴
13 Ethiopia	November 2001	April 2004	45	47
14 The Gambia	December 2000	December 2007	2	2
15 Ghana	February 2002	July 2004	90	94
16 Guinea	December 2000	September 2012	28	35.3
17 Guinea-Bissau	December 2000	December 2010	9	9
18 Guyana	November 2000	December 2003	57 ³	60
19 Haiti	November 2006	June 2009	2	2
20 Honduras	June 2000	April 2005	23	26
21 Liberia	March 2008	June 2010	441	452
22 Madagascar	December 2000	October 2004	14.7	16
23 Malawi	December 2000	August 2006	33	37
24 Mali	September 2000	March 2003	46 ³	49
25 Mauritania	February 2000	June 2002	35	38
26 Mozambique	April 2000	September 2001	107 ³	108
27 Nicaragua	December 2000	January 2004	64	71
28 Niger	December 2000	April 2004	31	34
29 Rwanda	December 2000	April 2005	47	51
30 São Tomé and Príncipe	December 2000	March 2007	1	1
31 Senegal	June 2000	April 2004	34	38
32 Sierra Leone	March 2002	December 2006	100	107
33 Tanzania	April 2000	November 2001	89	96
34 Togo	November 2008	December 2010	0.2	0.2
35 Uganda	February 2000	May 2000	120 ³	122
36 Zambia	December 2000	April 2005	469	508
Pre-decision point countries (1)				
37 Eritrea	...	...	...	...
Protracted arrears cases (2)				
38 Somalia	...	...	...	...
39 Sudan	...	...	...	...
Total			2,421	2,595

Source: Finance Department, International Monetary Fund.

Note: Numbers may not add to totals due to rounding.

¹Includes the commitment made in net present value terms plus interest earned on that commitment.

²At the time of its decision point, Afghanistan did not have any outstanding eligible debt.

³Includes commitment under the original HIPC Initiative.

⁴Côte d'Ivoire reached its decision point under the original HIPC Initiative in 1998, but did not reach its completion point under the original HIPC Initiative. Debt relief of SDR 17 million, committed to Côte d'Ivoire under the original HIPC Initiative, was therefore not delivered.

Table 3.6 PRG-HIPC Financing Requirements and Sources
(as of April 30, 2016)

	Billions of SDRs (End-2000 NPV)
Total IMF financing requirements	3.0
PRGF subsidy requirement	1.1
Cost of the HIPC Initiative to the IMF	1.9
Sources of financing	3.0
In effect	
Bilateral contributions	1.1
IMF contributions	1.8
Investment income from gold sale proceeds	1.4
Other contributions	0.5
Pending	
Bilateral contributions	0.1

Source: Finance Department, International Monetary Fund.

Note: Numbers may not add to totals due to rounding. HIPC = Heavily Indebted Poor Countries; NPV = net present value; PRGF = Poverty Reduction and Growth Facility.

countries. The support via the CC window is limited to a life-threatening public health disaster that has spread across several areas of the afflicted country, causing significant economic disruption—characterized by at least: (1) a cumulative loss of real GDP of 10 percent; or (2) a cumulative loss of revenue and increase of expenditures equivalent to at least 10 percent of GDP—and has the capacity to spread or is already spreading to other countries. In addition, to qualify for the support, the afflicted country should put in place appropriate macroeconomic policies to address the balance of payments needs. Eligible low-income countries that are hit by public health disasters as defined above would receive up-front grants to immediately pay off upcoming debt service to the IMF on eligible debt. The amount of grant support is capped at 20 percent of a country's quota. Support could be larger in certain specifically defined exceptional cases.¹⁵

As of April 30, 2016, four countries have received debt relief under the CCR Trust, or its predecessor, the PCDR Trust. On July 21, 2010, Haiti received SDR 178 million (about \$268 million) in debt stock relief, eliminating its entire outstanding debt

¹⁵ Support could be larger in three exceptional cases: (1) when debt service obligations to the IMF are exceptionally burdensome in the near term; (2) when there is an international effort to provide debt service flow relief to the afflicted country; and (3) when the country is rated at high risk of debt distress or in debt distress, under the joint Bank-Fund Debt Sustainability Framework.

to the IMF. In February and March 2015, Guinea, Liberia, and Sierra Leone received SDR 68 million (about \$100 million) in immediate debt relief to assist them in responding to a severe Ebola epidemic.

3.5 Financing Concessional Assistance and Debt Relief

3.5.1 Financing Structure

As noted, the financing structure for concessional assistance currently comprises three trusts and related accounts and subaccounts for which the IMF is either a trustee or administrator: the PRG Trust, PRG-HIPC Trust, and the CCR Trust. The trusts have several features in common:

- SDRs are the unit of account for all operations.
- The resources and records of the trusts are kept separate from all other accounts of the IMF.
- The IMF, as trustee, has the authority to invest funds temporarily for the benefit of the trust or administered account. Invested funds are divided between short-term deposits and medium-term instruments at the Bank for International Settlements (BIS) and investment portfolios (bonds) managed by external managers (Box 3.12).

3.5.2 Framework for Concessional Lending

3.5.2.1 POVERTY REDUCTION AND GROWTH TRUST

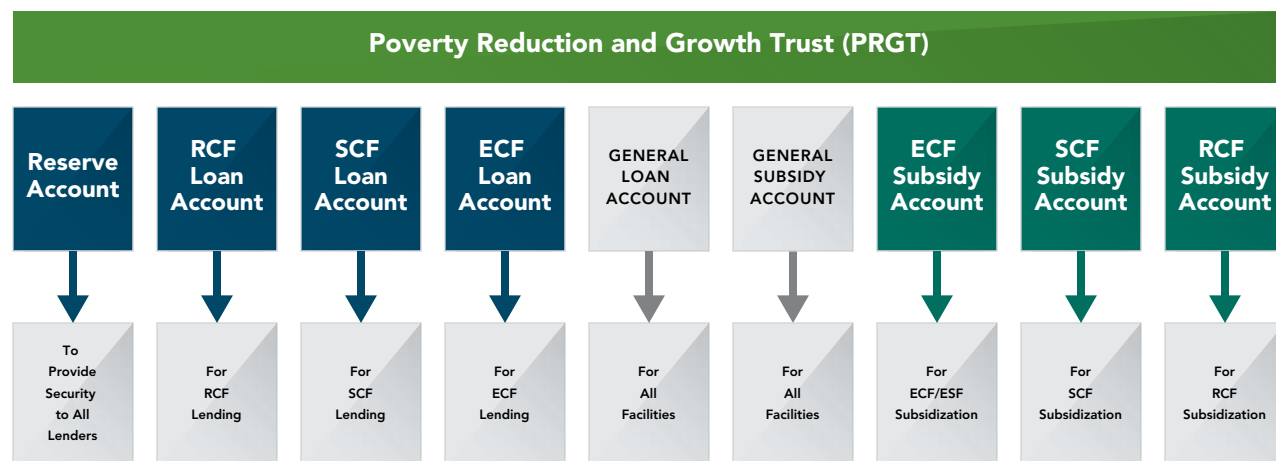
The PRGT is composed of the following accounts (Figure 3.4):

- four Loan Accounts, which serve as pass-through for receipt and provision of principal for concessional lending
- the Reserve Account, which provides security to lenders and whose investment income will eventually be used to subsidize concessional lending under the self-sustained PRGT (Section 3.5.3.3)
- four Subsidy Accounts that receive and provide resources for subsidizing lending under the PRGT facilities.

This framework allows for flexible use of concessional resources while also meeting donors' preferences for earmarking their contributions for specific purposes. Figure 3.5 shows the flow of funds between the PRGT accounts and contributors and borrowers. The PRGT accounts serve the following purposes:

- **General Loan Account (GLA):** This account receives and disburses loan resources for all PRGT facilities without specific earmarking by donors. Loan resources in the GLA are generally drawn only to finance an arrangement under a specific facility after the loan resources in the Loan Account associated with that facility are exhausted.

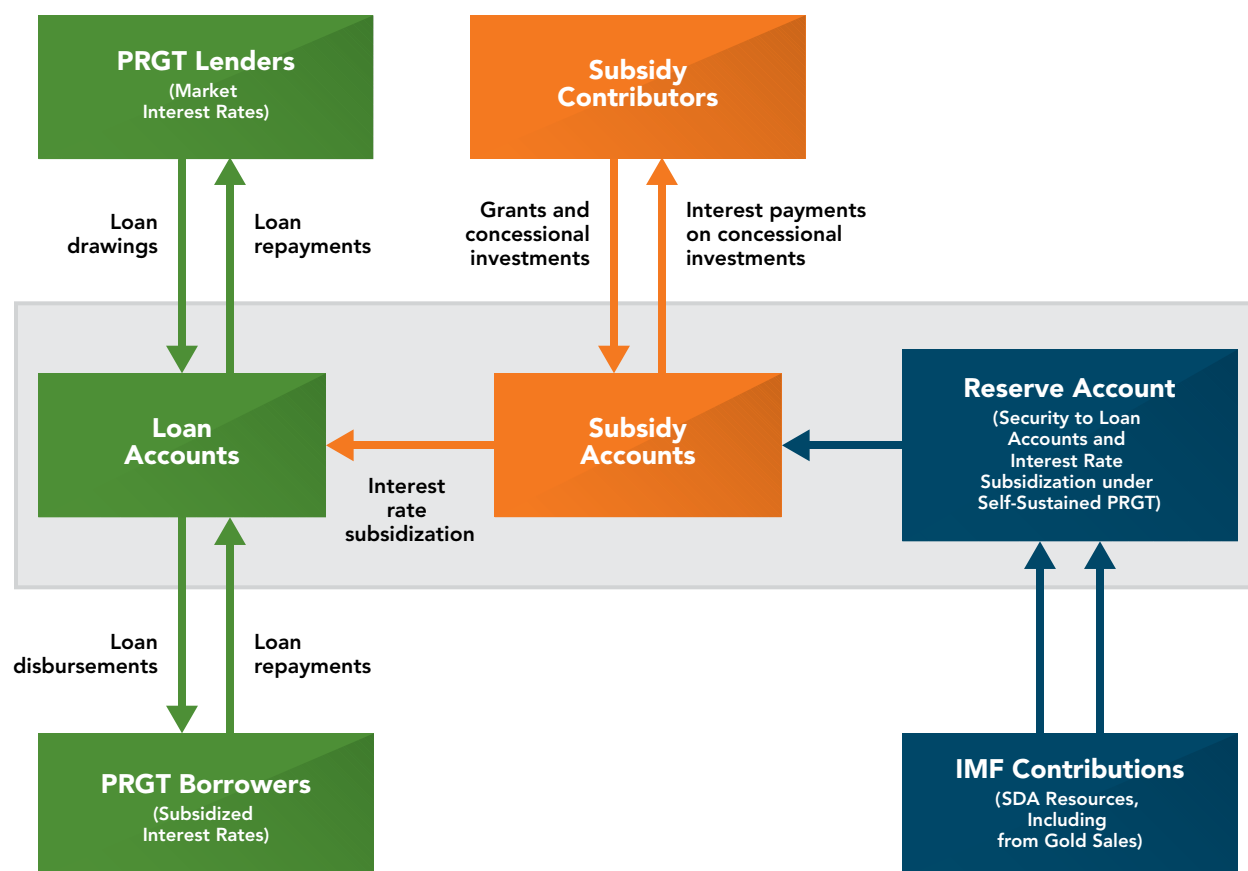
Figure 3.4 Concessional Financing Framework



Source: Finance Department, International Monetary Fund.

Note: ECF = Extended Credit Facility; ESF = Exogenous Shocks Facility; RCF = Rapid Credit Facility; SCF = Standby Credit Facility.

Figure 3.5 Flow of Funds in the Poverty Reduction and Growth Trust



Source: Finance Department, International Monetary Fund.

Note: SDA = Special Disbursement Account.

- **Special Loan Accounts (SLAs):** These accounts accommodate donors' preferences for earmarking their loans for specific facilities. Three separate loan accounts exist for servicing the ECF, SCF, and RCF, respectively.
- **Reserve Account:** The Reserve Account offers security to lenders to the PRGT. Under the financing model for the self-sustained PRGT, approved in April 2014, which became effective in November 2014, the trustee may decide to use income from the investment of the resources in the Reserve Account for subsidy purposes (Section 3.5.4).
- **General Subsidy Account (GSA):** This account receives and provides subsidies for existing and new loans under all facilities of the PRGT. Resources in the GSA are drawn only to subsidize loans under a specific facility after resources in the Special Subsidy Account associated with that facility are exhausted.
- **Special Subsidy Accounts (SSAs):** These accounts accommodate donors' preferences for earmarking their subsidy contributions for specific facilities. Three separate subsidy accounts exist servicing the ECF, SCF, and RCF, respectively. The ECF Subsidy Account was the "default" account for receipt of previously pledged subsidy resources. (The PRGF and PRGF-ESF Subsidy Accounts were terminated when the 2009 reform of concessional facilities went into effect in January 2010.)

3.5.3 Resources for Concessional Lending

Bilateral lenders, donors, and the IMF have provided resources for concessional lending. All concessional lending resources are channeled through the loan and subsidy accounts of the PRGT.

3.5.3.1 LOAN RESOURCES

Loan agreements to the PRGT have been non-revolving and subject to a time limit on drawings ever since the current practice of borrowing to finance disbursements was established in the late 1980s. Periodic fundraising rounds are therefore required to obtain the necessary loan resources for on-lending to PRGT-eligible members through the PRGT.

As part of the 2009 reform of the IMF's concessional lending facilities, a major fundraising drive was launched to secure an additional SDR 10.8 billion in loan resources to meet expected loan commitments through 2014.¹⁶ In addition, new subsidy resources of SDR 1.5 billion were mobilized from the IMF's internal resources, and through bilateral contributions (Box 3.13). In April 2014, the IMF Executive Board approved amendments to the PRGT to allow new loan commitments to the PRGT covering the period 2016–20 and allowed staff to seek additional borrowing capacity of up to SDR 11 billion for the Loan Accounts

of the PRGT, with drawdown periods through end-2024. In that context, the Executive Board also raised the cumulative limit for PRGT borrowing from SDR 30 billion to SDR 37 billion.¹⁷

Drawings. Loan providers may choose to earmark their loan commitments to the Special Loan Accounts (SLAs) (that is, to fund the ECF, SCF, or RCF) or make them generally available under the General Loan Account (GLA) for all PRGT lending facilities. Lenders with loan commitments dedicated to an SLA are drawn before commitments to the GLA. Within a given loan account, borrowing agreements signed in previous fundraising rounds are drawn before agreements from subsequent rounds. Otherwise, drawings are made over time so as to maintain broad proportionality of these drawings relative to commitments to each loan account.

Maturities. A loan to the PRGT, once drawn, is repaid on a pass-through basis in semi-annual installments according to the fixed repayment schedule of the PRGT facility for which the borrowing agreement was drawn when disbursements were made to the borrowing member country.¹⁸ Borrowing agreements can provide for shorter notional maturities and these may be extended unilaterally by the IMF, acting as trustee of the PRGT, up to the final maturity of the corresponding PRGT loans. This allows for shorter maturities but also protects the PRGT against maturity mismatches.

Interest rates. Loan resources are generally provided at market-related interest rates by central banks, governments, and official institutions. Pursuant to the framework endorsed by the Executive Board in 2010, currency loans are remunerated at the 6-month derived SDR interest rate and paid semiannually, while SDR loans are remunerated at the 3-month official SDR interest rate and paid quarterly.¹⁹

Transferability and encashment. Claims on the PRGT can be transferred among members of the Fund or to the central bank or other fiscal agency of a member, or to a prescribed SDR holder. Agreements can contain provisions aimed at further enhancing the liquidity claims on the PRGT, and thus support their

¹⁷ See Update on the Financing of the Fund's Concessional Assistance and Proposed Amendments to the PRGT Instrument, IMF Policy Paper, April 2014. www.imf.org/external/np/pp/eng/2014/040714a.pdf

¹⁸ Commitments and loan claims under borrowing agreements are denominated in SDRs. The borrowing agreements specify whether drawings are made in SDRs or in any freely usable currency. Repayment is made in SDR or in any freely usable currency. In the case of agreements in which a freely usable currency is disbursed, the amount repaid is fixed in SDR terms, but may change in terms of the currency disbursed owing to exchange rate movements during the loan period. Lenders in SDR are expected to have voluntary SDR trading agreements in place with the SDR Department.

¹⁹ From October 1, 2016, the derived 6-month SDR interest rate is the weighted average of the bond equivalent yield for 6-month U.S. Treasury bills, the 6-month euro-denominated euro government bond yield for bonds rated AA and above as published by the European Central Bank, 6-month government bond yield published by the China Central Depository and Clearing Co. Ltd. (CCDC), the bond equivalent yield on 6-month Japanese Treasury bills, and the 6-month interbank rate in the United Kingdom. The weights of each instrument reflect those of the associated currency in the valuation of the SDR.

¹⁶ This includes a liquidity buffer of SDR 1.8 billion to enable the voluntary encashment regime.

Table 3.7 Cumulative Commitments of Lenders to the Poverty Reduction and Growth Trust Loan Accounts
(Millions of SDRs; as of April 30, 2016)

Lender	Loan Commitments	Amount Drawn	Amount Outstanding
National Bank of Belgium	700.0	649.4	362.4
Government of Canada	1,200.0	851.5	148.7
Government of China	200.0	200.0	15.7
People's Bank of China	800.0	706.9	706.9
National Bank of Denmark	300.0	139.5	38.1
Central Bank of Egypt	155.6	155.6	37.2
French Development Agency	3,570.0	3,570.0	1,181.0
Bank of France	1,328.0	1,190.5	1,190.5
KfW Banking Group (Germany)	2,750.0	2,750.0	486.9
Bank of Italy	2,180.0	2,078.5	907.9
Japan Bank for International Cooperation	5,134.8	5,134.8	200.5
Government of Japan	1,800.0	42.7	42.7
Bank of Korea	592.7	102.7	10.0
Bank of the Netherlands	950.0	458.4	161.3
Bank of Norway	150.0	150.0	—
Government of Norway	300.0	300.0	295.7
OPEC Fund for International Development ¹	37.0	37.0	—
Saudi Arabian Monetary Agency	500.0	—	—
Saudi Fund for Development	49.5	49.5	—
Government of Spain	67.0	67.0	—
Bank of Spain	1,046.4	668.2	203.3
Swiss Confederation	200.0	200.0	—
Swiss National Bank	901.7	415.6	115.6
Government of the United Kingdom	1,328.0	227.9	227.9
Total	26,240.7	20,145.7	6,332.3

Source: Finance Department, International Monetary Fund.

Note: Numbers may not add to totals due to rounding.

¹ OPEC = Organization of Petroleum Exporting Countries. The loan commitment is for the SDR equivalent of \$50 million.

treatment as official reserve assets. Lenders can participate in a voluntary encashment regime in which they have the right to seek early repayment of outstanding claims on the PRGT in case of balance of payments needs and to authorize drawings by the trustee to fund early repayment requests by other participating creditors to any of the loan accounts of the PRGT. Early repayment is subject to the availability of resources under borrowing agreements of other participating creditors.²⁰

Note issuance. Lenders also have the option of entering into note purchase agreements, similar to that used for General Resources Account borrowing. Under such agreements, drawings are structured as the purchase of notes issued by the PRGT. These notes have the same key financial and operational terms as are applicable under PRGT loan agreements.

Since 1987, 17 member countries or their agencies have provided loan resources to the PRGT (Table 3.7). As of April 30, 2016, outstanding credit to the PRGT loan accounts was SDR 6.3 billion and SDR 6.1 billion in loan resources remained available for new lending commitments to PRGT-eligible borrowers.

²⁰ Borrowing agreements also generally provide for the temporary suspension of drawings at the request of the lender.

3.5.3.2 SUBSIDY RESOURCES

Subsidy resources are provided by bilateral contributors and the IMF. Bilateral contributions are typically provided through either grant contributions or investments placed by contributors with the PRGT at zero or below-market interest rates. In the latter case, the interest rate differential between the return earned on the investment by the PRGT and the rate of interest paid to the contributor represents a subsidy contribution to the PRGT. As of April 30, 2016, available subsidy resources amounted to SDR 3.5 billion.

IMF contributions to the subsidy accounts originated with the initial late-1970s gold sales and include investment income on the remaining balances. In addition, on several occasions, resources for reimbursement to the GRA for PRGT administrative expenses were redirected to subsidy accounts (Box 3.14). Prior to the implementation of a strategy to place the PRGT on a self-sustained footing, continued subsidization of PRGT lending depended on periodic fundraising rounds. For example, the 2009–14 financing package, sought to raise SDR 1.5 billion in new subsidy resources, of which SDR 200–400 million was expected to come from new bilateral contributions (Box 3.13).

A new source of contributions to subsidy resources became available in 2012, after the Executive Board approved a distribution to the membership of SDR 700 million in reserves from

windfall gold sales profits, on condition that new subsidy contributions equivalent to at least 90 percent of the distribution is made available to the PRGT.²¹ This distribution, which became effective in October 2012, was part of a financing package endorsed by the Executive Board in July 2009 aimed at boosting the IMF's lending capacity during 2009–14. It increased the number of bilateral contributors from 44 to 132 and added SDR 610 million to the subsidy accounts by the end of April 2016. In September 2012, the Executive Board also approved the distribution of SDR 1.75 billion in reserves from the remaining windfall gold sales profits as part of a strategy to generate subsidy resources to ensure the longer-term sustainability of the PRGT (Box 3.15). As with the earlier distribution, the Executive Board decided that this would become effective once satisfactory assurances have been obtained that at least 90 percent of the amount to be distributed will be made available to the PRGT. The Managing Director informed the Executive Board on October 10, 2013, that the required satisfactory financing assurances had been received, making the distribution effective on that day. As of the end of April 2016, 139 members had made subsidy contributions, totaling SDR 1.516 billion.

Full implementation of the self-sustained framework required an amendment to the PRGT Instruments to allow the investment income from the Reserve Account to be used as another source of subsidization of PRGT lending (see Section 3.5.4). These amendments required the approval of the Executive Board and the consent of all PRGT lenders, which was received in November 2014.

3.5.3.3 RESERVE ACCOUNT

An important feature of the PRGT is the Reserve Account (RA), which (1) provides security to the lenders to the Loan Accounts in the event of delayed or nonpayment by PRGT borrowers; (2) meets temporary mismatches between repayments from borrowers and payments to lenders; (3) covers the IMF's costs of administering PRGT operations;²² and (4) will subsidize PRGT lending through use of its investment income, as envisaged under the self-sustained PRGT.

The Reserve Account is largely financed through a recycling of profits from gold sales undertaken in the late 1970s, which included interest on and repayment of Structural Adjustment Facility (SAF) loans, receipts from the Trust Fund after

termination of the SAF, and investment income on balances held by the Reserve Account.

Historically, the Reserve Account provided reserve coverage of about 40 percent of outstanding PRGT obligations on average. Following the delivery of MDRI relief in 2006, which sharply reduced outstanding PRGT obligations, Reserve Account coverage rose to 90 percent (Figure 3.6). As of the end of April 2016 the balances in the Reserve Account amounted to just under SDR 3.9 billion, equivalent to about 60 percent of outstanding obligations to PRGT lenders.

3.5.4 Self-Sustained PRGT

When concessional operations were first initiated by the IMF in the late 1970s, they were intended to be fully self-financed from the proceeds of gold sales. However, in 1987, when the Enhanced Structural Adjustment Facility (ESAF) was established, trust financing sources were expanded to include bilateral loans and donor contributions to subsidize the lending. The idea of “self-sustained concessional operations” resurfaced in the mid-1990s.²³

During the 1999 reform (when the ESAF was transformed into the PRGF), it was envisaged that after 2005 the IMF's concessional lending would be conducted through a self-sustained PRGF, financed on a revolving basis from the Special Disbursement Account (SDA), through transfers of resources accumulating in the Reserve Account. The annual lending capacity of the self-sustained PRGF under such a scenario was estimated in 2004 to be about SDR 660 million in perpetuity.

These estimates were revisited in 2005 during the MDRI discussions. Given the possibility of larger demand for concessional resources following the debt relief initiative, it became more prudent to use Reserve Account income for loan subsidization, with loan resources provided on market terms by bilateral contributors. Such an approach allows for more lending and balanced self-sustained operations.

The notion that resources in the Reserve Account would be used for loan subsidization was further affirmed by the Executive Directors during the 2009 discussions on the reform of concessional facilities. A new fundraising round launched under this reform sought to provide sufficient resources to cover the IMF's concessional lending until 2014, with self-sustained operations supported from the Reserve Account starting thereafter. At that time, the IMF staff estimated the self-sustained capacity at about SDR 0.7 billion annually starting in 2015. In September 2012, the Executive Board approved a strategy to make the PRGT self-sustaining. The strategy relies on use of the resources from the first and second partial distributions of reserves linked

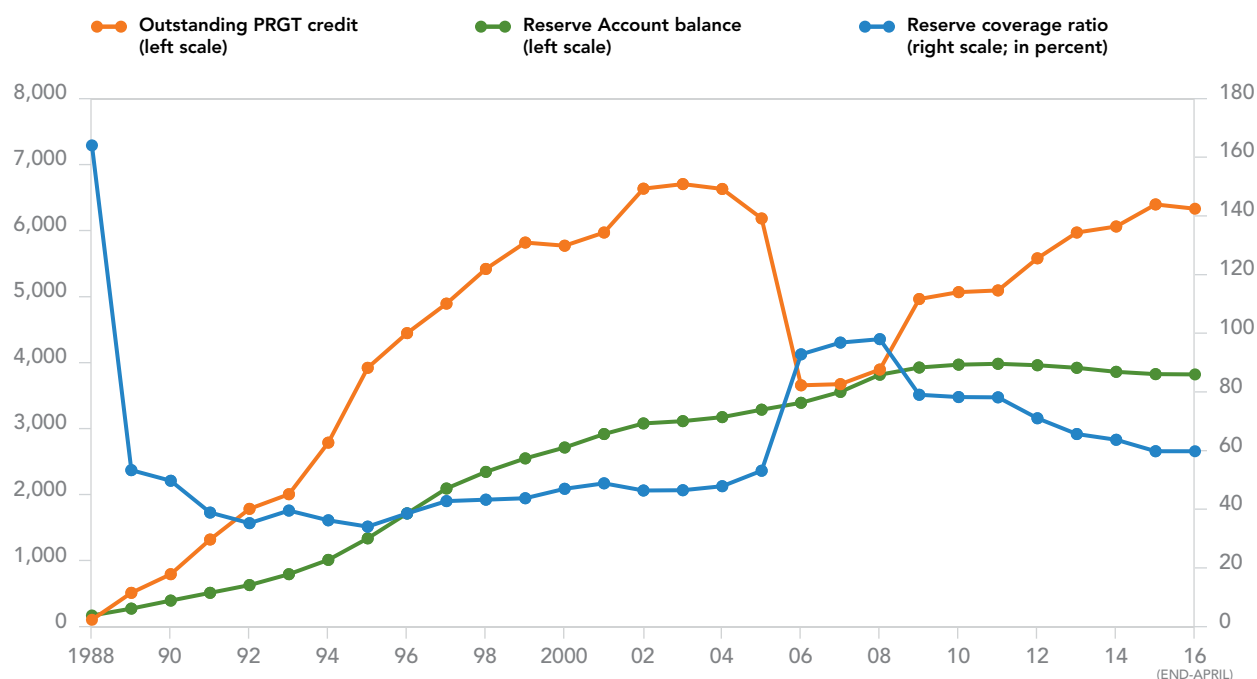
²¹ The windfall occurred because the gold was sold at a higher price than assumed when the new income model was endorsed by the Executive Board (see Chapter 5).

²² The GRA is generally reimbursed for the expenses of conducting the business of the SDR Department, the CCR Trust, and the PRGT. As part of the 2009–14 financing package, the Executive Board decided that for financial years 2010 through 2012, the GRA would forgo reimbursement of the estimated cost of administering the PRGT and the equivalent would be transferred from the PRGT Reserve Account (through the Special Disbursement Account) to the General Subsidy Account of the PRGT (see Box 3.14).

²³ Also, in October 1996, the Managing Director made a statement to Governors at the Annual Meetings that all Executive Directors had welcomed the agreement that would permit a self-sustained and, therefore, de facto permanent concessional financing operations by the IMF, which became a long-standing goal.

Figure 3.6 Poverty Reduction and Growth Trust Reserve Account Coverage, 1988–2016

(Millions of SDRs unless indicated otherwise; as of year end)



Source: Finance Department, International Monetary Fund.

Note: The sharp decrease in credit outstanding in 2006 reflects the impact of the Multilateral Debt Relief Initiative (MDRI).

to windfall gold sales to provide subsidy resources for a protracted period, with transfers of investment income from the Reserve Account providing the necessary subsidy resources thereafter.

The strategy to make the PRGT self-sustaining rests on three pillars (Box 3.15): (1) a base average annual lending capacity of SDR 1¼ billion; (2) contingent measures that can be activated when average financing needs exceed the base envelope by a substantial margin for an extended period; and (3) the expectation that all modifications to LIC facilities would be designed in a manner consistent with PRGT self-sustainability.

An important legal step toward establishing the self-sustained PRGT was made on April 24, 2014, when the IMF's Executive Board approved the necessary amendments to the PRGT Instrument that would allow future transfers of investment income from the Reserve Account to the General Subsidy Account to subsidize PRGT lending. The amendments required the consent of all lenders to the Loan Account of the PRGT—a necessary safeguard because the Reserve Account provides security to PRGT lenders. The final consent was received on

November 11, 2014 and the self-sustained framework became effective on this date.

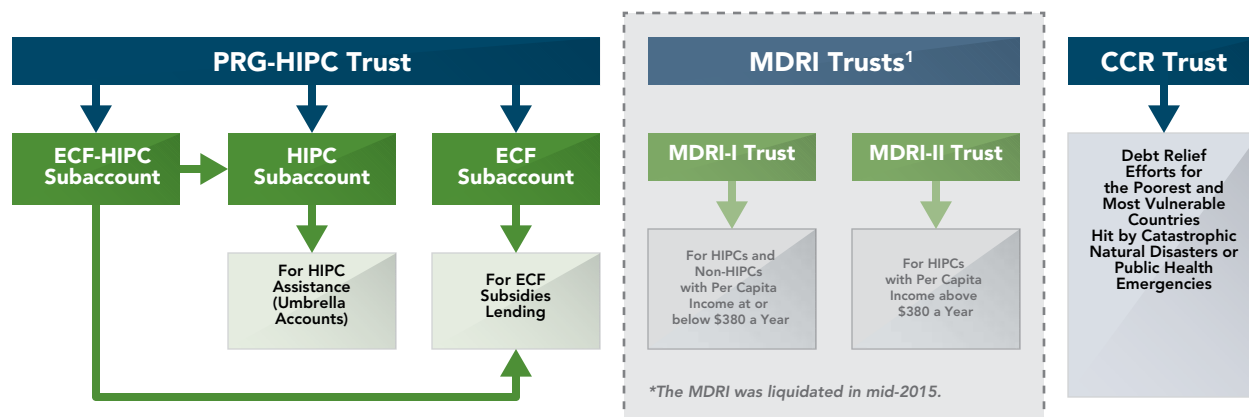
3.5.5 Framework for Debt Relief

Debt relief is currently provided through the PRG-HIPC Trust and the CCR Trust.²⁴ Each trust is structured to achieve the purposes for which it was established.

3.5.5.1 PRG-HIPC TRUST

The PRG-HIPC Trust is composed of three subaccounts for receiving and providing grants for debt relief and subsidization of outstanding Extended Credit Facility (ECF) loans and Umbrella Accounts (Figure 3.7).

²⁴ Debt relief was previously also provided under the Multilateral Debt Relief Initiative (MDRI). The Executive Board adopted the MDRI in November 2005, and it became effective on January 5, 2006. There is no longer any outstanding IMF debt eligible for MDRI debt relief. The two MDRI trust accounts were terminated in mid-2015 (Box 3.11).

Figure 3.7 Debt Relief Framework

Source: Finance Department, International Monetary Fund.

Note: CCR Trust = Catastrophe Containment and Relief Trust; ECF = Extended Credit Facility; HIPC = Heavily Indebted Poor Countries; MDRI = Multilateral Debt Relief Initiative; and PRG = Poverty Reduction and Growth.

¹There is no longer any outstanding IMF debt eligible for MDRI debt relief. Accordingly, the MDRI-I and MDRI-II Trusts were liquidated in mid-2015.

Subaccounts: The ECF subaccount, the HIPC subaccount, and the ECF-HIPC subaccount permit contributors to earmark resources for either ECF or HIPC or both operations. In addition, resources in the ECF-HIPC subaccount that are not earmarked for HIPC operations can be transferred to the ECF Subsidy Account if resources in the latter are insufficient for subsidizing ECF lending.

Umbrella Accounts: A separate subaccount, or Umbrella Account, is established for each HIPC beneficiary. Resources placed in the Umbrella Accounts consist of HIPC grants approved by the Executive Board and disbursed to the member at the completion point, interim assistance provided between the decision and completion points, plus accumulated interest. These resources are used to meet the beneficiary's obligations to the IMF, in the case of interim assistance as they fall due, and in the case of eligible amounts that fall due after completion point to allow for early repayment.

3.5.5.2 CCR TRUST

The CCR Trust receives and provides resources for debt relief to allow the IMF to assist eligible low-income countries that are hit by catastrophic natural disasters or public health disasters.

3.5.6 Resources for Debt Relief

Resources for debt relief under the HIPC Initiative and the CCR have been provided by bilateral donors and the IMF. The

IMF administers the resources as trustee of the associated trust accounts (Section 3.5.1).

3.5.6.1 HIPC INITIATIVE

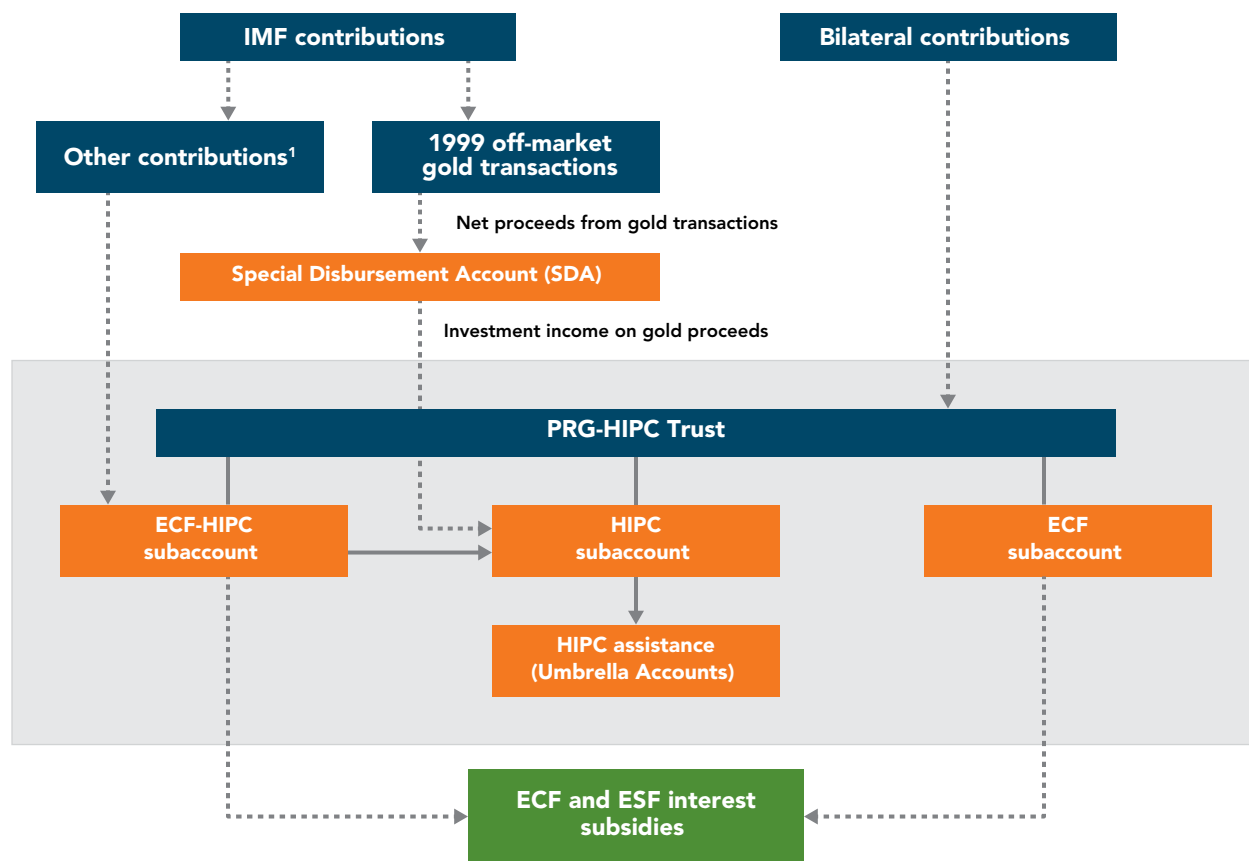
The HIPC initiative has delivered SDR 2.6 billion in debt relief (Table 3.8). Resources for debt relief under the HIPC Initiative have been provided roughly equally by the IMF and contributions from 93 IMF members. Resources received but not yet disbursed are invested, providing additional net income over time.

The bulk of the IMF's contribution came from the investment income on the net proceeds from 1999 off-market transactions in gold. A total of 12.9 million fine troy ounces in off-market gold transactions were completed in April 2000, generating net proceeds of SDR 2.23 billion.

These resources were placed in the Special Disbursement Account (SDA) and invested solely for the benefit of the HIPC Initiative.²⁵ However, funding of the IMF's MDRI resulted in some changes to the funding of the HIPC Initiative. Some of the gold corpus was used to finance the MDRI, and therefore it did not generate investment income to finance the HIPC Initiative,

²⁵ The SDA is the vehicle for receiving and investing profits from the sale of the IMF's gold and for making transfers to other accounts for special purposes authorized in the Articles of Agreement, in particular for financial assistance to low-income members of the IMF.

Figure 3.8 Financial Structure of the Poverty Reduction and Growth–Heavily Indebted Poor Countries Trust



Source: Finance Department, International Monetary Fund.

Note: ECF = Extended Credit Facility; ESF = Exogenous Shocks Facility; HIPC = Heavily Indebted Poor Countries; PRG = Poverty Reduction and Growth.

¹Includes transfers from the Reserve Account of the PRGT for the cost of administering PRGT operations for FY1998–2004 and transfers of part of the interest surcharge on certain outstanding purchases under the Supplemental Reserve Facility.

as originally envisaged. Therefore, to ensure that the HIPC Initiative was sufficiently financed, on January 6, 2006, some SDA resources (SDR 530 million) were transferred to the HIPC Sub-account of the PRG-HIPC Trust to be used exclusively for HIPC assistance²⁶ (Figure 3.8).

²⁶ As of January 2006, the balance of SDR 2.5 billion in the SDA was fully utilized. An amount of SDR 1.5 billion was transferred to the MDRI-I Trust to finance MDRI relief to countries at or below the income threshold of \$380. When the MDRI decision went into effect, SDR 1.12 billion in

Resources for the HIPC Initiative were substantially depleted after the delivery of debt relief. Table 3.8 provides a summary of all inflows and outflows to and from the PRG-HIPC Trust.

bilateral subsidy contributions was transferred from the PRGF-ESF Trust to the MDRI-II Trust, to finance MDRI relief to HIPC countries above the income threshold of \$380. This outflow was partially compensated by a one-time transfer of SDR 0.47 billion from the Special Disbursement Account to the PRGT. The remaining balance of SDR 0.53 billion in the SDA was transferred to the PRG-HIPC Trust.

Table 3.8 Heavily Indebted Poor Countries and Poverty Reduction and Growth–HIPC Trust Resources*(Billions of SDRs; as of April 30, 2016)*

Debt Relief and Sources of Financing	Amount
Total HIPC Debt Relief Delivered ¹	2.59
Financing by Source	
IMF Contributions	1.24
Transfer from Special Disbursement Account (SDA)	1.17
Transfer from General Resources Account (GRA)	0.07
Bilateral Contributions	1.28
Cumulative Net Income	0.32
Total Financing	2.84
Remaining Resources Available	0.24
Memorandum Items:	
Pending Pledged Contributions to Finance Liberia's Debt Relief ²	0.02

Source: Finance Department, International Monetary Fund.

¹ Includes commitments made at Decision Point and interest earned on commitments.² In March 2008 net present value terms; finalized pledged contributions will replenish the PRG-HIPC Trust.**3.5.6.2 CCR TRUST**

When the PCDR Trust was established in June 2010, initial financing of SDR 280 million was transferred from surplus balances in the MDRI-I Trust through the Special Disbursement Account to the PCDR Trust. In February 2015, the remaining balance of the PCDR Trust amounting to SDR 102 million, became available to finance the transformed CCR Trust, together with the balance of the MDRI-I Trust (SDR 13.2 million).²⁷ Also in February 2015, the Managing Director launched a mobilization campaign involving a broad group of 58 members from advanced and emerging market economies to raise bilateral contributions to the order of \$150 million to help put CCR Trust operations on a sustainable

²⁷ The MDRI-I Trust was financed with IMF resources from past gold sales (see Box 3.11). Under the original terms of the Trust Instrument, any surplus at the time of termination of the MDRI-I Trust was to be transferred back to the SDA. At the time of termination of the MDRI-I Trust in February 2015, an Executive Board decision provided for the destination for remaining balances to be transferred to the CCR Trust.

Table 3.9 PCDR/CCR Trust Debt Relief and Sources of Financing*(Billions of SDRs; as of April 30, 2016)*

Debt Relief and Sources of Financing	Amount
Total PCDR Debt Relief Delivered	0.18
Sources of Financing	
IMF Contributions	0.28
MDRI-I	0.28
Cumulative Net Income	0.00
Total Financing	0.28
Transfer to CCR Trust	0.10
Remaining Resources Available	—
Total CCR Trust Debt Relief Delivered	0.07
Sources of Financing	
IMF Contributions	0.11
PCDR Resources	0.10
MDRI-I Resources	0.01
Bilateral Resources	0.09
MDRI-II Resources	0.04
Other	0.05
Cumulative Net Income	0.00
Total Financing	0.20
Remaining Resources Available	0.13

Source: Finance Department, International Monetary Fund.

Note: PCDR = Post-Catastrophe Debt Relief, CCR = Catastrophe Containment and Relief (successor to PCDR).

footing and enable the IMF to respond to future natural and public health disasters meeting the qualification criteria for assistance. In August 2015, the MDRI-II Trust was liquidated, and its residual balance (SDR 38.9 million) was transferred to the CCR Trust.²⁸ The CCR Trust is expected to be replenished through future donor contributions. As of April 30, 2016, SDR 0.13 billion was available in the CCR Trust. Table 3.9 provides a summary of all inflows and outflows of the PCDR and CCR Trusts.

²⁸ The MDRI-II Trust was financed by a direct, one-time transfer of SDR 1.12 billion from the PRGF-ESF Subsidy Account of the PRGT, representing bilateral resources from 37 contributors. In February 2015, the Executive Board amended the liquidation provisions of the Instrument to require that the default destination for remaining balances to be transferred from the PRGT to the CCR Trust.

Box 3.1 Concessional Lending Timeline

1975: The IMF establishes oil facilities to provide temporary balance of payments financing to those members adversely affected by higher oil prices, with a rate of charge of 2 percent. The loan resources are provided by several oil-producing countries and subsidy contributions made by close to 25 member countries.

1976: A Trust Fund is set up for concessional lending, financed through the sale of 25 million ounces of the IMF's gold during 1976–80. Trust Fund loans include a 5½-year grace period and are repayable in 10 years, at an interest rate of ½ percent a year.¹

1986: The Structural Adjustment Facility is created to provide concessional financing to help low-income countries address balance of payments financing needs arising from structural weaknesses. The SAF Trust is financed by reflows of Trust Fund repayments, and its loans are extended on the same terms.

1987: The Enhanced Structural Adjustment Facility (ESAF) Trust offers higher access under 3-year arrangements.

1994: The ESAF Trust is enlarged with new bilateral loans and subsidy contributions.

1999: The ESAF is renamed the Poverty Reduction and Growth Facility (PRGF) and refocused toward reducing poverty and strengthening growth on the basis of country-owned poverty-reduction strategies.

2001: An Administered Account is set up at the IMF for donors to subsidize Emergency Post-Conflict Assistance purchases from the GRA (EPCA) to eligible countries (Box 3.2).

2005: Subsidized assistance is extended to eligible members receiving Emergency Natural Disaster Assistance (ENDA) purchases from the GRA.

2006: The Exogenous Shocks Facility (ESF) is set up within the PRGF Trust to assist low-income countries facing sudden and exogenous shocks (Box 3.3). To implement the ESF, the PRGF Trust is renamed the Poverty Reduction and Growth Facility and Exogenous Shocks Facility (PRGF-ESF) Trust.

2008: The Executive Board modifies the ESF to provide shocks assistance more rapidly and with streamlined conditionality. In particular, a rapid-access component (ESF–RAC) allows a member access via an outright disbursement of up to 25 percent of its quota with no upper-credit-tranche (UCT) conditionality (which involves a set of policies sufficient to correct balance of payments imbalances and enable repayment to the Fund). The high-access component (ESF–HAC) provides financing under an IMF program.

2010: The PRGF–ESF Trust is converted into the PRGT in the wake of the sweeping reform of concessional assistance by the Executive Board. Three new facilities are created: the Extended Credit Facility (ECF), which succeeds the PRGF to provide financial assistance to countries with protracted balance of payments problems; the Standby Credit Facility (SCF) to address short-term balance of payments needs, allowing also for precautionary use; and the Rapid Credit Facility (RCF) to provide rapid, low-access financing with limited conditionality to meet urgent balance of payments needs. The SCF replaces the ESF–HAC, and the RCF replaces both the ESF–RAC and subsidized ENDA and EPCA to eligible countries.

2012: In September, the Executive Board approves a strategy to make the PRGT self-sustaining for the longer term. The IMF's concessional lending is normally to be subsidized by returns on existing resources rather than new bilateral contributions. However, loan resources continue to be provided by bilateral lenders.

2013: In October, resources needed to sustain concessional lending to low-income countries at an average annual capacity of around SDR 1.25 billion, which is broadly in line with estimated demand for IMF support to the world's poorest countries, was secured. A critical mass of 151 member countries committed to provide to the Poverty Reduction and Growth Trust (PRGT) their share in the partial distribution of the general reserve of SDR 1.75 billion which was attributed to windfall profits remaining from the partial sale of IMF gold. This amounted to more than 90 percent of the distribution that was approved in September 2012. This distribution followed a similar partial distribution of SDR 0.7 billion of general reserves attributable to windfall profits from gold sales which took place in October 2012.

¹Of the \$4.6 billion in profits from the gold sales, \$1.3 billion was distributed to developing economy members in proportion to their quotas; \$3.3 billion was made available for concessional lending through the Trust Fund.

Box 3.2 Subsidization of Emergency Assistance and Its Financing

Since 1962, the IMF has provided emergency assistance to member countries afflicted by natural disasters. In 1995, the IMF's emergency assistance was broadened to include countries in the aftermath of conflict. This assistance was provided under the Emergency Natural Disaster Assistance and Emergency Post-Conflict Assistance (ENDA/EPCA) Facility, which were financed by GRA resources. Financial support through EPCA was subsidized for low-income countries from May 2001 onward and that for ENDA support from January 2005 onward. The Rapid Credit Facility (RCF) replaced subsidized use of ENDA/EPCA for low-income countries in January 2010.

The RCF provides rapid concessional financial assistance with limited conditionality to low-income countries facing urgent balance of payments needs (see [Table 3.1](#)).

Terms: Access to RCF financing is determined on a case-by-case basis and is generally limited to 18.75 percent of quota a year and 75 percent of quota cumulatively. However, under the RCF's shocks window, access is available up to 37.5 percent of quota a year and 75 percent on a cumulative basis. Financing under the RCF has a grace period of 5½ years and a final maturity of 10 years.

Subsidized Financing: In May 2001, the interest rate on ENDA/EPCA loans was lowered to 0.5 percent a year through subsidies from bilateral donors for postconflict cases eligible for IMF concessional facilities. After January 2005, subsidized rates were also available for emergency assistance for natural disasters at a member's request—again, financed by donor contributions. As of April 30, 2013, contributions to subsidize ENDA/EPCA emergency assistance totaled SDR 41 million from 19 donors. The 2009 reform of the IMF's concessional facilities set the interest rate on financing under the RCF on an exceptional basis at zero from 2010 through 2016. In July 2015, the Executive Board set the interest rate on the RCF to zero percent. The ENDA/EPCA Subsidy Account remained open temporarily to subsidize emergency purchases outstanding on the effective date of the PRGT reform (that is, as of January 7, 2010). All of these purchases were fully repaid by April 4, 2013. Accordingly, the account was terminated on February 1, 2014, with most of the remaining subsidy resources transferred to the PRGT subsidy account. Between 2001 and 2013, the account had enabled subsidization of SDR 406 million in purchases under EPCA/ENDA.

Box 3.3 Exogenous Shocks Facility

On November 23, 2005, the IMF Executive Board approved the establishment of the Exogenous Shocks Facility (ESF) within the Poverty Reduction and Growth Facility (PRGF). The ESF was designed to provide concessional financing to low-income countries that had no PRGF arrangement and were experiencing exogenous shocks. For purposes of the ESF, the Executive Board defined an exogenous shock as an event beyond the control of the authorities of the member country that had a significant negative impact on the economy. The ESF was modified several times and was superseded in 2009 by the Rapid Credit Facility (RCF) and Standby Credit Facility (SCF).

Because the ESF was established as a new facility under the PRGF Trust, it was necessary to mobilize additional loan and subsidy resources to make it operational. Resources were sought from bilateral creditors and secured by the PRGF Reserve Account. There were pledges of SDR 211.3 million in subsidy resources from 11 contributing members and about SDR 0.7 billion in loan resources for ESF-specific lending from one lender.

The ESF was modified in 2008 with the establishment of two separate modalities, the High-Access Component (ESF-HAC) and the Rapid-Access Component (ESF-RAC). The ESF-RAC made loan disbursements outright, rather than under an arrangement as required for the ESF-HAC.

As part of the 2009 LIC facility reforms, the RCF replaced the ESF-RAC, and the SCF replaced the ESF-HAC. Existing ESF-HAC arrangements remained in effect until their expiration or cancellation.

Box 3.4 Policy Support Instrument

The Executive Board established the Policy Support Instrument (PSI) in 2005. The PSI is a nonfinancial instrument that supports countries in a broadly stable and sustainable macroeconomic position—that is, low-income countries that may not need or want IMF financial assistance but seek to consolidate their economic performance with IMF monitoring and support and seek explicit Executive Board endorsement of their program and policies.

Purpose: The PSI is designed to promote a close policy dialogue between the IMF and a member country. It provides more frequent IMF assessments of the member's economic and financial policies than is available through the regular annual surveillance. This support from the IMF also delivers clear signals to donors, creditors, and the general public about the strength of the country's policies.

Eligibility: The PSI is available to all Poverty Reduction and Growth Trust (PRGT)-eligible countries with a poverty-reduction strategy in place and that have a policy framework focused on consolidating macroeconomic stability, while deepening structural reforms in key areas in which growth and poverty reduction are constrained. Countries should have established a good track record of macroeconomic management and institutions that are able to support continued good performance, including in response to shocks.

Duration and repeated use: A PSI is approved for 1 to 4 years and may be extended for a maximum of 5 years. After the expiration or cancellation of the PSI, a successor PSI may be requested as long as the qualification criteria are met. There is no limit on the number of successor PSIs.

The PSI is a valuable complement to the lending facilities under the PRGT. If short-term financing needs arise, PSI users can request concurrent support under the Standby Credit Facility, or under the Rapid Credit Facility.

As of April 30, 2016, the IMF's Executive Board had approved PSIs for seven members: Cabo Verde (formerly Cape Verde), Mozambique, Nigeria, Rwanda, Senegal, Tanzania, and Uganda.

Box 3.5 Interest Rate Regime for Concessional Facilities

Prior to the 2009 reform of IMF concessional lending facilities, the interest rate on the IMF's concessional loans, including Exogenous Shock Facility (ESF) loans, was fixed at 0.5 percent over a 10-year maturity, with a 5½-year grace period. The reform reduced the interest rates on all concessional loans while tailoring repayment terms under the different facilities of the Poverty Reduction and Growth Trust (PRGT) according to the type of balance of payments need. The interest rate was initially zero for the Extended Credit Facility (ECF) and Rapid Credit Facility (RCF) and 0.25 percent for the Standby Credit Facility (SCF) and ESF. However, in the wake of the global financial crisis, effective January 7, 2010, the Executive Board waived all interest payments for 2010 and 2011 on all outstanding concessional credit through the end of January 2012, including subsidized emergency assistance through the Emergency Natural Disaster Assistance (ENDA) and Emergency Post-Conflict Assistance (EPCA) under the General Resources Account (GRA).

The interest rate structure is reviewed every 2 years for all concessional loans (except balances outstanding under the old ESF which will continue to carry a rate of 0.25 percent once the temporary interest waiver expires). At each review, the interest rate levels would normally be adjusted in line with developments in SDR interest rates, within the ranges shown in the table below. The new interest rates following reviews will apply to all existing and subsequent credit disbursed.

The first review of the interest rate structure was concluded in December 2011. Given the severe downside risks to the global economy, the Executive Board endorsed a 1-year extension of the temporary interest waiver on all PRGT loans through the end of 2012, and a zero interest rate on outstanding ECF and RCF loans, and 0.25 percent on outstanding SCF loans from January 1, 2013, through December 31, 2013. The waiver was extended for a further two years in December 2012, and in December 2014 the Executive Board approved the extension of the temporary interest waiver on concessional loans through end-December 2016 in view of the global economic crisis.¹ In July 2015, the Executive Board agreed to set the interest rate on the RCF at zero percent.

Interest Rate Mechanism for Concessional Facilities

(Percent per year)¹

	Extended Credit Facility	Rapid Credit Facility	Standby Credit Facility
SDR Rate Less Than 2 Percent	0.00	0.00	0.25
SDR Rate 2–5 Percent	0.25	0.00	0.50
SDR Rate Greater Than 5 Percent	0.50	0.00	0.75

Source: Finance Department, International Monetary Fund.

Note: SDR = Special Drawing Right.

¹ The average SDR rate is based on the most recent 12 months.

¹ The temporary interest waiver was extended on outstanding ENDA/EPCA credits until April 4, 2013, when the last outstanding ENDA/EPCA credit was repaid.

Box 3.6 Poverty Reduction Strategies

The Poverty Reduction Strategy (PRS) approach was initiated by the IMF and the World Bank in 1999 in the context of the HIPC Initiative. Countries were required to adopt and implement a PRS, set out in a Poverty Reduction Strategy Paper (PRSP), to qualify for the decision and completion points under the HIPC Initiative. Country-owned PRSPs were the basis of sustained program relationships with the IMF under the Extended Credit Facility and Policy Support Instrument (the nonfinancing instrument available to the IMF's low-income members). PRSPs aimed to provide the crucial link between national public actions, donor support, and development outcomes.

The core principles underlying the PRS approach are that such strategies should be:

- country driven
- based on broad participation of civil society to promote national ownership of strategies
- results oriented and focused on outcomes that will benefit the poor
- comprehensive in recognizing the multidimensional nature of poverty
- partnership oriented, involving coordinated participation of development partners (government, domestic stakeholders, external donors)
- based on a long-term perspective for poverty reduction.

The 2009 reform of concessional facilities and the 2013 Review of Facilities for Low-Income Countries eased the procedural requirements related to the PRS while underscoring the importance of maintaining a strong focus on poverty reduction in low-income countries. Programs supported by the IMF's concessional lending facilities will, when possible, include specific quantitative targets to safeguard social and other priority spending, consistent with the priorities in national poverty-reduction strategies.

In June 2015 the Executive Board of the IMF reviewed the policy on the PRS in the context of engagement with its low-income members. The Board reiterated the importance of anchoring Fund-supported programs for low-income countries in strategies to achieve sustained poverty reduction and growth. It was also recognized that a majority of countries eligible for concessional financing under the PRGT had completed the HIPC process and were no longer required to produce PRS documentation for the purpose of debt relief. In parallel, countries had been increasingly producing PRS documentation for their own domestic purposes on timelines determined by national needs. Reflecting these developments, the World Bank had decided to delink its concessional financial support from the PRS process. In that context, the Executive Board agreed to reforms to the Fund's PRS policy in the context of ECF arrangements and PSIs. The key objectives of the reform include: (1) maintain a clear link between a member's PRS and its policies under a Fund-supported program with streamlined PRS documentation; (2) preserve national ownership of the PRS process; and (3) allow flexibility in PRS procedures to reflect country circumstances. For ECF arrangements and PSIs, documentation requirements would be satisfied by the transmittal to the Fund of an Economic Development Document (EDD) that could comprise an existing national development plan or strategy document or a newly prepared document on a member's PRS elaborated for Fund-supported program purposes. The latter could take the form of an entirely new PRS document.¹

¹For more information, see the *Reform of the Fund's Poverty Reduction Strategies in Fund Engagement with Low-Income Countries – Proposals*, IMF Policy Paper: www.imf.org/external/np/pp/eng/2015/052615.pdf

Box 3.7 Debt Relief Timeline

1996: The IMF and World Bank jointly launch the Heavily Indebted Poor Countries (HIPC) Initiative to provide assistance through grants that lower recipient countries' debt service repayments to the IMF.

1999: The HIPC Initiative is further enhanced to provide faster, deeper, and broader debt relief.

2006: The IMF implements the Multilateral Debt Relief Initiative (MDRI) to provide full relief of eligible (pre-2004) IMF debt to eligible HIPCs and other low-income countries. The HIPC Initiative and the MDRI are financed through bilateral contributions and IMF resources.

2010: In June, following the devastating earthquake in Haiti, the IMF introduces the Post-Catastrophe Debt Relief (PCDR) Trust, which allows the IMF to join international debt relief efforts when eligible low-income countries are hit by catastrophic natural disasters. The PCDR Trust is initially financed with the IMF's own resources, with the expectation of replenishment through donor contributions, as necessary.

2015: In February, the IMF transforms the Post-Catastrophe Debt Relief (PCDR) Trust to create the Catastrophe Containment and Relief (CCR) Trust. This broadens the range of situations covered by IMF disaster assistance to include epidemics with international spillover potential. The CCR Trust has two windows, each with different purposes, qualification criteria, and assistance terms. The CCR Trust was initially financed with the remaining balance of resources in the PCDR Trust, the residual balances of the MDRI-I and MDRI-II Trusts, and bilateral contributions. Additional bilateral resources, are being sought to support the capacity of the Trust to finance future debt relief for countries experiencing catastrophes.

Box 3.8 The HIPC Sunset Clause

Under the sunset clause, the HIPC Initiative was initially set to expire at the end of 1998. This was meant to prevent the initiative from becoming permanent, to minimize moral hazard, and to encourage early adoption of reforms by HIPCs. The expiration date was subsequently extended four times to allow more time for eligible countries to undertake qualifying programs.

With the last extension, until the end of 2006, the IMF and World Bank Boards decided to close the initiative to new entrants by ring-fencing its application to those countries that met the income and indebtedness criteria based on debt data at the end of 2004. In April 2006, the IMF endorsed and closed a list of 14 countries that were assessed to have met these criteria, and these countries were grandfathered into the initiative: seven countries that were previously assessed eligible for HIPC Initiative debt relief (Central African Republic, Comoros, Côte d'Ivoire, Liberia, Somalia, Sudan, and Togo), four additional countries (Eritrea, Haiti, the Kyrgyz Republic, and Nepal), and three countries that chose not to participate (Bhutan, Lao P.D.R., and Sri Lanka). Sri Lanka later graduated from PRGT eligibility and therefore from eligibility for the HIPC Initiative. In 2007, Afghanistan was assessed to be HIPC-eligible after its debt-reconciliation process was completed (based on end-2004 debt data) and included in the ring-fenced list of countries. In 2009, Nepal chose not to participate in the initiative.

In December 2011, the IMF and the World Bank Executive Boards agreed to add end-2010 indebtedness as a criterion for eligibility for assistance under the HIPC Initiative, as well as to ring-fence further the list of eligible or potentially eligible countries based on that criterion. The expanded criteria eliminated from eligibility three countries: Bhutan and Lao P.D.R., both of which had previously indicated that they chose not to participate, and the Kyrgyz Republic because its external debt was assessed as well below the initiative's thresholds.

The cost to the IMF for providing debt relief to the protracted arrears countries was not included in the original cost estimates for the HIPC Initiative, and so additional financing will need to be secured when these members are ready to clear their arrears and embark on the HIPC Initiative.

Box 3.9 Topping Up HIPC Assistance

Under the Enhanced HIPC Initiative, additional debt relief beyond that committed at the decision point can be committed at the time of the completion point on a case-by-case basis to bring the ratio of the net present value (NPV) of debt-to-exports to 150 percent (or NPV of debt-to-fiscal-revenue to 250 percent). The burden-sharing approach is based on a creditor's exposure after both enhanced HIPC relief and additional bilateral debt reduction. Topping-up assistance for eligible HIPCs is calculated on the basis of the debt stock before the delivery of Multilateral Debt Relief Initiative (MDRI) relief.

The additional topping-up assistance is committed only if the member's declining debt sustainability stems primarily from a fundamental change in its economic circumstances as a result of exogenous factors. Moreover, the IMF will only deliver topping-up assistance once satisfactory financing assurances have been received from other creditors indicating they will also provide their share of debt relief under the HIPC Initiative. These indications of satisfactory financing assurances are similar to assurances required for the provision of HIPC debt relief at the completion point. This approach also ensured that the IMF's MDRI debt relief was additional to assistance under the HIPC Initiative. As of April 30, 2015, the IMF has provided additional topping-up assistance to six countries for a total of SDR 62.7 million in NPV terms.

IMF Topping-Up of HIPC Assistance

(Millions of SDRs, in NPV terms; as of April 30, 2016)

Country	Amount	Percent of Original Commitment	Dates of		Time until Satisfactory Financing Assurances Were in Place (months)
			Commitment	Disbursement	
1 Burkina Faso	10.9	65	April 2002	October 2004	30.8
2 Ethiopia	18.2	68	April 2004	March 2005	11.1
3 Malawi	10.1	43	August 2006	December 2006	3.7
4 Niger	9.7	45	April 2004	March 2005	11.4
5 Rwanda	13.0	38	April 2005	August 2005	4.6
6 São Tomé and Príncipe	0.8	...	March 2003	December 2008	9.5
Total	62.7				
Average	10.4	51.9			11.8

Source: Finance Department, International Monetary Fund.

Note: NPV = net present value.

Box 3.10 Liberia's Debt Relief

Liberia was in arrears to the IMF from 1984 until March 14, 2008, when it regularized its relations with the IMF through the clearance of SDR 543 million in arrears. This paved the way for Liberia to receive new financing and debt relief.

New financing: On March 14, 2008, with financing from a bridge loan provided by the United States, Liberia cleared its long-standing overdue obligations to the IMF. On the same day, the IMF's Executive Board approved an Extended Credit Facility (ECF; formerly the PRGF) and Extended Fund Facility (EFF) arrangements amounting to SDR 239.02 million and SDR 342.77 million, respectively. Disbursements under the ECF and EFF arrangements were front-loaded in order to repay the bridge loan.

Debt relief: On March 18, 2008, the IMF and the World Bank committed to provide Liberia debt relief under the HIPC Initiative. The IMF Executive Board also agreed that upon reaching the completion point, Liberia would receive MDRI-type (beyond-HIPC) debt relief to cover any remaining debt originating under the successor ECF and EFF arrangements that corresponded to the stock of arrears at the time of arrears clearance.

Fundraising: A large number of IMF member countries contributed to the financing package of debt relief for Liberia. Bilateral contributions from 102 countries, including low-income countries, were facilitated by a partial distribution from the balances of the First Special Contingent Account (SCA-1) and the proceeds of deferred charges adjustments used to offset the impact on IMF income from Liberia's arrears.

In June 2010, Liberia received SDR 549 million in debt relief from the IMF. The IMF debt relief was associated with the stock of arrears at arrears clearance, subject to HIPC and beyond-HIPC assistance (SDR 427 million and SDR 116 million, respectively), and remaining HIPC assistance associated with the first disbursement of new credit under the ECF (SDR 5.5 million).

Box 3.11 The Multilateral Debt Relief Initiative (MDRI)

In June 2005, the Group of 8 (G8) major industrial countries proposed that three multilateral institutions—the IMF, the International Development Association (IDA) of the World Bank, and the African Development Fund (AfDF)—provide resources beyond the enhanced HIPC initiative to help a group of low-income countries advance toward the United Nations Millennium Development Goals, by canceling 100 percent of their debt claims on those countries. The decision to grant debt relief was a separate responsibility of each institution, with varying approaches to coverage and implementation. In early 2007 the Inter-American Development Bank decided to join this initiative and provided similar debt relief to the five HIPC countries in the Western Hemisphere.

The IMF Executive Board adopted the MDRI in November 2005, and it became effective on January 5, 2006. The countries eligible for MDRI debt relief included countries that reached the completion point under the HIPC Initiative and those, with income per capita below \$380 a year, with outstanding debt to the IMF on December 31, 2004. Under the IMF's MDRI, qualifying members received 100 percent debt relief on the full stock of debt owed to the IMF as of December 31, 2004, that remained outstanding at the time of the provision of debt relief and was not covered by HIPC Initiative assistance. To qualify for the relief, the IMF Executive Board also required that these countries were current on their obligations to the IMF and demonstrated satisfactory performance in macroeconomic policies, implementation of a poverty-reduction strategy, and public expenditure management.

Immediately following the effective date of the MDRI decision in January 2006, the IMF delivered MDRI debt relief totaling SDR 2.0 billion to 19 qualifying countries. These countries included 17 HIPC countries that had reached their completion points¹ and two non-HIPCs. Total IMF MDRI debt relief granted to 30 qualifying countries reached SDR 2.3 billion.²

Funding for MDRI did not involve any new resource mobilization. The MDRI-I and MDRI-II Trusts were composed of one account each which received and provided resources for debt relief under the MDRI to two groups of countries differentiated by their levels of income per capita. The MDRI-I Trust was financed with IMF resources of SDR 1.5 billion that were transferred from the SDA, representing the IMF's resources from past gold sales. The MDRI-II Trust was financed by a direct, one-time transfer of SDR 1.12 billion from the PRGF-ESF Subsidy Account of the PRGT, representing bilateral resources from 37 contributors. There is no longer any outstanding MDRI-eligible debt to the Fund. In February 2015 the balance of the MDRI-I Trust (SDR 13.2 million) was transferred to the CCR Trust; and in August 2015, the MDRI-II Trust was liquidated and its residual balance (SDR 38.9 million) was transferred to the CCR Trust.

Country Coverage of the MDRI

	Eligible under the "MDRI-I Trust" (per capita income at or below \$380)	Eligible under the "MDRI-II Trust" (per capita income above \$380)
Countries that have benefited from MDRI		
"Completion point" HIPCs: 35 countries have reached the completion point under the Enhanced HIPC Initiative	Afghanistan, Burkina Faso, Burundi, Central African Republic, Democratic Republic of the Congo, Ethiopia, The Gambia, Ghana, Guinea-Bissau, Liberia, Madagascar, Malawi, Mali, Mozambique, Niger, Rwanda, São Tomé and Príncipe, Sierra Leone, Tanzania, Togo, Uganda	Benin, Bolivia, Cameroon, Comoros, Republic of Congo, Côte d'Ivoire, Guinea, Guyana, Haiti, Honduras, Mauritania, Nicaragua, Senegal, Zambia
Non-HIPC countries (2) with per capita income below \$380 and outstanding debt to the IMF	Cambodia, Tajikistan	

Box 3.12 Trust Assets: Investments in Support of Concessional Financing

The IMF manages several trusts, funded and invested to provide positive returns to augment its lending capacity to low-income countries. The IMF acts as trustee, and these trusts are separate from general quota resources. The trusts have been established to meet specific needs.

The trusts include contributions from the IMF, from its members, and from other sources. The IMF's contributions have included funds from the special disbursement account. Other funding sources include multilateral institutions and bilateral creditors and donors, who have provided grants, deposits, and loans at zero or below-market interest rates. As of April 2016, the trust resources available for investment totaled about SDR 8.2 billion. Most of these assets (93 percent) were in the Poverty Reduction and Growth Trust (PGRT). The trust to support the Heavily Indebted Poor Countries (HIPC) Initiative held 5 percent of total trust assets, and the Catastrophe Containment and Relief (CCR) Trust had 2 percent.

Investment Strategy: Between 1987 and 2000, the trust assets were invested in either SDR-denominated deposits at the Bank for International Settlements (BIS) or short-term debt instruments issued by government or official institutions. In March 2000, to supplement the resources available for concessional lending, the Executive Board endorsed a strategy focused on longer-term investments with the aim of enhancing returns. Short-term deposits are kept to a minimum, and the bulk of the funds are invested over longer horizons in line with a 1- to 3-year SDR-weighted government bond benchmark. Since 2000, about 5 to 10 percent of the trust resources have been held in short-term deposits with the BIS to ensure adequate liquidity to meet the operational requirements of managing inflows from donations and repayments and outflows for loans. In 2016, the Executive Board started a review of the investment strategy for Trust Accounts taking into account developments in the concessional financing framework, changes in market conditions and the recent reviews of the investment strategy for the Subaccounts of the Investment Account (see [Chapter 5](#)).

Investment Provisions of Trusts: The investment provisions of the trusts define the eligible investments, which generally consist of domestic government bonds of member countries, bonds and other marketable obligations of eligible national and international financial organizations, deposits with the BIS, and deposits with commercial banks.

As with the Fixed-Income Subaccount of the Investment Account, the investments are carried out by external managers (except for BIS investments which are managed by staff), and assets are held in safekeeping by custodian banks. Although the resources and records of the Investment Account and the trusts are separate, the investment activities for both portfolios are carried out in a consistent way in order to realize the cost benefits of economies of scale.

All trust operations and transactions are denominated in SDRs, but this is not necessarily the case for all trust investments. Aside from SDR deposits with the BIS, investments in the currencies that comprise the SDR are weighted in alignment with the SDR basket to mitigate currency risk. When the relative prices of assets in the various currencies diverge, the portfolio is rebalanced periodically to further reduce risk.

Box 3.13 The 2009 Fundraising Exercise

As part of the 2009 reform of the IMF concessional lending facilities, a major fundraising drive was launched to secure an additional SDR 10.8 billion in loan resources and SDR 1.5 billion in subsidy resources to support projected demand for concessional loans of SDR 11.3 billion during 2009–14.

Loan resources: In 2009, the IMF staff initially projected that loan resources of about SDR 9 billion would be needed to ensure a projected lending capacity of SDR 11.3 billion during 2009–11. However, the target was subsequently raised to SDR 10.8 billion to allow for a 20 percent buffer for encashment purposes. By the end of 2011, 14 lenders had pledged SDR 9.8 billion in loan resources, including seven lenders that participate in the encashment regime.

Subsidy resources: In 2009, the IMF staff projected resources needed to fully subsidize lending during 2009–14 at SDR 2.5 billion in end-2008 net present value (NPV) terms. With SDR 1.0 billion available at the time, additional subsidy resources of SDR 1.5 billion were needed. The IMF Executive Board agreed to a financing package composed of mostly internal sources that broadly covered the SDR 1.5 billion NPV target:

- a transfer of SDR 0.62 billion from the Poverty Reduction and Growth Trust (PRGT) Reserve Account to the General Subsidy Account (GSA) and new bilateral contributions of SDR 0.2–0.4 billion
- delayed reimbursement to the GRA for PRGT administrative costs for three financial years, FY2010–12, of SDR 0.15–0.20 billion
- use of SDR 0.5–0.6 billion linked to gold sales profits from a distribution to members of reserves attributed to gold sales profits.

The Executive Board endorsed the transfer of resources from the Reserve Account to the GSA.¹ As of March 31, 2016, 26 members had committed SDR 214.1 million in new bilateral subsidy resources, near the lower bound of the target range. The equivalent of the estimated costs of administering the PRGT was transferred from the Reserve Account to the GSA—SDR 38.4 million in FY2010, SDR 46.4 million in FY2011, and SDR 63.1 million in FY2012.

¹The authority to make this transfer was ultimately not used. Following the establishment in 2014 of general authority to transfer resources from the Reserve Account to the GSA when needed, the authorization for the specific transfer of SDR 0.62 billion was rescinded.

Box 3.14 Reimbursement of Administrative Expenses Associated with Concessional Lending Operations

The Office of Budget and Planning (OBP) provides the Finance Department (within the IMF) with an estimate of the cost of administering the IMF's concessional lending operations at the end of each financial year. Since the inception of the Trust Fund in 1976, all such administrative expenses have been accounted for and the general rule is that costs are reimbursed to the General Resources Account (GRA). In 1987, the IMF Executive Board adopted a decision providing for annual reimbursement to the GRA of the expenses incurred in conducting the business of the Enhanced Structural Adjustment Facility, now the Poverty Reduction and Growth Trust (PRGT).

Exceptions to the general rule have been agreed by the Executive Board in the context of funding initiatives since 1998 to increase concessional lending capacity or provide debt relief. During FY1998–2004, the Executive Board agreed to redirect SDR 366.2 million of such payments from the GRA to the PRGF-HIPC Trust to help finance both subsidy needs and debt relief. Similarly, during FY2005–09, SDR 237.3 million was redirected to benefit the subsidy account of the PRGF-ESF Trust.

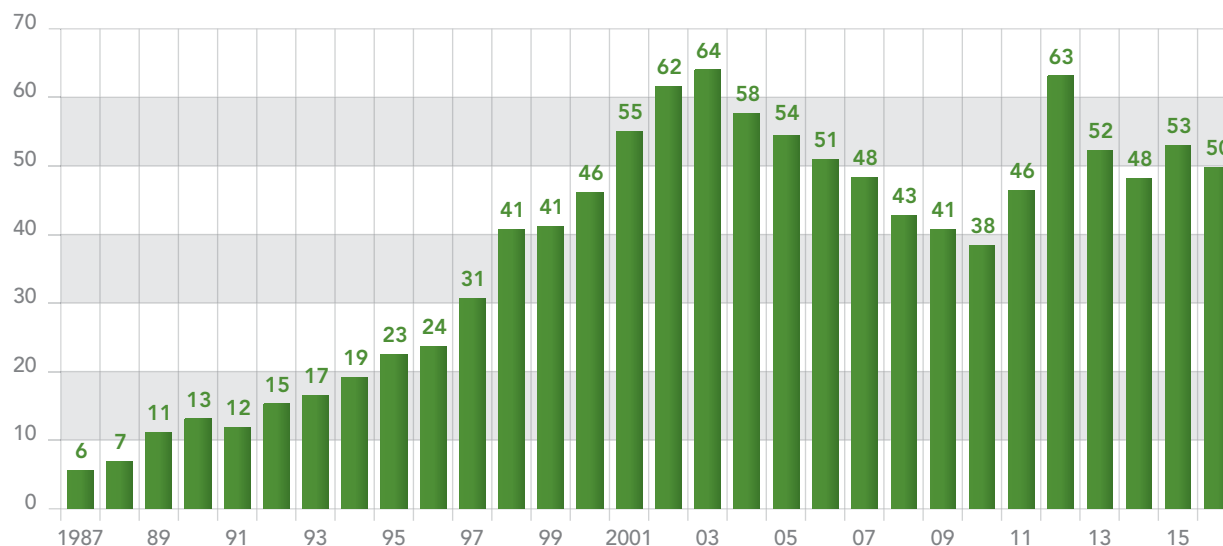
Reimbursements were resumed as part of the new income model endorsed by the Executive Board in 2009. However, the new income model provides for an exception, which allowed temporary suspension of the annual reimbursements to the GRA for PRGT expenses if a determination is made that the resources of the trust are likely to be insufficient to support anticipated demand for PRGT assistance, and the IMF has been unable to obtain additional subsidy resources to cover the anticipated demand.

As part of the 2009 concessional financing reforms, the Executive Board decided that, for a period of 3 years, starting in FY2010, an amount equivalent to the expenses of operating the PRGT would be transferred from the PRGT Reserve Account to the General Subsidy Account of the PRGT instead of to the GRA. This generated additional PRGT subsidy resources of SDR 147.9 million.

In September 2012, the Executive Board approved a financing strategy for the PRGT aimed at placing concessional lending on a self-sustaining basis over the longer term. This strategy involves establishing an annual base lending envelope of SDR 1¼ billion by using available resources and contributions from members linked to the windfall profits from the recent gold sales. Part of the financing strategy called for reimbursement of the GRA for PRGT administrative expenses to recommence in FY2013 and continue thereafter. If, however, demand for PRGT borrowing substantially exceeds the base envelope for an extended period, the strategy for the self-sustained PRGT allows the Executive Board to consider further temporary suspension of reimbursement.

Administrative Expenses Associated with SAF/PRGF/PRGT Operations, 1987–2016

(Millions of SDRs)



Source: Finance Department, International Monetary Fund.

Note: SAF = Structural Adjustment Facility; PRGF = Poverty Reduction and Growth Facility; PRGT = Poverty Reduction and Growth Trust.

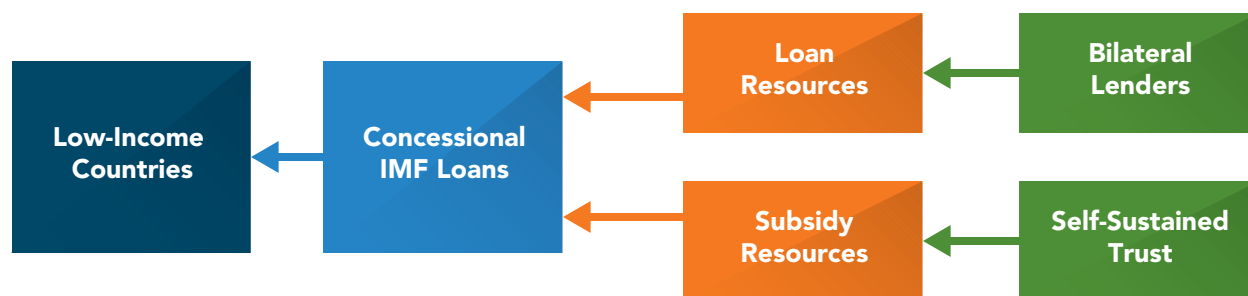
Box 3.15 Making the Poverty Reduction and Growth Trust Sustainable

A three-pillar strategy to ensure that the PRGT has sufficient resources to meet projected demand for IMF concessional lending over the long-term was set out in Proposal to Distribute Remaining Windfall Gold Sales Profits and Strategy to Make the Poverty Reduction and Growth Trust Sustainable (September 17, 2012). It consists of:

1. A *base envelope* of about SDR 1¼ billion in annual lending capacity, which is expected to cover concessional lending needs over normal periods. While financing commitments can vary substantially from year to year, the self-sustaining PRGT can build up capacity in years with low levels of new lending commitments and draw down capacity in years when demand is high. This implies that the base envelope could cover periods where demand in individual years could be much higher, as long as fluctuations average out over a number of years.
2. *Contingent measures* that can be put in place when average financing needs exceed the base envelope by a substantial margin for an extended period. If the Executive Board considers that the self-sustaining capacity will decline substantially below SDR 1¼ billion, it could decide to activate a range of contingent measures, including (1) reaching additional understanding on bilateral fundraising efforts among a broad range of the membership; (2) suspending for a limited period the reimbursement of the GRA for PRGT administrative expenses; and (3) modifying access, blending, interest rate, and eligibility policies to reduce the need for subsidy resources.
3. A *principle of self-sustainability* under which future modifications to facilities for low-income countries would be expected to ensure that the demand for IMF concessional lending can reasonably be met with the resources available under the first and second pillars under a plausible range of scenarios.¹

The estimate of a self-sustained capacity of SDR 1¼ billion is based on the projected annual returns on the balances in the four PRGT subsidy accounts—including all existing subsidy resources and those facilitated by two partial distributions of amounts in the IMF general reserve attributed to the windfall gold sales profits—and investment income from the Reserve Account in the steady state.

Poverty Reduction and Growth Trust Self-Sustainability



Source: Finance Department, International Monetary Fund.

¹Specifically, any modifications to access, financing terms, blending, eligibility and other relevant policies would be expected to be designed in a way that average demand in normal periods could be covered through the resources available under the first pillar, and that periods of high financing needs, for example, as a result of significant shocks, could be covered through the contingent mechanisms.

Additional Reading

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- Catastrophe Containment and Relief Trust, *IMF Factsheet*: www.imf.org/external/np/exr/facts/ccr.htm
- Eligibility to Use the Fund's Facilities for Concessional Lending*, 2015, IMF Policy Paper, June 24, 2015: www.imf.org/external/np/pp/eng/2015/062415.pdf
- Financing for Development: Enhancing the Financial Safety Net for Developing Countries*, IMF Policy Paper, July 8, 2015: www.imf.org/external/np/sec/pr/2015/pr15324.htm
- Heavily Indebted Poor Countries (HIPC) Initiative—List of Ring-Fenced Countries that Meet the Income and Indebtedness Criteria at end-2004*, IMF Policy Paper, April 11, 2006: www.imf.org/external/np/pp/eng/2006/041106.pdf
- IMF Distributes US\$1.1 Billion of Gold Sales Profits in Strategy to Boost Low-Cost Crisis Lending to Low-Income Countries, Press Release No. 12/389, October 13, 2012, www.imf.org/external/np/sec/pr/2012/pr12389.htm
- IMF Executive Board Adopts Decisions to Enhance the Financial Safety Net for Developing Countries, Press Release No. 15/324, July 8, 2015: www.imf.org/external/np/sec/pr/2015/pr15324.htm
- IMF Executive Board Agrees on Implementation Modalities for the Multilateral Debt Relief Initiative, Public Information Notice No. 05/164, December 8, 2005: www.imf.org/external/np/sec/pn/2005/pn05164.htm
- IMF Executive Board Approves the Establishment of Policy Support Instruments for Aiding Low-Income Countries, Press Release No. 05/145, October 14, 2005: www.imf.org/external/np/sec/pn/2005/pn05145.htm
- IMF Executive Board Discusses “Financing for Development,” Press Release No. 15/325, July 8, 2015: www.imf.org/external/np/sec/pr/2015/pr15325.htm
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- IMF Executive Board Establishes a Catastrophe Containment and Relief Trust to Enhance Support for Eligible Low-Income Countries Hit by Public Health Disasters, Press Release No. 15/53, February 13, 2015: www.imf.org/external/np/sec/pr/2015/pr1553.htm
- IMF Executive Board Establishes a Post-Catastrophe Debt Relief Trust, Public Information Notice No. 10/92, July 21, 2010: www.imf.org/external/np/sec/pn/2010/pn1092.htm
- IMF Executive Board Reforms the Fund's Policy on Poverty Reduction Strategies in Fund Engagement with Low-Income Countries, Press Release No. 15/371, August 6, 2015: www.imf.org/external/np/sec/pr/2015/pr15371.htm
- IMF Executive Board Reviews Eligibility to Use the Fund's Facilities for Concessional Financing for 2015, Press Release No. 15/369, July 31, 2015: www.imf.org/external/np/sec/pr/2015/pr15369.htm
- IMF to Extend 100 Percent Debt Relief for 19 Countries under the Multilateral Debt Relief Initiative, Press Release No. 05/286, December 21, 2005: www.imf.org/external/np/sec/pr/2005/pr05286.htm
- IMF Extended Credit Facility, Factsheet: www.imf.org/external/np/exr/facts/ecf.htm
- IMF Lending to Poor Countries—How Does the PRGF Differ from the ESAF? April 2001: www.imf.org/external/np/exr/ib/2001/043001.htm
- IMF Rapid Credit Facility, Factsheet: www.imf.org/external/np/exr/facts/rcf.htm
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- IMF Standby Credit Facility, Factsheet: www.imf.org/external/np/exr/facts/scf.htm
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- Liberia Wins \$4.6 Billion in Debt Relief from IMF, World Bank, IMF Survey online, June 29, 2010 www.imf.org/external/pubs/ft/survey/so/2010/car062910a.htm
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- Poverty Reduction and Growth Trust—Review of Interest Rate Structure*, IMF Policy Paper, November 23, 2011: www.imf.org/external/np/pp/eng/2011/112311.pdf
- Poverty Reduction and Growth Trust (PRGT) Pledges Linked to the Distribution of the Remaining SDR 1,750 Million Windfall Profits from Gold Sales: www.imf.org/external/np/fin/prgt/second.htm
- Poverty Reduction Strategy Papers: www.imf.org/external/np/prsp/prsp.aspx
- PRGT Interest Rate Mechanism—Extension of Temporary Interest Rate Waiver*, IMF Policy Paper, December 14, 2012: www.imf.org/external/np/pp/eng/2012/121412b.pdf
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Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries, IMF Policy Paper, April 15, 2016: www.imf.org/external/np/pp/eng/2016/041516.pdf

Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries, IMF Policy Paper, April 21, 2015: www.imf.org/external/np/pp/eng/2015/040315.pdf

Update on the Financing of the Fund's Concessional Assistance and Proposed Amendments to the PRGT Instrument, IMF Policy Paper, April 7, 2014: www.imf.org/external/np/pp/eng/2014/040714a.pdf

4

Special Drawing Rights

Special drawing rights (SDRs) were created in 1969 as an international reserve asset to supplement other reserve assets whose growth was seen as inadequate to finance the expansion of international trade and finances under the Bretton Woods system in the postwar period and to support the Bretton Woods fixed exchange rate system. The creation of the SDR was intended to make the regulation of international liquidity subject, for the first time, to international consultation and decision. The SDR is not a currency, nor is it a claim on the IMF. Instead, it is a potential claim on the freely usable currencies of IMF members. The IMF may allocate SDRs unconditionally to members (participants) who may use them to obtain freely usable currencies in order to meet a balance of payments need without undertaking economic policy measures or repayment obligations.

After a brief introduction to the background and characteristics of the SDR, Sections 4.2 and 4.3 of this chapter describe the methods used to value the SDR and determine its yield (SDR interest rate). Section 4.4 then reviews the rules for allocation and cancellation of SDRs. Section 4.5 outlines the operations of the SDR Department and the nature and evolution of voluntary SDR trading arrangements, highlighting the key role of the IMF. Finally, Section 4.6 highlights the separation between the IMF's General and SDR Departments as shown in the SDR Department's balance sheet.

4.1 Background and Characteristics of the SDR

The Bretton Woods fixed exchange rate system came under pressure during the 1960s because it did not have a mechanism for regulating the growth of reserves to finance the expansion of

world trade and financial development. Gold production was an inadequate and unreliable source of reserve supplies, and the continuing growth in global U.S. dollar reserves required a persistent deficit in the U.S. balance of payments, which itself posed a threat to the value of the U.S. dollar. The international community decided to create a new international reserve asset under the auspices of the IMF ([Box 4.1](#)).

Following the creation of the SDR, the SDR Department was established within the IMF to conduct all SDR transactions. The SDR is an interest-bearing international reserve asset created by the IMF to supplement existing reserve assets and can be held and used only by participants in the SDR Department, by the IMF through the General Resources Account (GRA), and by certain designated official entities referred to as “prescribed holders” (see Section 4.5.1).

The IMF Articles of Agreement require that the General Department and the SDR Department be kept strictly separate. Any assets or property held in one department may not be used to meet the liabilities, obligations, or losses of the IMF incurred in the operations and transactions of the other department except for the reimbursement of the General Department for expenses incurred in conducting the business of the SDR Department.¹ A member of the IMF need not be a member of the SDR

¹ The IMF levies an assessment on each participant in the SDR Department (in proportion to its net cumulative SDR allocations) at the end of each financial year to cover the expenses of conducting the business of the SDR Department. As an example, assessments for the financial year that ended April 30, 2016, were 0.00350162 percent of cumulative allocations (or SDR 7.146 million) (see [Appendix 1](#)).

Department, although all current IMF members are also members of the SDR Department. Participants' holdings of SDRs are part of their international reserves, together with their holdings of gold, foreign exchange, and reserve position in the IMF. The SDR is used almost exclusively in transactions with the IMF, and it serves as the unit of account of the IMF and a number of other international organizations.²

The SDR's value as a reserve asset derives from the commitments of members to exchange SDRs for freely usable currencies and to honor various obligations connected with the proper operation of the SDR Department. SDRs are not liabilities of the IMF. The IMF helps ensure the SDR's claim on freely usable currencies by acting as an intermediary between holders of SDRs in a voluntary but managed market. Members may also use SDRs outside this market to acquire foreign exchange in a transaction by agreement with another participant or group of participants. There is no obligation under current Executive Board decisions for participants to maintain any particular level of SDR holdings.

Since September 1987, the SDR market has functioned primarily through voluntary SDR trading arrangements (VTAs). Under these arrangements, a number of members and one prescribed holder have volunteered to buy or sell SDRs as defined by their respective arrangements. In the event there is insufficient capacity under the voluntary trading arrangements, the IMF can activate the designation mechanism: IMF members with a strong balance of payments and reserves position may be designated by the IMF to purchase SDRs from members with weak external positions. This designation mechanism serves as a backstop to guarantee the liquidity and reserve asset character of the SDR. Thus, the functioning of the SDR Department, like that of the General Department, is based on the principle of mutuality and intergovernmental cooperation.

The value of the SDR and its yield are defined according to the prevailing exchange rate system. In the early years, this was the Bretton Woods fixed exchange rate system, but it has been a basket of currencies since 1974. The SDR basket, as revised on October 1, 2016, consists of five freely usable currencies: the U.S. dollar, euro, Chinese renminbi, Japanese yen, and pound sterling (Box 4.3). The SDR's value is calculated daily as the sum of specific amounts of the five basket currencies valued in U.S. dollars, on the basis of exchange rates quoted at noon each day in the London market (Box 4.4). The U.S. dollar equivalent of the SDR is posted daily on the IMF Finances website (www.imf.org/external/fin.htm).

The SDR interest rate was initially set at a fixed, below-market level but is now market based and calculated weekly. It is based on a weighted average of representative interest rates on short-term government debt in the money markets of the SDR basket

of currencies, except if the weighted average falls below the floor for the SDR interest rate of 0.050 percent (5 basis points) (see Section 4.3). Although both the valuation and the yield of the SDR are linked to the prevailing markets for their component exchange and interest rates, there is no market for the SDR itself in which excess supply or demand pressure can be eliminated by adjustments in the price, or value, of the SDR. Rather, the IMF itself manages the flows of SDRs to ensure liquidity in the system.

Under certain conditions (Article XV(1) and Article XVIII), the IMF may make a general allocation of SDRs to members participating in the SDR Department in proportion to their IMF quotas, subject to the approval of 85 percent of the voting power of the IMF. As of April 30, 2016, there have been only three general allocations of SDRs and one special allocation (see Section 4.4). The last two allocations occurred in 2009: one general allocation to meet a long-term global need for reserves while helping to mitigate the effects of the global financial crisis and a special allocation following the entry into force of the Fourth Amendment to enable all members of the IMF SDR Department to participate in the SDR system on an equitable basis. An allocation of SDRs by the IMF provides each recipient country with a costless asset. A member earns interest on its holdings and pays interest on its cumulative allocations, but the two interest rates are identical and the payments therefore net out as long as the member's cumulative allocations are equal to its holdings of SDRs.³ Countries holding SDRs can use these assets by exchanging them for freely usable currencies at a value determined by the value of the SDR basket.

Countries that use their SDRs—and therefore hold fewer SDRs than their cumulative allocations—pay interest at the SDR interest rate on the difference between their cumulative allocations and their current holdings. Countries that hold more SDRs than their cumulative allocations—and are therefore net creditors in the SDR system—receive a corresponding amount of interest on their excess SDR holdings. The SDR Department maintains records on SDR transactions, holdings, and allocations.

4.2 Valuation of the SDR

There has been a high degree of stability in the method by which the SDR is valued, which has been revised only to reflect major changes in the roles of various currencies in the world economy. The current criteria for SDR valuation were adopted in 2000 following the introduction of the euro. The 2000 decision modified criteria that had been in place since 1980, when the SDR valuation basket was streamlined from 16 to 5 currencies, and before that the SDR was linked to the value of gold.⁴ In the most recent review concluded in

² In a series of decisions during 1979 and 1980, the Executive Board prescribed that participants and other holders are free to use SDRs among themselves in certain operations not otherwise expressly authorized by the Articles of Agreement. These include the use of SDRs in forward purchases or sales, swaps, settlement of financial obligations, loans, pledges, or donations (grants), and as security for the performance of financial obligations, among other prescribed operations.

³ From the perspective of the SDR Department, interest payments and receipts cancel out, and the net income of the SDR Department is always zero, as illustrated in the financial statements of the SDR Department.

⁴ The SDR was initially defined as equivalent to 0.888671 grams of fine gold because this was the par value of the U.S. dollar under the Bretton Woods system; therefore, the SDR was also equivalent to one U.S. dollar. When the dollar was devalued against gold in 1971, the SDR retained

November 2015, the Executive Board decided to include the Chinese renminbi in the SDR basket, effective October 1, 2016. Accordingly, the current SDR basket consists of five currencies: the U.S. dollar, euro, Chinese renminbi, Japanese yen, and pound sterling.

4.2.1 SDR Basket

When the SDR was redefined as a basket of currencies in 1974, it comprised the 16 IMF members representing at least 1 percent of world trade. At the same time, the interest rate on the SDR was raised to 5 percent, consistent with a new policy under which the rate was set semiannually at about half the level of a combined market interest rate that was defined as a weighted average of interest rates on short-term market instruments in France, Germany, Japan, the United Kingdom, and the United States.

The 16-currency SDR basket was challenging to manage as a unit of account because it was difficult and costly to replicate and because it included some currencies that were not widely traded. It was also a poor store of value because it had a lower yield than substitute reserve assets. To address these shortcomings, in 1981 the valuation of the SDR was simplified: it would be valued using the same five-currency basket that determined the SDR interest rate, and the interest rate itself would be equal to market rates. The valuation basket was formally defined as the currencies of the five member countries with the largest exports of goods and services over the previous 5 years. As a result of these changes, both the SDR valuation and SDR interest rate baskets were composed of the five freely usable currencies recognized by the IMF at the time: U.S. dollar, Japanese yen, Deutsche mark, French franc, and pound sterling.

The five-currency basket was simple enough to be readily replicable by financial markets while still ensuring a fairly stable SDR value in the face of wide swings in exchange rates. With the introduction of the euro in 1999, the Deutsche mark and French franc were replaced in the SDR basket with an equivalent amount of euros, resulting in a four-currency basket, but the relative weight of the continental European currencies in the basket was unchanged.

The 2015 review of the SDR valuation resulted in a decision to add the Chinese renminbi to the SDR basket effective October 1, 2016. The Executive Board also agreed to change the composition of the SDR interest rate basket to include a short-term Chinese renminbi-denominated financial instrument. The time taken to implement the new SDR basket aimed to provide sufficient time for the IMF, its members, and other SDR users to adjust to these changes.

4.2.2 Current SDR Valuation Method

The IMF's Executive Board reviews the SDR valuation every 5 years. These quinquennial reviews cover the currencies to be

included in the SDR valuation basket (along with the criteria for the selection of currencies), determine the relative weights of those currencies, and assess the financial instruments that are used to calculate the SDR interest rate. Reviews have been guided by long-standing principles that aim to enhance the attractiveness of the SDR as a reserve asset (Box 4.2). The Articles of Agreement give the Executive Board broad authority to determine the method of valuation of the SDR.⁵ The Executive Board refined the criteria for selection of the SDR valuation basket after the introduction of the euro into the SDR basket (Box 4.3). The addition of the euro meant the SDR basket now included not just currencies of Fund members but also currencies issued by monetary unions.

Under the SDR valuation framework adopted in 2000, there are two SDR currency selection criteria, a first one based on the relative size of exports and a second one requiring that a currency is determined by the Fund to be freely usable (see below). Concerning the first criterion, exports have historically played a central role for SDR basket selection. This size-related "gateway" currency selection criterion is meant to reflect countries' relative importance in global commerce, ensure an adequate capacity to supply reserve assets, and limit the number of currencies in the basket.

In 2000, the Executive Board decided to require, as a second currency selection criterion, that currencies in the SDR basket be freely usable.⁶ This decision recognized that a country's share of world exports is not necessarily a reliable indicator of the extent to which its currency is used in international transactions, nor is it an accurate gauge of the depth and breadth of its financial markets. The requirement that a currency be freely usable encompasses the level of the official reserves denominated in that currency by other member countries and also allows for consideration of several other indicators of the breadth and depth of a country's financial markets. This requirement was also consistent with previous Executive Board decisions; for instance, one goal of the 1980 decision to reduce the number of currencies in the SDR basket from 16 to 5 was to ensure that the basket's currencies had broad and deep foreign exchange markets, which is a key element of the concept of a freely usable currency.

The freely usable concept, set out in the IMF's Articles of Agreement (Article XXX(f)), plays a central role in the IMF's financial operations. Members receiving financial assistance from the Fund should be able to meet their balance of payments needs, either directly because the currency is widely used to make payments for international transactions, or indirectly because it is widely traded in the principal exchange markets.

its nominal gold value and was dubbed "paper gold." With the collapse of the Bretton Woods par value system in 1973, most major countries adopted floating exchange rate regimes. Because gold no longer played a central role as the anchor of the international monetary system, the rationale for defining the SDR in terms of gold was weakened, and in 1974 it was redefined as a basket of currencies.

⁵ Article XV, Section 2, provides that "the method of valuation of the special drawing right shall be determined by the Fund by a seventy percent majority of the total voting power, provided, however, that an eighty-five percent majority of the total voting power shall be required for a change in the principle of valuation or a fundamental change in the application of the principle in effect."

⁶ Article XXX(f) defines a freely usable currency as one that "the Fund determines (i) is, in fact, widely used to make payments for international transactions and (ii) is widely traded in the principal exchange markets."

In October 2011, the Executive Board discussed options for clarifying and possibly reforming the existing criteria for broadening the SDR currency basket. Most Executive Directors held the view that the criteria for SDR basket selection remained appropriate and that the bar for SDR basket inclusion should not be lowered. Executive Directors emphasized, however, that the determination of free usability would need to rely importantly on judgment framed by the definition of freely usable currency (Box 4.3) set out in the Articles of Agreement. A number of Executive Directors also stressed the importance of allowing changes in the basket to keep pace with developments in the international monetary system. In the 2015 SDR valuation review, the Executive Board again confirmed that the current valuation framework, originally adopted in 2000, remained appropriate, including the two criteria for currency selection.

SDR valuation reviews also determine the initial weights of each currency in the SDR basket. The weights have historically been based on a formula. In the 2015 SDR review, the Board adopted a new method for determining SDR currency weights. The new formula sought to address long-standing concerns with the previous one, including its relatively high weight on exports and narrow coverage of financial flows, while maintaining a simple, transparent formula and broad stability in the currency weights. The new formula assigns equal weights to exports and a composite financial indicator (Box 4.3). The latter also expands the representativeness of financial flows by including not only official reserves (as was the case previously), but also foreign exchange market turnover, international banking liabilities, and international debt securities.

Table 4.1 Currency Weights in the SDR Basket (Percent)

	2000 Review	2005 Review	2010 Review ¹	2015 Review ²
U.S. Dollar	45	44	41.9	41.73
Euro	29	34	37.4	30.93
Japanese Yen	15	11	9.4	8.33
Pound Sterling	11	11	11.3	8.09
Chinese Renminbi ³				10.92

Source: Finance Department, International Monetary Fund.

¹In the 2010 review, the method of rounding was changed from rounding to the nearest whole percentage point to rounding to one decimal point.

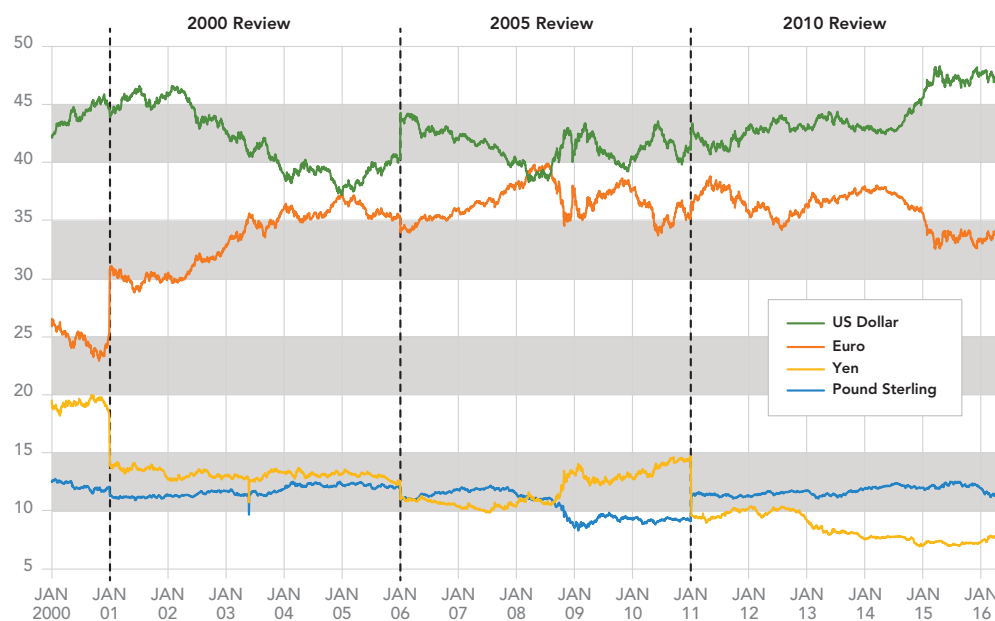
²In the 2015 review, the method of rounding was changed from rounding to one decimal point to rounding to two decimal points.

³On October 1, 2016, the Chinese renminbi was added to the SDR basket.

The new SDR valuation and SDR interest rate basket came into effect on October 1, 2016 (see Table 4.1).

The Executive Board decides every 5 years the initial weights of the currencies in the basket, but the weights change over time with exchange rate developments. Specific currency amounts consistent with the initial weights are fixed on the date on which the decision becomes effective (Box 4.4). Subsequent daily valuations of the SDR are based on these fixed currency amounts. Movements in exchange rates alter the relative weights of the component currencies, with appreciating currencies gaining a larger share in the basket (Figure 4.1).

Figure 4.1 Actual Currency Weights in the SDR Basket, 2000–16¹ (Percent)



Source: Finance Department, International Monetary Fund.

¹ Daily data are through April 30, 2016.

4.3 The SDR Interest Rate

The SDR interest rate provides the basis for calculating the interest charged to members on nonconcessional IMF loans from the IMF's general resources, the interest paid to IMF members on their remunerated creditor positions in the IMF (reserve tranche positions and claims under borrowing agreements), and the interest paid to members on their SDR holdings and charged on their SDR allocation.⁷ The SDR interest rate is determined weekly and is based on a weighted average of representative interest rates on short-term financial debt instruments in the money markets of the SDR basket currencies except if the weighted average falls below the floor for the SDR interest rate of 0.050 percent (5 basis points).⁸

The quinquennial reviews of the valuation method for the SDR also include a review of the financial instruments used to determine the SDR interest rate. The Executive Board has agreed on two broad criteria covering representativeness and risk characteristics:

- The financial instruments in the interest rate basket should be broadly representative of the range of financial instruments that are actually available to investors in a particular currency, and the interest rate on the instruments should be responsive to changes in underlying credit conditions in the corresponding money market.
- The financial instruments in the interest rate basket should have characteristics similar to the official standing of the SDR itself—that is, they should have a credit risk profile of the highest quality and be fully comparable to that of government paper available in the market or, in the absence of appropriate official paper, comparable to the credit risk on prime financial instruments. Instruments should also reflect the actual reserve asset choice of reserve managers—for example, regarding the form of the financial instrument, its liquidity, and its maturity.

From October 1, 2016, the benchmark rates for the five currencies are as follows:⁹

- U.S. dollar: 3-month U.S. Treasury bills
- Euro: 3-month rate for euro area central government bonds with a rating of AA and above published by the European Central Bank
- Chinese renminbi: 3-month benchmark yield for China Treasury bonds as published by the China Central Depository and Clearing Co. Ltd.
- Japanese yen: 3-month Japanese Treasury discount bills
- Pound sterling: 3-month U.K. Treasury bills.

The weighted average of the yields on these instruments determines the SDR interest rate for each week, except, as noted above, that the SDR interest rate is subject to a minimum floor of 5 basis points (Box 4.5). Developments in the SDR interest rate since the 2000 review are shown in Figure 4.2.

4.4 Allocations and Cancellations of SDRs

Under the Articles of Agreement (Articles XV(1) and XVIII), the IMF Executive Board may create unconditional liquidity through general allocations of SDRs to member countries that participate in the SDR Department in proportion to their IMF quotas. Such an allocation provides each member with an unconditional international reserve asset. If a member's SDR holdings rise above its net cumulative allocation, it earns interest on the excess. Conversely, if it holds fewer SDRs than its net cumulative allocation, it pays interest on the shortfall. The Articles of Agreement also allow for cancellation of SDRs, although to date there have been no cancellations. The IMF cannot allocate SDRs to itself or to prescribed holders.

In its decisions on general allocations of SDRs, as prescribed under the Articles of Agreement, the IMF has sought to meet the long-term global need to supplement existing reserve assets while promoting the attainment of the IMF's purposes: avoiding economic stagnation and deflation and preventing excess demand and inflation. Decisions on general allocations of SDRs are made for successive basic periods of up to 5 years. The decision for a general allocation of SDRs follows a set procedure. First, if the Managing Director has determined that a proposal for an SDR allocation has widespread support among SDR members, he or she is required to make such a proposal at least 6 months before the commencement of a basic period, or within 6 months of a request for a proposal from the Executive Board or Board of Governors, or at such other times as specified in Article XVIII. Second, if an allocation is proposed, the Executive Board must agree with the proposal. Third, the Board of Governors has the power, by a majority of 85 percent of its total voting power, to approve or modify the proposal.¹⁰

⁷ It is also employed in computing interest paid to some Poverty Reduction and Growth Trust (PRGT) lenders, and it is a benchmark for the Fund's invested resources in the Investment Account.

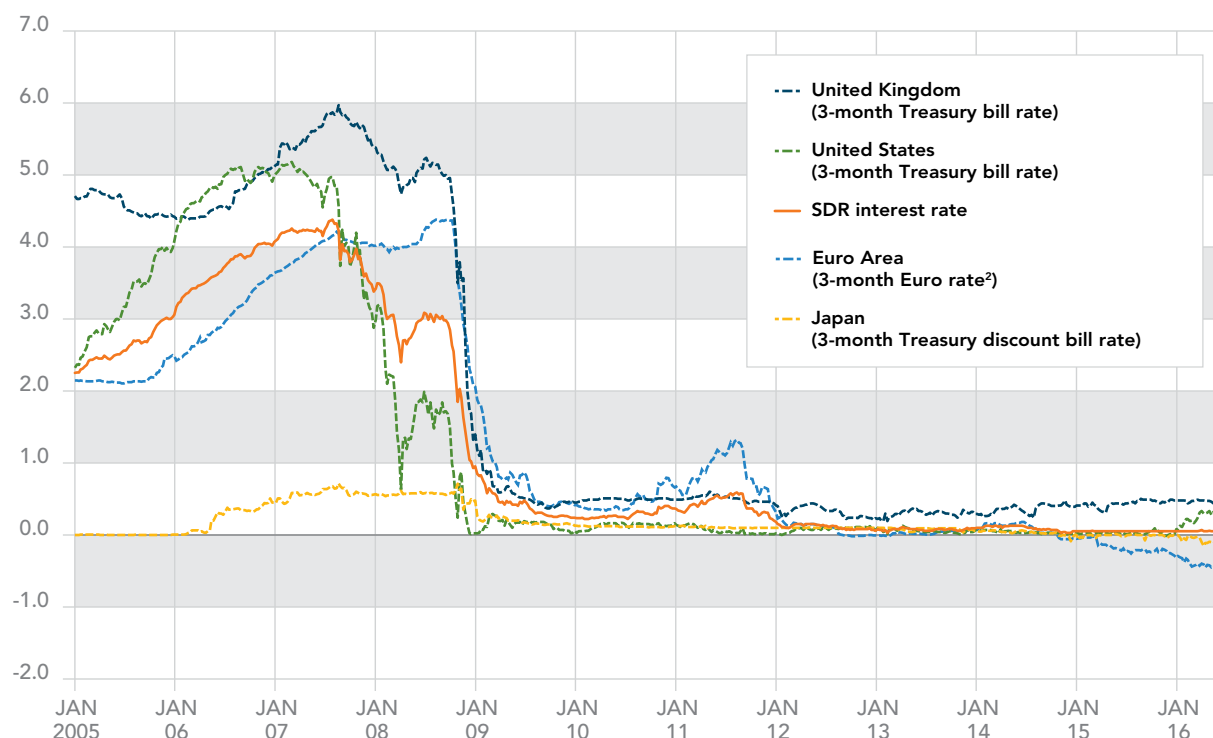
⁸ On October 24, 2014, Rule T-1 that determines the calculation of the weighted average of the SDR interest rate was changed so that if the combined market rate falls below 0.050 percent, the rate shall be established at 0.050 percent. The Executive Board adopted this change in response to very low and negative SDR component interest rates. There is no authority under the Articles of Agreement to establish zero or negative rates.

⁹ In 2000, the representative interest rate for the Japanese yen was changed from the 3-month rate on certificates of deposit to the yield on Japan's government 13-week financing bills. In keeping with the shift to a currency-based system for SDR valuation, the representative rate for the euro, the 3-month Euribor, replaced the national financial instruments of France and Germany. This was subsequently revised to the 3-month Eurepo. The Eurepo was discontinued on December 31, 2014 and was replaced by the 3-month rate for euro area central government bonds with a rating of AA and above, published by the European Central Bank. In November 2015, the Board decided to add a representative interest rate for the Chinese renminbi to the benchmark rates. This addition became effective on October 1, 2016.

¹⁰ The procedures for a cancellation of SDRs are broadly the same as for an allocation, except that cancellations are based on cumulative allocations rather than on quotas. This ensures a uniform proportionate

Figure 4.2 Interest Rates on the SDR and Its Financial Instrument Components, 2005–16¹

(Percent a year)



Source: Finance Department, International Monetary Fund.

¹ Daily data are through April 30, 2016. From October 1, 2016, the Chinese renminbi is included in the interest rate basket. The figure reflects data as of April 30, 2016, and excludes the Chinese renminbi.² As of January 1, 2015, the euro component rate is the 3-month rate for euro area central government bonds with a rating of AA and above published by the European Central Bank.

SDR allocations are a form of unconditional liquidity. Participants in the SDR Department do not have to meet any specific requirements to receive their proportional share in a general allocation. And, following such an allocation, they have the right to use the newly allocated SDRs when they have a balance of payments need or in order to adjust the composition of their reserves to obtain currency from other participants in transactions by agreement or, if necessary, through the designation plan. There is no obligation under current Executive Board decisions to maintain any particular level of SDR holdings.¹¹ The SDR system therefore

provides members with access on demand to freely usable currencies on an unconditional basis with no fixed maturity.

General SDR allocations have been made only three times. The first allocation was distributed in 1970–72 and totaled SDR 9.3 billion; the second was distributed in 1979–81 and totaled SDR 12.1 billion. After these two allocations, cumulative SDR allocations totaled SDR 21.4 billion. The third general SDR allocation was made on August 28, 2009, to meet a long-term global need for reserves while helping mitigate the effects of the global financial crisis. It was a sizable allocation, totaling SDR 161.2 billion, to help liquidity-constrained countries address the fallout from the global crisis by limiting the need for adjustment through contractionary policies and by allowing greater scope for countercyclical policies in the face of deflation risks. The use of additional SDR reserves, rather than borrowed reserves, was considered to be more conducive to systemic stability over the longer term.

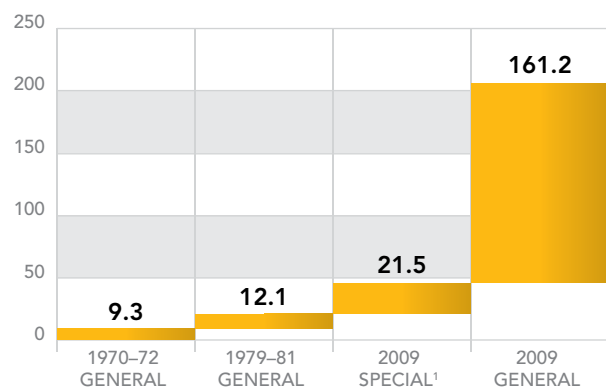
In addition, the Fourth Amendment to the Articles of Agreement became effective August 10, 2009, and provided for a special one-time allocation of SDR 21.5 billion which took place on

reduction for all members regardless of the number of allocations in which they have participated.

¹¹ Before 1981, SDR Department participants were subject to a “reconstitution requirement” under which each participant was required to maintain its average daily holdings of SDRs at no less than a specified percentage of its net cumulative allocation over a 5-year period ending each quarter. This initial specified percentage was 30, but was reduced to 15 percent 2 years before the requirement was abrogated.

**Figure 4.3 SDR Allocations:
General and Special**

(Billions of SDRs)



Source: Finance Department, International Monetary Fund.

¹ The purpose of the special allocation was to enable all members of the IMF SDR Department to participate in the SDR system on an equitable basis and to correct for the fact that countries that joined the IMF after 1981 had never received an SDR allocation at the time.

September 9, 2009.¹² The purpose of the special allocation was to enable all members of the IMF SDR Department to participate in the SDR system on an equitable basis and to correct for the fact that countries that joined the IMF after 1981—more than one-fifth of the current IMF membership and notably many of the economies in transition—had never received an SDR allocation at the time. The 2009 general and special SDR allocations together raised total cumulative SDR allocations to about SDR 204.1 billion (Figure 4.3).

The 2009 SDR allocations were relatively large and resulted in a more than tenfold increase in SDR holdings worldwide.¹³ The 2009 allocations contributed to a significant increase in reserve coverage for all member countries. Given their larger quota sizes, advanced economies received most of the SDR allocation, 62 percent of the total. In contrast, when measured against economic size, the allocation was proportionally largest for low-income countries, followed by emerging market economies.

The allocations had an important impact on the currency composition of countries' reserves and on their reserve management decisions. After the 2009 allocations, almost 30 percent of low-income countries and emerging market economies opted either to sell some of the SDRs against currencies of other members or to use them for repayment to the IMF between September and December 2009.

¹² In accordance with the Fourth Amendment, SDRs allocated as part of a special allocation to participants with overdue obligations to the IMF are placed in an escrow account within the SDR Department and will be released to the participants on settlement of all overdue obligations.

¹³ This refers to the general SDR allocation of August 2009 and the special allocation of September 2009, which together amounted to SDR 182.6 billion.

4.5 Operation of the SDR Department

4.5.1 Participants and Prescribed Holders

SDRs are allocated only to IMF members that elect to be participants in the SDR Department and agree to observe the obligations of participants. Since April 7, 1980, all members of the IMF have been participants in the SDR Department.

SDRs may be used by IMF members and the IMF itself in accordance with the Articles of Agreement and decisions adopted by the IMF Executive Board and the Board of Governors. SDRs cannot be held by private entities or individuals. Other holders of SDRs include the IMF, through the General Resources Account (GRA) within the General Department, and international organizations and monetary institutions prescribed by the IMF.

The IMF has the authority to prescribe, as other holders of SDRs, nonmembers, member countries that are not SDR Department participants, institutions that perform the functions of a central bank for more than one member, and other official entities. As of April 30, 2016, there were 15 organizations approved as "prescribed holders."¹⁴ These entities may acquire and use SDRs in transactions by agreement and in operations with participants and other holders. They may not, however, receive allocations of SDRs or use SDRs in "transactions with designation." There is no general provision for prescribed holders to initiate transactions in SDRs with the General Resources Account.

4.5.2 Flows of SDRs and the Central Role of the IMF

The Articles of Agreement authorize the exchange of SDRs for currency among participants, and the Executive Board has the power to authorize other operations. In exercising this power, the IMF has adopted a number of decisions that authorize a broad range of operations among SDR Department participants and prescribed holders, including loans, pledges, donations, swaps, and forward operations.¹⁵ The Articles of Agreement allow the exchange of SDRs for currency among participants. When used in such operations, the SDR is a potential claim on the freely usable currencies of IMF members; however, it is not a claim on

¹⁴ The 15 prescribed holders are four central banks (European Central Bank, Bank of Central African States, Central Bank of West African States, and Eastern Caribbean Central Bank); three intergovernmental monetary institutions (Bank for International Settlements, Latin American Reserve Fund, and Arab Monetary Fund); and eight development institutions (African Development Bank; African Development Fund; Asian Development Bank; International Bank for Reconstruction and Development, and International Development Association—respectively, the "hard" and "soft" loan entities of the World Bank Group; Islamic Development Bank; Nordic Investment Bank; and International Fund for Agricultural Development).

¹⁵ In practice, the bulk of SDR transactions consist of spot sales and purchases of SDRs against freely usable currencies.

the IMF. It serves as the unit of account for the IMF and a number of international organizations.

The SDR Department is self-financed, and its basic structure is relatively simple: it charges interest on members' SDR allocations at the same rate as the interest paid on their SDR holdings. It is a closed system, with the interest payments and receipts in the SDR Department canceling out overall. The IMF determines the SDR interest rate weekly based on a weighted average of representative interest rates on 3-month debt in the money markets of the SDR basket currencies, as discussed previously (Box 4.5).

The SDR is used extensively in transactions and operations between IMF members and the General Resources Account, which plays a significant role in the circulation of SDRs.

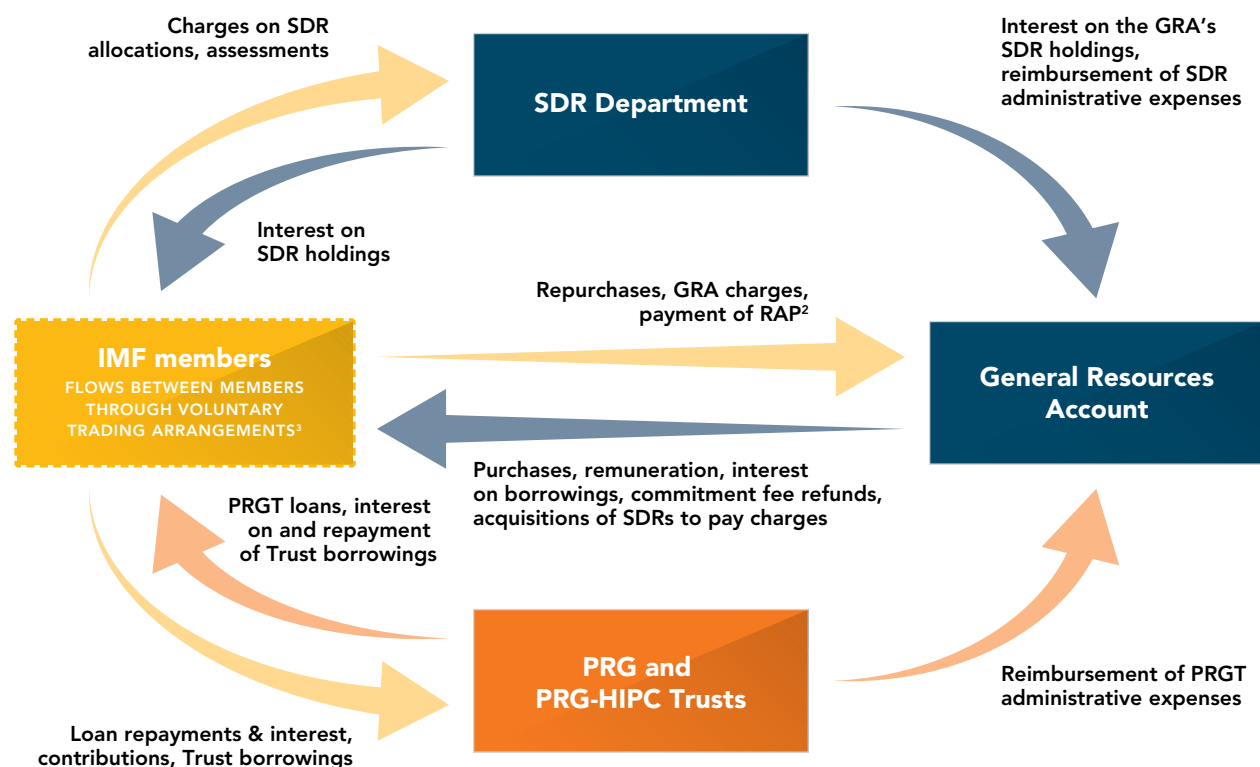
Inflows of SDRs into the General Resources Account include (1) payments of charges on GRA credit, (2) interest earned on the GRA's own SDR holdings and assessments for the cost of conducting the business of the SDR Department, (3) repurchases by

members in SDRs, and (4) payment of the reserve asset portion (25 percent) of quota increases (Box 4.6).

Outflows of SDRs from the General Resources Account include (1) purchases under arrangements, (2) remuneration payments on members' reserve tranche positions, (3) repayments of GRA borrowing (bilateral loan claims or claims under the New Arrangements to Borrow), (4) interest on IMF borrowing, and (5) sale of SDRs to members to pay charges and assessments (Figure 4.4).

The IMF generally offers SDRs as an alternative to currencies in lending operations and transactions with members. In practice, the majority of purchases, repurchases, and loan drawings and repayments tend to be made in currencies, whereas charges, remuneration, interest on loans, and to some extent the reserve asset portion of quota payments tend to be paid in SDRs. Members are not obliged to accept SDRs in any transaction except replenishment, which is a special procedure that the IMF could

Figure 4.4 Circulation of SDRs¹



Source: Finance Department, International Monetary Fund.

Note: GRA = General Resources Account; HIPC = Heavily Indebted Poor Countries; PRG = Poverty Reduction and Growth; RAP = Reserve Asset Portion; SDR = Special Drawing Right.

¹ Excluding flows to and among prescribed holders.

² Reserve Asset Portion or 25 percent of members' quota increase, which must be paid in reserve assets — that is, in SDRs or currencies specified by the IMF, or in any combination of SDRs and such currencies.

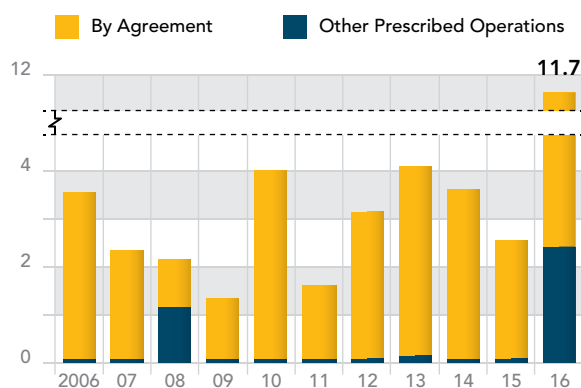
³ Since 1987, voluntary transactions by agreement have ensured the liquidity of SDRs. In the event that there are not enough voluntary buyers of SDRs, the Articles of Agreement provide for a designation mechanism to guarantee the liquidity of SDRs.

use to rebuild its holdings of the currency of a participant in the SDR Department. Members who obtain SDRs from the Fund may request to convert these to a freely usable currency in transactions by agreement with other members.

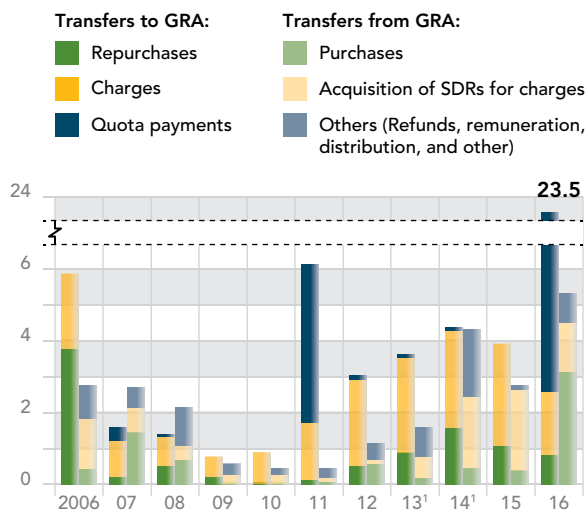
The main flows of SDRs into and out of the General Resources Account are depicted in Figure 4.5, which shows the relative proportions of these flows over the last 10 years and compares them with the level of transactions among participants and prescribed holders.

Figure 4.5 Selected SDR Transactions, 2006–16
(Billions of SDRs; as of April 30 each year)

Transactions among Participants and Prescribed Holders



Transfers to and from the GRA



Source: Finance Department, International Monetary Fund.

Note: GRA = General Resources Account.

¹ Including distributions of the General Reserve attributable to windfall gold sales profits in October 2012 and October 2013.

The IMF recycles the stock of SDRs held in the General Resources Account in two main ways. First, SDRs are channeled directly to debtor members who are making purchases from the IMF. Second, SDRs are channeled indirectly from the holders of SDRs to other members who need to acquire SDRs to make payments to the IMF (charges and repurchases). The IMF may also assist members in buying or selling SDRs for reserve-management purposes. Such transactions are carried out through the voluntary SDR trading arrangements (see Section 4.5.4).

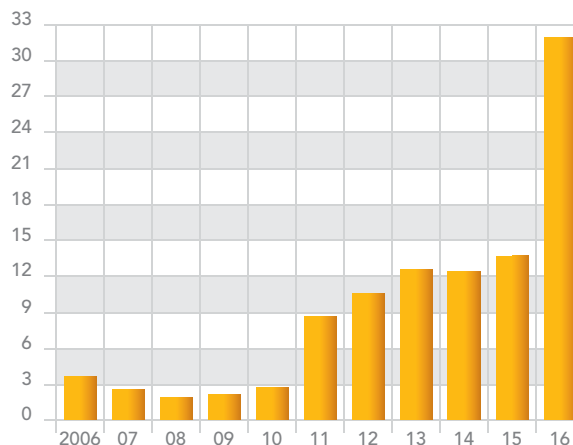
4.5.3 IMF SDR Holdings

The General Resources Account provides one of the mechanisms for the circulation of SDRs, both to debtor members in connection with their purchases from the IMF and to creditor members through the payment of interest on IMF borrowing and payment on remunerated reserve tranche positions in the GRA. The GRA's holdings of SDRs tend to rise in the wake of reserve asset payments of quota increases for example, following payments of the ad hoc quota increase in FY2011 and the quota increase under the Fourteenth General Review in FY2016 (Figure 4.6). The GRA rebalances its SDR holdings mainly through transfers of SDRs for purchases under its quarterly Financial Transactions Plan (see Chapter 2).

4.5.4 Voluntary SDR Trading Arrangements

IMF members regularly need to buy SDRs to discharge their obligations to the IMF or to replenish their SDR holdings. They may also wish to sell SDRs in order to adjust the composition of their reserves. A participant or prescribed holder may use SDRs freely, without representing a balance of payments need, to obtain an equivalent amount of currency in a transaction by agreement.

Figure 4.6 IMF SDR Holdings, 2006–16
(Billions of SDRs; as of April 30 each year)



Source: Finance Department, International Monetary Fund.

Participants may conduct such transactions bilaterally with any participant or prescribed holder. However, in practice, such transactions are usually made through a market in SDRs coordinated by the IMF through voluntary trading arrangements to buy and sell SDRs with a group of participants and one prescribed holder (so-called market makers). The role of the IMF in transactions by agreement is to act as an intermediary, matching participants in this managed market in a manner that meets, to the greatest extent possible, the requirements and preferences of buyers and sellers of SDRs. The voluntary trading arrangements allow the IMF to facilitate purchases and sales of SDRs on behalf of any participant or prescribed holder in the SDR Department against freely usable currencies, subject to the constraint that all transactions take place at the official SDR exchange rate for the currency involved.

Since the 2009 SDR allocations, the voluntary SDR market has been substantially expanded and has absorbed all sales requests. The number of participants in two-way arrangements has expanded and now stands at 32, including 19 new arrangements since the 2009 SDR allocations (Box 4.7) and includes both advanced economies and a number of large emerging market economies.

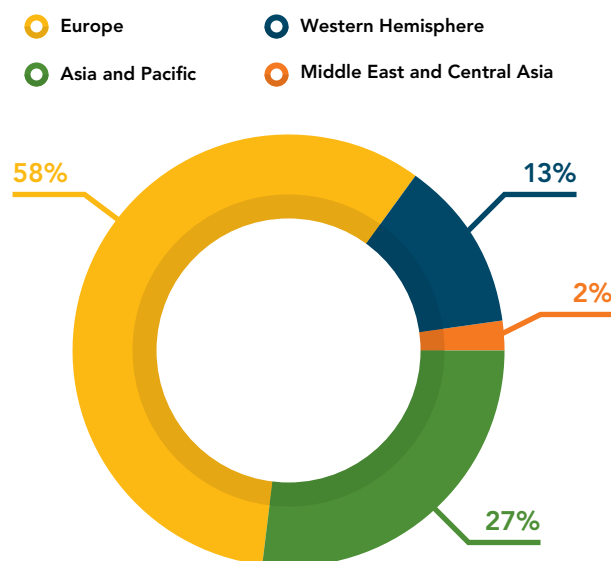
The IMF staff allocates requests for SDR sales and acquisitions using informal modalities developed to produce equitable burden sharing over time. Since the 2009 SDR allocations, sales of SDRs have been allocated among most market makers spanning four major geographical regions (Figure 4.7). SDR holdings of some market makers are also affected by operations unrelated to their participation in voluntary trading arrangements, including the receipt of remuneration, SDR interest payments, the use of SDRs for Poverty Reduction and Growth Trust (PRGT) lending and subsidy contributions, and the use of SDRs to pay quota increases.¹⁶ In general, market makers with relatively low SDR holdings compared with cumulative allocations have been used more extensively in SDR sales transactions. (Conversely, market makers with higher SDR holdings compared with allocations have been used more in SDR acquisitions.) Consistent with these informal burden-sharing modalities, the IMF staff continues to seek the utilization of all arrangements over time.

Each two-way arrangement specifies a range of SDR holdings within which transactions may be initiated, the specific currencies to be exchanged, the minimum and maximum amounts of individual transactions, and the notice period required before initiating a particular transaction (Box 4.8).

The ranges of these voluntary trading arrangements have been broadened considerably to ensure increased trading capacity. New trading ranges are now defined as a percent of the net cumulative allocations compared with the nominal amounts used before 2009. Therefore, in the event of future allocations,

¹⁶ Other operations that have an impact on SDR holdings of some members with voluntary trading agreements include the settlement of charges, assessments, and commitment fees.

Figure 4.7 SDR Sales: Participation by Market Makers by Region, September 1, 2009–April 30, 2016



Source: Finance Department, International Monetary Fund.

the absorption capacity will be able to expand correspondingly. As of April 30, 2016, the SDR purchasing capacity of voluntary arrangements was SDR 83 billion and the selling capacity was SDR 24 billion.

Following the general allocation in August 2009 and a special allocation in September 2009, there was an initial surge in SDR sales. During the first 4 months following the allocations, 16 countries sold SDR 2.9 billion. Since then, voluntary SDR trading arrangements have continued to facilitate sales. Most SDR sales have been conducted through the standing voluntary SDR trading arrangements. Many countries have engaged in multiple SDR sales transactions and a few—mainly low-income countries—have sold more than 80 percent of their 2009 SDR allocations.

Certain operations of the Poverty Reduction and Growth Trust (PRGT) are conducted in SDRs. The PRGT receives part of its loan resources and contributions from members in SDRs. At the request of the borrowing members, the PRGT may also disburse loans in SDRs. In addition, most borrowing members choose to make interest and principal payments on outstanding loans in SDRs. The Bank for International Settlements (BIS) conducts sales on behalf of the PRGT to facilitate the disbursement of loans in currencies funded with resources in SDRs. Eight of fourteen

Table 4.2 Balance Sheet of the SDR Department
(Millions of SDRs; as of April 30, 2016)

Assets		Liabilities	
Net Charges Receivable	4	Net Interest Payable	4
Participants with Holdings below Allocations		Participants with Holdings above Allocations	
Allocations	133,562	SDR Holdings	73,197
Less: SDR Holdings	97,730	Less: Allocations	70,529
Allocations in Excess of Holdings	35,832	Holdings in Excess of Allocations	2,668
		Holdings by General Resources Account	31,842
		Holdings by Prescribed Holders	1,322
Total Assets	35,836	Total Liabilities	35,836

Source: Finance Department, International Monetary Fund.

loan and note purchase agreements that were put in place after the 2009 reforms of Facilities for Low-Income Countries provide for disbursements in SDRs and amount to SDR 7.5 billion. The IMF has standing voluntary arrangements with all the member countries (or their financial institutions) that lend SDRs to the PRGT, and most lenders in SDRs have subsequently replenished their SDRs by participating as a market maker in SDR sales during the same period. Sales have also been conducted to convert SDR contributions from members to the PRGT Subsidy Accounts following the two distributions of the general reserve attributable to windfall gold sales profits in October 2012 and October 2013 (see Chapter 3).

Since September 1987, voluntary transactions by agreement have ensured the liquidity of SDRs. However, in the event that there are not enough voluntary buyers of SDRs, the Articles of Agreement provide for a designation mechanism to guarantee the liquidity of the SDR (Box 4.9). Designation plans have been adopted on a precautionary basis, and they can be activated if needed to ensure that members with a balance of payments need can exchange SDRs for freely usable currency.

4.6 Financial Statements of the SDR Department

The strict separation of the General Department and the SDR Department implies that their financial accounts are maintained separately. The basic structure of the SDR Department's balance sheet is quite simple (Table 4.2). Because interest payments and receipts cancel out for the SDR Department as a whole, it is convenient to keep the accounts on a net basis.

The asset side of the balance sheet shows the position of debtors to the SDR Department—that is, members that have exchanged some of their SDRs for freely usable currency and whose holdings of SDRs therefore fall short of their net cumulative allocations. The accrued interest receivable from these debtor members on the asset side is the mirror image of the accrued interest payable to creditors on the liability side.

Table 4.3 Income Statement of the SDR Department
(Millions of SDRs; for year ended April 30, 2016)

Revenue	
Net Charges from Participants with Holdings below Allocations	12
Assessment on SDR Allocations	7
	19
Expenses	
Interest on SDR Holdings	
Net Interest to Participants with Holdings above Allocations	2
General Resources Account	9
Prescribed Holders	1
	12
Administrative Expenses	7
	19
Other Comprehensive Income	—
Total Comprehensive Income	—

Source: Finance Department, International Monetary Fund.

Participants with holdings above allocations assume a creditor position in the SDR Department, and their SDR holdings in excess of their net cumulative allocations are therefore liabilities of the SDR Department.¹⁷ Interest payable to holders of SDRs is accrued and paid on a quarterly basis.¹⁸

The income statement of the SDR Department is equally straightforward (Table 4.3). The SDR Department's income consists of net charges from debtors and assessments paid by members for the administrative expenses incurred in operating the SDR Department. The SDR Department's expenses consist of net interest payments to the creditors in the system and the reimbursement to the GRA for the administration of the SDR Department. Because revenue and expenditure are always equal, net income of the SDR Department is always zero.

¹⁷ As are any holdings of prescribed holders and the IMF (General Resources Account), which do not receive SDR allocations.

¹⁸ The balance sheet shows the last day of the financial year and therefore shows the accrued interest and charges from February 1 to April 30. These amounts were settled on May 1, with the figure reverting to zero to begin accruals for the following quarter.

Box 4.1 Creation of the SDR

Gold was the central reserve asset of the international monetary system created at the Bretton Woods conference in 1944. Under the Bretton Woods system, the value of each currency was expressed in terms of gold (its par value), and member states were obliged to keep their currency's exchange rate within 1 percent of parity. In practice, most countries fulfilled this obligation by observing the par value against the U.S. dollar and by buying and selling their currencies for U.S. dollars at that time, while the United States undertook to buy and sell gold freely for U.S. dollars at \$35 a fine ounce, the par value of the U.S. dollar. This was also the "official" price of gold, at which all IMF transactions in gold were conducted.

In the immediate postwar period, the United States held about 60 percent of the world's official gold reserves. There was widespread concern over a dollar shortage as war-devastated countries sought to buy goods from the United States. These needs were met through the large capital outflows from the United States, which exceeded its current account surplus. This net transfer of gold and dollars to the rest of the world helped other countries rebuild their reserves. By the end of the 1950s, European countries had largely recovered and many had made their currencies convertible, and the dollar shortage was replaced by what some observers called a "dollar glut." In the 1960s an increasing number of countries sought to exchange dollars for gold with the United States, reflecting their fear that dollars were no longer "as good as gold."

The Bretton Woods par value system had an inherent flaw, the so-called Triffin dilemma.¹ As long as the U.S. dollar was the primary foreign exchange reserve asset, a growing level of world trade and finance required a growing supply of dollars. An ever-increasing stock of dollars, however, required a persistent deficit in the U.S. balance of payments, which itself was a threat to the value of the dollar. Official holders of dollars became concerned that the value of their reserve assets might decrease relative to gold.

To resolve this some countries favored the creation of a new reserve unit. The United States, concerned that such a unit would compete with the dollar, preferred to build on the existing automatic drawing rights (the gold tranche) in the IMF. In the mid-1960s the ministers of the Group of Ten (Belgium, Canada, France, Germany, Italy, Japan, Netherlands, Sweden, the United Kingdom, and the United States) debated a plan to create "reserve drawing rights" in the IMF. Some European countries feared this mechanism could be interpreted as a replacement for gold and suggested instead the creation of "special" drawing rights. The name stuck. A blueprint for the creation of the new international reserve asset, the SDR, in amounts necessary to supplement supplies of gold and foreign exchange reserves was agreed at the Rio de Janeiro meeting of the IMF Board of Governors in September 1967, and SDRs were first allocated by the IMF in 1970.

¹ Robert Triffin, *Gold and the Dollar Crisis: The Future of Convertibility* (New Haven: Yale University Press, rev. ed., 1961).

Box 4.2 Broad Principles Guiding SDR Valuation Decisions

A number of broad principles have guided decisions by the Executive Board pertaining to the valuation of the SDR since the 1970s. The overall aim has been to enhance the attractiveness of the SDR as a reserve asset.

- The SDR's value should be stable in terms of the major currencies.
- The currencies included in the basket should be representative of those used in international transactions.
- The relative weights of currencies included in the basket should reflect their relative importance in the world's trading and financial system.
- The composition of the SDR currency basket should be stable and change only as a result of significant developments from one review to the next.
- There should be continuity in the method of SDR valuation such that revisions in the method of valuation occur only as a result of major changes in the roles of currencies in the world economy.

Box 4.3 Criteria for the Composition of the SDR Basket

The current SDR valuation method was adopted by the IMF's Executive Board in 2000, with limited revisions introduced in November 2015. Under the 2000 decision, the SDR valuation method has the following key elements: (1) currency selection criteria, (2) currency weighting, and (3) periodicity of SDR valuation.

Currency Selection: Effective October 1, 2016, the SDR basket comprises the five currencies that are issued by IMF member countries, or by monetary unions that include IMF members, with the largest value of exports of goods, services, and income credits during the 5-year period ending 12 months before the effective date of the revision (the "export criterion") and that the IMF has determined to be freely usable currencies in accordance with Article XXX(f) (the "freely usable criterion"). Article XXX(f) defines a freely usable currency as a member's currency that the IMF determines (1) is, in fact, widely used to make payments for international transactions and (2) is widely traded in the principal exchange markets. Rule O-3 stipulates that the IMF will determine the currencies that are freely usable in accordance with Article XXX(f) and that it will consult a member before placing its currency on, or removing it from, the list of freely usable currencies.

The export criterion is assessed based on balance of payments data. This size-related criterion is meant to reflect countries' relative importance in global commerce, ensure an adequate supply of reserve assets, and limit the number of currencies in the basket.

The freely usable criterion was introduced in the SDR valuation method as a second criterion for currency selection in 2000 to recognize the importance of financial transactions for SDR valuation purposes. However, the concept of a "freely usable currency" was developed earlier in the context of the Second Amendment of the Articles in 1978 to ensure that a member purchasing another member's currency from the Fund would be able to use it, directly or indirectly, to meet its balance of payments needs. Specifically, in accordance with the definition of a "freely usable currency" adopted the Second Amendment (Article XXX(f)):

- The requirement that a currency be "widely used to make payments for international transactions" is designed to ensure that a currency may be directly used to meet a member's balance of payments need. It has been recognized in past applications that "widely used" would be best assessed by examining the degree to which trade and service payments as well as financial account transactions are undertaken in the currency.
- The requirement that a currency be "widely traded in the principal exchange markets" is designed to ensure that it may be indirectly used, i.e., that it can be exchanged in markets for another currency to meet a member's balance of payments need with reasonable assurances of no substantial adverse exchange rate effect. In past applications, "widely traded" was understood to imply that there should be "reasonable assurance" that the market for the currency in question has sufficient depth so that no appreciable change in the exchange rate would occur when a member country transacts a sizable amount of that currency.

In 1978, the Executive Board determined that the Deutsche mark, French franc, Japanese yen, pound sterling, and U.S. dollar were freely usable currencies. With effect on January 1, 1999, the euro was added to the list, replacing the Deutsche mark and French franc. More recently, in the context of the 2015 SDR review, the Chinese renminbi was determined to be a freely usable currency and was added to the list, effective October 1, 2016.

Currency Weighting: Effective October 1, 2016, the percent weight of a currency reflects the share (calculated as a percentage of the total of the currencies included in the SDR basket) of exports and a composite financial indicator, each with equal weight, and calculated for the most recent 5-year period for which the required export data are readily available.¹ The variables used in the calculation are as follows:

- Exports (which are meant to reflect currencies' role in global trade): share in the total value of exports of goods and services, and income credits of the member or monetary union issuing that currency.²
- Financial indicators (meant to capture currencies' importance in global financial flows) are composed of three parts, each with equal weight: (1) share of the currency held by the monetary authorities of members that are not issuers of the relevant currency (that is, reserves);³ (2) share of the currency in the total value of foreign exchange turnover; and (3) share of that currency in the total value of international banking liabilities and international debt securities.⁴

Currency weights are used to determine the amounts of each currency in the basket on the last business day of the previous valuation period. These currency amounts remain fixed over the commencing five-year SDR valuation period, while currencies' relative weights can change with exchange rate movements.

Review: The currencies and their weights in the valuation basket must be reviewed every 5 years, unless the Executive Board decides otherwise.⁵

¹ For currency i , its weight ω_i is given by: $\omega_i = 0.5 \left(\frac{X_i}{X} \right) + 0.5 \left(\frac{1}{3} \cdot \frac{R_i}{R} + \frac{1}{3} \cdot \frac{FX_i}{FX} + \frac{1}{3} \cdot \frac{(IBL_i + IDS_i)}{(IBL + IDS)} \right)$

in which X = exports of goods, services, and income credits; R = reserve holdings; FX = foreign exchange market turnover; IBL = international banking liabilities; and IDS = international debt securities. Variables are in levels in SDR, and those without subscript i are the sum across currencies included in the SDR basket.

² In the case of a monetary union, the determination of the value of exports shall exclude trade among members that are part of the union. In the case of a member with more than one currency, the determination of the value of exports shall be based, for each currency, on trade by the member's economic region for which the currency is legal tender.

³ Or, in the case of the currency of a monetary union, by the monetary authorities of members other than those forming part of the monetary union.

⁴ In the case of a monetary union, international banking liabilities and international debt liabilities shall be determined on the basis of the monetary union as one region. In the case of a member with more than one currency, these indicators shall be determined on the basis of the economic region of the member for which the currency in question is legal tender.

⁵ The next review of the method of valuation of the SDR will take place by September 30, 2021, unless developments in the interim justify an earlier review.

Box 4.4 Currency Amounts and Actual Daily Weights

Currency amounts are calculated on the last business day before the date on which the new basket becomes effective. On that day, currency amounts are derived from the weights decided by the Executive Board using the average exchange rate for each currency over the preceding 3 months. Currency amounts are adjusted proportionally to ensure that the value of the SDR is the same before and after the revision. The currency amounts remain fixed for the subsequent 5-year period. As a result, the actual weight of each currency in the value of the SDR changes on a daily basis as a function of changes in exchange rates.

The example below demonstrates this point, showing the calculation of the SDR in terms of the U.S. dollar on April 30, 2016 (before the effectiveness of the inclusion of the Chinese renminbi in the SDR basket), and the corresponding weights. Current valuation can be found on the SDR Valuation page on the IMF's website.

SDR Valuation

(SDR valuation as of April 30, 2016)

Currency	Initial Weight Decided in 2011	Currency Amount under Rule O-1	Exchange Rate ¹	U.S. Dollar Equivalent	Actual Weight
U.S. Dollar	41.9	0.660	1.00000	0.660000	46.6
Euro	37.4	0.423	1.13960	0.482051	34.0
Japanese Yen	9.4	12.1	107.02	0.113063	8.0
Pound Sterling	11.3	0.111	1.46140	0.162215	11.4
				1.417329	100.0
			US\$1 = SDR	0.705552	
			SDR1 = US\$	1.417330	

Source: Finance Department, International Monetary Fund.

¹ U.S. dollar for each currency unit except for the yen, which is expressed as currency units per U.S. dollar.

Box 4.5 SDR Interest Rate Calculation

The SDR interest rate is calculated weekly by the IMF as the sum of the yields on the respective financial instruments in the SDR valuation basket in terms of SDRs, using the currency amounts in the valuation basket as weights except if the weighted average falls below the floor of the SDR interest rate of 0.050 percent (5 basis points). If this happens, the rate shall be established at 0.050 percent. The effective weights of the financial instruments representing each component currency therefore reflect the interest rates in each currency as well as the exchange rates and currency amounts in the basket.

As for the valuation of the SDR, the currency amounts remain fixed for the 5-year period following a quinquennial review and revision of the valuation basket. As a result, the actual weight of each financial instrument in the SDR interest rate changes on a weekly basis as a result of changes in both interest rates and exchange rates, as shown in the example below. Note that these weights can differ from those in the valuation basket on the same date (Box 4.4) because the weights in the interest rate basket reflect changes in each currency's interest rates and exchange rates.

The November 2015 decision to include the Chinese renminbi in the SDR basket, along with the new currency weights and inclusion of the representative Chinese renminbi short-term financial instrument in the calculation of the SDR interest rate, took effect on October 1, 2016. Shown below as an example is the calculation of the SDR interest rate on April 30, 2016 (before effectiveness of the inclusion of the Chinese renminbi in the SDR basket). The current rate can be found on the SDR Interest Rate Calculation page on the IMF's website.

SDR Rates

(As of April 30, 2016)

Currency	Currency Amount under Rule O-1 (A)	Exchange Rate against the SDR ¹ (B)	Interest Rate ² (C)	Product (A) × (B) × (C)
U.S. Dollar	0.660	0.711426	0.230000	0.1080
Euro	0.423	0.801279	−0.512535	−0.1737
Japanese Yen	12.1	0.00650298	−0.900000	−0.0708
Pound Sterling	0.111	1.02282	0.440000	0.0500
			Total	−0.0865
			Floor for SDR Interest Rate	0.050
			SDR Interest Rate³	0.050

Source: Finance Department, International Monetary Fund.

¹SDR per currency rates are based on the representative exchange rates used in the SDR valuation basket.

²Interest rate on the short-term (3-month) financial instrument of each component currency in the SDR basket expressed as an equivalent annual bond yield.

³IMF Rule T-1(b) specifies that the SDR interest rate for each weekly period commencing each Monday must be equal to the combined market interest rate as determined by the IMF. Under IMF Rule T-1(c), the combined market interest rate is the sum—as of the Friday preceding each weekly period, rounded to the three nearest decimal places—of the product of each yield or rate listed above multiplied by the value in terms of SDRs of the amount of the corresponding currency specified in Rule O-1, which states that the value of the SDR shall be the sum of the values of the amounts of the currencies listed above except if the weighted average falls below the floor of the SDR interest rate of 0.050 percent (5 basis points). In this case, the rate shall be established at 0.050 percent. If a yield or rate is not available for a particular Friday, the calculation must be made on the basis of the latest available yield or rate.

Box 4.6 Borrowing SDRs for Payment of the Reserve Asset Portion of a Quota Increase

Members are required to pay 25 percent of their quota increases in SDRs or currencies specified by the IMF, or in a combination of SDRs and currencies. The balance of any such increases are payable in the countries' own currencies.

If the gross reserves and SDR holdings of members are low, the IMF, if requested, may make arrangements to assist these members in paying the reserve asset portion of their quota increases. This is done by means of an intra-day SDR bridge loan free of any interest, fee, or commission. The SDR bridge loan mechanism functions as follows:

- The member borrows SDRs from a member willing to lend SDRs.
- The member uses the borrowed SDRs to pay the reserve asset portion of its quota subscription or quota increase.
- The member makes a reserve tranche purchase in the same amount (that is, it pays in domestic currency equal to 25 percent of the increase in its own quota) and receives SDRs.
- The member uses the SDRs received from the reserve tranche purchase to repay the SDR loan to the lending member on the same day.

Box 4.7 Voluntary Trading Arrangements of Special Drawing Rights

Asia and Pacific: Australia, China, Japan, Korea, and New Zealand

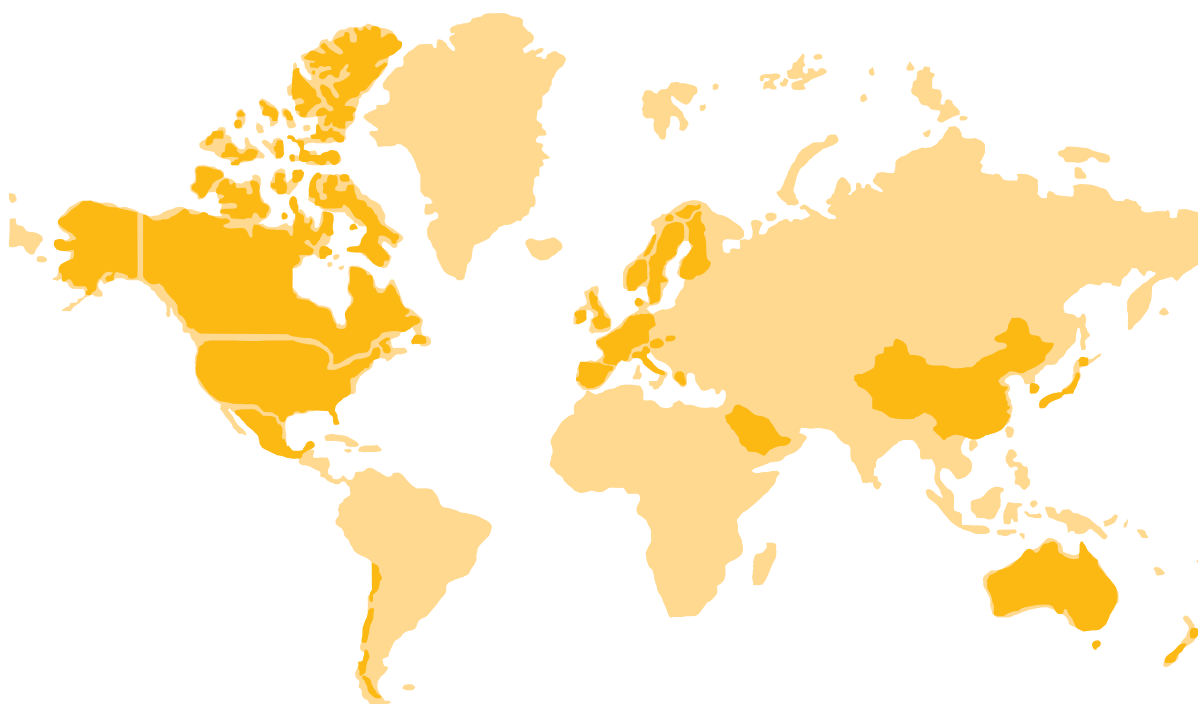
Europe: Austria, Belgium, Cyprus, Denmark, European Central Bank, Finland, France, Germany, Greece, Ireland, Israel, Italy, Malta, Netherlands, Norway, Portugal, Slovak Republic, Slovenia, Spain, Sweden, Switzerland, and United Kingdom

Middle East and Central Asia: Saudi Arabia

Western Hemisphere: Canada, Chile, Mexico, and United States

Voluntary SDR Trading Arrangements by Region

(as of April 30, 2016)



Source: Finance Department, International Monetary Fund.

Box 4.8 Timeline to Buy or Sell SDRs under the Voluntary Trading Arrangements¹

- T – approximately 10 business days: Member notifies the IMF with a request to buy or sell SDRs.
- T – approximately 5–10 business days: IMF arranges trade under a voluntary arrangement.
- T – 5 business days: IMF sends advance notice to SDR seller, including amount and value date.
- T – 2 business days: IMF instructs SDR buyer to pay freely usable currency to seller.
- T – 2 business days: IMF advises SDR seller of expected payment of freely usable currency from buyer.
- T: Value Date for an SDR trade (sale or acquisition).
- T or T+1 business day: SDR seller confirms receipt of currency to IMF.
- T or T+1 business day: IMF confirms debit to SDR seller.
- T or T+1 business day: IMF confirms credit to SDR buyer.

¹ These settlement modalities apply to the majority of the voluntary SDR trading arrangements. Payment instructions are always sent 2 business days before the SDR trade (T – 2).

Box 4.9 Designation Mechanism

Article XIX of the Articles of Agreement provides for a designation mechanism under which participants in the SDR Department whose balance of payments and reserve positions are deemed sufficiently strong must, when designated by the IMF, provide freely usable currencies in exchange for SDRs up to specified amounts. The designation mechanism ensures that, in case of a balance of payments need, participants can use SDRs to obtain freely usable currencies on short notice.

Each designation plan identifies participants subject to designation and sets maximum limits on the amounts of SDRs they can be designated to receive during the next period. Since October 1, 2015, the Executive Board has decided the designation plan on an annual basis (previously, such plans were on a quarterly basis). In practice, the list of SDR Department participants subject to designation is the same as the list of members considered sufficiently strong for inclusion in the Financial Transactions Plan (FTP) (see [Chapter 2](#)). If a new participant is added to the FTP, it would not be called upon in a transaction by designation until it has been included in the next designation plan. If a participant's currency is no longer used for transfers under the FTP during a designation period, the participant would also not be selected for a transaction by designation.

The designation amounts for individual countries are determined to promote a balanced distribution of the excess SDR holdings over time. Specifically, each participant's designation is calculated so that, if all participants were to accept the designated amount, they would all achieve a low, relatively similar "excess holdings ratio." The excess holdings ratio is calculated as the difference between the member's actual SDR holdings and its net cumulative allocation as a percent of its quota.

A participant's obligation to provide currency in exchange for SDRs under a designation plan is subject to a ceiling of SDR holdings of not more than 300 percent of its net cumulative allocation (acceptance limit), unless the participant and the IMF agree to a higher limit.

Additional Reading

- Criteria for Broadening the SDR Currency Basket*, IMF Policy Paper, September 23, 2011: www.imf.org/external/np/pp/eng/2011/092311.pdf
- Evolution of the SDR: Paper Gold or Paper Tiger? www.imf.org/external/pubs/ft/history/2001/ch18.pdf
- Financial Statements of the International Monetary Fund: <http://www.imf.org/external/pubs/ft/quart/>
- General and Special SDR Allocations, September 2009: www.imf.org/external/np/tre/sdr/proposal/2009/0709.htm
- IMF Articles of Agreement—Article XV(1) Authority to Allocate Special Drawing Rights: www.imf.org/external/pubs/ft/aa/#a15s1
- IMF Articles of Agreement—Article XVI General Department and Special Drawing Rights Department: www.imf.org/external/pubs/ft/aa/#art16
- IMF Articles of Agreement—Article XVIII Allocation and Cancellation of Special Drawing Rights: www.imf.org/external/pubs/ft/aa/index.htm#art18
- IMF Articles of Agreement—Article XIX Designation of Participants to Provide Currency: www.imf.org/external/pubs/ft/aa/#a19s5
- IMF Determines New Currency Weights for SDR Valuation Basket, Press Release No. 10/434, November 15, 2010: www.imf.org/external/np/sec/pr/2010/pr10434.htm
- IMF Executive Board Approves Extension of Current SDR Currency Basket Until September 30, 2016, Press Release No. 15/384, August 19, 2015: www.imf.org/external/np/sec/pr/2015/pr15384.htm
- IMF Executive Board Completes Review of SDR Basket, Includes Chinese Renminbi, Press Release No. 15/540, November 30, 2015: www.imf.org/external/np/sec/pr/2015/pr15540.htm
- IMF Executive Board Completes the 2015 Review of SDR Valuation, Press Release No. 15/543, December 1, 2015: www.imf.org/external/np/sec/pr/2015/pr15543.htm
- IMF Executive Board Completes the 2010 Review of SDR Valuation, Public Information Notice No. 10/149, November 17, 2010: www.imf.org/external/np/sec/pn/2010/pn10149.htm
- IMF Executive Board Discusses Criteria for Broadening the SDR Currency Basket, Public Information Notice No. 11/137, November 11, 2011: www.imf.org/external/np/sec/pn/2011/pn11137.htm
- IMF Executive Board Modifies Rule for Setting SDR Interest Rate, Press Release No. 14/484, October 24, 2014: <http://www.imf.org/external/np/sec/pr/2014/pr14484.htm>
- IMF Executive Board Modifies SDR Interest Rate Basket, Press Release, December 23, 2014: www.imf.org/external/np/sec/pr/2014/pr14601.htm
- Q and A on 2015 SDR Review: www.imf.org/external/np/exr/faq/sdrfaq.htm
- Review of the Method of Valuation of the SDR*, IMF Policy Paper, November 13, 2015: www.imf.org/external/np/pp/eng/2015/111315.pdf
- Review of the Method of Valuation of the SDR—Initial Considerations*, IMF Policy Paper, July 16, 2015: www.imf.org/external/np/pp/eng/2015/071615.pdf
- Review of the Method of Valuation of the SDR*, IMF Policy Paper, October, 26 2010: www.imf.org/external/np/pp/eng/2010/102610.pdf
- Review of the Method of Valuation of the SDR*, IMF Policy Paper, October, 28 2005: www.imf.org/external/np/pp/eng/2005/102805.pdf
- Review of the Special Drawing Right (SDR), Factsheet: www.imf.org/external/np/exr/facts/sdrfb.htm
- Rule O-1, *Valuation of the SDR*: www.imf.org/external/pubs/ft/bl/rr15.htm
- SDR Allocation that Was Proposed under the Fourth Amendment: www.imf.org/external/np/exr/faq/sdrfaqs.htm#q5
- SDR Interest Rate Calculation: www.imf.org/external/np/fin/data/sdr_ir.aspx
- SDR Valuation: www.imf.org/external/np/fin/data/rms_sdrv.aspx
- Selected Decisions and Selected Documents of the IMF*, Thirty-Sixth Issue—SDR Valuation Basket-Revised Guidelines for Calculation of Currency Amounts, December 2011: [www.imf.org/external/pubs/ft/sd/index.asp?decision=12281-\(00/98\)](http://www.imf.org/external/pubs/ft/sd/index.asp?decision=12281-(00/98))
- Special Drawing Right (SDR), Factsheet: www.imf.org/external/np/exr/facts/sdr.htm

5

The IMF's Income Model

This chapter explains the sources of income for the IMF. It elaborates on how the IMF has adapted its financial structure to finance its administrative expenditures. The IMF's income is generated primarily through its lending and investing activities (Figure 5.1).

Since its inception, the IMF has relied primarily on lending activities to fund its administrative expenses. Lending income is derived from the fees and charges levied on the use of credit from the General Resources Account (interest on loans). In addition to the basic rate of charge, the use of IMF credit is subject to surcharges under certain circumstances, and IMF credit from the General Resources Account is also subject to service charges and commitment fees on credit lines. A small amount of income is also generated by receipts of interest on the IMF's holdings of Special Drawing Rights (SDRs).

A number of measures have been taken to allow the IMF to diversify its sources of income, but the most significant changes have occurred during the past 10 years. In 1978, the Second Amendment of the IMF's Articles of Agreement authorized the IMF to establish an Investment Account (IA), but this account was not activated until after a review of the IMF's financial structure that began in 2004. In 2006, largely because of a significant deterioration in the IMF's income position that reflected a steep decline in credit outstanding, the Executive Board agreed on a set of measures to address a near-term projected income shortfall. These measures included activation of the Investment Account,¹ a pause

in the accumulation of reserves, and the use of the IMF's existing reserves to meet the remaining income shortfall. In addition, the Executive Board requested an assessment of the full range of available options to place the IMF's income position on a sustainable footing for the long term. In response, the IMF appointed the external Committee of Eminent Persons (CEP) to study the "sustainable long-term financing of the Fund." The committee's final report was submitted to the Executive Board on January 31, 2007.²

A proposal that reflected most of the committee's recommendations was endorsed by the Executive Board in April 2008. The reforms allowed the IMF to diversify its sources of income through the establishment of an endowment within the Investment Account, to be funded with the profits from a limited sale of the IMF's gold holdings and income generated under a broadened investment authority. At the same time, the Executive Board endorsed a resumption of the practice of reimbursing the IMF for the expenses incurred in administering concessional lending activities through the Poverty Reduction and Growth Trust (PRGT).³

Broadening the IMF's investment authority required an amendment to the Articles of Agreement, and in February 2011, that

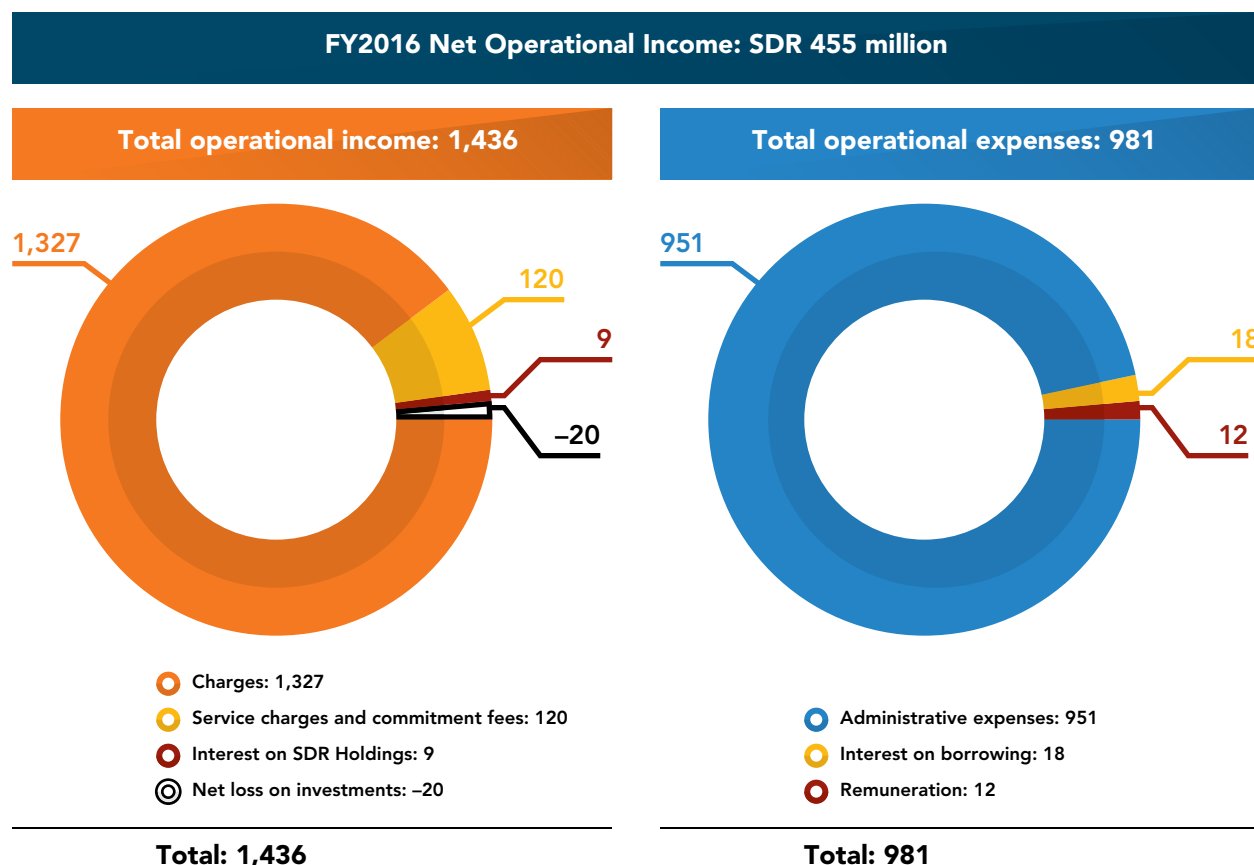
¹ In June 2006, the Investment Account was activated with a transfer from the General Resources Account of about SDR 5.9 billion.

² "The Report to the Managing Director by the Committee of Eminent Persons on the Sustainable Long-Term Financing of the Fund" is available at www.imf.org/external/np/oth/2007/013107.pdf.

³ The General Resources Account is reimbursed annually for expenses incurred in conducting the business of the SDR Department, administering the PRGT (unless waived), and administering Special Disbursement Account (SDA) resources in the Catastrophe Containment Relief (CCR) Trust. Reimbursements for the CCR Trust cover only expenses not attributable to other accounts or trusts administered by the IMF.

Figure 5.1 Snapshot of the IMF Income Statement

(Millions of SDRs; as of April 30, 2016)



Source: Finance Department, International Monetary Fund.

amendment (the Fifth Amendment) became effective, following ratification by the membership with the required majority of voting power. Currencies in an amount equivalent to the profits from the limited sale of IMF gold in the amount of SDR 6.85 billion were transferred from the General Resources Account to the Investment Account in March 2011.⁴ The amendment gave the IMF authority to invest the gold endowment in a broader range of instruments. The new Rules and Regulations for the Investment Account reflecting the expanded investment authority went into effect in January 2013 and were amended in March 2014 and August 2015.⁵

⁴ In December 2010, the IMF concluded the gold sales after total sales of 403.3 metric tons of gold (12.97 million ounces), as authorized by the Executive Board. The gold sales realized profits of SDR 6.85 billion, of which SDR 4.4 billion was used to establish an endowment as stipulated under the new income model. SDR 2.45 billion constituted the “windfall profit.” (See [Chapter 2](#) for additional details.)

⁵ See Rules and Regulations for the Investment Account (2015): www.imf.org/external/np/pp/eng/2015/082815.pdf.

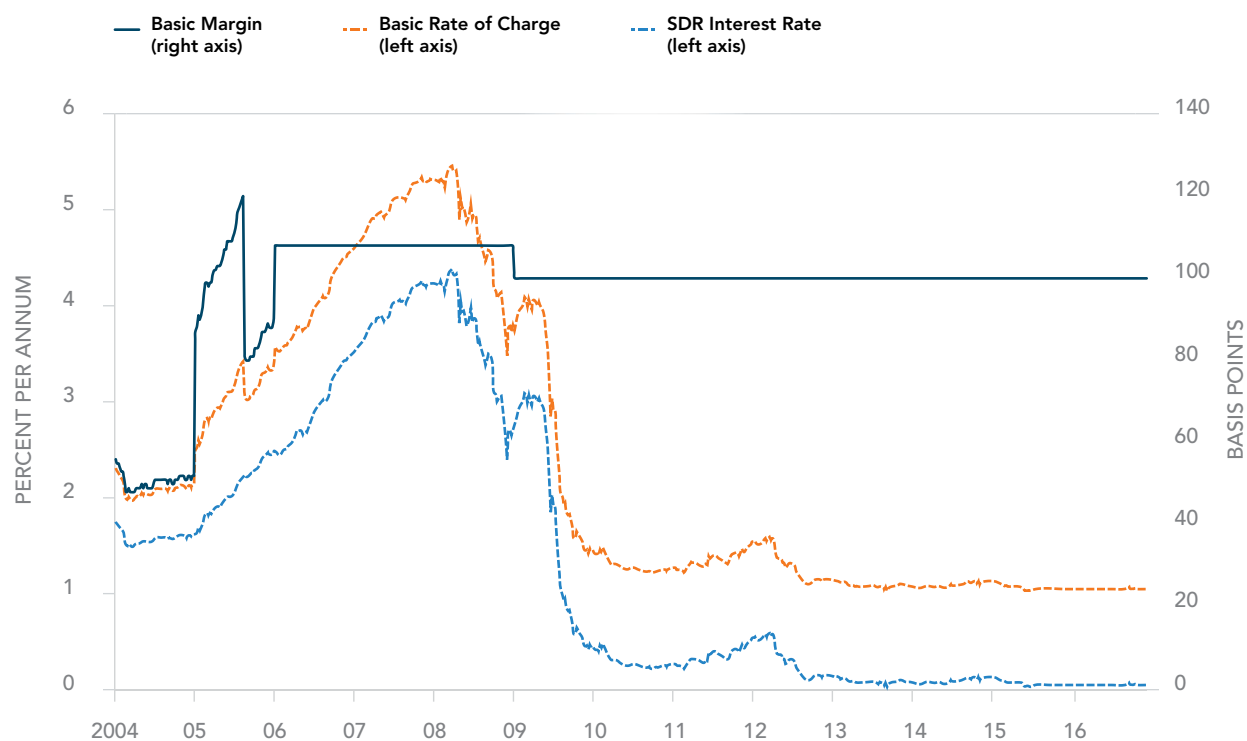
The remainder of this chapter discusses the IMF’s income position by elaborating on how income is generated from lending, explaining how the basic rate of charge is set, and describing various charges under the General Resources Account. The chapter then traces the development of the new income model including the creation of an endowment with the profits from the limited gold sale and the IMF’s expanded investment authority. Next, it describes the subaccounts of the Investment Account and includes details on portfolio allocation, eligible instruments, and risk controls.

5.1 Lending Income

The IMF’s operational lending income is derived from the marginal return on the rate of charge (the interest rate assessed on IMF financing), services charges, and commitment fees. A multitiered system of charges compensates the IMF for the cost of its financing to members and is an important component of the institution’s

Figure 5.2 Weekly Interest Rates and Margins, 2004–16

(Percent and basis points)



Source: Finance Department, International Monetary Fund.

risk-mitigation framework.⁶ The cost of financing includes remuneration to creditors and administrative costs associated with lending. The basic rate of charge comprises the SDR interest rate plus a fixed margin that is set by the Executive Board every 2 years (subject to a midterm review). The margin is expressed in basis points. The margin is established under a new rule for setting the basic rate of charge adopted by the Executive Board in December 2011 (Box 5.1). The rule, effective for FY2013, was an important step in full implementation of the new income model, under which the margin is set to cover the IMF's lending-related intermediation costs and allow for a buildup of reserves. In addition, the rule includes a cross-check to ensure that the rate of charge remains reasonably aligned with long-term credit market conditions.⁷

The rule was designed to move away from a reliance on lending income to finance the IMF's nonlending activities. However,

investment income, which is now the main source of nonlending income, is currently constrained by much lower-than-normal global interest rates amid highly accommodative monetary policies aimed at supporting economic activity in the wake of the global financial crisis. As a result, nonlending income is unlikely to be sufficient to cover short- and medium-term nonlending expenses. Therefore, since FY2013/14, the margins have been adopted under a clause in the rule that, in exceptional circumstances, allows a margin for calculating the basic rate of charge to be set at a level other than is needed to cover the IMF's intermediation expenses and to generate an amount of net income for placement in reserves. Consistent with the Board-endorsed principle that the margin should be stable and predictable, the margin is set for a period of 2 financial years, subject to a comprehensive review before the end of the first year. For FY2015/16 and FY2017/18, the Executive Board agreed to keep the margin for the rate of charge unchanged at 100 basis points (Figure 5.2).

Surcharges are an important component of the IMF's risk-mitigation framework, and they contribute to net income and create incentives for member countries to avoid large and prolonged access to the IMF's lending resources. The system of surcharges is based on the level amount of credit (level-based surcharges) and

⁶ The Articles of Agreement provide little guidance on setting charges except to indicate that rates of charge must be uniform for all members and should increase the longer credit is outstanding (Article V, Section 8).

⁷ Burden-sharing adjustments are applied to the basic rate of charge (as well as the rate of remuneration) to compensate the IMF for lost income resulting from unpaid charges of members in arrears.

the length of repayment (time-based surcharges). The policy on level- and time-based surcharges, introduced in 2009, replaced the previous Time-Based Repurchase Expectation Policy (TBRE) (Box 5.2). A core objective of the 2009 reforms was to simplify the complex system of surcharges that varied across facilities and provide stronger incentives for early repayment. Following the review of the surcharge policy in February 2016, the surcharge is set at 200 basis points on outstanding credit above 187.5 percent of quota, resulting from purchases in the credit tranches and under the Extended Fund Facility (EFF). An additional time-based surcharge of 100 basis points applies when that credit has been outstanding for more than 36 months in the case of purchases in the credit tranches, or more than 51 months in the case of purchases under the EFF. These level- and time-based surcharges are intended to help mitigate credit risk by providing members with incentives to limit their demand for IMF assistance and encourage timely repayments, while at the same time allowing the IMF to accumulate precautionary balances. Taken together, level- and time-based surcharges are calibrated to be broadly aligned with the market costs of borrowing for members emerging from balance of payments difficulties. Surcharge policies are reviewed by the Executive Board on an as-needed basis, and the last review took place in 2016.

In addition to periodic charges and surcharges, the IMF levies service charges, commitment fees, and special charges. A service charge of 0.5 percent is levied on each drawing from the General Resources Account (GRA). A commitment fee is also charged on amounts available under all GRA arrangements, such as Stand-By Arrangements, the Extended Fund Facility, Flexible Credit Line, and Precautionary and Liquidity Line. The fee is refundable if purchases are made under the arrangement during the period covered by the fee.

The rationale for charging a commitment fee for contingent credit is to compensate the IMF for the cost of establishing and processing potential lending arrangements (which may not be actually drawn upon), including the monitoring of precautionary arrangements as well as for the cost of setting aside resources to be used when a purchase is made. Commitment fees are levied at the beginning of each 12-month period on the amounts available for purchase during that period. The fees are refunded when credit is used, in proportion to the drawings made. The current upward-sloping fee structure was introduced as part of the broader 2009 GRA lending toolkit reform, with the aim of discouraging unnecessarily high precautionary access (Box 5.3), and the thresholds were reviewed and revised by the Executive Board in 2016. The current commitment fee structure has three tiers that rise along with amounts available for purchase as a percent of the member country's quota. Commitment fees are levied at 15 basis points on amounts available up to 115 percent of a member's quota, 30 basis points on amounts in excess of 115 percent and up to 575 percent of quota, and 60 basis points on amounts in excess of 575 percent of quota.

5.2 The New Income Model

Historically, the IMF has relied almost entirely on income from lending to meet the expenses incurred in conducting its business, including expenses for its nonlending activities. This meant that the IMF's net income was largely dependent on interest and charges on lending to members, along with surcharge income and other charges. The activities supported by this income, many of which carry significant costs, include multilateral and bilateral surveillance, crisis prevention, research, gathering and reporting statistics, capacity building (including technical assistance and training), and concessional lending to low-income countries. Relying primarily on lending income to support these critical activities was not sustainable when credit outstanding declined, nor was it equitable for the cost of these activities to be borne primarily by those members receiving IMF financing from the General Resources Account.

In March 2006, the IMF's Executive Board agreed on a two-pronged strategy to adapt the IMF's financing model to changing circumstances and future needs. The first prong addressed a looming shortfall in income for FY2007. The Board agreed on a package of measures that included the establishment and activation of the Investment Account, a pause in the accumulation of reserves, and the use of the IMF's existing reserves to meet any remaining income shortfalls. No changes in these income policies were made for FY2008, which was considered a transitional year during which a new income model would be developed.

The second prong of the strategy was to ensure a lasting framework for meeting the institution's income needs over the long term. The IMF appointed an external Committee of Eminent Persons to study the issue (Box 5.4). The committee's final report on "Sustainable Long-Term Financing of the IMF" was submitted to the Managing Director on January 31, 2007.

5.2.1 Features of the New Income Model⁸

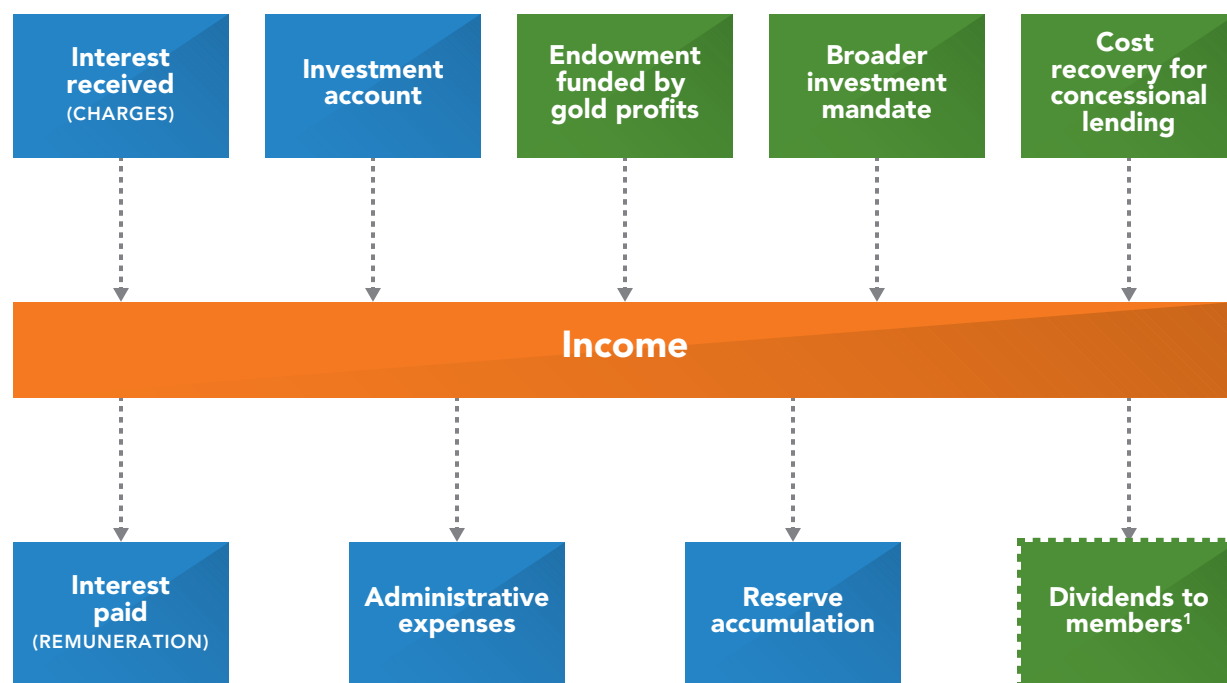
Taking into consideration the report by the Committee on Eminent Persons, in April 2008 the Executive Board endorsed a new income model based on more robust and diverse sources of revenue that reflected the IMF's multiple functions (Figure 5.3). This marked the first major change in the way the IMF generates income since its establishment. The package contained the following income-generating initiatives:

- Create an endowment with the profits from the sale of 403.3 metric tons of the IMF's gold holdings to help diversify the sources of income. This amounted to one eighth of the IMF's total holdings of gold (see Section 2.3.3.3 IMF Gold Sales).
- Amend the Articles of Agreement to broaden the IMF's investment authority to enhance the average expected return

⁸ The IMF's New Income and Expenditure Framework—Frequently Asked Questions: www.imf.org/external/np/exr/faq/incfaqs.htm.

Figure 5.3 The IMF's New Income Model

The IMF implemented a plan to draw on additional revenue sources to better align the IMF's income model with its activities.



Source: Finance Department, International Monetary Fund.

Note: Green boxes represent new elements.

¹ As of April 30, 2016, the Dividend policy had not been adopted by the membership.

on investments and enable the IMF to adapt its investment strategy over time.

- Resume the long-standing practice of reimbursing the IMF's budget for the cost of administering the trust fund for concessional lending to low-income countries from the Poverty Reduction and Growth Trust, while retaining the IMF's capacity to provide concessional lending to low-income countries.

One element of the new income model is expansion of the IMF's investment authority, which allows it to generate higher returns. The Fifth Amendment to the Articles of Agreement of the International Monetary Fund to Expand the Fund's Investment Authority entered into force in February 2011.⁹ The Board of Governors approved that the Fund's Articles of Agreement be amended to broaden the range of instruments in which the Fund may invest. Such an expansion of the Fund's investment authority would enable the Fund to adapt its investment strategy over time without the need of further

amendments to the Articles. Given the public nature of the funds to be invested, the implementation of a broader investment authority would be conducted pursuant to investment policies that take into account, among other things, a careful assessment of acceptable levels of risks. It would also include safeguards aiming to minimize actual or perceived conflicts of interest. Finally, it was recognized that the evolution of the Fund's investment policies would need to proceed gradually. To this end, on January 23, 2013, the Executive Board adopted the new Rules and Regulations for the IMF's Investment Account that provided the legal framework for implementation of the expanded investment authority, focusing first on the Endowment Subaccount. The Rules and Regulations were amended in March 2014 to include a technical amendment refining the portfolio rebalancing rule and were further amended in August 2015 to reflect the expanded investment strategy approved by the Executive Board for the assets in the Fixed-Income Subaccount.¹⁰

⁹ IMF's Broader Investment Mandate Takes Effect: www.imf.org/external/np/sec/pr/2011/pr1152.htm.

¹⁰ The Rules and Regulations for the Investment Account—adopted January 2013, and amended March 2014 and August 2015: www.imf.org/external/pp/longres.aspx?id=4734.

5.3 Investment Income

The Second Amendment to the IMF's Articles of Agreement in 1978 authorized the IMF to establish an Investment Account in order to generate income from other sources.

The Investment Account was established by the Executive Board in 2006 in order to broaden the IMF's income base. It was originally funded through the transfer of currencies from the General Resources Account in an amount equivalent to the total amount of the IMF's General and Special Reserves at the time of the decision authorizing the transfer (SDR 5.9 billion).¹¹ This was the maximum transfer allowed by the Articles of Agreement.

While establishing the Investment Account was an important step toward reducing the IMF's medium-term financing gaps and diversifying its income, achieving a sustainable income position for the long-term required additional measures. As discussed in Section 5.2, to address this need, and following the proposals of the Committee of Eminent Persons, the Executive Board endorsed the new income model that included, among other things, the broadening of the investment authority and establishment of an endowment funded by limited gold sales (see Section 2.3) with new Rules and Regulations for the Investment Account.

Prior to the effectiveness of the Fifth Amendment in 2011, the Articles of Agreement were the main reference for the investment framework by specifying a list of eligible instruments and issuers into which the IMF could invest its own resources, and when the CEP prepared its report, it noted that the list was more restrictive than practices found within other international financial institutions.¹²

With the Fifth Amendment authorizing the broadened investment authority of the Investment Account, the Executive Board adopted new Rules and Regulations for the Investment Account in January 2013. The rules initially focused on the Endowment Subaccount and were amended in August 2015 to apply the broadened investment authority to the Fixed-Income Subaccount. The new Rules and Regulations for the Investment Account specify the objective of the Investment Account and the broad principles governing its operations. They establish two portfolios (subaccounts), define the investment objective of each portfolio, outline potential uses of investment income, and provide guidelines for investing the assets. They also further define the governance framework, including delegating the implementation of the investment policies set out in the Rules and Regulations to the Managing Director, while

ensuring that the Executive Board is provided with regular and ad hoc reports on the operations and investment activities of the Investment Account and consulted on key topics, including conflict of interest policies. Finally, the Rules and Regulations also set out key principles to mitigate the risks of perceived or actual conflicts of interest.

5.3.1 Subaccounts

The Investment Account has two subaccounts, each with its own investment objectives: the Fixed-Income Subaccount, and the Endowment Subaccount. As noted, the Investment Account was originally funded through the transfer from the GRA in an amount equivalent to the total amount of the Fund's General and Special Reserves at the time (SDR 5.9 billion). The Fixed-Income Subaccount was created in 2013 when the new Rules and Regulations were adopted. All Investment Account assets not attributed to profits from gold sales were placed in this Subaccount and continued to be invested under the mandate originally established in 2006. The Endowment Subaccount was funded in January 2013 with SDR 4.4 billion in profits from gold sales.¹³ As of April 2016, the IMF's investment portfolios in the Investment Account totaled SDR 15.0 billion, which are divided between the Fixed-Income Subaccount (SDR 10.4 billion) and the Endowment Subaccount (SDR 4.6 billion).

5.3.1.1 INVESTMENT OBJECTIVES

As outlined in Table 5.1, each Subaccount in the Investment Account has different objectives and pursues different investment strategies. With a view to generating income while protecting the Fund's balance sheet, the investment objective of the Fixed-Income Subaccount is to achieve investment returns in SDR terms that exceed the 3-month SDR interest rate over time while minimizing the frequency and extent of negative returns and underperformance over an investment horizon of three to four years. The investment objective of the Endowment Subaccount is to achieve a long-term real return target of 3 percent in U.S. dollar terms. This is consistent with the overall objective for the Investment Account of generating investment returns to provide a meaningful contribution to the IMF's income while preserving the long-term real value of these resources.

¹¹ Under the Articles of Agreement, the Investment Account may be funded with transfers of a part of proceeds from the sale of the IMF's gold and of currencies held in the General Resources Account, provided that the amount of these transfers may not exceed the total amount of the IMF's General and Special Reserves at the time of the transfer decision.

¹² Section 6(f) (iii) of the former Article XII (amended later in 2011) prescribed that "The Fund may invest a member's currency held in the Investment Account in marketable obligations of that member or in marketable obligations of international financial organizations. No investment shall be made without the concurrence of the member whose currency is used to make the investment. The Fund shall invest only in obligations denominated in special drawing rights or in the currency used for investment."

¹³ In 2011, SDR 6.85 billion from the profit of sale of IMF gold was transferred to the Investment Account. Of that, SDR 4.4 billion was used to fund the Endowment Subaccount and the remainder was placed in the Temporary Windfall Profits Subaccount. In February and September 2012, the Executive Board approved the distribution of SDR 0.7 billion and SDR 1.75 billion, respectively, from the General Reserve to IMF members, to become effective once members provided satisfactory assurances of new subsidy contributions in an amount equivalent to at least 90 percent of the distribution to the PRGT, including through transfers of their share in the distributions directly to the PRGT. Assurances were obtained during 2012 and 2013, and the Temporary Windfall Profits Subaccount was wound down in October 2013. This followed the re-transfer of resources from the Temporary Windfall Profits Subaccount to the General Reserve and two reserve distributions in October 2012 and October 2013, respectively.

Table 5.1 Investment Account Subaccounts

Fixed-Income Subaccount	Endowment Subaccount
Funded in June 2006 with SDR 5.9 billion.	Funded in January 2013 with SDR 4.4 billion.
Assets under management as of April 30, 2016, totaling SDR 10.4 billion.	Assets under management as of April 30, 2016, including cash to be invested, totaling SDR 4.6 billion.
Funded by transfers of currencies from the General Resources Account (GRA) in amounts equivalent to the IMF's total reserves as of June 2006, plus subsequent transfers of GRA net income not associated with gold profits.	Funded with gold profits (other than windfall profits), as part of the new income model aimed at diversifying the IMF's income sources.
Investment Objective: to achieve returns in SDR terms that exceed the 3-month SDR interest rate over time while minimizing the frequency and extent of negative returns and underperformance over an investment horizon of 3 to 4 years.	Investment Objective: to achieve a long-term real return target of 3 percent in U.S. dollar terms. This is consistent with the objective of generating investment returns to contribute to the IMF's income while preserving the long-term real value of these resources.
Assets are gradually transitioned from the previous strategy anchored to an SDR-weighted 1- to 3-year government bond benchmark, to a high-quality fixed-income portfolio with two tranches, a short-duration and prudently diversified tranche and a longer-duration buy-and-hold tranche mainly composed of highly rated government bonds.	Once fully funded, assets will be managed against a conservative diversified benchmark with a 65 percent share of global fixed-income instruments and 35 percent share for global equities (including real estate investment trusts).
5-year phased-in implementation for the longer-duration buy-and-hold tranche to minimize market timing and interest rate risk and with a view to mitigating any risks of perceptions of conflicts of interest.	3-year phased-in implementation for the passively managed portion, ending December 2016 to minimize market risk and with a view to mitigating any risks of perceptions of conflicts of interest. It is expected that the cash holdings for the actively managed portion will be invested in FY2017.

Source: Finance Department, International Monetary Fund.

5.3.1.2 ELIGIBLE INSTRUMENTS, ASSET ALLOCATION, AND INVESTMENT STRATEGY

In August 2015, the Executive Board approved an amendment to the Rules and Regulations for the Investment Account to implement a modification of the investment strategy for the Fixed-Income Subaccount.¹⁴ With the 2015 amendment, the Fixed-Income Subaccount will gradually transition to a more diversified portfolio. The amendment created two tranches of the of the Fixed-Income Subaccount of roughly equal sizes. The shorter duration Tranche 1 will be managed actively against a 0- to 3-year government bond benchmark index, weighted to reflect the currency composition of the SDR basket. The longer duration Tranche 2 will be managed according to a buy-and-hold approach against a 0- to 5-year government bond benchmark index, weighted to reflect the currency composition of the SDR basket. To minimize market timing and interest rate risk and with a view to mitigating any risks of perceptions of conflicts of interest, investments in Tranche 2 will be phased in over 5 years.

Both tranches may be invested in sovereign bonds, securities of members' national agencies and other international financial institutions, and obligations of the BIS—all of which must be

denominated in SDR or a SDR basket currency. Tranche 1 may also be invested, up to 35 percent of the total value of the Fixed-Income Subaccount assets, in sovereign bonds denominated in non-SDR currencies (subject to the requirement to hedge back to SDR currencies) and in other fixed-income securities denominated in SDR or a SDR basket currency, including subnational government bonds, mortgage-backed securities, asset-backed securities, covered bonds, corporate bonds, and cash instruments.

Securities in the Fixed-Income Subaccount must have a minimum credit rating equivalent to A (based on Standard & Poor's long-term rating scale), with higher minimum credit ratings expected for certain asset classes. Hedging with derivative instruments is strictly monitored and required for managing the currency risk in the case of allocations to non-SDR basket currencies. Short selling, or any form of financial leverage is prohibited. Pending the gradual implementation of this new strategy, assets in the Fixed-Income Subaccount will remain invested in medium-term instruments issued by the BIS and managed by IMF staff, and in externally managed sovereign bond portfolios.

With respect to the Endowment Subaccount, by the end of the 3-year phase-in period in December 2016, at least 90 percent of assets will be managed passively under mandates that require the external managers to closely track benchmark indices, pursuant to a strategic asset allocation benchmark that includes 20 percent in developed market sovereign bonds, 20 percent in developed market inflation-linked bonds, 15 percent in developed market corporate bonds, 10 percent in emerging market bonds, 25 percent in developed market equities, 5 percent in emerging market equities, and 5 percent in real estate investment trusts (REITs).

¹⁴ Prior to the amendment, eligible assets in the Fixed-Income Subaccount were limited to marketable obligations of members, their official agencies, and international financial organizations. The latter includes deposits and Medium-Term Instruments with the Bank for International Settlements (BIS). The investment strategy was anchored to a customized 1- to 3-year government bond benchmark index comprising bonds denominated in dollars, euros, pounds sterling, and Japanese yen, weighted to reflect the composition of the SDR basket.

Initially, 5 percent of the Endowment Subaccount assets will be managed actively, and this portion of the Endowment Subaccount is limited to a maximum of 10 percent of its total assets. The actively managed portion may be invested only in the same asset classes as the strategic asset allocation benchmark for the passively managed portion, with a 65 percent share of fixed-income instruments and a 35 percent share for equities including REITs, but with no specific allocation requirements for each asset class within these two categories.

Short selling and any form of financial leverage as well as direct investment in gold are prohibited in the Investment Account. Derivative instruments, including options, forwards, futures, and swaps, are allowed for the passively managed portion of the Endowment Subaccount only for operations authorized under the Rules and Regulations and to minimize transaction costs in the context of subaccount rebalancing and for benchmark replication. For the actively managed portion of the Endowment Subaccount, broader use of derivatives is permitted subject to adequate risk control parameters.

5.3.1.3 RISK CONTROLS

The investment mandates for the Investment Account's asset managers explicitly set limits based on a range of acceptable risk exposures, including for risks related to interest rates, foreign exchange, liquidity, credit, and the operation of the Investment Account itself. Mechanisms are in place to monitor compliance. The following portfolio-specific risk controls apply.

FIXED-INCOME SUBACCOUNT

Interest rate risk in this portfolio, which is the risk of fluctuations in a portfolio's market value due to changes in market interest rates, is controlled by the short-duration portfolio that will gradually move to a 0- to 3-year benchmark index for Tranche 1 while a 0- to 5-year benchmark index will apply for Tranche 2. It is expected that this level of interest rate exposure along with some diversification, tranching, and phasing will provide an efficient tradeoff between risk and return, resulting in returns that exceed the SDR interest rate under most market conditions. Going forward, cautious diversification is intended to strengthen the resilience of the portfolio across varying market conditions and minimize the risk of permanent impairment of capital.

There is some, albeit very limited, foreign exchange risk in the Fixed-Income Subaccount portfolio because the investments are not made in SDRs but in securities denominated in the currencies comprising the SDR basket. Going forward, foreign exchange risks will also remain limited when the new strategy is fully implemented in 2016, as any sovereign bonds denominated in a currency outside of the SDR basket will be hedged back to a currency in the SDR basket. More specifically, exchange rate risk is limited to the portfolio deviations from the SDR basket that occur due to different investment performance in each of the constituent currencies' investments—in other words, interest rates moving differently in each region, leading to relative over- or

underperformance of, for example, the euro-denominated bonds compared with dollar-denominated bonds. Any such over- or underperformance carries a residual out-of-alignment risk from the relative weight of the investment in a particular currency compared with the currency's weight in the SDR basket. To control such currency risk, the weight of each currency in the portfolio is adjusted to reflect its weight in the SDR basket through a regular rebalancing of the portfolio.

Liquidity risk is small given the low likelihood of a call on the Fixed-Income Subaccount assets and the high credit quality and liquid nature of the investments.

Pending the gradual transition to the new investment strategy, credit risk is similarly limited in a portfolio that currently features BIS deposits and Medium-Term Instruments, the securities of highly rated international financial organizations, and the domestic government bonds of countries whose currencies are included in the SDR basket. Under the expanded investment strategy, credit risk will be tightly monitored, notably through stringent rating requirements and concentration limits.

ENDOWMENT SUBACCOUNT

Although the Endowment Subaccount assets are exposed to a wide variety of market risks, these are controlled by the diversification by geography and asset classes. To control asset class exposure in the larger, passively managed portion, the portfolio must be rebalanced to the strategic asset allocation benchmark at least annually or when the weights of any of the asset classes move beyond a certain threshold. In the smaller, actively managed portion, the portfolio may only deviate from its 65/35 global fixed-income/equity split within specified parameters. The impact of foreign exchange volatility in the passively managed portion is also controlled through mandatory hedging of part of the assets back to the base currency, the U.S. dollar. Furthermore, the Rules and Regulations set a prohibition on short selling and financial leverage activities and set minimum credit-rating thresholds of BBB– for corporate bonds and BBB+ for sovereign bonds.

OPERATIONAL RISKS IN THE INVESTMENT ACCOUNT

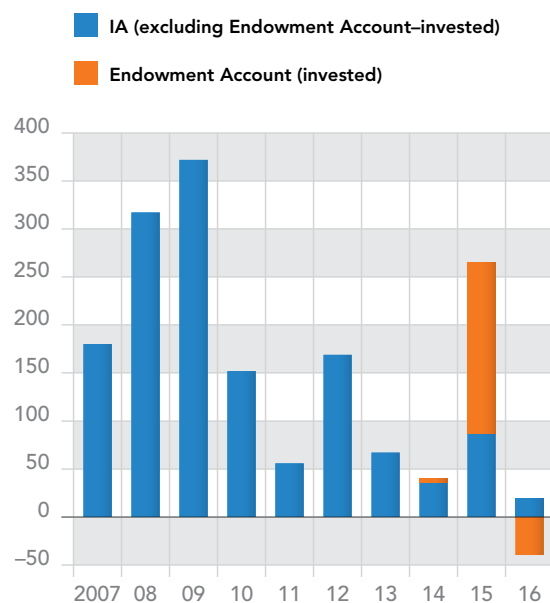
Operational risk is controlled by carefully structured due diligence reviews of external investment managers and custodians, the checks and balances inherent in the reconciliation of portfolio valuation by managers and the custodian, and stringent performance measurement and reporting requirements.

5.3.2 The Use of Investment Income

The Executive Board normally decides every financial year how the Investment Account income will be used, including whether it may be invested, retained in the Investment Account, or transferred to the General Resources Account to meet the expenses involved in conducting the business of the IMF.

The earnings of the Investment Account and its potential contribution to the IMF's operating expenses depend on the size of

Figure 5.4 Earnings of the Investment Account
(Millions of SDRs)



Source: Finance Department, International Monetary Fund.

the portfolio and the performance of its investments. Since its inception, the returns have made a visible and positive contribution (Figure 5.4).

5.4 Reimbursements to the General Resources Account

The General Resources Account is reimbursed annually for the expenses incurred in conducting the business of the SDR Department and administering Special Disbursement Account resources in the Catastrophe Containment and Relief (CCR) Trust. Reimbursement to the GRA from the CCR Trust is for expenses not already attributable to other accounts or trusts administered by the IMF or to the GRA. The framework for the Poverty Reduction and Growth Trust (PRGT) also provides for the reimbursement of the GRA for the expenses of conducting the business of the PRGT, though there have been suspensions in previous years. In FY2013, the practice of reimbursing the GRA for the expenses of conducting the business of the PRGT resumed (see Chapter 3). This reimbursement is an important element of the IMF's new income model, and its resumption was part of the financing strategy for the PRGT that was approved in September 2012, which was directed toward putting concessional lending on a self-sustaining basis over the long term.

Box 5.1 Setting the Margin for the Basic Rate of Charge

The basic rate of charge on lending is a key element of the IMF's financial operations. It is composed of the SDR interest rate, which is also the remuneration paid to creditors, and a margin, to cover the cost of IMF financing to members as well as to help accumulate reserves. In addition, the rate of charge plays an important role, together with surcharges on lending, in creating incentives for timely repayment, thus helping to preserve the revolving nature of IMF resources.

Until FY2007, decisions on the margin were driven primarily by the need to cover the Fund's administrative expenses and accumulate reserves. The margin was set based on the level of income needed to cover projected expenses and meet a net income target (specified as 5 percent of IMF reserves at the beginning of the financial year from FY1985 to FY2006).¹ However, due to the sharp decline in credit outstanding by the mid-2000s, this approach would have implied a margin of over 350 basis points for FY2007—a level that would have made the cost of borrowing from the IMF relatively expensive. In response, an exceptional circumstances clause was added to Rule I-6(4) in April 2006 to allow the margin for the rate of charge to be set on a basis other than estimated income and expenses.² In addition, the Executive Board began to take steps to broaden the IMF's income sources with the establishment of the Investment Account in April 2006.³

In April 2008, the Executive Board adopted decisions to reform the IMF's income model. The Executive Board endorsed several principles for setting the margin for the rate of charge in the new income model:

- The margin on the rate of charge should be set in a stable and predictable manner.
- The margin on the rate of charge should no longer cover the full range of the IMF's activities but should instead be set as a margin over the SDR interest rate to cover the IMF's intermediation costs and allow for a buildup of reserves.
- A mechanism should be developed for checking that the margin is in reasonable alignment with long-term credit market conditions, including ensuring that the cost of borrowing from the IMF does not become too expensive or too low relative to the cost of borrowing from the market.

In line with these principles, in December 2011 the Executive Board adopted a new framework for setting the basic rate of charge.⁴ It became effective on May 1, 2012, and includes the following elements:

- 1) The rate of charge shall be determined as the SDR interest rate plus a margin expressed in basis points. The margin shall be set at a level that is adequate (a) to cover the estimated intermediation expense of the IMF for the period under (2) below, taking into account income from service charges, and (b) to generate an amount of net income for placement to reserves. The appropriate amount for reserve contribution is assessed by taking into account, in particular, the current level of precautionary balances, any floor or target for precautionary balances, and the expected contribution from surcharges and commitment fees to precautionary balances, provided, however, that the margin shall not be set at a level at which the basic rate of charge would result in the cost of Fund credit becoming too high or too low in relation to long-term credit market conditions as measured by appropriate benchmarks.
- 2) Notwithstanding the above, in exceptional circumstances, the margin may be set at a level other than that which is adequate to cover estimated intermediation expenses incurred by the IMF and to generate an amount of net income for placement to reserves. This new exceptional circumstances clause is to provide a safeguard that would allow the Executive Board to set the margin on a basis other than that required to cover intermediation costs and allow for a buildup of reserves, should income from other sources be insufficient to cover the administrative expenses for the nonlending activities of the Fund.
- 3) The margin shall be set for a period of 2 financial years. A comprehensive review of the income position shall be held before the end of the first year of each 2-year period and the margin may be adjusted in the

context of such a review, but only if this is warranted in view of fundamental changes in the underlying factors relevant for the establishment of the margin at the start of the 2-year period.

¹ This approach was adopted in FY1981 when the IMF reformed a fairly complex schedule of charges. From FY1981 to FY1984, the net income target was set at 3 percent of the Fund's reserves.

² For 2007 and 2008, the Executive Board kept the margin unchanged from the FY2006 level of 108 basis points under the exceptional circumstances clause of Rule I-6(4). The IMF suffered net income shortfalls of SDR 83 million and SDR 127 million in FY2007 and FY2008, respectively.

³ Establishment of the Investment Account (4/17/06). In June 2006, currencies in the amount of SDR 5.9 billion, equivalent to the IMF's total reserves at the end of FY2006, were transferred from the General Resources Account to the Investment Account.

⁴ "A New Rule for Setting the Margin for the Basic Rate of Charge," IMF Policy Paper, November 2011. www.imf.org/external/pp/longres.aspx?id=4622.

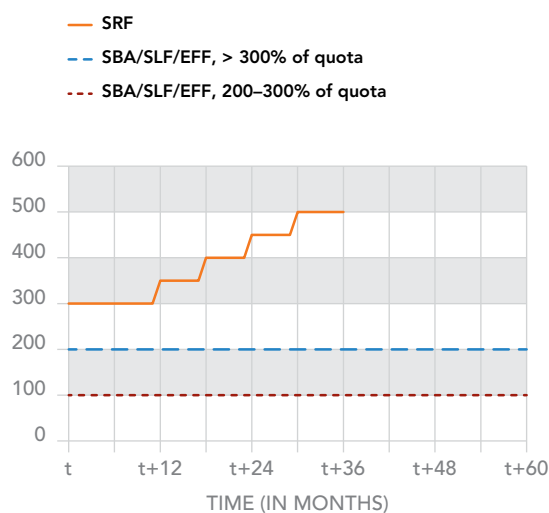
Box 5.2 Evolution of Surcharges

Surcharges were introduced in 1997 with the establishment of the Supplemental Reserve Facility (SRF).^{1,2} Applying only to the SRF, a time-based structure of surcharges and short-term maturities was designed to incentivize early repayment by members with exceptional access that were experiencing capital account crises. In 2000, level-based surcharges were introduced on purchases in the credit tranches and under extended arrangements starting at 200 percent of quota to discourage unduly high access. Considerations were given to thresholds of 300 percent (consistent with the upper limit of "normal" access), and 100 percent, to capture more prolonged users of IMF resources and allow for a more graduated charge. In the end, the Executive Board adopted a threshold in between starting at 200 percent of quota and with a two-step increase in the rate. A schedule of time-based repurchase expectations was introduced at the same time, from which a member could request an extension to the maximum allowed under the repurchase obligation schedule. This resulted in a complicated system of surcharges and maturities, as illustrated in the figure and table.

In 2009, surcharges were streamlined and aligned across facilities to simplify the structure of charges and to eliminate sources of misalignment of terms across facilities.³ At the same time, the time-based repurchase expectations policy was eliminated and replaced by applying time-based surcharges on credit outstanding for more than 36 months under all General Resources Account facilities, which was deemed more effective and transparent. In conjunction with the new time-based surcharge, the new single level-based threshold was set at the previous upper step of 300 percent of quota. The reform also eliminated the Supplemental Reserve Facility, which had been the only facility on which time-based surcharges had been levied.

Surcharge Structure before 2009

Basis points



Source: Finance Department, International Monetary Fund.
Note: EFF = Extended Fund Facility; SBA = Stand-By Arrangement;
SLF = Short-Term Liquidity Facility; SRF = Supplemental Reserve Facility.

Repurchase Expectations Policy before 2009

Facility	Repayment period (in years)	
	Expectations basis	Obligation basis ^{1,2}
Credit tranches	2¼–4	3¼–5
EFF	4½–7	4½–10
SRF	2–2½	2½–3
SLF	n.a.	3, 6, or 9 months

Source: Finance Department, International Monetary Fund.

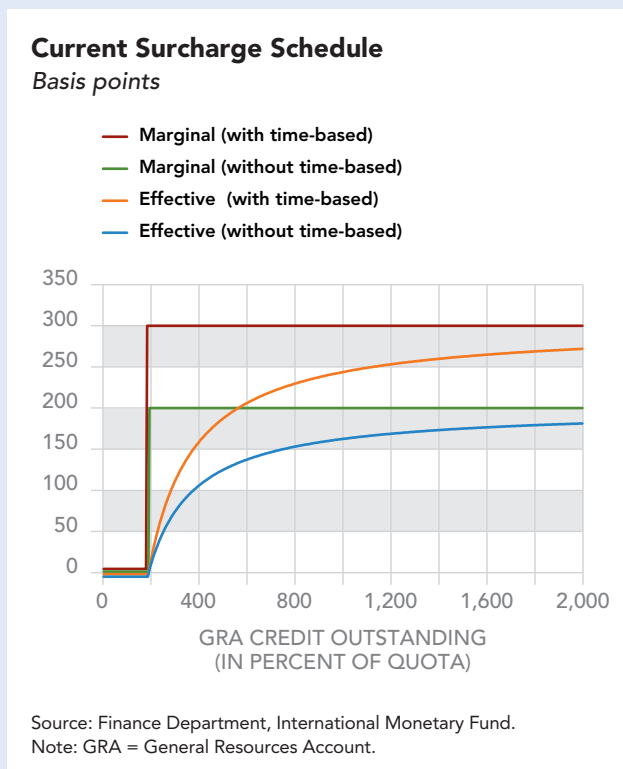
Note: EFF = Extended Fund Facility; SRF = Supplemental Reserve Facility;
SLF = Short-Term Liquidity Facility.

¹ For the credit tranches and the EFF, a member whose external position has not improved sufficiently to meet the expectations schedule without undue hardship or risk could request an extension.

² For the SRF, extensions provided if: (1) the member is unable to meet the repurchase expectation without undue hardship, and (2) the member is taking actions to strengthen its balance of payments.

The current surcharge policy adopted in February 2016 sets a surcharge of 200 basis points on credit outstanding more than 187.5 percent of quota resulting from purchases in the credit tranches and under the Extended Fund Facility (EFF). An additional time-based surcharge of 100 basis points applies to credit outstanding for more than 36 months in

the case of purchases in the credit tranches, or 51 months in the case of purchases under the EFF. The difference in the starting point of time-based surcharges between purchases under the credit tranches and those under the EFF aims to achieve alignment of the surcharges with the start of repurchases (54 months under extended arrangements) and the nature of the balance of payments needs specific to the EFF.⁴



¹See Annex I of the Review of Charges and Maturities—Policies Supporting the Revolving Nature of Fund Resources (5/24/05).

²Prior to 1981, when a flat rate of charge was introduced for all IMF credit financed with ordinary resources, the Fund operated a graduated structure of charges based on the level and duration of credit outstanding. Different rates of charge continued to apply on financing from borrowed resources until 1993.

³See GRA Lending Toolkit and Conditionality—Reform Proposals (3/13/09) and Charges and Maturities—Proposals for Reform, (12/12/08).

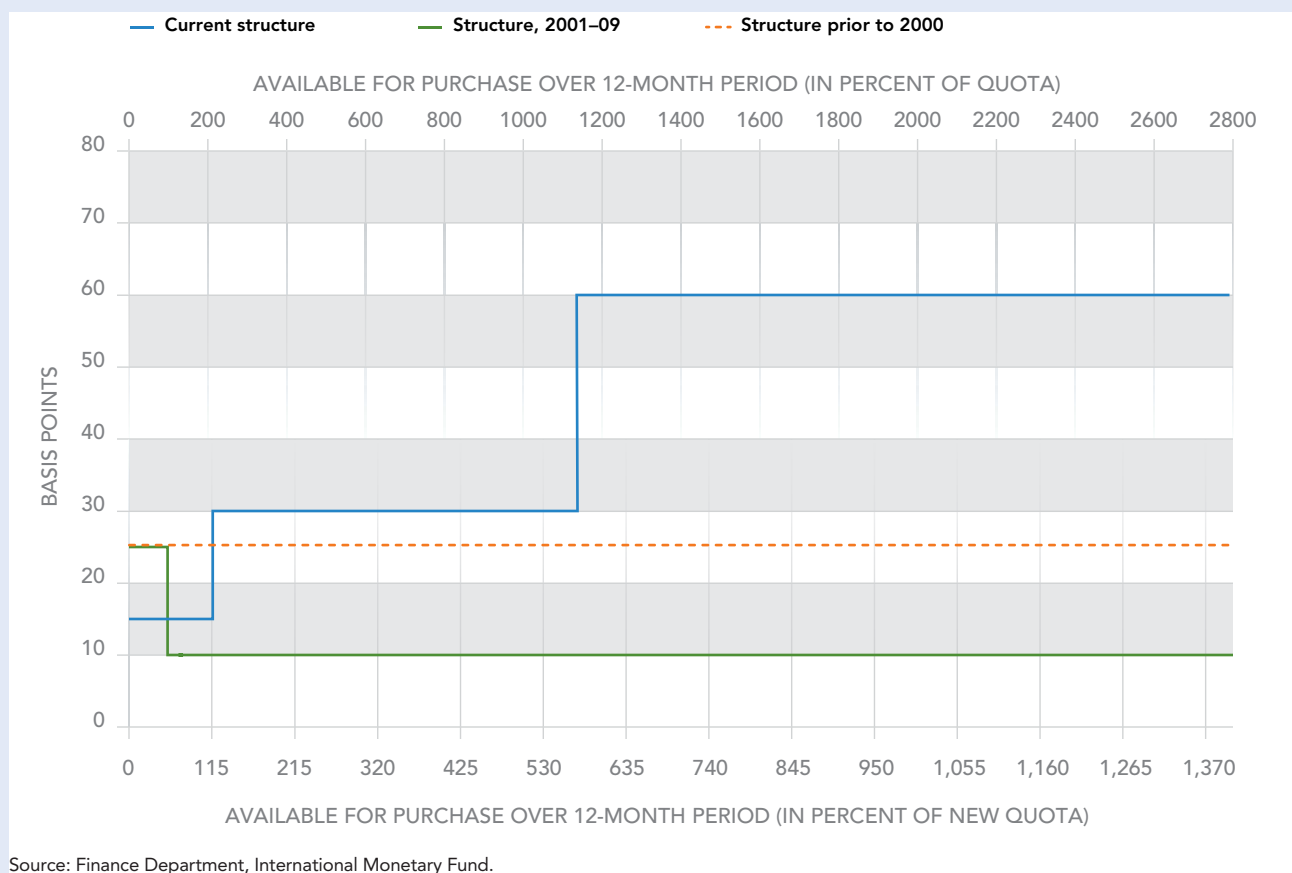
⁴See Review of Access Limits and Surcharge Policies, (01/20/2016).

Box 5.3 Commitment Fees

Commitment fees were originally put in place to help manage incentives and compensate the IMF for cases in which commitments were not drawn. They were first introduced in conjunction with the establishment of the Stand-By Arrangement (SBA) in 1952.

Directors emphasized that while the charge should not discourage countries with need, it would serve as a deterrent to those who had no real reason to request IMF assistance. It was decided that a commitment charge of 25 basis points a year would be levied and that, if a member draws under the SBA, this charge would be credited against the service charge on a pro rata basis. In the context of the review of Fund facilities in 2000, a two-tier commitment fee schedule was adopted under which the fee remained at 25 basis points a year for commitments up to 100 percent of quota; a lower 10 basis point fee was levied on amounts in excess of 100 percent of quota that could be purchased over the same period.¹ The lower 10 basis point fee for access above 100 percent of quota was adopted mainly to encourage the use of the Contingent Credit Line (CCL) (since discontinued), and the declining schedule was motivated by the lower probability of drawing under the CCL which made refunds less likely. The argument is consistent with the prevailing view at the time that the basic rationale for charging commitment fees for contingent credits was to cover the cost to the IMF of establishing and monitoring such arrangements.

The current commitment fee schedule stems from the 2009 GRA lending toolkit reform—and the applicable thresholds were revisited in February 2016—and reflects an expanded focus on managing liquidity risks.² Reforms to the GRA lending toolkit included improvements in the design and availability of precautionary SBAs, including High Access Precautionary Arrangements (HAPA). The reforms also included establishment of the Flexible Credit Line and the Precautionary Credit Line (which was replaced in 2011 by the Precautionary and Liquidity Line), allowing the IMF



to provide up-front contingent financing for countries that had very strong or sound fundamentals and policies but could nevertheless potentially be affected by a crisis originating elsewhere. Recognizing that large commitments have costs associated with the finite availability of IMF resources and that such costs are likely to increase at the margin as resources available for other lending decline, the schedule introduced in 2009 increased fees progressively with access. The structure is designed to generally increase incentives against unnecessarily high precautionary access and also to provide income to the IMF to help offset the cost of setting aside substantial financial resources. At the same time, commitment fees would not be set so high as to discourage members from seeking precautionary arrangements.

The current commitment fee structure was adopted in February 2016. Commitment fees are levied at 15 basis points a year on amounts up to 115 percent of quota; 30 basis points a year for amounts in excess of 115 percent and up to 575 percent of quota; and a 60 basis point fee is levied on amounts in excess of 575 percent of quota.³

¹Review of Fund Facilities—Proposed Decisions and Implementation Guidelines, (11/02/2000).

²GRA Lending Toolkit and Conditionality—Reform Proposals, (03/13/2009).

³See Review of Access Limits and Surcharge Policies, (01/20/2016).

Box 5.4 Committee of Eminent Persons' Proposal for Increasing IMF Income

Conceptually, the Committee of Eminent Persons organized its proposals for ensuring the IMF's income over the long term by linking the sources and uses of the funds.¹ To this end, the committee identified three broad categories of IMF activities: credit intermediation, the provision of public goods, and bilateral services.

Credit intermediation: As a general principle, the committee believed that the margin for the basic rate of charge on Fund lending should be stable and should not be linked to credit outstanding or to the IMF's income needs (that is, the rate of charge should not increase as lending activities decline and vice versa). The committee also took the view that lending should yield enough to cover intermediation costs and build up reserves but should not have the objective of funding the full range of IMF activities.

Provision of public goods: The committee saw a need for the IMF's income sources to be diversified to reduce the reliance on lending. The committee considered several measures, some of which required amendments to the Articles of Agreement:

- **Levies on members:** Despite their use by other public international institutions and their various benefits, levies on member countries were considered inconsistent with independent surveillance and were not favored by the committee.
- **Investment operations:** The committee recommended that the IMF liberalize its investment policies to enhance the benefits of creating additional sources of funds for investment. In particular, it recommended a broadening of the investment mandate for the IMF's existing reserves. This would include more duration risk, given the absence of refinancing risks on its reserves, and an expansion of the instruments in which the IMF may invest in line with the policy followed by AAA-rated multilateral development banks. To generate income over time, the committee also proposed that the IMF use a part of the quota resources subscribed by members to invest in higher-yielding market securities. These securities would be highly liquid to reflect the potential need to use these resources for lending.
- **Creation of an endowment:** The committee favored creating an endowment and managing it so as to preserve its long-term real value while generating a sustainable income flow. One of the options proposed for funding such an endowment was through a limited sale of the IMF's gold holdings. The committee proposed to conduct any such sale in a way that would ensure the continued strength of gold in the IMF's balance sheet and would avoid disturbance to the functioning of the gold market. The committee cautioned that spending from a gold-financed endowment should not materially weaken the IMF's financial position, and so the endowment should have a prescribed payout ratio that preserves its real value over time.

Bilateral services: The committee recommended charging member countries for some of the bilateral services provided by the IMF, including most notably technical assistance. It recognized that some of these services incorporate a measure of public good but felt that charging users would help ensure a disciplined approach to the costs and benefits associated with the services and enhance the IMF's transparency and accountability. The committee raised the possibility of subsidizing such fees for low-income countries. The committee also recommended that the General Resources Account no longer absorb the administrative costs of providing concessional assistance to low-income countries and should end the recent practice of waiving reimbursement of these costs.

¹The Report to the Managing Director by the Committee of Eminent Persons on the Sustainable Long-Term Financing of the Fund (January 2007). The Committee was chaired by Andrew Crockett.

Additional Reading

Annex I of Review of Charges and Maturities—Policies Supporting the Revolving Nature of Fund Resources, IMF Policy Paper, May 23, 2005: www.imf.org/external/np/pp/eng/2005/052305.pdf

Charges and Maturities—Proposals for Reform, IMF Policy Paper, December 12, 2008: www.imf.org/external/np/pp/eng/2008/121208a.pdf

GRA Lending Toolkit and Conditionality—Reform Proposals, IMF Policy Paper, March 13, 2009: <http://www.imf.org/external/np/pp/eng/2009/031309a.pdf>

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IMF's Broader Investment Mandate Takes Effect, Press Release No. 11/52, February 18, 2011: www.imf.org/external/np/sec/pr/2011/pr1152.htm

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Rules and Regulations for the Investment Account, IMF Policy Paper, September 10, 2015: www.imf.org/external/np/pp/eng/2015/082815.pdf

SDR Interest Rate, Rate of Remuneration, Rate of Charge and Burden Sharing Adjustments, 2013: www.imf.org/cgi-shl/create_x.pl?bur

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6

Financial Risk Management

The IMF's Articles of Agreement call for adequate safeguards for the temporary use of its resources.¹ Risks stem from interactions with the membership in fulfillment of the IMF's mandate as a cooperative international organization that makes its general resources available temporarily to its members. The IMF has an extensive risk-management framework in place, including procedures to mitigate traditional financial risks as well as strategic and operational risks. The latter risks are addressed by a variety of processes, including surveillance reviews, lending policies and operations, capacity building, standards and codes of conduct for economic policies, the communications strategy, and others.

Financial risks are mitigated by a multilayered framework reflective of the IMF's unique financial structure. Key elements include the IMF's lending policies (program design and monitoring, conditionality and phasing, access policies as well as the exceptional access framework), investment guidelines, internal control structures, financial reporting, audit systems, and the IMF's preferred creditor status. The Fund also utilizes precautionary balances to absorb the impact of risks once they crystallize. In addition, the IMF conducts safeguards assessments of central banks to ensure that their governance and control systems, auditing, financial reporting, legal structures, and autonomy are

adequate to maintain the integrity of operations and minimize the risk of any misuse of IMF resources.

This chapter provides an overview of the financial risk-management framework and control structure of the IMF. A detailed description of financial risk mitigation follows, covering credit, liquidity, income, and market risks (interest rate and exchange rate risk controls). The balance of the chapter details the IMF's strategy for handling overdue financial obligations, safeguards assessments of central banks, and the IMF's audit framework and financial reporting and risk-disclosure mechanisms.

6.1 Financial Risk: Sources and Mitigation Framework

The monetary character of the IMF and the need for its resources to revolve require that members with financial obligations to the institution repay them as they fall due so that resources can be made available to other members. The IMF faces a range of financial risks in fulfilling its mandate, relating to credit, liquidity, income, and market risk, and has developed a multilayered financial risk-mitigation framework (Box 6.1).

- **Credit risk** typically dominates, reflecting the IMF's core role as a provider of balance of payments support to members when other financing sources may not be readily available. Credit risk can fluctuate widely since the IMF does not target a particular level of lending or lending growth. Since lending needs may arise from global developments, IMF lending can be highly concentrated and subject to correlated

¹ Article I, paragraph V: "To give confidence to members by making the general resources of the Fund temporarily available to them under adequate safeguards, thus providing them with opportunity to correct maladjustments in their balance of payments without resorting to measures destructive of national or international prosperity."

risks. While credit risk is inherent in the IMF's unique role, it employs a comprehensive set of measures to mitigate such risk and safeguard the resources members provide to the IMF.

- Related to credit risk is **liquidity risk**—the risk that the IMF's resources will be insufficient to meet members' financing needs and its own obligations. Members may make additional demands for credit and may also draw on their reserve tranche positions and draw suddenly and in large amounts from their precautionary arrangements. In addition, under the terms of the New Arrangements to Borrow (NAB) and borrowing agreements, lenders may encash their claims against the IMF if they face balance of payments difficulties.
- The IMF also faces **income risk**—the risk of a shortfall in the ratio of annual income to expenses. This risk has been significant in the past—for example, when lending fell to low levels during the mid-2000s, before the recent global financial crisis. There has been significant progress in implementing the IMF's new income model, which aims to mitigate this risk.
- The IMF does not face significant **market (exchange rate and interest rate) risk** in its lending and funding operations with members, since the same floating interest rate determines both the rate of charge payable to the IMF by borrowing members and the rate of remuneration paid by the IMF to creditor members. In addition, the IMF's balance sheet is denominated in SDRs. The IMF faces market risks on its investment portfolios, though these risks are contained by the adoption of relatively conservative strategies (see [Chapter 5](#)).
- The IMF also self-insures for certain risks (for example, to cover losses of a capital nature) and has strong internal controls to address **operational risks**.

The IMF works to mitigate credit risk in several ways, including through policies on access, limits on financing, and incentives to contain excessively long and heavy use of its resources. It also mitigates credit risk through program design and conditionality, safeguard assessments of central banks, post-program monitoring, measures to deal with misreporting, and an arrears strategy. Liquidity risk is managed through regular quota reviews, as well as maintaining a 20 percent liquidity cushion called the prudential balance, and implemented through the Forward Commitment Capacity and the Financial Transactions Plan² (see [Chapter 2](#)). In addition, the IMF may borrow temporarily to supplement quota resources. The IMF's new income model aims to mitigate income risk and fluctuations. Precautionary balances are an important

element of this model, because they generate investment income for the IMF and are a critical part of the risk management framework. The sections that follow discuss these risk-mitigation factors in more detail.

6.1.1 Credit Risks

6.1.1.1 LENDING POLICIES

Credit risk refers to potential losses on credit outstanding due to the inability or unwillingness of member countries to make repurchases (that is, to repay credit extended to them). Credit risk is inherent in the IMF's unique role in the international monetary system given that the IMF has limited ability to diversify its loan portfolio and generally provides financing when other sources are not available to a member. In addition, the IMF's credit concentration is generally high due to the nature of its lending.

The IMF employs a comprehensive set of measures to mitigate credit risk. The primary tools for credit risk mitigation are the strength of IMF lending policies on access—phasing, program design, and conditionality—which are critical to ensuring that IMF financial support helps members resolve their balance of payments difficulties (see [Chapter 2](#) for a more detailed discussion of the IMF's lending policies). These policies include assessments of members' capacity to implement adjustment policies and repay the IMF including the exceptional access policy for large commitments. This policy subjects potential users of Fund resources to a higher level of scrutiny, including review of compliance with substantive criteria and early involvement of the Executive Board including through a discussion of risks to the IMF if proposed access exceeds 145 percent of their quota annually or 435 percent cumulatively, net of scheduled repurchases.

Credit risks are also mitigated by the structure of charges and maturities, adequate junior cofinancing from other official lenders, and the IMF's preferred creditor status ([Box 6.2](#)). The IMF passes its low cost of funding to borrowers to assist with their adjustment but adds a level- and time-based surcharge premium to moderate large and/or prolonged use of resources and encourage prompt repayment when access to market financing is restored.

In addition, the IMF has systems in place to assess safeguard procedures at members' central banks and to address overdue financial obligations. In the event of arrears, the IMF has a financial strategy for addressing overdue obligations, including a burden-sharing mechanism ([Box 6.3](#)). This mechanism aims to cover income losses related to arrears charges (see [Section 6.2](#)); it can also contribute to the accumulation of precautionary balances (see [Section 6.1.1.2](#)).

Furthermore, the Fund normally employs a system of post-program monitoring with members that have substantial outstanding credit to the Fund but are no longer in a program relationship. Post-program monitoring enhances the Fund's ability to detect risks to the member's repayment capacity and thus safeguard the Fund's resources. In July 2016, the Executive Board adopted changes to the post-program monitoring framework to

² Guidelines for Quarterly Financial Transactions Plan: www.imf.org/external/np/tre/ftp/pdf/0408.pdf.

Table 6.1 Level of Precautionary Balances in the General Resources Account
(Billions of SDRs; as of April 30 each year)

	End of Financial Year								
	2008	2009	2010	2011	2012	2013	2014	2015	2016
Precautionary balances ¹	6.9	7.1	7.3	8.1	9.5	11.5	12.7	14.2	15.2
Reserves	5.8	5.9	6.1	6.9	8.3	10.3	11.5	13.0	14.0
General	3.5	3.5	3.5	4.0	4.9	6.1	7.6	9.0	9.5
Special	2.2	2.4	2.6	2.9	3.4	4.2	4.0	4.0	4.5
SCA-1	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2	1.2
Memorandum items:									
Credit outstanding	5.9	20.4	41.2	65.5	94.2	90.2	81.2	55.2	47.8
Arrears ²	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1	1.1
Principal	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Charges	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8
Precautionary balances to Credit outstanding	117.7	34.7	17.8	12.4	10.1	12.8	15.7	25.7	31.8

Source: Finance Department, International Monetary Fund.

Note: SCA = Special Contingent Account.

¹Precautionary balances as of the end of FY2011 and for subsequent periods exclude profits from gold sales.

²Obligations to the GRA that are 6 months or more overdue. Excludes arrears in the Structural Adjustment Facility (SAF), Poverty Reduction and Growth (PRG) Trust, and the Trust Fund.

make it more risk based and focused. The Board established absolute-size thresholds that would trigger post-program monitoring set at SDR 1.5 billion for GRA credit and SDR 0.38 billion for PRGT credit, to help ensure adequate monitoring of large exposures to the Fund's resources.³ As a backstop, a quota-based threshold of 200 percent of quota in outstanding Fund credit also applies. A post-program monitoring report is expected to be prepared once a year, based on a mission scheduled between annual Article IV consultations. The report should examine in depth the full range of risks to members' capacity to repay, with the analysis tailored to a country's specific circumstances.

6.1.1.2 PRECAUTIONARY BALANCES

Precautionary balances strengthen the IMF's balance sheet, help to ensure the value of members' reserve positions, and safeguard the IMF's financing mechanism (Box 6.4). IMF financial assistance can result in large exposures, and high credit concentration is a likely consequence of the IMF's mandate to respond to members' balance of payments needs. Precautionary balances address residual risks after applying other elements of the multilayered risk-management framework and protect the IMF's balance sheet in the event that it suffers losses as a result of credit or other financial risks (Box 6.1). This function is critical to protecting the value of members' reserve assets and promotes confidence that

members' reserve positions are safe and liquid from a balance sheet perspective.

The IMF's precautionary balances consist of reserves held in the General and Special Reserves and the balance in the Special Contingent Account, or SCA-1 (Box 6.4).⁴ Additions to reserves come through net income allocations determined annually by the Executive Board (including from surcharges), while the SCA-1 has been built up mainly by contributions from IMF debtors and creditors under the burden-sharing mechanism, which are potentially refundable. As of April 30, 2016, precautionary balances amounted to SDR 15.2 billion (Table 6.1).

6.1.1.3 REVIEW OF THE ADEQUACY OF PRECAUTIONARY BALANCES

The IMF conducts regular reviews of the adequacy of precautionary balances. At the 2002 review, a target for precautionary balances of SDR 10 billion was established. This figure took into account a number of considerations, including the possibility of imminent risk to the IMF's credit portfolio, the need to ensure continued compliance with International Financial Reporting Standards (IFRS), and the need to raise the IMF's reserve ratio closer to those of other international financial institutions. The IMF staff also considered it reasonable to double precautionary balances to at least 6 percent of the IMF's credit capacity. The

³ These thresholds are calibrated to reflect the Fund's loss-absorption capacity and correspond to 10 percent of the minimum floor of precautionary balances for credit outstanding from the GRA, and to the end-December 2015 balance in the Reserve Account for credit outstanding from the PRGT, respectively.

⁴ For analytical purposes the IMF's concept of precautionary balances does not include the portion of the Special Reserve attributed to the gold profits and invested in the endowment. As a legal matter, however, the Special Reserve forms part of the IMF's reserves and amounts attributed to gold sales profits may be used for the same purposes as other parts of the Special Reserve.

target was subsequently reaffirmed on three occasions (in 2004, 2006, and 2008).

During the 2008 review of precautionary balances, the Executive Directors asked the IMF staff to develop a more transparent and rules-based framework for reserve accumulation, with forward-looking elements to account for the volatility of IMF lending. They noted that this framework should cover how the reserves target would be set and adjusted over time, the modalities for accumulating reserves, and how reserves in excess of the target would be handled. The Directors emphasized that credit risk should be the primary consideration in assessing reserve adequacy under the new income model (see [Chapter 5](#)), since this model is expected to significantly mitigate the IMF's overall income risk. They also supported use of a variety of forward-looking indicators and further development of scenario analyses and stress tests.

In response to this request, the IMF staff proposed a new framework for assessing reserve adequacy in 2010. Under the framework, the target for precautionary balances would be broadly maintained within a range linked to developments in total credit outstanding. The framework consists of four main elements:

- **Reserve coverage ratio:** The reserve coverage ratio would be set within a range of 20 to 30 percent of a forward-looking measure of credit outstanding, subject to a minimum floor (see below). This proposal draws on approaches of other international financial institutions but seeks to adapt them to the specific circumstances of the IMF.
- **Forward-looking credit measure to anchor the range:** The credit measure used to determine the range would include a strong forward-looking element while also seeking to smooth some of the year-to-year volatility of credit movement. Specifically, it would comprise a 3-year average of credit outstanding covering the previous 12 months and projections for the next 2 years, taking into account scheduled disbursements and repayments under all approved nonprecautionary arrangements.
- **Treatment of precautionary arrangements:** The framework currently does not explicitly include commitments under precautionary arrangements in determination of the range, but allows for these commitments to be taken into account when the Executive Board decides where to set the target.
- **A minimum floor for the target:** The framework includes a minimum floor for precautionary balances to protect against an unexpected increase in credit risk and ensure a sustainable income position.

Most Directors supported this framework at the 2010 review. They agreed to raise the medium-term target for precautionary balances to SDR 15 billion. They also generally supported setting a minimum floor for precautionary balances at SDR 10 billion, while highlighting the need to keep this under review. Consistent

with the framework, the medium-term target was subsequently increased to SDR 20 billion at the time of the review in April 2012 ([Table 6.1](#)). At the most recent review in February 2016, Directors supported retaining the medium-term indicative target for precautionary balances of SDR 20 billion. The minimum floor for precautionary balances was raised to SDR 15 billion, a level deemed more consistent with maintaining a long-term sustainable income position and one that would provide a larger buffer to protect against unexpected increases in credit in a future environment of low-lending by the IMF.

6.1.2 Liquidity Risks

Liquidity risk is the risk that the IMF's resources may not be sufficient to meet the financing needs of members and its own obligations. The IMF must have adequate usable resources available to meet members' demand for IMF financing. While the IMF's resources are largely of a revolving nature, uncertainties in the timing and amount of credit extended to members during financial crises expose the IMF to liquidity risk. Moreover, the IMF must also stand ready to (1) meet, upon a member's representation of need, demands for a drawing of a member's reserve tranche position, which is part of the member's reserves, and (2) make drawings under borrowing agreements to fund encashment requests from lenders under bilateral borrowing agreements or the NAB in case of balance of payments need of the relevant creditor member.

The IMF's financial structure helps mitigate liquidity risk, but the volatility and uncertainty in the timing and size of members' needs for financing, as well as the potential demands from members to draw on their reserve tranche positions, require appropriate management of that liquidity risk. The IMF does not use market financing to cover unanticipated liquidity needs, but rather takes a multifaceted approach to ensure sufficient financial resources to cover its members' financing needs:

- The IMF's main measure of its capacity to make new GRA resources available to its members—the Forward Commitment Capacity (FCC)—is closely monitored by the Executive Board, management, and staff. The FCC equals uncommitted usable resources from quota and IMF borrowing, plus repurchases 1 year forward, minus repayment on borrowing 1 year forward, minus the prudential balance, minus undrawn balances under existing arrangements ([Box 6.6](#)). A modified FCC has been developed to take into account shorter-term availability of resources under the amended and expanded NAB—see [Chapter 2](#). The maximum activation period within which the IMF can make commitments funded with NAB resources is 6 months.
- IMF lending is based on an exchange of assets. Members whose currencies are used in GRA lending operations are reviewed and approved by the Executive Board on a quarterly basis in the Financial Transactions Plan (FTP). In the FTP, the IMF staff specifies the amount of SDRs and selected

member currencies to be used in transfers and receipts expected to be conducted through the GRA during that period. The selection of members to participate in financing IMF lending transactions takes into account recent and prospective developments in balance of payments and reserves, trends in exchange rates, and the size and duration of external debt obligations. Use of the IMF's holdings of these currencies in lending operations results in FTP members receiving, in exchange, a liquid claim on the IMF (reserve tranche position) that earns interest based on the SDR interest rate.⁵ The NAB employs a similar quarterly liquidity review called the Resource Mobilization Plan (RMP) (see [Chapter 2](#)).

- Longer-term resource needs are assessed in General Quota Reviews of the adequacy of members' quotas for meeting the demand for IMF financing that take place at least every 5 years. The methodology is not defined under the Articles, but the size of the IMF in terms of quota has been assessed historically against global economic indicators such as GDP, trade and capital flows, and estimates of members' needs (see [Chapter 2](#)).
- The IMF may borrow to supplement its quota resources. It has two standing borrowing arrangements—the NAB, which is the main backstop for quota resources, and the General Arrangements to Borrow (GAB), which can be used in limited cases. The IMF has also employed ad hoc bilateral borrowing with official lenders, and may borrow from the private markets, although it has never done so (see [Chapter 2](#)).
- The prudential balance is intended to safeguard the liquidity of creditors' claims and take account of the potential erosion of the IMF's resource base. The prudential ratio of 20 percent set by the IMF's Executive Board reflects historical experience and judgments on the indicative level of uncommitted usable resources that the IMF would normally not use to make financial commitments (see [Box 6.6](#)).
- Level- and time-based surcharges mitigate large and long use of IMF credit, supporting the revolving nature of IMF

resources by providing an incentive to repurchase IMF credit when market access is regained.

- Commitment fees also help contain risks to the Fund's liquidity. The current upward sloping fee structure was introduced as part of the broader reforms to the GRA lending toolkit in 2009 with the aim of discouraging unnecessarily high precautionary access (see [Box 5.3](#)).
- Access limits are a further element of the Fund's risk management framework to help preserve Fund liquidity and the revolving character of Fund resources (see [Access Policy Chapter 2](#)).

6.1.3 Income Risk

The IMF also faces income risk—the risk of a shortfall in annual income relative to expenses. This risk has occurred at certain times in the past, including when lending fell to very low levels during the run-up to the global financial crisis. [Chapter 5](#) explains how the IMF generates income to finance its administrative expenditures, highlighting the ways in which the IMF has adapted the financial structure in order to broaden its sources of income. The new income model is intended to mitigate income risk associated with decreased lending and is based on more diverse sources of revenue that are appropriate to support the IMF's mandated broad range of activities. In addition, precautionary balances—which also generate investment income—add further protection to the Fund's income. Other measures to mitigate income risk include changes in the margin on the basic rate of charge and surcharges as well as the burden-sharing mechanism.

6.1.3.1 INTEREST RATE RISK

Interest rate risk is the risk that the future cash flows will fluctuate because of changes in market interest rates. The IMF mitigates interest rate risk primarily by linking the rate of charge to the rate of remuneration. To minimize the effect of interest rate fluctuations on income, the IMF links the rate of charge directly to the SDR interest rate (and thus to the rate of remuneration, which has often been set at 100 percent of the SDR interest rate before burden-sharing adjustments).

Interest rate risk related to bilateral borrowings, issued notes, and borrowings under the enlarged and amended NAB is limited since claims from drawings are currently remunerated at the SDR interest rate. The proceeds from borrowings are used to extend credit to member countries at the rate of charge, which is based on the SDR interest rate plus a margin, or to repay borrowings under bilateral borrowing agreements and the enlarged and amended NAB.

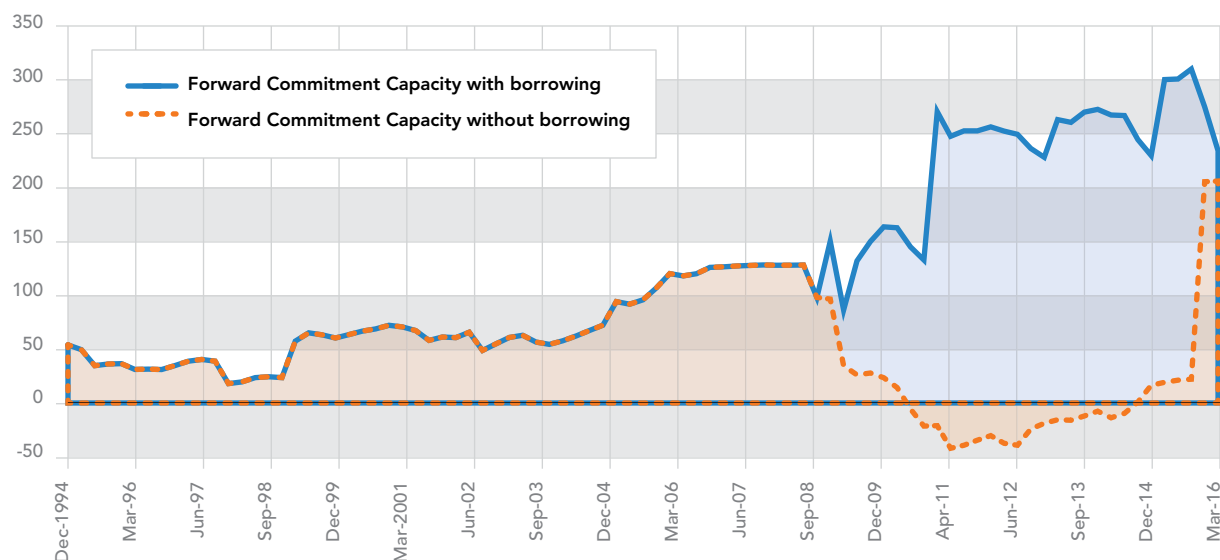
Interest rate risk on investments is limited by prudent limits on duration. In the case of the Fixed-Income Subaccount of the Investment Account, interest rate risk is controlled by the short duration of portfolios. In the case of trust assets, the duration of the investment portfolio is limited to a weighted average effective duration that does not exceed 3 years (see [Chapter 5](#)).

⁵ IMF reserve positions, which are part of members' reserve assets, must be fully liquid and readily available for use if needed. Members' reserve positions at the IMF are the sum of the reserve tranche that reflects the reserve assets the member has provided to the IMF under its quota-based obligations and use of the member's currency in the IMF's lending operations, plus any indebtedness of the IMF in the GRA that is readily available to the member to meet balance of payments financing needs (see [Chapter 2](#)). The IMF's *Balance of Payments and International Investment Position Manual Sixth Edition* (BPM6) defines reserve assets as "those external assets that are readily available to and controlled by monetary authorities for meeting balance of payments financing needs, for intervention in exchange markets to affect the currency exchange rate and for other resulted purposes..." To be readily available, reserve assets generally should be of high quality. (See BPM6, [Chapter 6](#), paragraphs 6.64 and 6.70.)

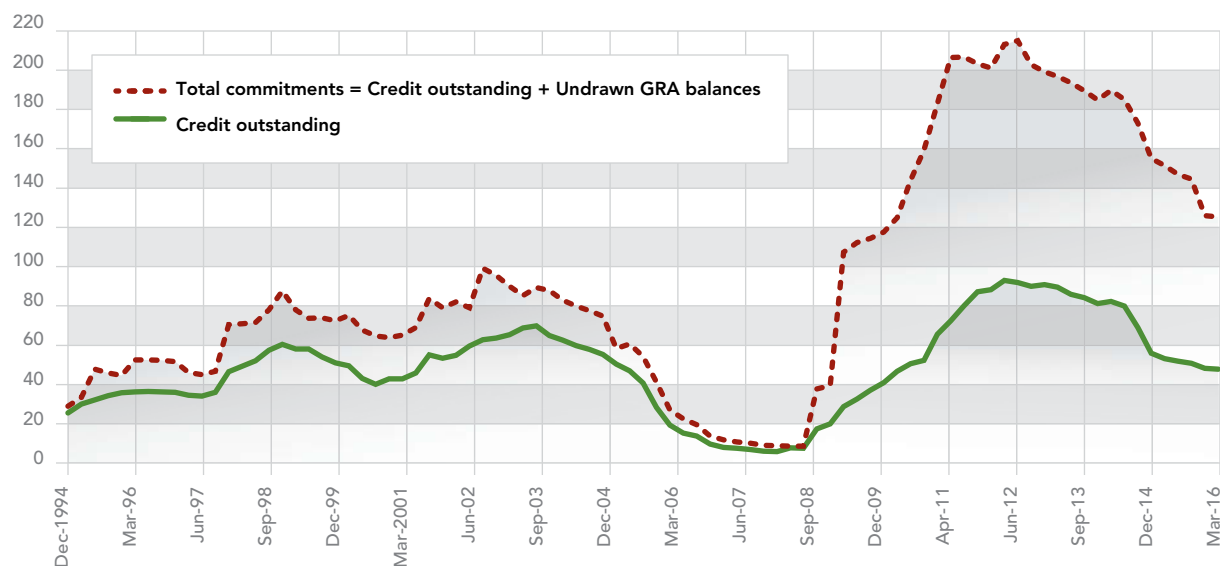
Figure 6.1 Forward Commitment Capacity: How the IMF Augments Quota Resources through Borrowing, December 1994–April 2016

(Billions of SDRs)

Forward Commitment Capacity



GRA Total Commitments and Credit Outstanding



Source: Finance Department, International Monetary Fund.

Note: GRA = General Resources Account.

Table 6.2 The IMF's Liquidity, 2010–16
(Billions of SDRs; as of April 30 each year)

	2010	2011	2012	2013	2014	2015	2016
End of Period							
Usable Resources ¹	314.2	423.4	396.4	397.3	408.7	435.7	430.3
Of Which: Available Borrowing to Finance Pre-NAB Commitments ²	166.3	58.0	43.2				
Available Borrowing to Finance Pre/Post-NAB Commitments ²		1.5	1.4				
Available under NAB Activations ³		211.0	206.3	242.0	242.8	252.3	38.4
Less: Undrawn Balances under GRA Arrangements	76.3	115.9	121.6	108.0	113.3	99.1	77.6
Plus: Repurchases Due in Next 12 Months	1.9	3.3	13.7	20.4	16.9	8.9	2.2
Less: Repayments of Borrowing Due 1-Year Forward			1.1	5.4	8.3	4.5	2.6
Less: Prudential Balance	70.7	40.1	40.0	39.7	39.7	39.7	79.6
Equals: 1-Year Forward Commitment Capacity	169.1	270.7	247.4	264.7	264.3	301.4	272.8
Memorandum Items, End of Period:							
Flows During the Period							
New Commitments ⁴	77.6	142.2	52.6	75.1	24.2	79.8	5.6
Purchases	21.1	26.6	32.2	10.6	11.7	12.0	4.7
Repurchases	0.3	2.3	3.6	14.6	20.6	38.0	12.1
Total Credit Lines under GAB/NAB	34.0	367.5	370.0	370.0	370.0	370.0	182.4
Quotas of Members in Financial Transactions Plan	179.9	198.7	198.4	198.3	198.3	198.3	396.6
GRA Credit Outstanding	41.2	65.5	94.2	90.2	81.2	55.2	47.8
Active Borrowing Agreements ⁵	172.6	169.3	169.7				
Outstanding Borrowing by the IMF	6.4	19.7	40.0	45.5	47.3	36.8	47.8

Source: Finance Department, International Monetary Fund.

Note: Columns may not add up due to rounding.

¹Usable resources consist of: (1) the IMF's holdings of the currencies of Financial Transactions Plan (FTP) members, (2) holdings of SDRs, and (3) unused amounts available under activated bilateral loan and note purchase agreements, and unused amounts available under the New Arrangements to Borrow/General Arrangements to Borrow (NAB/GAB) when these have been activated.

²Effective April 1, 2013, the Board approved termination of any further drawings under these Fund bilateral borrowing and note purchase agreements, which were concluded in 2009/2010 prior to activation of the NAB.

³Reflects activation of the enlarged NAB for successive 6-month periods since April 1, 2011, until February 25, 2016.

⁴Gross amounts of new commitments not netted for undrawn balances under expired/cancelled arrangements. Includes disbursements under Emergency Assistance.

⁵Total amount made available under active borrowing agreements, including amounts already disbursed: only available for pre-NAB purchases.

Due to its return objective, the investments of the Endowment Subaccount are exposed to a larger set of risks, including interest rate risk. The conservative and diversified nature of the Endowment Subaccount asset allocation ensures that these risks are limited and balanced. Its relatively small size also limits the impact of adverse market movements on the IMF's overall balance sheet.

Procedures are in place to periodically review the strategy of the Investment Account, including the adequacy of risk limits. Within the scope of the investment authority under the Articles, the Executive Board endorses the investment objective, strategic benchmark, and main risk control procedures for all IA investments through the adoption of the Rules and Regulations for the IA.⁶ Formal agreements with managers and custodians bind them to act within the IMF's risk approach (see Chapter 5).

⁶The strategic benchmark was selected based on an analysis of historical returns and forward-looking assumptions, as well as on consultations with asset managers in the private sector, with international organizations, and certain central banks of IMF members.

6.1.3.2 EXCHANGE RATE RISK

Exchange rate risk is the exposure to the effects of fluctuations in foreign currency exchange rates on an entity's financial position and cash flows. The IMF has no exchange rate risk exposure on its holdings of members' currencies in the GRA since, under the Articles of Agreement, members are required to maintain the value of such holdings in terms of the SDR. Any depreciation/appreciation in a member's currency vis-à-vis the SDR gives rise to a currency valuation adjustment receivable or payable that must be settled by the member promptly after the end of the financial year or at other times as requested by the IMF or the member. The IMF has other assets and liabilities, such as trade receivables and payables, denominated in currencies other than SDRs and makes administrative payments largely in U.S. dollars, but the exchange rate risk exposure from these other assets and liabilities is limited.

Investments of the Fixed-Income Subaccount and the trusts are exposed to very limited exchange rate risk. The portfolios include securities—Bank for International Settlements (BIS) Medium-Term Instruments and government bonds—denominated in

the constituent currencies of the SDR based on the weight of each currency in the SDR basket. However, because securities included in the portfolio change in value over time and generate cash flows, the weight of each currency in the portfolio differs slightly from the weights in the SDR basket, generating some residual exchange rate risk. This risk is mitigated by regular (at least monthly) rebalancing of the portfolio. Regarding the Endowment Subaccount, the impact of foreign exchange volatility is controlled through mandatory hedging of part of the assets back to the base currency, the U.S. dollar (see [Chapter 5](#)).

6.2 Overdue Financial Obligations

6.2.1 Overview

In its first four decades, the IMF's experience with member countries in making timely payments was generally satisfactory. However, beginning in the early 1980s, the number and amount of late payments increased significantly. Overdue obligations to the IMF rose from SDR 178 million at the end of 1984 to a peak of SDR 3.6 billion at the end of 1991 ([Box 6.10](#)). Although most delays were temporary and quickly corrected, the increase in protracted arrears (defined as overdue financial obligations of 6 months or more) raised serious concerns and highlighted the need for procedures to deal systematically with arrears ([Box 6.7](#)).

In the late 1980s and early 1990s, the IMF strengthened its procedures for dealing with overdue obligations with the aim of preventing the emergence of additional overdue financial obligations and eliminating existing ones. This culminated in the establishment of the Strengthened Cooperative Strategy on Overdue Financial Obligations in the early 1990s. The strengthened cooperative arrears strategy comprises three elements: (1) the prevention of arrears, (2) collaboration in clearing arrears, and (3) remedial measures against continuing arrears. To further encourage members in protracted arrears to cooperate, the IMF established a policy in mid-1999 on the de-escalation of remedial measures. This policy lifted some remedial measures if the member established a solid record of cooperation with the IMF on policies and payments.

The cooperative arrears strategy has been broadly successful in helping to resolve the cases of protracted arrears that existed at the end of the 1980s and preventing new cases of protracted arrears from emerging. Of the 11 cases of protracted arrears at the end of 1989, 8 were resolved by the mid-1990s; another case (Liberia) was resolved in 2008. Nine new cases of protracted arrears emerged since the establishment of the arrears strategy. As of the end of April 2016, only three cases of protracted arrears remained—Somalia, Sudan, and Zimbabwe ([Table 6.3](#)). Clearing these arrears is complicated by domestic conflict, international sanctions, or both. Sudan accounts for about three-quarters of the total ([Table 6.4](#)).

Reflecting success in resolving past cases of arrears and preventing the emergence of new cases, the level of overdue financial

obligations to the IMF has declined sharply, from its peak of SDR 3.6 billion at the end of 1991 to SDR 1.3 billion at the end of April 2016 ([Figure 6.2](#)). In addition, as of end-April 2016, as a percent of credit outstanding, arrears were at their lowest level in 27 years ([Figure 6.3](#)). The largest share of the arrears to the IMF was to the GRA (87 percent), with the balance due to the Trust Fund, the Special Disbursement Account, and the Poverty Reduction and Growth Trust—overdue charges and interest accounted for about two-thirds of the total. On June 30 and July 13, 2015, Greece did not settle repurchase obligations falling due amounting to SDR 1,232 million and SDR 360 million, respectively. While the overdue financial obligations were outstanding, Greece was not permitted to receive any further Fund financing. Greece subsequently settled these overdue obligations on July 20, 2015.

6.2.2 Cooperative Strategy on Overdue Financial Obligations

The Strengthened Cooperative Strategy consists of three elements: (1) preventive measures to avoid new arrears from emerging, (2) intensified collaboration with members in arrears, and (3) remedial measures of increasing intensity to encourage members to cooperate with the IMF in seeking a solution to their arrears.

6.2.2.1 PREVENTION

The IMF's best safeguard against the emergence of arrears is the quality of IMF supported programs. In this context, the IMF places priority on (1) assisting members in designing strong and comprehensive economic programs; (2) carefully assessing the access of members to IMF financial support and the phasing of such support; (3) conducting an explicit assessment of a member's capacity and willingness to repay the IMF; and (4) ensuring adequate balance of payments financing during the IMF arrangement. The IMF also introduced the safeguards policy in 2000 to obtain reasonable assurance that central banks of member countries using IMF resources have appropriate control systems in place to manage the resources adequately and to provide reliable information. In addition, the IMF continues to emphasize the importance of remaining current with the IMF. In some cases, specific financial or administrative arrangements can be used to ensure timely repayments to the IMF, including through the advance purchase of SDRs to provide for the settlement of forthcoming obligations.

6.2.2.2 COLLABORATION

To normalize relations with the IMF, the collaborative element of the arrears strategy provides a framework for cooperating members in arrears to establish a strong track record of policy performance and payments to the IMF. Accordingly, members use their own financial resources, or support from creditors, in order to clear their arrears to the IMF and regain access to IMF financial support (see [Section 6.2.3](#)). In this context the IMF developed the Staff-Monitored Program (SMP) and Rights Accumulation

Table 6.3 History of Protracted Arrears to the IMF

Country	Arrears			
	Period	Duration (years)	SDR millions	Percent of Quota
Up to 1979				
Cuba	1959 64	5.0	...	...
Egypt	1966 68	2.0	...	...
Cambodia	Mar. 1975 Oct. 92	18.6	36.9	147.6
1980 89				
Nicaragua	Feb. 1983 Apr. 85	2.2	14.4	21.0
Guyana	Apr. 1983 Jun. 90	7.2	107.7	217.7
Chad	Jan. 1984 Nov. 94	10.8	4.1	13.4
Vietnam	Feb. 1984 Oct. 93	9.7	100.2	41.5
Sierra Leone	Nov. 1984 Sep. 86	1.8	25.1	43.3
Sudan	Jul. 1984 present	...	970.1 ¹	571.7
Liberia	Dec. 1984 Mar. 2008	23.3	543.0	761.6
Tanzania	Mar. 1985 Jul. 86	1.3	22.9	21.4
Zambia	Apr. 1985 Jan. 86	0.8	115.1	42.6
Gambia, The	Jun. 1985 Jul. 86	1.1	10.6	62.0
Peru	Sep. 1985 Mar. 93	7.5	621.0	187.7
Jamaica	Apr. 1986 Jan. 87	0.8	50.0	34.4
Zambia	Apr. 1986 Dec. 95	9.7	830.2	307.1
Sierra Leone	Jan. 1987 Mar. 94	7.2	85.5	147.7
Somalia	Jul. 1987 present	...	236.8 ¹	535.7
Honduras	Oct. 1987 Nov. 88	1.1	3.3	4.9
Panama	Dec. 1987 Feb. 92	4.2	180.9	177.0
Congo, Democratic Republic of the	Jun. 1988 May 89	0.9	115.4	39.6
Haiti	Oct. 1988 Sep. 89	0.9	9.2	20.9
Honduras	Nov. 1988 Jun. 90	1.6	27.5	40.6
1990 present				
Iraq	May. 1990 Sep. 2004	14.3	55.3	11.0
Dominican Republic	Aug. 1990 Apr. 91	0.7	24.3	21.6
Congo, Democratic Republic of the	Nov. 1990 Jun. 2002	11.6	403.6	138.8
Haiti	Nov. 1991 Dec. 94	3.1	24.8	40.9
Bosnia and Herzegovina	Sep. 1992 Dec. 95	3.3	25.1	20.7
Yugoslavia	Sep. 1992 Dec. 2000	8.3	101.1	21.6
Central African Republic	Jun. 1993 Mar. 94	0.8	1.6	3.8
Afghanistan	Nov. 1995 Feb. 2003	7.3	8.1	6.7
Zimbabwe	Feb. 2001 present	...	78.8 ^{1,2}	11.1

Source: Finance Department, International Monetary Fund.

¹As of April 30, 2016.²Arrears to the Poverty Reduction and Growth Trust. Zimbabwe's arrears to the General Resources Account were cleared in February 2006.**Table 6.4 Arrears to the IMF of Countries with Obligations Overdue by Six Months or More, by Type and Duration**

(Millions of SDRs; as of April 30, 2016)

	By Type				By Duration		
	Total	General Department ¹	Trust Fund	PRGT	Less than 6 months	Over 6 months	3 years or more
Somalia	236.8	228.5	8.3		0.5	236.2	233.5
Sudan	970.1	887.7	82.4		1.1	969.1	963.7
Zimbabwe	78.8			78.8	0.0	78.8	78.6
Total	1,285.7	1,116.2	90.7	78.8	1.6	1,284.1	1,275.7

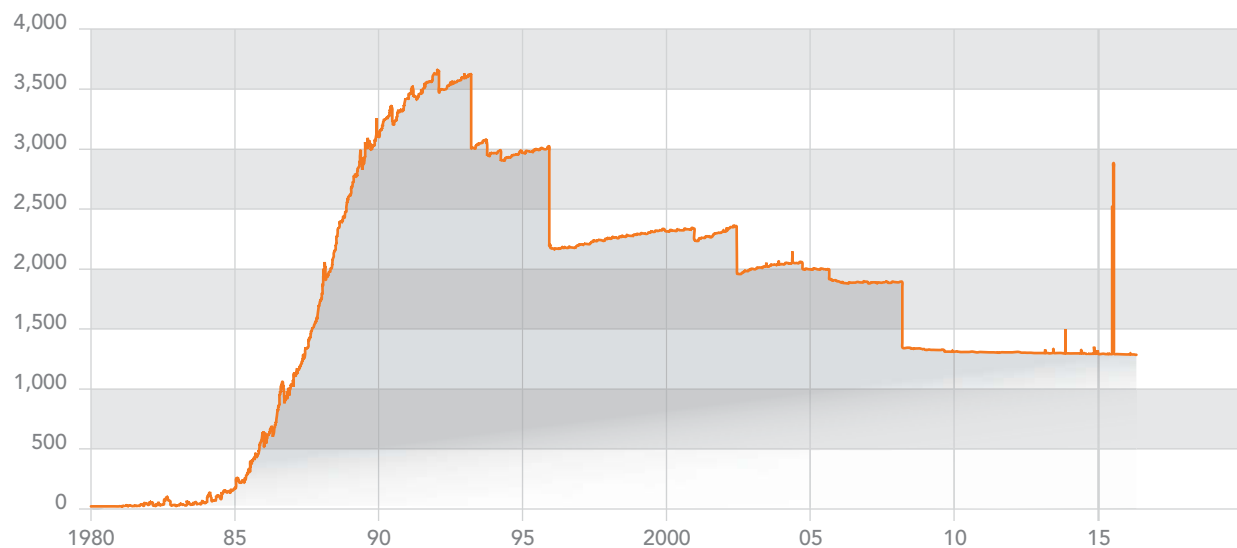
Source: Finance Department, International Monetary Fund.

Note: Numbers may not add up to totals due to rounding.

¹Includes Structural Adjustment Facility.

Figure 6.2 Overdue Financial Obligations to the IMF, 1980–2016

(Millions of SDRs; as of April 30, 2016)

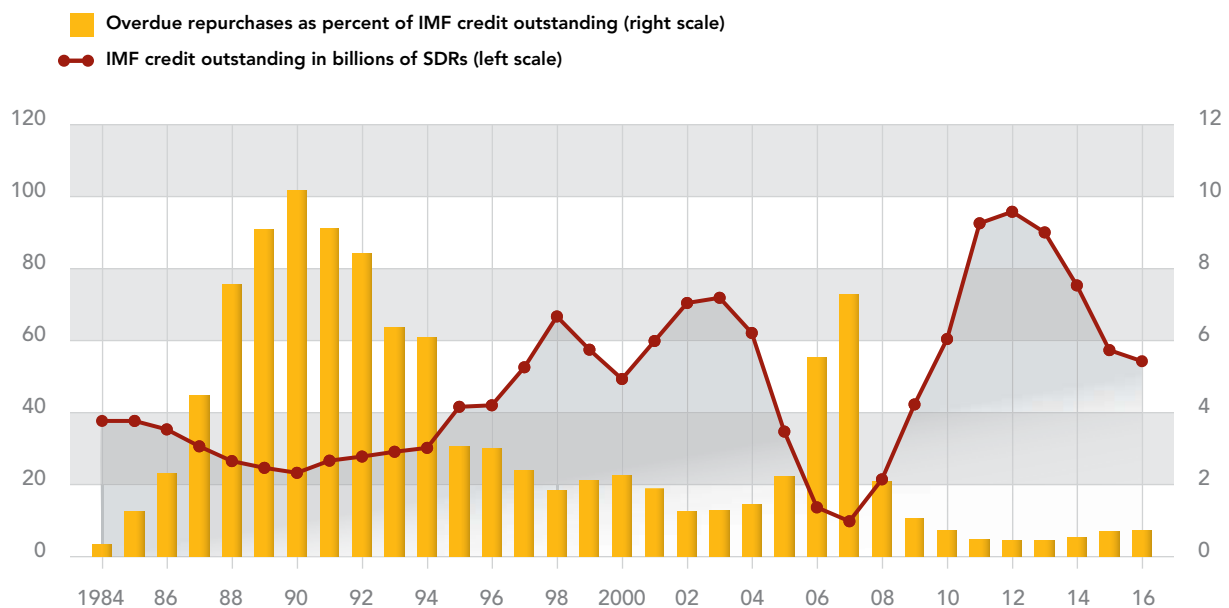


Source: Finance Department, International Monetary Fund.

Note: The sharp drops in arrears in 1993, 1995, 2002, and 2008 were largely attributable to arrears clearance by Peru, Zambia, Democratic Republic of the Congo, and Liberia, respectively.

Figure 6.3 IMF Credit Outstanding and Overdue Obligations, 1984–2016

(As of April 30, 2016)



Source: Finance Department, International Monetary Fund.

Program (RAP) to help members in arrears establish the required track record.⁷

THE RIGHTS ACCUMULATION PROGRAM

The rights approach was established in 1990 with eligibility limited to the 11 members in protracted arrears to the IMF at the end of 1989.⁸ Under the RAP, a member in arrears may earn a “right”—that is, a claim toward a future disbursement from the IMF in a future arrangement. This future disbursement is conditioned on establishing a track record on policies and payments to the IMF in the context of an adjustment program monitored by the IMF, clearance of the member’s overdue obligations, and approval of a successor arrangement by the IMF. The rights approach facilitated the clearance of arrears and normalization of financial relations with Peru (1993), Sierra Leone (1994), and Zambia (1995), and remains available to Somalia and Sudan.⁹

All RAPs involve upper credit tranche conditionality and require modified financing assurances.¹⁰ Under these programs, members are expected to adopt and implement strong adjustment programs that establish a credible track record of policy implementation and help create conditions for sustained growth and substantial progress toward external viability. Such programs should adhere to the macroeconomic and structural policy standards associated with programs in the upper credit tranches and the PRGT. To support the member’s adjustment efforts, adequate external financing is required for the program, including debt rescheduling and relief from bilateral and private creditors and new financing from various sources. Under the RAPs members are expected, at a minimum, to remain current with the IMF and the World Bank on obligations falling due during the period of the program. RAPs are normally 3 years in duration, although there is flexibility to tailor the length of the track record to the member’s specific circumstances.¹¹

⁷ Historically, IMF-Monitored Programs were also used to clear arrears. Like RAPs, such programs were expected to adhere to the macroeconomic and structural policy standards associated with programs in the upper credit tranches. The arrears of Guyana (1989) and Panama (1990) to the IMF were cleared through IMF-Monitored Programs.

⁸ These were Cambodia, Guyana, Honduras, Liberia, Panama, Peru, Sierra Leone, Somalia, Sudan, Vietnam, and Zambia.

⁹ To reassure lenders to the PRGT that they would be repaid for PRGT (formerly PRGF—Poverty Reduction and Growth Facility) loans made in connection with the encashment of rights under the RAP, the IMF in 1993 pledged to sell up to 3 million ounces of gold if it was determined that the PRGT Reserve Account, plus other available means of financing, were insufficient to meet payments due to creditors.

¹⁰ Financing assurances were modified from the usual IMF arrangements in the sense that arrears to the IMF (and possibly to other multilateral institutions) could remain outstanding during the program period, although members are expected to make maximum efforts to reduce their overdue obligations to the IMF.

¹¹ The length of the RAPs of the three countries that have made use of the rights approach was 1½ years for Peru, 1¾ years for Sierra Leone, and 3 years for Zambia.

STAFF-MONITORED PROGRAMS

Staff-Monitored Programs (SMPs) may be used in arrears cases if capacity constraints and/or insufficient financing assurances make it difficult for a member with protracted arrears to adopt and implement programs that meet the standards of upper credit tranche conditionality.¹² In such circumstances, informal staff monitoring has allowed the IMF staff to engage in intensive policy dialogue, helping establish or reestablish a track record on policies and payments to the IMF that can also be informative to creditors and donors as to the member’s commitment to credible and sound policies. As regards payments to the IMF, it is expected that the member will make payments at least equal to newly maturing obligations. The arrears of Vietnam (1993), the Democratic Republic of the Congo (2002), and Liberia (2008) were cleared under this approach.

POST-CONFLICT CASES

In the late 1990s, the IMF’s Executive Board noted the special challenges posed by large protracted arrears in postconflict countries. Noting that the IMF’s arrears strategy had been effective in restoring relations with countries in a wide range of situations, the Executive Board in 1999 agreed to relax its call for payments as a test of cooperation, provided a member is judged cooperative on policies and provided all other multilateral creditors take at least comparable action.¹³

6.2.2.3 REMEDIAL MEASURES

Remedial measures are applied to member countries with overdue obligations to the IMF that are not actively cooperating with the IMF in seeking a solution to their arrears problem (Box 6.8). Since arrears to the Poverty Reduction and Growth Trust (PRGT) are not a breach of obligations under the IMF’s Articles of Agreement, the Executive Board in August 2001 adopted a timetable of remedial measures for arrears to the PRGT. This timetable parallels to the extent possible the timetable of remedial measures for arrears to the General Resources Account (Box 6.9). Remedial measures are applied under an escalating time schedule. The timetable guides Executive Board consideration of remedial measures of increasing intensity, although the application of each particular step is considered in light of the individual circumstances of the member concerned.

A member’s cooperation with the IMF is reviewed periodically. Once a member is declared ineligible to use the IMF’s general

¹² A Staff-Monitored Program is an informal and flexible instrument for dialogue between the IMF staff and a member country on its economic policies and not necessarily specifically intended for arrears cases. Under a Staff-Monitored Program the country’s targets and policies are monitored by the IMF staff; a Staff-Monitored Program is not supported by the use of the Fund’s financial resources; nor is it subject to the endorsement of the Executive Board of the IMF.

¹³ Similarly, flexibility would be applied with respect to payments to the Fund by members in protracted arrears that have been hit by a qualifying catastrophe or health disaster. In assessing such members’ cooperation on payment under the de-escalation policy (Box 6.10), the IMF would exercise flexibility in accepting significantly reduced payments.

resources or, in the case of the PRGT, once the Executive Board has limited a member's use of such resources, the Board reviews the member's situation every year. In cases where civil conflict, the absence of a functioning government, or international sanctions prevent the IMF from making a judgment regarding a member's cooperation on policies and payments, the application of these measures is delayed or suspended until such a judgment can be reached.

A number of remedial measures have been applied against the countries that remain in protracted arrears to the IMF or PRGT. As of April 2016, Somalia and Sudan remained ineligible to use the general resources of the Fund. Zimbabwe was removed from the list of PRGT-eligible countries in September 2001. The June 2002 declaration of noncooperation and suspension of technical assistance (TA) also remains outstanding against Zimbabwe, though the suspension of TA was partially lifted in targeted areas in 2009, and further in 2012.

To further encourage members in protracted arrears to cooperate with the IMF in solving their arrears problems, the Executive Board in 1999 established understandings regarding the de-escalation of certain remedial measures (see [Box 6.10](#)). The de-escalation policy outlines the principles and the sequence of remedial measures withdrawal. The de-escalation process aims to encourage members in arrears to initiate economic reforms and establish a strong payment record with the IMF, culminating in the full clearance of arrears and restoration of access to the IMF's financial resources. Basic steps in the de-escalation process include: (1) a determination by the Executive Board that the member has begun to cooperate with the Fund; (2) the establishment of an evaluation period during which the member's commitment to resuming a normal relationship with the Fund would be assessed and the sustainability of the member's cooperation would be tested; and (3) the phased lifting of remedial measures including a declaration of noncooperation and measures under Article XXVI of the IMF's Articles of Agreement (for example, lifting of the suspension of voting rights). The de-escalation policy was applied for the first time in August 1999 in the case of Sudan and again to Liberia, in October 2006.

6.2.3 Arrears Clearance Modalities

A number of modalities allow members with overdue financial obligations to the IMF to clear their arrears, including using their own financial resources, grants from donors, or a bridge loan from key creditors. In the case of the latter, the IMF can assist the member in arranging for an intraday bridge loan from key creditors without interest, charge, or other cost. Following clearance of its arrears to the IMF and the Executive Board's approval of a new IMF financial arrangement, the member uses the proceeds of the first disbursement, made available on the same day as the arrears clearance, to settle the outstanding bridge loan. Historically, the bridge loan modality has been used in most arrears clearance. Most recently, Afghanistan (2003) used grant contributions from

a group of creditors to clear its arrears to the IMF, Iraq (2004) used its own financial resources, and Liberia (2008) used an intraday bridge loan from another member.

6.2.4 Special Charges

The IMF levies special charges on overdue repurchases or repayments. For overdue obligations to the GRA, special charges apply only to arrears of less than 6 months duration.¹⁴ The IMF currently sets the special rate of charge on overdue repurchases at zero. The special charge on overdue charges, levied for 6 months in the GRA, is set equal to the SDR interest rate.¹⁵ Overdue repayments or interest to the PRGT are charged interest at the SDR interest rate instead of the usual concessional rates on PRGT loans.

Historically, the IMF accumulated reserves to protect against the risk of administrative deficits and capital loss. When overdue financial obligations became significant in the early 1980s, it affected the IMF's income. To avoid an overstatement of actual income, the Executive Board decided in March 1985 that charges due but not settled from members in arrears to the IMF for 6 months or more were to be reported as deferred, rather than current, income. Since that time, charges accrued from those members and not paid are excluded from income unless the member becomes current in paying its charges. Since May 1986, the financial consequences of overdue obligations to the IMF have, to the extent possible, been shared equally between debtor and creditor member countries through the burden-sharing mechanism ([Box 6.3](#)). When deferred charges are settled by members clearing protracted arrears, equivalent amounts are distributed to members that previously paid higher charges or received reduced remuneration.

To safeguard itself against potential losses resulting from the ultimate failure of members in protracted arrears to settle their financial obligations to the IMF, the First Special Contingent Account (SCA-1) was established in 1987 ([Box 6.4](#)). After an initial placement of SDR 26.5 million of excess income in that year, the additions to the SCA-1 have primarily been funded through burden-sharing adjustments to the rate of charge and the rate of remuneration. The IMF Executive Board suspended further accumulation in the SCA-1 effective November 2006, and in March 2008 refunded SDR 0.5 billion to contributors as part of a comprehensive financing package for debt relief for Liberia. Balances in the SCA-1 are refundable to the contributing creditor and debtor member countries when all overdue obligations have been settled, or earlier if the IMF so decides. As of April 30, 2016, the balance in the SCA-1 was SDR 1.2 billion.

¹⁴ Special charges are limited to overdue repurchase obligation of less than 6 months. These charges may be an incentive to settle obligations, but there is concern that in the long term they may add to the problem of members' overdue obligations and further complicate eventual arrears clearance. The same considerations lie behind the decision not to levy any special charges on charges overdue for six months or longer.

¹⁵ The short duration of the levy of special charges on overdue charges significantly reduces interest compounding on overdue obligations.

6.3 Safeguards Assessments of Central Banks

6.3.1 History and Objectives

The safeguards policy applies to members seeking financing from the IMF (Box 6.11). Its main objective is mitigation of the potential risk of misuse of resources and misreporting of monetary program data. The policy complements the IMF's other safeguards, which include limits on access, program design and conditionality, measures to address misreporting (Box 6.12), and post-program monitoring.

The specific objective of safeguards assessments is to provide reasonable assurances to the IMF that central banks of members using IMF resources have governance, control, reporting, and auditing systems in place to ensure the integrity of operations and to manage resources, including IMF disbursements. Assessments involve a diagnostic evaluation of these systems, followed by monitoring activities for as long as IMF credit is outstanding. A cornerstone of the safeguards policy is that central banks publish financial statements that have been independently audited by external auditors in accordance with international standards. Safeguards assessments are distinct from audits in that they entail high-level diagnostic reviews of the structures and mechanisms in place rather than a detailed test of transactions or verification of assets.

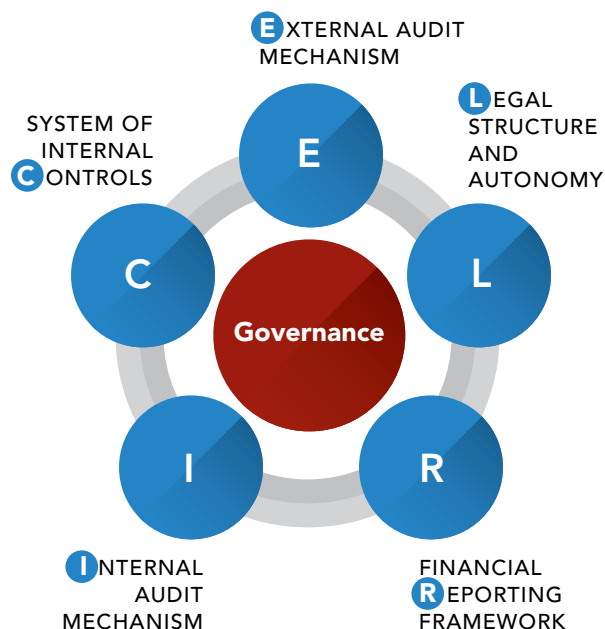
The safeguards policy was introduced in March 2000 and is subject to periodic reviews by the Executive Board, most recently concluded in October 2015.¹⁶ The 2015 review, which involved consultations with various stakeholders and central banks, reaffirmed the importance of the safeguards assessment policy in helping to mitigate the risks of misreporting and misuse of IMF resources, and in maintaining the IMF's reputation as a prudent lender. It also noted that the safeguards process has helped central banks improve their control, audit, and reporting practices. Overall, the Executive Board found the framework for conducting safeguards assessments relevant and adequate and streamlined some applicability requirements (Box 6.11). Fiscal safeguards reviews of state treasuries were introduced as a new element to the safeguards policy for Fund arrangements that involve direct budget support (see Section 6.3.4).

6.3.2 Conceptual Framework: Governance and Controls

A safeguards assessment is a diagnostic review of a central bank's governance and control framework carried out by IMF staff. The assessments evaluate the adequacy of five key areas of control and governance within a central bank. These areas are denoted by the

¹⁶ The review included a discussion of an IMF staff paper and a report prepared by an independent panel of experts, which are available on the IMF's external website: www.imf.org/external/np/sec/pr/2015/pr15489.htm.

Figure 6.4 Safeguards Analytical Framework and Governance Focus



Source: Finance Department, International Monetary Fund.

acronym ELRIC, and its pillars are explained below (Figure 6.4). Governance is an overarching principle of the ELRIC framework, and the assessments consider the following key attributes of good governance relevant to central banks:

- *Discipline*, represented by senior management's commitment to promoting good governance.
- *Transparency*, necessary to facilitate effective communication to, and meaningful analysis and decision making by, third parties.
- *Autonomy*, which is essential for a top decision-making body—for example, a central bank board—to operate without risk of undue influence or conflict of interest.
- *Accountability*, under which decision makers have effective mechanisms for reporting to a designated public authority, such as the parliament.
- *Responsibility*, which entails high priority on ethical standards and corrective action, including for mismanagement where appropriate.

The five ELRIC pillars and main safeguards assessment objectives of each are:

- **External Audit Mechanism:** This mechanism encompasses the practices and procedures in place that enable an independent auditor to express an opinion on the financial statements' adherence to an established financial reporting

framework. Publication of a central bank's annual financial statements that are independently audited in accordance with international standards is a key requirement of the safeguards policy. The IMF assesses whether financial statements are audited annually in accordance with international standards and whether the audit recommendations are implemented. The assessment also looks at the process for the selection and rotation of external auditors, the quality of the audit, and the auditors' communication with governance bodies such as the central bank board and audit committee.

- **Legal Structure and Autonomy:** Government interference can undermine a central bank's autonomy and increase the risks associated with its operations. Assessments focus on laws and regulations affecting autonomy, transparency, and governance at the central bank, as well as actual practices in these areas. They also ascertain whether the legal framework supports the other four ELRIC pillars. Where IMF lending is provided as direct budget support, assessments look for a clear framework between the central bank and the government for servicing IMF lending so that their respective roles and obligations are transparent and well understood.
- **Financial Reporting Framework:** This framework encompasses the provision of financial information to both central bank management and to external parties. For such information to be useful, it must be relevant, reliable, timely, readily available, consistent in presentation over time, and based on internationally recognized standards. The IMF assesses whether central banks adhere to international good practices for transparent accounting and financial reporting. Consistency between published financial information and the underlying accounting data is closely reviewed because of the importance of monetary data reported under IMF programs.
- **Internal Audit Mechanism:** The role of the internal audit is to evaluate the effectiveness of risk management, control, and governance processes within a central bank. The IMF assesses whether internal audit has sufficient capacity and organizational independence to fulfill this mandate and also reviews its compliance with international standards.
- **System of Internal Controls:** Sound governance practices and policies and procedures are necessary to safeguard a central bank's assets and manage its risks. The IMF assesses whether the control systems provide reasonable assurance that potential risks to the bank's operations are being continuously assessed and mitigated. The focus is on oversight by the bank's board and audit committee; the controls in foreign exchange management, accounting, banking, currency and vault operations; and the reporting of monetary program data to the IMF.

The ELRIC framework is derived from the Organisation for Economic Co-operation and Development's Principles of Corporate Governance and the IMF's Code of Good Practices on Transparency

in Monetary and Financial Policies. It employs International Financial Reporting Standards, International Standards on Auditing, professional standards promulgated by the Institute of Internal Auditors, and the IMF's data dissemination standards as benchmarks.

6.3.3 Modalities

The IMF Finance Department takes the lead in implementing the safeguards assessments policy. Assessments are based on a review of documentation provided by the authorities and discussions with the external auditors. Assessments may involve a visit to the central bank, as necessary. The main output of a safeguards assessment is a confidential report that establishes time-bound recommendations to address key vulnerabilities in a central bank's safeguards framework. The recommended remedial measures are discussed with central bank officials and may be incorporated in the member's program of reforms.

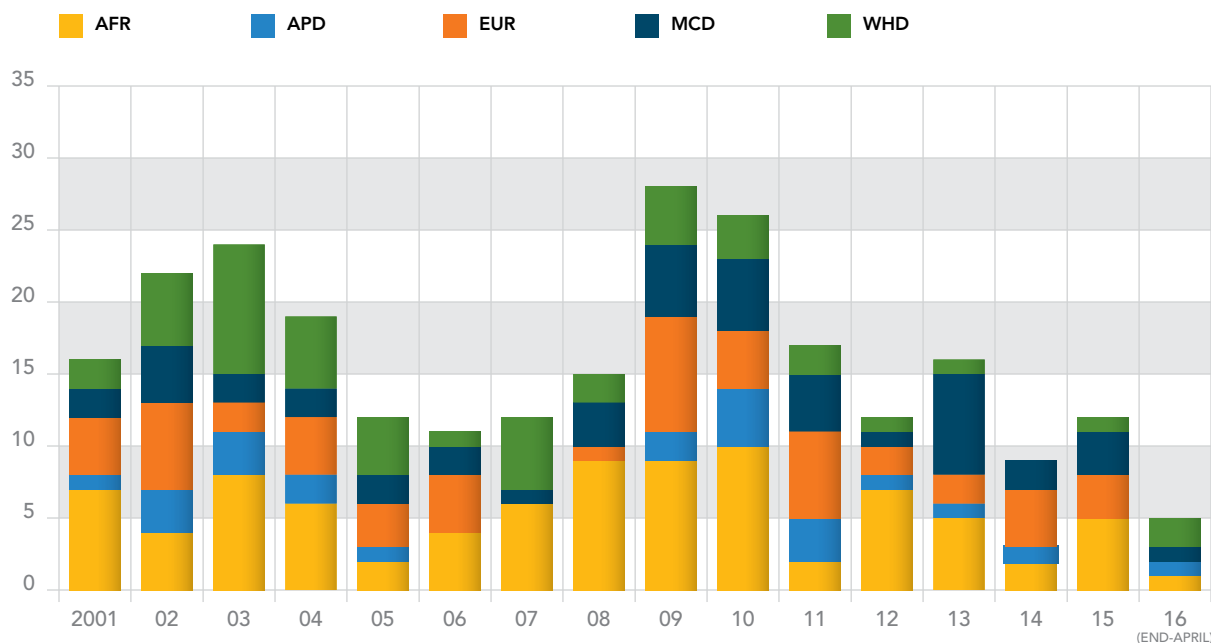
All members subject to safeguards assessment continue to be monitored under the safeguards policy for as long as they have credit outstanding to the IMF.¹⁷ The monitoring procedures focus on the implementation of safeguards recommendations and identification of new and emerging risks, including through an annual review of audited financial statements and management letters prepared by external auditors.

Confidentiality requirements limit the circulation of safeguards reports. This is because the primary focus of safeguards assessments is to provide due diligence input for IMF internal decision making. IMF staff members have access to sensitive information, including external auditor management letters and secured physical areas at central banks, when they are conducting the assessments.

The Executive Board is informed of the main findings and recommendations of individual member safeguards assessments through summaries in country reports.¹⁸ Safeguards reports may be shared with authorized international agencies on a confidential basis and with the consent of the central bank in question. The authorized agencies comprise (1) the World Bank, in conjunction with the due diligence process associated with its lending operations, and (2) the European Central Bank, for the national central banks in the European System of Central Banks, if countries in the Eurosystem receive joint financial assistance from the European Union and the IMF.

¹⁷ Under streamlining measures introduced in 2015, once a member's outstanding credit falls below the threshold for post-program monitoring, the monitoring intensity is limited to a desk review of the annual external audit results, that is, the financial statements and management letters of the member's central bank.

¹⁸ The safeguards paragraph covers at a minimum: any instances of misuse or misreporting; any significant recommendations on legislative amendments that involve parties external to the central bank; problems in obtaining access to data; and deviations from commitments relating to safeguards recommendations. Bi-annual activity reports are prepared and are available on the IMF's website at www.imf.org/external/ns/cs.aspx?id=156.

Figure 6.5 Safeguards Assessments by Region

Source: Finance Department, International Monetary Fund.

Note: Data presented by calendar year. Safeguards assessments completed to date: www.imf.org/external/np/tre/safegrdts/complete/index.aspx. AFR = Africa; APD = Asia and the Pacific; EUR = Europe; MCD = Middle East and Central Asia; WHD = Western Hemisphere.

6.3.4 Safeguard Risks beyond Central Banks

In recent years, instances and volume of direct budget financing with IMF resources provided directly to the government have increased. The safeguards policy requires that IMF disbursements be deposited and maintained at a specific government account at the central bank, pending their use for budget support. Furthermore, the policy also requires that an appropriate framework between the central bank and the state treasury be in place to ensure timely servicing of the member's financial obligations to the IMF.

During the 2010 review of the safeguards policy, the Executive Board recognized that replicating safeguards assessments across the entire government remained challenging; however, the Board encouraged IMF staff to highlight fiscal safeguards risks in staff reports on IMF-supported programs involving direct budget support. In 2013, based on a pilot exercise, staff proposed a risk-based approach to evaluating fiscal safeguards risks in Fund arrangements and developed an evaluation framework that draws from the existing diagnostics tools and assessments of members' public financial management systems. This approach was endorsed as a new element of the safeguards assessment during the 2015 policy review. Accordingly, fiscal safeguards reviews of state treasuries should be

conducted for all IMF arrangements where a member requests exceptional access to IMF resources, with an expectation that a significant proportion (at least 25 percent) of the funds will be directed to financing the state budget.¹⁹

6.4 Audit Framework

The IMF has in place a comprehensive audit framework. This framework comprises complementary, yet distinct, roles of the external audit, internal audit, and external audit committee functions. Each of these audit elements follows the relevant internationally recognized, professional standards, including consideration of risk management, the control environment, and the IMF financial results reported in the audited financial statements. The IMF's audit arrangements follow international best practices.

The External Audit Committee (EAC) oversees the IMF's external and internal audit functions. The EAC is independent of management, staff, and the Executive Board and is not involved in IMF financial operations or policy decisions. In accordance with best practices (1) the terms of reference of the EAC are

¹⁹ Operational modalities, applicability and reporting requirements for fiscal safeguards reviews are outlined in *Safeguards Assessments: Review of Experience*, September 23, 2015.

approved by the Executive Board, (2) individual EAC members are selected by the Board through a comprehensive selection process and are appointed by the Managing Director, and (3) the EAC includes members with accounting and risk management expertise. Members of the EAC meet with management, IMF staff, and external auditors throughout the year and receive all key financial reports and Board documents. The EAC briefs the Executive Board twice a year.

The IMF's external auditors are selected by the Executive Board through a competitive process and are appointed by the Managing Director. The audit firm conducts an annual audit of the financial statements of the IMF, including the trust accounts, other administered accounts, and the accounts related to the Staff Retirement Plan, in accordance with International Standards on Auditing. The audit firm examines internal controls over financial reporting and provides an opinion on whether the financial statements are free of material misstatement. The report of the external audit firm accompanies the financial statements and is transmitted for consideration by the Board of Governors through the Managing Director and the Executive Board. To safeguard the independence of the external audit firm, the Executive Board has adopted several policies on auditor independence including requirements for mandatory rotation of the audit firm after 10 years and mandatory partner and manager rotation. In May 2015, the Executive Board decided to modify the Fund's policy on restrictions on the external audit firm to provide consulting services. The new policy includes a list of prohibited consulting services and a cap on consulting fees.

The Office of Internal Audit and Inspection (OIA) provides, among other things, independent and objective examinations and reviews of the effectiveness of the risk management, control, and governance processes of the IMF. The OIA is operationally independent of the IMF's activities and forms part of, and reports directly to, the Office of the Managing Director, and functionally to the EAC. The scope of activities of internal audit differs from

those of external audit, which provides an independent assessment of the effectiveness of internal controls. The OIA may also provide analysis and advice to IMF management, review business processes, conduct internal investigations, and help support external audit activities. The office follows internationally accepted standards for the practice of internal audit as promulgated by the Institute of Internal Auditors.

6.5 Financial Reporting and Risk Disclosure

As required by International Financial Reporting Standards (IFRS), the IMF discloses its financial risk-management policies in its audited financial statements (Box 6.5). The external audit firm and the External Audit Committee review and assess the adequacy of these statements at least annually to ensure that the information disclosed enables the public to evaluate the nature and extent of financial risks arising from the IMF's activities (Box 6.13). The IMF staff continuously monitors IFRS developments to ensure compliance with new and revised standards, including those affecting the assessment of risks, financial instruments, and related disclosures.

In the interest of transparency, the IMF also provides extensive information to the public on the Finances pages of the IMF website.²⁰ Current and historical data on all aspects of IMF lending and borrowing are available, on both an aggregate and a country-specific basis. In addition, the portal provides a gateway to comprehensive information on the financial structure, terms, and operations of the institution.

²⁰ See www.imf.org/external/fin.htm.

Box 6.1 Financial Risks Management in the IMF

Financial Risk	Risk-Management Measures
Credit Risk The risk that a borrower could fail to meet its financial obligations to the IMF	Lending policies (for example, conditionality, access limits, charges and maturities, exceptional access framework) The IMF's preferred creditor status Safeguards assessments Arrears strategy Burden-sharing mechanism Financing by other official lenders in parallel to Fund financing Post-program monitoring Precautionary balances
Liquidity Risk The risk that available resources will be insufficient to meet the financing needs of members and the IMF's own obligations	Monitoring of Forward Commitment Capacity (continuous) Financial Transactions Plans (quarterly) Liquidity reviews (semiannually) General quota reviews (at least every 5 years) Bilateral borrowing and note purchase agreements, New Arrangements to Borrow, and General Arrangements to Borrow Precautionary balances
Income Risk The risk that the IMF's annual income may be insufficient to cover its annual expenditures	Margin on the basic rate of charge Surcharges Burden-sharing mechanism Investment Account and investment mandate Precautionary balances
Interest Rate Risk The risk that future cash flows will fluctuate because of changes in market interest rates	The IMF does not incur interest rate risk on credit because it uses a floating market interest rate (SDR interest rate) to determine its charge and remuneration rates. The interest rate risk of the Fixed-Income Subaccount is controlled by the short duration of portfolio (a mix of 0–3 years and 0–5 years). The Endowment Subaccount is exposed to higher interest risk given the longer duration (7½–8 years) of its strategic asset allocation approved by the Executive Board in early 2013.
Exchange Rate Risk The risk associated with the effects of fluctuations in foreign currency exchange rates on the IMF's financial position and cash flows	The IMF has no exposure on its holdings of members' currency, the credit it extends, or its borrowing, which are all denominated in SDRs, the IMF's unit of account. Members are required to maintain the SDR value of the IMF's holdings in their currency. The exchange rate risk on the IMF's Fixed Income Subaccount is managed by investing in financial instruments denominated in SDRs or in constituent currencies with a view to matching currency weights in the SDR basket. The IMF's Endowment Subaccount is subject to some exchange risk vis-à-vis the SDR, which is the unit of account of the IMF. For performance measurement, the U.S. dollar is the reference currency. To limit exchange rate risk in the Endowment Subaccount, fixed-income investments denominated in developed market currencies are hedged back to the U.S. dollar. The relatively small size of the portfolio limits the overall impact to the IMF's balance sheet.
Operational Risk in Financial Matters The risk of loss as a result of errors or omissions, process failures, inadequate controls, human error, and/or failures in underlying support systems	Internal control procedures and processes Executive Board approved investment guidelines and benchmarks for external asset managers Audit arrangements: independent external audit, oversight of controls and financial processes by an independent external audit committee, and an internal audit function Precautionary balances

Source: Finance Department, International Monetary Fund.

Box 6.2 The IMF's Preferred Creditor Status

The IMF's preferred creditor status reflects the critical creditors' willingness to exclude the IMF from sovereign debt restructurings. The IMF's preferred creditor status is attributable to: (1) the recognition by both the creditor community and sovereign debtors that it is in their interest and that of the international community at large to exclude the IMF from the debt restructuring process, and (2) the IMF's legal limitation to restructure its claims on its members under its Articles of Agreement.

The concept of the IMF's preferred creditor status originates in the Paris Club, where official bilateral creditors have been willing to exclude the IMF from the restructuring process. This treatment reflects the public good nature of IMF financing, as it is provided in the context of a program designed to assist the member in resolving its balance of payments problems and regaining medium-term external viability while ensuring adequate safeguards for the Fund without resorting to measures that are destructive to national or international prosperity (such as arrears). The forbearance exercised by creditors is of a voluntary nature; unsecured creditors have not legally subordinated their claims to those of the IMF.¹ With some exceptions, the preferred creditor status has generally also been accepted by private creditors, as the public good aspects of IMF financing normally also inure to their benefit.

¹ In 1988, the IMFC urged all members, within the limits of their laws, to treat the IMF as a preferred creditor. See paragraph 12, Review of Fund Facilities—Analytical Basis for Fund Lending and Reform Options, 2009.

Box 6.3 The Burden-Sharing Mechanism: Capacity and Implications for Arrears

The burden-sharing mechanism seeks to ensure that the Fund's cash flow from its lending operations is not negatively impacted by members' failure to settle financial obligations to the Fund. Since its establishment in 1986, the burden-sharing mechanism has compensated the IMF for any unpaid charges ("deferred charges") of members in arrears, which offsets the impact of unpaid charges on IMF income, and helped in generating precautionary balances against possible credit default. This has proved essential to continued compliance with International Financial Reporting Standards (IFRS) given the IMF's limited ability under the IMF Articles of Agreement to make specific loan-loss provisions. The IMF's creditor and debtor members contribute equally to covering the amount of unpaid charges, which is achieved through increases in the rate of charge paid by debtor members and reductions in the rate of remuneration to creditor members.

Under burden sharing, temporary financing in equal amounts is obtained from debtor and creditor members by increasing the rate of charge and reducing the rate of remuneration, respectively, to (1) cover shortfalls in the IMF's regular income from deferred charges and (2) accumulate precautionary balances against possible credit default in a contingent account, the Special Contingent Account (SCA-1). No burden-sharing adjustment is made on interest paid on borrowed resources. The SCA-1 is also viewed from an accounting perspective as offering protection against the risk of loss resulting from the ultimate failure of a member to repay its overdue charges and principal should a member in arrears withdraw from the IMF (or if the IMF is liquidated). A breakdown in the mechanism for unpaid charges would have implications for the IMF's continued compliance with IFRS.

Limits on the Capacity of the Mechanism: The total capacity of the burden-sharing mechanism to cover unpaid charges is the sum of the maximum feasible reduction in remuneration expenses and the maximum feasible increase in income from charges:

- Article V, Section 9 (a), of the Articles of Agreement states that the rate of remuneration may be no less than four-fifths (80 percent) of the SDR interest rate, which limits the maximum reduction in remuneration expenses to¹

$$0.2 * \text{SDR Interest Rate} * \text{Remunerated Reserve Tranche Positions.}$$
- In the absence of arrears, the maximum burden-sharing capacity would simply be twice the above amount, because debtors and creditors contribute equally. But when the amount of credit in arrears increases, the debtor base contributing to burden sharing is reduced, so the capacity of the burden-sharing mechanism declines.²

The overall burden-sharing capacity depends on the following factors:

- Outstanding credit:** The reserve tranche positions move in tandem with credit fluctuations when credit outstanding is financed fully from quota resources. Therefore, as credit rises, the base for higher charges and the base for lower remuneration both increase, which increases the burden-sharing capacity.
- Borrowing by the IMF:** Creditor positions arising from IMF borrowing under bilateral loan or note purchase agreements, the New Arrangements to Borrow (NAB), or the General Arrangements to Borrow (GAB) do not increase burden-sharing capacity, as no burden-sharing adjustment is made to the interest paid to creditors on borrowed resources. Therefore, as the share of borrowed resources financing credit outstanding rises (and the share of quota declines), the burden-sharing capacity declines.
- SDR interest rate:** At a higher nominal SDR interest rate, the rate of remuneration can be reduced by a larger amount in terms of basis points, which increases the burden-sharing capacity in nominal terms, although there may also be an increase in unpaid charges.

- **Share of credit in arrears:** As noted, a higher share of credit in arrears shrinks the base of debtors making burden-sharing contributions and thus reduces the burden-sharing capacity.

¹ Decision No. 12189-(00/45), dated April 28, 2000, set the current floor for remuneration at 85 percent of the SDR interest rate. Changes in the rate of remuneration require approval by 70 percent of the Executive Board.

² For example, given that debtors initially account for half of the total base on which burden sharing can be collected, the capacity of the burden-sharing mechanism would decline by one-quarter if one-half of total outstanding credit went into arrears.

Box 6.4 Composition of the IMF's Precautionary Balances

The IMF's precautionary balances comprise retained earnings (the Fund's General and Special reserves) that are not linked to the gold profits from the recent limited gold sales, and the Special Contingent Account (SCA-1). Reserves are available to absorb financial losses, including credit or income losses.

Special Reserve: This account was established in 1957. The Executive Board decided in 1957 that any administrative losses would first be charged against the Special Reserve. The Special Reserve is therefore the first line of defense against income losses.¹ Under the IMF's Articles of Agreement, no distribution can be made from the Special Reserve.

General Reserve: The General Reserve is available for absorbing capital losses or meeting administrative losses, as well as for making distributions. Distributions of the General Reserve are to be made to all members in proportion to their quota, and require an Executive Board decision adopted by a 70 percent majority of the total voting power.

Special Contingent Account (SCA-1): This account was set up in 1987 with the specific purpose of protecting the IMF against the risk of a loss resulting from the ultimate failure of a member to repay its overdue charges and principal obligation in the General Resources Account. The SCA-1 has primarily been funded through burden-sharing contributions generated equally from debtors and creditors through adjustments to the rates of charge and remuneration, respectively.² SCA-1 accumulations were suspended effective November 1, 2006. The accumulated balances in the SCA-1 are to be distributed to contributing members when there are no outstanding overdue obligations or such earlier time as the Fund decides.³ The decision to distribute SCA-1 balances requires a 70 percent majority of the total voting power.

¹ This decision has been applied whenever the IMF has suffered a loss, covering some SDR 342 million in losses—that is, FY1972–77 (SDR 103 million), FY1985 (SDR 30 million), and FY2007–08 (SDR 209 million).

² In FY1987, the SCA-1 was initially funded by SDR 26.5 million from General Resources Account income exceeding the target for the financial year. During FY1998–2000, an annual amount equal to 5 percent of reserves was placed to the SCA-1, and in FY2001–06, annual amounts of SDR 94 million representing the income effect on the fund from the receipt of gold, rather than currencies, in the repurchases associated with off-market gold transactions in 1999/2000.

³ In March 2008, a partial distribution of SDR 0.5 billion from the SCA-1 account was made in the context of Liberia's debt relief and arrears clearance.

Box 6.5 Financial Reporting of Credit Losses under International Financial Reporting Standards

Although neither the Articles of Agreement nor the By-laws or Rules and Regulations require the adherence to a specific accounting standard, the IMF prepares its annual financial statements in accordance with International Financial Reporting Standards (IFRS). IFRS require that financial assets be measured and reported on the balance sheet at amortized cost or fair (market) value. For example, on the IMF's balance sheet, loan receivables (IMF credit) are carried at their amortized cost—that is, as outstanding principal obligations—while investments are carried at their fair value.¹

When an asset's carrying value exceeds the realizable value, adjustments are required to reflect such assets at the recoverable or realizable amount. Under current provisions, entities must assess at the end of each reporting period whether there is objective evidence that assets carried at amortized cost are impaired. Under this *incurred loss model*, a loss event could be a default or delinquency in interest or principal payments. The adjustment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows. The reduction in the value of an asset is normally charged against income and either the asset values on the balance sheet are reduced directly by an equivalent amount or an allowance account is established. At the IMF, such charges against income would need to be weighed against the burden sharing for deferred charges and the amounts in the Special Contingent Account (SCA-1), which protects the IMF against the risk of loss resulting from the ultimate failure of a member to pay its overdue charges or principal obligations to the Fund.²

New accounting rules, effective in FY2019, will require the impairment analysis to be performed under an *expected loss model*, which is more forward-looking than the current incurred loss model. Under this model, a loss event would no longer need to occur before an impairment loss is recognized. The guiding principle of the expected loss model is that an entity should calculate its annual impairment loss, if any, to reflect the pattern of deterioration or improvement in the credit risk of the underlying asset since the initial recognition. The loss allowance should be updated for changes in those expected credit losses at the end of each reporting period to reflect changes in credit risk since the initial recognition. For financial institutions that routinely incur credit losses as part of doing business, the expected loss model would likely result in earlier recognition of credit losses compared with the current incurred loss model. The impact of the introduction of the expected loss model on the Fund's financial reporting is currently under consideration.

General prudent financial and accounting practices necessitate that an adequate level of reserves (generated by shareholder capital contributions or by retention of earnings) be maintained, in addition to the specific provisions for value impairment, to ensure the viability and continued operation of an entity and provide protection against general business risk.

¹ The IFRS accounting treatment is based on the economic substance of the IMF's lending arrangements and not the legal form of the underlying transactions, which involve the purchase and repurchase of currencies.

² If the capacity of burden sharing for deferred charges could not absorb the full amount of delinquent interest payments under IFRS, the IMF's income statement for the reporting period could no longer recognize income for the interest not covered by burden sharing. To comply with IFRS, further charges against income would be needed to account for reduction in the carrying value of the loan receivable after assessment of the protection provided by SCA-1 balances. If such a situation arose, the Executive Board of the IMF would need to decide how to proceed in light of the limitations under the Articles of Agreement to write off claims resulting from Fund credit and its policy on provisioning (when the issue of provisioning for loan losses was last discussed, the Executive Board rejected general and special provisioning).

Box 6.6 The Forward Commitment Capacity

The forward commitment capacity (FCC) measures the IMF's capacity to make new financial resources available to members from the General Resources Account for the forthcoming 12-month period taking into account resources available. Under the expanded and amended New Arrangements to Borrow (NAB), however, the maximum activation period within which the IMF may make commitments funded with NAB resources is 6 months. Therefore, the 1-year FCC has been modified to allow the inclusion of these shorter-duration NAB resources within the FCC concept.

Figure 6.1 depicts the FCC since the mid-1990s, noting the importance of borrowing to maintain IMF lending capacity particularly after the 2008 global financial crisis, when the demand for IMF resources reached historical highs. Table 6.2 illustrates the calculation of the FCC.

The modified FCC takes full account of resources available under the NAB during a currently effective NAB activation period and is calculated as follows:

The FCC is defined as the IMF's stock of usable resources minus undrawn balances under existing arrangements, plus projected repurchases during the coming 12 months, minus repayments of borrowing 1 year forward, minus a prudential balance intended to safeguard the liquidity of creditors' claims and to take into account any erosion of the IMF's resource base.

Usable resources consist of (1) IMF holdings of the currencies of members deemed by the Executive Board to have a sufficiently strong balance of payments and reserve position for inclusion in the Financial Transactions Plan (FTP) for the financing of IMF operations and transactions; (2) IMF holdings of SDRs; and (3) unused amounts available under currently active bilateral loan and note purchase agreements, and unused amounts available under the NAB or the General Arrangements to Borrow (GAB) when these have been activated.

The prudential balance is calculated as 20 percent of the quotas of members included in the FTP, and amounts available under active bilateral loan and note purchase agreements. In determining maximum possible NAB activation amount for a given period, a 20 percent prudential buffer is also taken into account.

Box 6.7 Overdue Financial Obligations to the IMF

Overdue financial obligations to the IMF are a breach of a member's obligations under the IMF's Articles of the Agreement and have important implications for the IMF and the member concerned.¹ Specifically, significant and protracted overdue obligations

- damage the member country, in part through deterioration of its financial relationship with other creditors;
- impose a financial cost on the rest of the IMF's membership;
- impair the IMF's capacity to assist its members; and
- impair the IMF's ability to carry out its broader responsibilities in the international financial system.

Countries fail to honor payment obligations to the IMF for complex reasons, which vary from case to case. Broadly, failure may be a consequence of unsustainable economic policies, exogenous shocks, or political developments (for example, conflicts and/or international sanctions).

¹ Overdue obligations to the GRA and SDR departments constitute breaches of obligations under the Articles of Agreement, but not overdue obligations to the PRGT.

Box 6.8 Overdue Financial Obligations to the General Department and the SDR Department: Timetable of Remedial Measures

Time after Emergence of Arrears	Action
Immediately	The IMF staff urges the member to make the payment promptly; this communication is followed up through the office of the appropriate Executive Director. The member is not permitted any use of the IMF's resources nor is any request for the use of IMF resources placed before the Executive Board until the arrears are cleared.
2 weeks	Management sends a communication to the Governor for the member stressing the seriousness of the failure to meet obligations and urging full and prompt settlement.
1 month	The Managing Director notifies the Executive Board that an obligation is overdue.
6 weeks	The Managing Director notifies the member that unless the overdue obligations are settled promptly a complaint will be issued to the Executive Board. The Managing Director consults with and recommends to the Executive Board that a communication concerning the member's situation be sent to selected IMF Governors or to all IMF Governors in the event that the member has not improved its cooperation.
2 months	A complaint regarding the member's overdue obligations is issued by the Managing Director to the Executive Board.
3 months	The complaint is given substantive consideration by the Executive Board. The Board has usually decided to limit the member's use of the IMF's general resources and, if overdue SDR obligations are involved, suspend its right to use SDRs.
6–12 months	The Executive Board reviews its decision on limitation within 3 months, with the possibility of a second review if warranted. Depending on the Executive Board's assessment of the specific circumstances and of the efforts being made by the member to fulfill its obligations to the Fund, a declaration of ineligibility is considered to take effect within 12 months after the emergence of arrears. Communications are sent to all IMF Governors and the heads of selected international financial institutions regarding the member's continued failure to fulfill its financial obligations to the IMF. This step coincides with consideration of the declaration of ineligibility.
Up to 15 months	A declaration of noncooperation is considered within 3 months of the dispatch of the preceding communications. Technical assistance to the member is suspended unless the Executive Board decides otherwise.
Up to 18 months	A decision on suspension of voting and representation rights is considered within 3 months of the declaration of noncooperation.
Up to 24 months	The procedure on compulsory withdrawal is initiated within 6 months of the decision on suspension.

Source: Finance Department, International Monetary Fund.

Box 6.9 Overdue Financial Obligations to the Poverty Reduction and Growth Trust: Timetable of Remedial Measures

Time after Emergence of Arrears	Action
Immediately	The IMF staff sends a cable urging the member to make the payment promptly; this communication is followed up through the office of the appropriate Executive Director. The member's access to IMF resources, including Trust resources, is suspended.
2 weeks	Management sends a communication to the Governor for the member stressing the seriousness of the failure to meet obligations to the Trust and urging full and prompt settlement.
1 month	The Managing Director notifies the Executive Board that an obligation is overdue, and informs the Executive Board of the nature and level of arrears and the steps being taken to secure payment.
6 weeks	The Managing Director notifies the member that unless the overdue obligations are settled, a report concerning the arrears to the Trust will be issued to the Executive Board within 2 weeks. The Managing Director consults with and recommends to the Executive Board that a communication concerning the member's situation be sent to selected IMF Governors or to all IMF Governors.
2 months	A report is issued by the Managing Director to the Executive Board. The report requests that the Executive Board limit the member's use of PRGT resources.
3 months	The report is given substantive consideration by the Executive Board. A factual statement noting the existence and amount of arrears is posted on the member's country-specific page on the IMF's external website. This statement also indicates that the member's access to Fund resources, including Trust resources, has been and will remain suspended for as long as such arrears remain outstanding. A press release is issued following the Executive Board's decision to limit the member's use of PRG Trust resources. A similar press release will be issued following a decision to lift such limitation.
6 months	The Executive Board reviews the situation of the member and may remove the member from the list of PRGT-eligible countries. Reinstatement of the member to the list will require a new decision of the Executive Board. A press release is issued following the Executive Board's decision to remove a member from the list of PRGT-eligible countries. A similar press release will be issued when the member is reinstated on the list.
12 months	A declaration of noncooperation with the PRGT may be issued. 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 IMF, to follow appropriate policies for the settlement of its arrears. 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 IMF in the discharge of its financial obligations. Upon a declaration of noncooperation, the IMF could decide to suspend the provision of technical assistance. Technical assistance to the member may also be limited if the Managing Director judges that was not contributing adequately to the resolution of the problems associated with the arrears to the Trust. The IMF shall issue a press release upon the declaration of noncooperation and upon termination of the declaration.

Source: Finance Department, International Monetary Fund.

Box 6.10 Policy of De-escalation of Remedial Measures

In July 1999, the IMF Executive Board established understandings regarding the de-escalation of certain remedial measures to further strengthen incentives for members in protracted arrears to cooperate with the IMF, with the ultimate objective of full clearance of arrears and the restoration of access to IMF resources.

Initiation of de-escalation. The starting point for de-escalation is a determination by the Board that a member has credibly begun, or adequately strengthened, its cooperation with the Fund. This would be evidenced by a sustained track record of performance regarding economic policies and payments to the Fund, with prospects for its continuation.¹ With regard to policies, there should be reasonable assurance that the member's satisfactory policies were likely to be sustained. As regards payments to the Fund, it would be expected that the member has been making substantial payments for a sustained period, at least equivalent to maturing obligations.

Evaluation period. Once a determination has been made that the member has credibly begun to cooperate with the Fund, it would be desirable to establish an evaluation period to assess the member's commitment to resuming a normal relationship with the Fund and to test whether the member's cooperation is sustainable. At the outset of the evaluation period, it would be open to the Board to formulate a program of actions and measures that a member would be expected to implement before the lifting of remedial measures would be considered, and to specify the beginning and approximate length of the evaluation period. During the evaluation period, the Board would not proceed, nor recommend proceeding, to the next remedial measure, provided that the member's performance with respect to policies and payments to the Fund remained satisfactory. Moreover, it would be expected that the member's cooperation on policies and payments would strengthen progressively as a basis for reversal of remedial measures.

Modalities. From a legal and practical point of view, until such time as the member cleared its overdue obligations to the Fund in full, it would be appropriate to lift only a declaration of noncooperation and a suspension of voting rights, as opposed to other remedial measures in the timetable. As a general principle, the time period between the starting point and the lifting of a remedial measure would be set in proportion to the severity of the measure to be lifted. A case-by-case approach would be appropriate, with cooperation assessed in the context of a staff-monitored or other program. In the case in which a member's voting and related rights had been suspended, an evaluation period of about two years' duration would be considered as a guideline before the Board would consider lifting (by a 70 percent majority of the total voting power) the suspension of the member's voting and related rights in the IMF. Depending on the circumstances of the case, a somewhat longer or shorter evaluation period could be appropriate. Successful implementation of about one year of the evaluation period would be required before the Board would consider the lifting of a declaration of noncooperation (by a simple majority vote), although the period could be shortened in cases in which performance warranted. The resumption of technical assistance and restoration of a resident representative to the country at an early stage could, in some cases, be highly beneficial in strengthening cooperation.

Following the removal of one or more remedial measures, if a member subsequently failed to sustain its cooperation with the Fund, remedial measures could be introduced again at a more accelerated pace than that called for under the timetable of remedial measures, taking into account the sequencing of measures required by the Fund's Articles.

Application. The IMF's de-escalation policy on arrears has been applied to Sudan and Liberia. In light of Sudan's satisfactory performance on policies and payments to the IMF, the IMF Executive Board decided to lift the declaration of noncooperation on August 27, 1999, and to restore Sudan's voting and related rights on August 1, 2000. In the context of the latter, the outstanding complaint with respect to compulsory withdrawal was reformulated as a complaint with respect to the suspension of voting rights on August 23, 2000. In the case of Liberia, a declaration of noncooperation was issued on March 30, 1990. On October 2, 2006, the Fund initiated a process of de-escalation of the remedial measures that had been applied to Liberia. On the basis of Liberia's improved cooperation with the IMF, the Executive Board lifted the declaration of noncooperation and also decided to lift the suspension of Liberia's voting and related rights, following a period of satisfactory performance of 12 months.

¹ The de-escalation policy allows for flexibility for members in a post-conflict situation and for members that have been hit by a qualifying catastrophic disaster, as defined by the Catastrophe Containment and Relief Trust.

Box 6.11 The IMF's Safeguards Assessments Policy

The safeguards assessments policy applies to members seeking financial arrangements with the IMF, with the exception of Flexible Credit Line (FCL) arrangements. The policy applies to new and successor arrangements, and arrangements treated as precautionary. Safeguards assessments do not apply to financing extended through first credit tranche purchases. While assessments focus on central banks, IMF arrangements that involve budget financing include safeguards procedures to ensure that an appropriate framework between the central bank and the state treasury is in place for timely servicing of the member's financial obligations to the Fund. In October 2015, a requirement for fiscal safeguards reviews of state treasuries was introduced for members requesting exceptional access and, where upon approval of the arrangement, at least 25 percent of IMF funds are expected to be used for direct budget support. Under the streamlining measures introduced in 2015, successor arrangements where an assessment was completed within 18 months prior to approval of the successor arrangement do not require updated assessments. In addition, no assessments are needed for augmentations of existing arrangements, or if a central bank has a strong track record and had an assessment completed within the past four years.

Safeguards assessment requirements also apply to disbursements involving liquidity and emergency assistance under the Rapid Credit Facility (RCF), Rapid Financing Instrument (RFI), and a 6-month Precautionary and Liquidity Line (PLL). A member's request for assistance under these arrangements requires commitment to a safeguards assessment, IMF staff access to the central bank's most recently completed external audit reports, and authorization for IMF staff to hold discussions with the central bank's external auditors. The timing and modalities of the assessment for such arrangements are determined on a case-by-case basis, but typically the assessment must be completed before Executive Board approval of any subsequent arrangement to which the IMF's safeguards policy applies.

For members of currency unions with no autonomous national central banks, a periodic assessment cycle was established, irrespective of the timing of the member countries' programs. Accordingly, the Central Bank of West African Countries (BCEAO), the Central Bank of Central African Countries (BEAC), and the Eastern Caribbean Central Bank (ECCB) are assessed every 4 years.

Safeguards assessments are not conducted for members with FCL arrangements, on the grounds that qualifying countries have strong institutional arrangements in place. However, limited safeguards procedures, focused on a review of the most recent external audit results of the central bank, including discussions with their auditors, are conducted.

Voluntary assessments are encouraged for members that have a Policy Support Instrument (PSI) in place or those that are implementing a Staff-Monitored Program (SMP).

Box 6.12 Misreporting Framework

Background and Applicability

The term misreporting is used broadly to cover situations in which a member provides incorrect/inaccurate information to the IMF. The IMF needs reliable information for every aspect of its work, and it is particularly important in ensuring that its resources are used for their intended purposes.

The IMF has developed guidelines that govern misreporting in the context of a member's provision of information under an IMF-supported economic program. The guidelines apply whenever a member makes a purchase or receives a disbursement from the IMF on the basis of information that conditions applicable to that purchase or disbursement were met but that information later turns out to be inaccurate. The guidelines stipulate that the IMF must take action within 4 years of such purchase or disbursement.

Misreporting provisions may also apply under the Policy Support Instrument (PSI) and in the context of Heavily Indebted Poor Countries (HIPC) Initiative assistance. The PSI misreporting framework is simplified compared to the procedures applicable in the context of the use of Fund resources and includes a 3-year limitation period from the PSI approval or review completion, compared with 4 years for arrangements supported by GRA or PRGT resources. Misreporting can also arise under the IMF's Articles of Agreement in the context of the general obligation of all members, regardless of whether they have used IMF resources, to give the IMF timely and accurately relevant economic information. Article VIII, Section 5 specifies members' continuing obligation to give the IMF, to the extent of the member's ability, the information it deems necessary for its activities. Taken together these misreporting provisions of the IMF's Articles, policies, and guidelines comprise the IMF's misreporting framework.

Procedures and Remedies

If evidence indicates that misreporting may have occurred, the Managing Director consults with the member and submits a report to the Executive Board, together with a recommended course of action to be taken by the Board.

Under the misreporting guidelines, a member found to have obtained use of IMF resources on the basis of information on the observance of condition(s) applicable to a purchase or disbursement that proved to be incorrect is deemed to have made a noncomplying purchase or disbursement. The member is required to repurchase its currency or repay the IMF, normally within 30 days, unless the Executive Board grants a waiver for the nonobservance of such condition(s). Waivers may be granted for minor or temporary deviations or if the member has taken additional policy measures appropriate to achievement of the objectives of the economic program.

Under a PSI, which does not involve use of IMF resources, the Executive Board's decision on a finding of misreporting and any impact on past assessments under the member's PSI are published.

Under the specified conditions, the amount of HIPC Initiative debt relief is adjusted if the debt sustainability analysis that determined the amount of assistance committed turns out to have been based on incorrect information. Further, interim assistance disbursed to the HIPC Initiative Umbrella Account that has not yet been used to service debt obligations could be returned to the Poverty Reduction and Growth–Heavily Indebted Poor Countries (PRG-HIPC) Trust if such assistance was approved on the basis of inaccurate information about the member's track record of performance.

A member found to have breached Article VIII, Section 5 may be subject to remedial measures, including possible declaration of ineligibility for IMF resources. In determining whether a member has breached its obligations under Article VIII, Section 5, the Executive Board must take into account the member's capacity to provide the relevant information.

De Minimis Cases

The misreporting framework allows for special and simplified procedures in de minimis cases. Deviations from a performance criterion or other condition are considered to be de minimis if they are so small as to be trivial that they have no impact on the assessment of program performance. Noncomplying purchases and disbursements arising from such cases call for the granting of a “waiver for nonobservance” and are exempt from general publication requirements.

Publication of Misreporting Cases

After the Executive Board has made its determination about misreporting, the IMF makes public relevant information for each case of misreporting. Publication is automatic, but reviewed by the Executive Board.

Box 6.13 The IMF's External Audit Arrangements

The authority for the IMF's external audit function is derived from Article XII, Section 7(a) of the Articles of Agreement, which requires the IMF to publish an annual report containing an audited statement of its accounts, and the By-Laws, Rules, and Regulations, which set out procedures for the conduct and oversight of the audit.

The current external audit arrangements consist of the External Audit Committee (EAC) and the external audit firm. The EAC has general oversight of the external audit function.

The EAC is composed of three individuals selected by the Executive Board—as recommended by the Audit Selection Committee—and appointed by the Managing Director. The EAC is otherwise independent of IMF management.

Each committee member serves for a period of 3 years. The members' terms are staggered so that there is overlap and continuity; one reappointment is permitted.

The members must be citizens of different member countries, and at least one must be a national of one of the six members with the largest quotas. As a matter of practice, the audit selection committees have been following the principle of regional rotation.

EAC members are selected based on relevant professional qualifications and experience. They must possess the qualifications required to carry out the oversight of the annual audit, including accounting and/or related financial oversight expertise.

The EAC generally meets three times a year in Washington, DC, including with the Executive Board in January at the initial stage of the audit; in June, following the year-end audit; and in July to brief the Executive Board. The EAC holds discussions with the IMF staff and the audit firm throughout the year as necessary, and receives relevant documents and reports from the IMF on an ongoing basis.

The external audit firm has responsibility for performing the audit of the IMF's financial statements, in accordance with international standards for auditing, and issuing the audit opinion.

The external audit firm is selected by the Executive Board on the basis of a recommendation from the Audit Selection Committee and in consultation with the EAC. The Managing Director formally appoints the audit firm and determines its compensation.

The contract with the external audit firm is for an initial term of 5 years and can be renewed for an additional 5-year term. There is a mandatory rotation of the audit firm after 10 years.

At the conclusion of the annual audit, the EAC transmits the report issued by the external audit firm to the Board of Governors for approval, through the Managing Director and the Executive Board.

Additional Reading

Balance of Payments Manual, Sixth Edition (BPM6), Chapter 6, paragraphs 6.64 and 6.70: www.imf.org/external/pubs/ft/bop/2007/pdf/chap6.pdf.

Code of Good Practices on Transparency in Monetary and Financial Policies: Declaration of Principles, September 26, 1996: www.imf.org/external/np/mae/mft/code/index.htm.

Communique of the Interim Committee of the Board of Governors of the International Monetary Fund, Press Release No. 88/33, September 26, 1988.

Decision No. 12189-(00/45): [www.imf.org/external/pubs/ft/sd/index.asp?decision=12189-\(00/45\)](http://www.imf.org/external/pubs/ft/sd/index.asp?decision=12189-(00/45)).

Financial Statements of the International Monetary Fund: www.imf.org/external/pubs/ft/quart/index.htm

Fiscal Safeguards, IMF Policy Paper: www.imf.org/external/pp/longres.aspx?id=4656

Guidelines for Quarterly Financial Transaction Plan: www.imf.org/external/np/tre/ftp/pdf/0408.pdf

IMF Approves Supplemental Reserve Facility, Press Release No. 97/59, December 17, 1997: www.imf.org/external/np/sec/pr/1997/PR9759.HTM

IMF Executive Board Concludes Review of the Safeguards Assessments Press Release No. 15/489, October 30, 2015: www.imf.org/external/np/sec/pr/2015/pr15489.htm

IMF Executive Board Concludes Review of the Safeguards Assessments Policy Public Information Notice No. 10/113, August 16, 2010: www.imf.org/external/np/sec/pn/2010/pn10113.htm

IMF Executive Board Reviews the Adequacy of Precautionary Balances, Press Release No. 16/156, April 6, 2016: www.imf.org/external/np/sec/pr/2016/pr16156.htm

IMF Executive Board Reviews the Adequacy of Precautionary Balances, Press Release No. 12/132, April 12, 2012: www.imf.org/external/np/sec/pr/2012/pr12132.htm

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IMF Finances portal: www.imf.org/external/fin.htm

IMF Reforms Policy for Exceptional Access, IMF Survey, January 29, 2016: www.imf.org/external/pubs/ft/survey/so/2016/POL012916A.htm

IMF Standards for Data Dissemination: www.imf.org/external/np/exr/facts/data.htm

Making the Misreporting Policies Less Onerous in *de Minimis* Cases, IMF Policy Paper, July 5, 2006: www.imf.org/external/np/pp/eng/2006/070506.pdf

Organization for Economic Cooperation and Development, Principals of Corporate Governance: www.oecd.org/corporate/oecdprinciplesofcorporategovernance.htm

Review of Fund Facilities—Analytical Basis for Fund Lending and Reform Options, IMF Policy Paper, February 6, 2009: www.imf.org/external/np/pp/eng/2009/020609A.pdf

Review of the Adequacy of the Fund's Precautionary Balances, IMF Policy Paper, January 22, 2016: www.imf.org/external/np/pp/eng/2016/012216.pdf

Review of the Adequacy of the Fund's Precautionary Balances, IMF Policy Paper, August 24, 2010: www.imf.org/external/np/pp/eng/2010/082410.pdf

Review of the Adequacy of the Fund's Precautionary Balances, IMF Policy Paper, January 14, 2014: www.imf.org/external/np/pp/eng/2014/011414.pdf

Review the Exceptional Access Policy, IMF Policy Paper, March 23, 2004: www.imf.org/external/np/acc/2004/eng/032304.pdf

Review of the Fund's Strategy on Overdue Financial Obligations, IMF Policy Paper, August 20, 2012: www.imf.org/external/np/pp/eng/2012/082012.pdf

Report on Fiscal Safeguards Pilots, IMF Policy Paper, October 4, 2013: www.imf.org/external/np/pp/eng/2013/100413a.pdf

Safeguards Assessments—Review of Experience, IMF Policy Paper: www.imf.org/external/np/pp/eng/2015/092315.pdf

Safeguards Assessments—Review of Experience, IMF Policy Paper, July 1, 2010: www.imf.org/external/np/pp/eng/2010/070110.pdf

Safeguards Assessments Policy. External Expert Panel's Advisory Report to the Executive Board of the IMF, September 11, 2015: www.imf.org/external/np/pp/eng/2015/091115.pdf

Strengthening the Framework for Post Program Monitoring, IMF Policy Paper, June 6, 2016: www.imf.org/external/np/pp/eng/2016/060616.pdf

The Fund's Lending Framework and Sovereign Debt—Further Considerations, IMF Policy Paper, April 9, 2015: www.imf.org/external/np/pp/eng/2015/040915.pdf

Appendix 1

IMF Membership: Quotas, and Allocations and Holdings of SDRs

(Millions of SDRs and percent; as of April 30, 2016)

Member	Quota	Quota Share	SDR Holdings	Existing SDR Cumulative Allocation
Afghanistan	323.8	0.07	83.0	155.3
Albania	139.3	0.03	114.4	46.5
Algeria	1,959.9	0.42	898.5	1,198.2
Angola	740.1	0.16	228.6	273.0
Antigua and Barbuda	20.0	0.004	0.1	12.5
Argentina	2,117.1	0.45	2,053.0	2,020.0
Armenia, Republic of	128.8	0.03	9.9	88.0
Australia	6,572.4	1.39	3,016.3	3,083.2
Austria	3,932.0	0.83	1,624.3	1,736.3
Azerbaijan	391.7	0.08	95.9	153.6
Bahamas, The	182.4	0.04	54.1	124.4
Bahrain, Kingdom of	395.0	0.08	64.7	124.4
Bangladesh	1,066.6	0.23	924.6	510.4
Barbados	94.5	0.02	49.7	64.4
Belarus, Republic of	681.5	0.14	371.8	368.6
Belgium	6,410.7	1.36	3,841.9	4,323.3
Belize	26.7	0.01	20.0	17.9
Benin	123.8	0.03	28.3	59.2
Bhutan	20.4	0.004	6.0	6.0
Bolivia	171.5	0.04	166.7	164.1
Bosnia and Herzegovina	169.1	0.04	1.6	160.9
Botswana	197.2	0.04	58.4	57.4
Brazil	11,042.0	2.34	2,596.7	2,887.1
Brunei Darussalam	301.3	0.06	216.5	203.5
Bulgaria	896.3	0.19	611.6	610.9
Burkina Faso	120.4	0.03	19.9	57.6
Burundi	154.0	0.03	13.9	73.8
Cabo Verde	11.2	0.002	0.8	9.2
Cambodia	175.0	0.04	88.3	83.9
Cameroon	276.0	0.06	15.7	177.3
Canada	11,023.9	2.34	5,700.4	5,988.1
Central African Republic	111.4	0.02	0.1	53.4
Chad	140.2	0.03	0.1	53.6
Chile	1,744.3	0.37	541.0	816.9

Member	Quota	Quota Share	SDR Holdings	Existing SDR Cumulative Allocation
China ¹	30,482.9	6.46	7,441.7	6,989.7
Colombia	2,044.5	0.43	715.0	738.3
Comoros	17.8	0.004	8.6	8.5
Congo, Democratic Republic of the	1,066.0	0.23	306.2	510.9
Congo, Republic of	84.6	0.02	70.3	79.7
Costa Rica	369.4	0.08	85.1	156.5
Cote d'Ivoire	650.4	0.14	132.9	310.9
Croatia	717.4	0.15	304.9	347.3
Cyprus	303.8	0.06	62.4	132.8
Czech Republic	2,180.2	0.46	457.2	780.2
Denmark	3,439.4	0.73	1,450.6	1,531.5
Djibouti	31.8	0.01	1.9	15.2
Dominica	11.5	0.002	0.6	7.8
Dominican Republic	477.4	0.10	5.3	208.8
Ecuador	347.8	0.07	17.7	288.4
Egypt	2,037.1	0.43	564.8	898.5
El Salvador	287.2	0.06	165.6	163.8
Equatorial Guinea	157.5	0.03	21.2	31.3
Eritrea	15.9	0.003	3.7	15.2
Estonia	243.6	0.05	24.6	62.0
Ethiopia	300.7	0.06	57.7	127.9
Fiji	98.4	0.02	44.0	67.1
Finland	2,410.6	0.51	1,123.0	1,189.5
France	20,155.1	4.27	7,318.8	10,134.2
Gabon	216.0	0.05	117.4	146.7
Gambia, The	62.2	0.01	7.6	29.8
Georgia	210.4	0.04	144.3	144.0
Germany	26,634.4	5.65	11,902.4	12,059.2
Ghana	738.0	0.16	164.6	353.9
Greece	2,428.9	0.52	87.9	782.4
Grenada	16.4	0.003	4.9	11.2
Guatemala	428.6	0.09	121.0	200.9
Guinea	214.2	0.05	118.7	102.5
Guinea-Bissau	28.4	0.01	8.8	13.6
Guyana	181.8	0.04	1.9	87.1
Haiti	81.9	0.02	68.0	78.5
Honduras	249.8	0.05	53.8	123.8
Hungary	1,940.0	0.41	12.2	991.1
Iceland	321.8	0.07	111.7	112.2
India	13,114.4	2.78	1,065.7	3,978.3
Indonesia	4,648.4	0.99	1,118.6	1,980.4
Iran, Islamic Republic of	3,567.1	0.76	1,536.6	1,426.1
Iraq	1,663.8	0.35	28.1	1,134.5
Ireland	3,449.9	0.73	650.9	775.4
Israel	1,920.9	0.41	847.5	883.4
Italy	15,070.0	3.20	5,106.1	6,576.1
Jamaica	382.9	0.08	179.4	261.6
Japan	30,820.5	6.54	12,386.1	12,285.0
Jordan	343.1	0.07	90.9	162.1
Kazakhstan	1,158.4	0.25	348.3	343.7
Kenya	542.8	0.12	10.0	259.6
Kiribati	5.6	0.001	5.4	5.3
Korea	8,582.7	1.82	1,702.3	2,404.4
Kosovo	82.6	0.02	44.9	55.4

Member	Quota	Quota Share	SDR Holdings	Existing SDR Cumulative Allocation
Kuwait	1,933.5	0.41	1,327.1	1,315.6
Kyrgyz Republic	88.8	0.02	130.6	84.7
Lao P.D.R.	105.8	0.02	37.8	50.7
Latvia	332.3	0.07	120.8	120.8
Lebanon	266.4	0.06	192.3	193.3
Lesotho	69.8	0.01	37	32.9
Liberia	258.4	0.05	153.6	124.0
Libya	1,573.2	0.33	1,623.7	1,072.7
Lithuania	441.6	0.09	137.3	137.2
Luxembourg	1,321.8	0.28	244.5	246.6
Macedonia, former Yugoslav Republic of	140.3	0.03	3.8	65.6
Madagascar	122.2	0.03	53.7	117.1
Malawi	138.8	0.03	3.6	66.4
Malaysia	3,633.8	0.77	821.9	1,346.1
Maldives	21.2	0.004	3.6	7.7
Mali	186.6	0.04	44.1	89.4
Malta	168.3	0.04	87.5	95.4
Marshall Islands	3.5	0.001	3.4	3.3
Mauritania	128.8	0.03	0.6	61.7
Mauritius	142.2	0.03	89.9	96.8
Mexico	8,912.7	1.89	1,474.4	2,851.2
Micronesia	5.1	0.001	6.2	4.8
Moldova	172.5	0.04	4.9	117.7
Mongolia	72.3	0.02	42.9	48.8
Montenegro	60.5	0.01	18.1	25.8
Morocco	894.4	0.19	550.5	561.4
Mozambique	227.2	0.05	41.6	108.8
Myanmar	516.8	0.11	1.7	245.8
Namibia	191.1	0.04	4.8	130.4
Nauru ²	—	—	N/A	N/A
Nepal	156.9	0.03	1.2	68.1
Netherlands	8,736.5	1.85	4,710.2	4,836.6
New Zealand	1,252.1	0.27	776.1	853.8
Nicaragua	260.0	0.06	93.9	124.5
Niger	131.6	0.03	30.1	62.9
Nigeria	2,454.5	0.52	1,499.7	1,675.4
Norway	3,754.7	0.80	1,271.8	1,563.1
Oman	544.4	0.12	98.5	178.8
Pakistan	2,031.0	0.43	473.8	988.6
Palau	3.1	0.001	3.0	3.0
Panama	376.8	0.08	128.3	197.0
Papua New Guinea	131.6	0.03	9.1	125.5
Paraguay	201.4	0.04	95.7	95.2
Peru	1,334.5	0.28	531.2	609.9
Philippines	2,042.9	0.43	846.4	838.0
Poland	4,095.4	0.87	313.1	1,304.6
Portugal	2,060.1	0.44	535.5	806.5
Qatar	735.1	0.16	271.3	251.4
Romania	1,811.4	0.38	208.2	984.8
Russian Federation	12,903.7	2.74	4,822.3	5,671.8
Rwanda	160.2	0.03	57.1	76.8
St. Kitts and Nevis	8.9	0.002	5.6	8.5
St. Lucia	21.4	0.005	11.8	14.6
St. Vincent and the Grenadines	11.7	0.002	0.4	7.9

Member	Quota	Quota Share	SDR Holdings	Existing SDR Cumulative Allocation
Samoa	16.2	0.003	10.3	11.1
San Marino	49.2	0.01	8.8	15.5
São Tomé & Príncipe	14.8	0.003	0.3	7.1
Saudi Arabia	9,992.6	2.12	5,746.2	6,682.5
Senegal	323.6	0.07	65.9	154.8
Serbia	654.8	0.14	11.1	445.0
Seychelles	22.9	0.005	5.4	8.3
Sierra Leone	207.4	0.04	107.5	99.5
Singapore	3,891.9	0.83	744.3	744.2
Slovak Republic	1,001.0	0.21	179.3	340.5
Slovenia	586.5	0.12	162.5	215.9
Solomon Islands	20.8	0.004	5.9	9.9
Somalia ³	44.2	0.01	18.3	46.5
South Africa	3,051.2	0.65	1,492.5	1,785.4
South Sudan	246.0	0.05	2.1	105.4
Spain	9,535.5	2.02	2,766.8	2,827.6
Sri Lanka	578.8	0.12	4.9	395.5
Sudan ³	169.7	0.04	125.2	178.0
Suriname	128.9	0.03	28.6	88.1
Swaziland	78.5	0.02	48.7	48.3
Sweden	4,430.0	0.94	2,116.8	2,249.0
Switzerland	5,771.1	1.22	3,494.6	3,288.0
Syrian	293.6	0.06	282.2	279.2
Tajikistan	174.0	0.04	22.2	82.1
Tanzania	397.8	0.08	40.2	190.5
Thailand	3,211.9	0.68	974.8	970.3
Timor-Leste	25.6	0.01	3.4	7.7
Togo	146.8	0.03	24.7	70.3
Tonga	13.8	0.003	5.4	6.6
Trinidad and Tobago	469.8	0.10	242.2	321.1
Tunisia	545.2	0.12	49.6	272.8
Turkey	4,658.6	0.99	966.1	1,071.3
Turkmenistan	238.6	0.05	29.0	69.8
Tuvalu	2.5	0.001	1.1	1.7
Uganda	361.0	0.08	47.3	173.1
Ukraine	2,011.8	0.43	37.9	1,309.4
United Arab Emirates	752.5	0.16	542.5	568.4
United Kingdom	20,155.1	4.27	7,115.6	10,134.2
United States	82,994.2	17.60	35,857.1	35,315.7
Uruguay	429.1	0.09	215.1	293.3
Uzbekistan	551.2	0.12	266.1	262.8
Vanuatu	23.8	0.01	1.4	16.3
Venezuela	3,722.7	0.79	313.4	2,543.3
Vietnam	1,153.1	0.24	267.9	314.8
Yemen	487.0	0.10	68.1	232.3
Zambia	978.2	0.21	312.1	469.1
Zimbabwe ³	706.8	0.15	92.6	272.2

Source: Finance Department, International Monetary Fund.

¹ Including China, Hong Kong SAR, and Macao SAR.

² Nauru became a member of the IMF on April 12, 2016, and has an initial quota of SDR 2.0 million. As of April 30, 2016, Nauru had not paid its quota subscription.

³ Excluding SDRs allocated and placed in an escrow account under the Fourth Amendment of the IMF's Articles of Agreement; such holdings will be available to the member upon settlement of all overdue obligations to the IMF.

Appendix 2

Special Voting Majorities for Selected Financial Decisions

Subject	Special Majority ¹	Article
Adjustment of quotas	85 percent	III, Sec. 2(c)
Medium of payment for increased quota	70 percent	III, Sec. 3(d)
Calculation of reserve tranche positions: exclusion of certain purchases and holdings	85 percent	XXX, Sec. (c)(iii)
Change in obligatory periods for repurchase	85 percent	V, Sec. 7(c), (d)
Postponement of a repurchase obligation	70 percent	V, Sec. 7 (g)
Determination of rates of charge or remuneration	70 percent	V, Sec. 8(d), 9(a)
Increase in percentage of quota for remuneration	70 percent	V, Sec. 9(c)
Sale of gold	85 percent	V, Sec. 12(b), (c), (e)
Acceptance of gold in payments to IMF	85 percent	V, Sec. 12(b), (d)
Special Disbursement Account assets		V, Sec. 12(f)
Transfer to General Resources Account	70 percent	
Balance of payments assistance to developing members	85 percent	
Distribution from general reserve	70 percent	XII, Sec. 6(d)
Valuation of SDR		XV, Sec. 2
Change in the principle of valuation or a fundamental change in the application of the principle in effect	85 percent	
Method of valuation	70 percent	
Allocation of SDRs	85 percent	XVIII, Sec. 4(a), (d)
Determination of rate of interest on SDRs	70 percent	XX, Sec. 3
Prescription of official holders of SDRs	85 percent	XVII, Sec. 3
Suspension or reinstatement of voting rights	70 percent	XXVI, Sec. 2(b)
Compulsory withdrawal	85 percent ²	XXVI, Sec. 2(c)
Amendment of the IMF's Articles of Agreement	85 percent ³	XXVIII (a)

Source: Legal Department, International Monetary Fund.

¹ Proportion of total voting power.

² Majority of Governors having 85 percent of voting power.

³ Three-fifths of the members having 85 percent of the voting power.

Appendix 3

Administered Accounts

The IMF may establish administered accounts for purposes such as financial and technical assistance. Such accounts are legally and financially separate from all other accounts of the IMF.¹

The role of the IMF as trustee has proved particularly useful in enabling the creation of mechanisms to

- *Reduce the cost of access for low-income developing member countries* to the facilities of the General Resources Account, as in the case of the Oil Facility Subsidy Account (1975–83) and the Supplementary Financing Facility Subsidy Account (1979–84)
- *Provide balance of payments assistance on concessional terms*, as in the case of the Trust Fund (1976–81), the Poverty Reduction and Growth Facility (PRGF) Trust (renamed the Poverty Reduction Trust in 2009) (1987–), and several accounts administered by the IMF on behalf of individual members to provide contributions to the PRGF Subsidy Account
- *Provide financing in the form of debt relief to heavily indebted poor countries, as in the case of the Poverty Reduction and Growth Facility-Heavily Indebted Poor Countries Trust.*

From time to time, the IMF also has decided to establish, on an ad hoc basis and as requested by members, accounts for the

administration of resources for specific purposes. These are described below.

Administered Account Japan

The account was established in March 1989 to administer resources made available by Japan—and, under a subsequent amendment, by other countries with Japan's concurrence—that are to be used to assist certain members with overdue obligations to the IMF. The resources of the account are to be disbursed in amounts specified by Japan and to members designated by Japan. Effective March 5, 2008, the instrument governing the account was amended to allow the provision of assistance to these members in the context of an internationally agreed comprehensive package that integrates arrears clearance and subsequent debt relief.

Administered Account for Selected Fund Activities—Japan

The account was established in March 1990 to administer resources contributed by Japan to finance technical assistance to member countries and to support the IMF's Regional Office for Asia and the Pacific (OAP). The IMF and Japan agreed to terminate the account upon completion of ongoing projects, which happened during the financial year that ended April 30, 2015. The account was liquidated and the residual amounts were deposited by the IMF into the Japan subaccount under the Framework Administered Account for Selected Fund Activities during financial year ended April 30, 2016.

Framework Administered Account for Technical Assistance Activities

The Framework Administered Account for Technical Assistance Activities (the Framework Account) was established by the IMF in April 1995 to receive and administer contributed resources that are to be used to finance technical assistance provided by the

¹ The legal authority of the IMF to act as an administrator of such resources derives from Article V, Section 2(b), which empowers it, if requested, to "perform financial and technical services, including the administration of resources contributed by members that are consistent with the purposes of the Fund." The operations involved in the performance of such financial services cannot "be on the account of the Fund."

IMF to member countries and to international organizations. The account is in the process of liquidation and any funds remaining in the account shall either be refunded to the contributors or, at their request, transferred to the Framework Administered Account for Selected Fund Activities.

Framework Administered Account for Selected Fund Activities

The Framework Administered Account for Selected Fund Activities (the SFA Framework Account) was established by the IMF in March 2009 to administer externally contributed resources that are to be used to finance selected IMF activities, including the full range of IMF technical assistance activities and activities in support of technical assistance provided directly to recipients. The financing of selected IMF activities is implemented through the establishment and operation of subaccounts within the SFA Framework Account. As of April 30, 2016, there were 45 subaccounts. The establishment of a subaccount requires the approval of the Executive Board. Disbursements are made from the SFA Framework Account to the GRA to reimburse the IMF for the costs incurred in connection with activities financed by resources from the SFA Framework Account. Resources are to be used in accordance with terms and conditions established by the IMF, with the concurrence of contributors. Resources in SFA subaccounts may be transferred to other SFA subaccounts if the terms and conditions of the subaccounts so provide.

Administered Account for Interim Holdings of Voluntary Contributions for Fund Activities

The Administered Account for Interim Holdings of Voluntary Contributions for Fund Activities was established in April 2010 to receive and hold externally contributed resources for an interim period until such time as they can be transferred to other Trusts or accounts administered by the IMF. The resources deposited into the Holdings Account ultimately fund activities for which understandings or modalities to use the resources have yet to be finalized but for which the contributors need to disburse under their own budgetary cycles.

Trust Fund

The Trust Fund, for which the IMF is Trustee, was established in 1976 to provide balance of payments assistance on concessional terms to eligible members that qualify for assistance. In 1980, the IMF, as Trustee, decided that, upon the completion of the final loan disbursements, the Trust Fund would be terminated as of April 30, 1981, and since then, the activities of the Trust Fund have been confined to receiving interest and repayments from outstanding loans.

Supplementary Financing Facility Subsidy Account

The account was established in December 1980 to assist low-income member countries to meet the costs of using resources made available through the IMF's Supplementary Financing Facility and under the policy on exceptional access. All repurchases under these policies were due on or before January 31, 1991, and the final subsidy payments were approved in July 1991. However, one member (Sudan), overdue in the payment of charges to the IMF at April 30, 2016, remains eligible to receive previously approved subsidy payments of SDR 0.9 million when its overdue charges are settled. Accordingly, the account remains in operation and has retained amounts for payment to Sudan until after the overdue charges are paid.

Post-SCA-2 Administered Account

The account was established in December 1999 for the temporary administration of resources transferred by members following the termination of the second Special Contingent Account (SCA-2) in the General Department of the IMF, prior to the final disposition of those resources in accordance with members' instructions.

SCA-1/Deferred Charges Administered Account

The account was established in March 2008 as an interim vehicle to hold and administer members' refunds resulting from the distribution of certain SCA-1 balances and from the payment of deferred charges adjustments that had been made in respect of overdue charges attributed to Liberia. Following Liberia's arrears clearance, members were given the option to temporarily deposit their refunds into this account pending their decisions as to the final disposition of those resources. The account is scheduled to be terminated March 13, 2018.

Administered Account People's Bank of China

At the request of China, the IMF established an account to administer and invest resources deposited on July 2, 2012 by the People's Bank of China to support the IMF's technical assistance and training programs. The deposit is scheduled to be repaid on the fifth anniversary date of the deposit and the account terminated shortly thereafter.

Interim Administered Account for Windfall Gold Sales Profits

The Interim Administered Account for Windfall Gold Sales Profits was established in October 2012 to temporarily hold and administer contributions representing all or a portion of

members' shares of the partial distribution (SDR 0.7 billion) of amounts in the IMF's General Reserve attributable to windfall gold sales profits. Members were given the option to temporarily deposit the proceeds from the distribution into this account pending their decision as the final disposition of these resources. The account is scheduled to be terminated October 17, 2017.

Interim Administered Account for Remaining Windfall Gold Sales Profits

The Interim Administered Account for Remaining Windfall Gold Sales Profits was established in October 2013 to temporarily hold and administer contributions representing all or a portion of members' shares of the final distribution (SDR 1.75 million) of amounts in the IMF's General Reserve attributable to windfall gold sales profits. Members were given the option to temporarily deposit the proceeds from the distribution into this account pending their decision as the final disposition of these resources. The account is scheduled to be terminated October 13, 2016.

Post-EPCA/ENDA Interim Administered Account

The Post-EPCA/ENDA Interim Administered Account was established on January 29, 2014 to temporarily hold and administer resources transferred by members in the context of the termination of the Post-Conflict and Natural Disaster Emergency Assistance Subsidy Account. The account is scheduled to be terminated January 29, 2017.

Post-MDRI-II Interim Administered Account

The account was established in August 2015 to serve as an interim vehicle for temporarily holding and administering resources transferred by members in the context of the termination of the Multilateral Debt Relief Initiative-II Trust, prior to the final disposition of those resources in accordance with members' instructions. The account is scheduled to be terminated June 22, 2018.

Appendix 4

Disclosure of Financial Position with the IMF in the Balance Sheet of a Member's Central Bank

This appendix elaborates on the final section of [Chapter 2](#) in the text, “Disclosure of Financial Position with the IMF by the Member Countries.”¹ The accounting treatment of IMF transactions should reflect the member's legal and institutional arrangements and the substance of the transactions, as well as be compliant with the relevant financial reporting standards. The following four examples illustrate the gross and net methods for reporting IMF-related assets and liabilities in the balance sheet of a central bank.

In the examples below, all figures represent local currency units.

- I. The basic underlying assumptions for Examples 1 and 2 are the following:
 - (a) On the balance sheet date, the member has a quota equal to 2 million in local currency and an SDR allocation of 1 million.

- (b) The reserve tranche portion of the subscription (25 percent of the quota) has been paid in SDRs. Hence, the central bank's SDR holdings, originally equal to 1 million in local currency, are lower by 500,000 on the balance sheet date.
 - (c) The member has elected to pay 99 percent of the local currency subscription (75 percent of its quota) in the form of nonnegotiable, non-interest-bearing securities. Of the remaining 1 percent (15,000), 9/10 has been paid into the IMF No. 1 Account and 1/10 is maintained in the No. 2 Account.

II. Additional assumptions for Examples 3 and 4 are the following:

- (a) The member has drawn its reserve tranche position of 500,000 in local currency.
- (b) The member has received IMF resources (used IMF credit) equal to 4.5 million, for which securities have been issued.²

¹ Refer also to [Box 2.4](#) “The Reserve Tranche Position” and [Figure 2.3](#) “Members' Financial Position in the General Resources Account.”

² As discussed in [Chapter 2](#), additional considerations may arise when the credit is directed to the state treasury for budget financing.

Reporting IMF-Related Assets and Liabilities: Example 1—Gross Method

Balance Sheet			
Assets		Liabilities	
<i>Foreign assets:</i>		<i>Foreign liabilities:</i>	
IMF quota	2,000,000	IMF No. 1 Account	13,500
		IMF No. 2 Account	1,500
		IMF Securities Account	1,485,000
		Total IMF currency holdings	1,500,000
SDR holdings	500,000	SDR allocation	1,000,000
Total assets	2,500,000	Total liabilities	2,500,000

Reporting IMF-Related Assets and Liabilities: Example 2—Net Method

Balance Sheet			
Assets		Liabilities	
<i>Foreign assets:</i>		<i>Foreign liabilities:</i>	
		IMF No. 2 Account	1,500
IMF reserve tranche position	501,500		
SDR holdings	500,000	SDR allocation	1,000,000
Total assets	1,001,500	Total liabilities	1,001,500

Reporting IMF-Related Assets and Liabilities: Example 3—Gross Method

Balance Sheet			
Assets		Liabilities	
<i>Foreign assets:</i>		<i>Foreign liabilities:</i>	
IMF quota	2,000,000	IMF No. 1 Account	13,500
		IMF No. 2 Account	1,500
		IMF Securities Account	6,485,000
		Total IMF currency holdings ¹	6,500,000
SDR holdings	500,000	SDR allocation	1,000,000
Foreign reserves	5,000,000		
Total assets	7,500,000	Total liabilities	7,500,000

¹ Includes 4,500,000 in local currency stemming from the use of IMF credit and 500,000 from the drawing of the reserve tranche.

Reporting IMF-Related Assets and Liabilities: Example 4—Net Method

Balance Sheet			
Assets		Liabilities	
<i>Foreign assets:</i>		<i>Foreign liabilities:</i>	
Foreign reserves ¹	5,000,000	Use of IMF credit	4,500,000
SDR holdings	500,000	SDR allocation	1,000,000
Total assets	5,500,000	Total liabilities	5,500,000

¹ Foreign reserves are net of the balance in the No. 2 Account. This balance includes 4,500,000 from the use of IMF credit and 500,000 from the drawing of the reserve tranche. Since the reserve tranche was part of foreign reserves, the drawing changes the composition of foreign reserves but not the total balance.

Glossary

This glossary covers basic operational and financial terms as used in the International Monetary Fund.

A

Access Policy and Access Limits. The IMF has established policies that govern the use of its resources by members and provide guidance to member countries about the amount that can normally be borrowed from the IMF. A member country's access limits are set as percentages of the member's quota and vary with the facility being used; the limits are reviewed periodically. The policy governing access by members to IMF financial resources has changed over time to reflect members' changing financing needs balanced against the need to safeguard the revolving nature of the institution's resources and liquidity needs.

Accounting Unit. The IMF's unit of account, in which its financial records are kept, is the Special Drawing Right (SDR). Members' currencies are valued by the IMF in terms of the SDR on the basis of their representative rates of exchange, normally against the U.S. dollar at spot market rates.

Accounts and Departments. The IMF operates its financial functions through the General Department, the SDR Department, and the Administered Accounts, which are accounting constructs and not organizational units. The financial functions of the IMF are discharged by the Finance Department, which is an organizational unit of the staff.

Accounts of the IMF in Member Countries. The IMF's currency holdings are held in accounts of the IMF in designated depositories in member countries. These accounts are the No. 1 and No. 2 Accounts and the Securities Account. The No. 1 Account is used for quota subscription payments, purchases and repurchases, repayment of borrowing, and sales of the member's currency. All these transactions may also be carried out through the Securities Account, which may be established by the member to hold nonnegotiable,

non-interest-bearing notes, or similar obligations, payable to the IMF on demand. These notes or similar obligations are issued by the member as a substitute for the currency holdings of the IMF. The No. 2 Account is used for the IMF's administrative expenditures and receipts in the member's currency and within its territory.

Administered Accounts. Accounts are established to perform financial and technical services that are consistent with the purposes of the IMF, including the administration of resources contributed by individual members to provide assistance to other members. All transactions involving the Administered Accounts are separate from those of the IMF's other accounts (see [Appendix 3](#)).

Advance Repurchase. A repurchase (repayment) before the scheduled value date made at the discretion of the member. A member is free to make advance repurchases at any time. The member can elect to apply the advance repurchase(s) to any scheduled repurchase.

Amendments (to the Articles of Agreement). The Articles of Agreement have been amended seven times. The First Amendment (July 1969) introduced the Special Drawing Right (SDR). The Second Amendment (April 1978) reflected the change from the par value system based on a fixed price for gold to an international monetary system based on floating exchange rates. The Third Amendment (November 1992) allowed for suspension of the voting and certain related rights of a member that fails to fulfill any of its obligations under the Articles (other than obligations with respect to SDRs). The Fourth Amendment allowed for a special one-time allocation of SDRs and was adopted by the Board of Governors in August 2009. The Fifth Amendment (February 2011) expanded the investment authority of the IMF. The Sixth Amendment (March 2011) was part of the package of quota and voice reforms adopted in 2008 and provided for an increase in basic votes and an additional alternate Executive Director for the largest constituencies. The Seventh Amendment (January 2016) allows for an all-elected Board. It was part of a package of quota and governance reforms adopted in 2010 and became

effective when it was accepted by three-fifths of membership having 85 percent of the total voting power.

Arrears. A stock of outstanding debt, either domestic or external, resulting from payments not made to the IMF when due.

Articles of Agreement. An international treaty that sets out the purposes, principles, and financial structure of the IMF. The Articles were drafted in July 1944 by representatives of 45 nations at a conference held in Bretton Woods, New Hampshire, and entered into force in December 1945.

Article IV Consultations. A regular, usually annual, comprehensive discussion is held between the IMF staff and representatives of individual member countries concerning the member's economic and financial policies. The basis for these discussions is in Article IV of the IMF Articles of Agreement (as amended, effective 1978), which directs the IMF to exercise firm surveillance over each member's exchange rate policies.

B

Basic Period. This refers to each of the consecutive periods of 5 years (or less) during which a determination is made whether there is a global need for additional international reserves to justify a new allocation of SDRs.

Basic Rate of Charge. A single interest charge is applied to outstanding IMF credit financed from the IMF's general resources. The basic rate of charge is a key element of the IMF's financial operations. It is composed of the SDR interest rate, and a margin to cover the cost of IMF financing to members as well as to help accumulate reserves.

Burden Sharing. The burden-sharing policy seeks to ensure that the IMF's cash flow from its lending operations is not negatively affected by members' failure to settle financial obligations to the IMF. Since its establishment in 1986 the burden-sharing mechanism has compensated the IMF for deferred charges of members in arrears, which offsets the impact of unpaid charges on IMF income and has helped generate precautionary balances against possible credit default. Under burden sharing, temporary financing in equal amounts is obtained from debtor and creditor members by increasing the rate of charge and reducing the rate of remuneration, respectively, to (1) cover shortfalls in the IMF's regular income from unpaid charges ("deferred charges") and (2) accumulate precautionary balances against possible credit default in a contingent account, the Special Contingent Account (SCA-1).

C

Catastrophe Containment and Relief (CCR) Trust. Established in 2015, the CCRT allows the IMF to provide grants for

debt relief for the poorest and most vulnerable countries hit by catastrophic natural disasters such as massive earthquakes, or to public health disasters including life-threatening, fast-spreading epidemics with international spillover potential. The relief on debt service payments frees up additional resources to meet exceptional balance of payments needs created by the disaster, and for containment and recovery efforts. The CCR Trust supersedes the Post Catastrophe Debt Relief Trust (PCDR), which was set up in 2010 in response to the earthquake that devastated Haiti and is intended to broaden the situations covered by IMF disaster assistance to include public health disasters.

Charges, Periodic. Charges (interest) are payable by a member on its outstanding use of IMF credit. Charges are normally levied quarterly.

Commitment Fee. Charges are levied at the beginning of each 12-month period of an arrangement on the amounts available for purchase during that period. As disbursements are made, the commitment fees paid are refunded based on the size of the disbursement relative to the amount available for purchase in the period.

Conditionality. Economic policies that members intend to follow as a condition for the use of IMF resources. These are often expressed as performance criteria (for example, monetary and budgetary targets) or benchmarks and are intended to ensure that the use of IMF credit is temporary and consistent with the adjustment program designed to correct a member's external payments imbalance.

D

Debt Relief. Agreements by creditors to lessen the debt burden of debtor countries by either rescheduling interest and principal payments falling due over a specified time period, sometimes on a concessional basis, or by partially or fully cancelling debt-service payments falling due during a specified period.

Depository and Fiscal Agency. The IMF conducts its financial dealings with a member through the fiscal agency and the depository designated by the member. The fiscal agency may be the member's treasury (ministry of finance), central bank, official monetary agency, stabilization fund, or similar agency. The depository maintains the accounts of the IMF with member's currency and also holds on behalf of the IMF for safe custody nonnegotiable, non-interest-bearing notes, or similar instruments, issued by the member in substitution for part of the IMF's currency holdings.

Designation Plan. A list of participants in the SDR Department whose balance of payments and reserve positions are sufficiently strong for them to be called upon ("designated") to provide freely usable currency in exchange for SDRs within a year, together with

the amounts they may be called upon to provide. The designation plan is established in advance on an annual basis (currently only on a precautionary basis) by approval of the Executive Board.

E

Early Repurchase. An early repurchase is made by a member before the scheduled repurchase date when the Fund represents to the member that it should repurchase because of an improvement in its balance of payments and reserve position.

ELRIC. A safeguards assessment is a diagnostic review of a central bank's governance and control framework carried out by the IMF staff. ELRIC is an acronym that summarizes the assessments used to evaluate the adequacy of the five key areas of control and governance within a central bank. They are as follows: External audit mechanism, Legal structure and autonomy, financial Reporting, Internal audit mechanism, and system of internal Controls. Governance is an overarching principle transcending all ELRIC areas.

Emergency Assistance. Since 1962, the IMF has provided emergency assistance in the form of purchases to help members overcome balance of payments problems arising from sudden unforeseeable natural disasters such as floods, earthquakes, hurricanes, or droughts. In 1995, the IMF's policy on emergency assistance was expanded to cover countries in postconflict situations. In 2011, coverage of General Resources Account emergency assistance was enhanced and broadened under the Rapid Financing Instrument, which is similar to the Rapid Credit Facility under the Poverty Reduction and Growth Trust.

Extended Credit Facility (ECF). The ECF succeeds the Poverty Reduction and Growth Facility as the IMF's main tool for providing medium-term support to low-income countries. ECF arrangements support programs that enable members with protracted balance of payments problems to make significant progress toward stable and sustainable macroeconomic positions consistent with strong durable poverty reduction and growth.

Extended Fund Facility (EFF). This financing facility provides longer-term assistance to support members' structural reforms to address medium- and longer-term balance of payments difficulties. The EFF can be adopted for up to 4 years with a structural agenda and annual detailed statement of policies for the next 12 months.

F

Financial Transactions Plan (FTP). The Executive Board adopts a Financial Transactions Plan for each upcoming quarter specifying the amounts of SDRs and selected member currencies to be used in purchases and repurchases (transfers and receipts)

expected to be conducted through the General Resources Account during that period.

Flexible Credit Line (FCL). The FCL is a flexible instrument introduced to address all balance of payments needs, potential or actual. It is for countries with very strong fundamentals, policies, and track records of policy implementation. FCL arrangements are approved, at the member country's request, for countries meeting preset qualification criteria. Access is not subject to access limits and is available in a single up-front disbursement subject to a midterm review after a year. Disbursements are not conditional on implementation of specific policy understandings.

Forward Commitment Capacity (FCC). The FCC measures the IMF's capacity to make new financial resources available to members from the General Resources Account for the forthcoming 12-month period, taking into account resources available. The FCC is defined as the IMF's stock of usable resources, minus undrawn balances under GRA lending commitments, plus projected repurchases during the coming 12 months, minus repayments of borrowing 1 year forward, minus a prudential balance intended to safeguard the liquidity of creditors' claims and to take into account any erosion of the IMF's resource base. Under the expanded and amended New Arrangements to Borrow (NAB), the maximum activation period within which the IMF may make commitments funded with NAB resources is 6 months. Therefore, the 1-year FCC has been modified to allow the inclusion of these shorter duration NAB resources within the FCC concept.

Freely usable currency. A currency that the IMF has determined is widely used to make payments for international transactions and widely traded in the principal exchange markets. From October 1, 2016, the Chinese renminbi, euro, Japanese yen, pound sterling, and U.S. dollar are classified as freely usable currencies.

G

General Arrangements to Borrow (GAB). The GAB has been in place since 1962 and was originally conceived as a means by which the main industrialized countries could stand ready to lend to the IMF up to a specified amount of currencies. The GAB currently amounts to SDR 17 billion, and there is also an associated arrangement with Saudi Arabia for SDR 1.5 billion. In principle, the GAB can only be called upon when a proposal for an activation period under the New Arrangements to Borrow (NAB) is rejected by NAB participants. The GAB does not add to the IMF's overall lending envelope because outstanding drawings and available commitments under the NAB and the GAB cannot exceed the total amount of NAB credit arrangements.

General Department. An accounting entity of the IMF comprising the General Resources Account, the Special Disbursement Account, and the Investment Account.

General Resources Account (GRA). The principal account of the IMF, consisting of a pool of currencies and reserve assets, representing the paid subscriptions of member countries' quotas. The GRA is the account from which the regular lending operations of the IMF are financed.

H

Heavily Indebted Poor Countries (HIPC) Initiative. The HIPC Initiative, adopted in 1996, provides exceptional assistance to eligible countries to reduce their external debt burdens to sustainable levels, thereby enabling them to service their external debt without the need for further debt relief and without compromising growth. The HIPC Initiative is a comprehensive approach to debt relief that involves multilateral, Paris Club, and other official and bilateral creditors. To ensure that debt relief is put to effective use, assistance under the HIPC Initiative is limited to countries eligible for the Poverty Reduction and Growth Fund (PRGF) and the International Development Association (IDA) that have established a strong track record of policy implementation under PRGF- and IDA-supported programs. Following a comprehensive review in 1999, the initiative was enhanced to provide faster, deeper, and broader debt relief and to strengthen the links between debt relief, poverty reduction, and social policies. In 2005, the HIPC Initiative was supplemented by the Multilateral Debt Relief Initiative.

I

Investment Account (IA). The Second Amendment to the IMF's Articles of Agreement in 1978 authorized the IMF to establish an Investment Account to generate income from other sources. There are two IA subaccounts: the Fixed-Income Subaccount and the Endowment Subaccount. The investment goal of the Fixed-Income Subaccount is to achieve returns that exceed the SDR interest rate over time while minimizing the frequency and extent of negative returns and underperformance over an investment horizon of 3 to 5 years. The investment goal of the Endowment Subaccount is to achieve a long-term real return target of 3 percent in U.S. dollar terms.

M

Management Letter. Under IMF safeguards assessments, a letter issued by an external auditor to the management of a central bank that draws attention to material weaknesses in the internal control systems that have come to the attention of the auditor during the audit of financial statements.

Medium-Term Instruments. Under the IMF's investment strategy, these instruments perform similarly to domestic

government bonds but are claims on the Bank for International Settlements (BIS) that offer liquidity and the possibility to benefit from a credit spread over domestic bonds.

Misreporting. This term is used to broadly cover situations in which a member provides incorrect information to the IMF.

Multilateral Debt Relief Initiative (MDRI). The MDRI, which was launched to complement the Heavily Indebted Poor Countries (HIPC) Initiative, provided 100 percent relief on eligible debt to a group of low-income countries from three multilateral institutions—the IMF, the International Development Association (IDA), and the African Development Fund (AfDF). The initiative was intended to free up additional resources to help these countries reach the United Nation's Millennium Development Goals. The debt relief covered the full stock of debt owed to the IMF as of December 31, 2004, and still outstanding at the time the country qualifies for such debt relief. Unlike the HIPC Initiative, the MDRI did not propose any parallel debt relief on the part of official bilateral or private creditors, or of multilateral institutions beyond the IMF, IDA, and the AfDF. There is no longer any outstanding IMF debt eligible for MDRI debt relief.

Multilateral Debt Relief Initiative (MDRI) Trusts. The MDRI Trusts were MDRI resources administered by the IMF as trustee. They consisted of MDRI-I and MDRI-II Trusts, which received and provided resources for debt relief under the MDRI to two groups of countries differentiated by their levels of income per capita—above or below US\$380 a year. The MDRI-I and the MDRI-II Trust were liquidated in 2015.

N

Net Present Value (NPV). The NPV of debt is a measure that takes into account the degree of concessionality. It is the sum of all future debt-service obligations (interest and principal) on existing debt, discounted at the market interest rate. Whenever the interest rate on a loan is lower than the market rate, the resulting NPV of debt is smaller than its face value, with the difference reflecting the grant (concessionality) element.

New Arrangements to Borrow (NAB). Arrangements under which 40 participants stand ready to lend to the IMF. The NAB do not replace the General Arrangements to Borrow but are to be the first and principal recourse in the event of a need to provide supplementary resources to the IMF.

Norm for Remuneration. A member's norm determines its remunerated reserve tranche position. It is the sum of (1) 75 percent of a member's quota before the Second Amendment of the Articles (April 1, 1978), and (2) subsequent quota increases. For a country that became a member after April 1, 1978, the norm is a percentage of its quota equal to the weighted average relative to

quota of the norms applicable to all members on the date that the member joined the IMF, plus subsequent quota increases.

P

Phasing. The practice of making the IMF's resources available to its members in installments over the period of an arrangement. The pattern of phasing can be even, frontloaded, or backloaded, depending on the financing needs and the speed of adjustment.

Policy Support Instrument (PSI). The PSI is a nonfinancial instrument established by the IMF's Executive Board in 2005 to support low-income countries that do not want—or need—IMF financial assistance but seek to consolidate their economic performance with IMF monitoring and support. The PSI is available to all countries eligible for the Poverty Reduction and Growth Trust with a poverty reduction strategy in place and a framework focused broadly on achieving and maintaining a stable and sustainable macroeconomic position, including debt sustainability, consistent with strong and durable poverty reduction and growth. The PSI helps countries design effective economic programs that, once approved by the IMF's Executive Board, deliver clear signals to donors, multilateral development banks, and markets of the IMF's endorsement of the strength of a member's policies.

Post-Catastrophe Debt Relief (PCDR) Trust. The PCDR Trust, established in June 2010, allowed the IMF to join international debt relief efforts when poor countries are hit by the most catastrophic of natural disasters. In February 2015, the Executive Board approved its transformation to the Catastrophe Containment and Relief Trust. This has expanded the circumstances under which the IMF can provide exceptional assistance to low-income members to include public health disasters.

Poverty Reduction and Growth Trust (PRGT). In July 2009, the IMF's Executive Board approved a new concessional financing framework under which a new Poverty Reduction and Growth Trust replaced the Poverty Reduction Growth Facility–Exogenous Shock Facility (PRGF-ESF) Trust. Separate loan and subsidy accounts were established under the PRGT to receive and provide resources to finance new low-income country lending facilities under the new trust. These reforms became effective and operational in January 2010, when all lenders and subsidy contributors to the PRGF-ESF Trust provided their consent. The trust comprises four Loan Accounts, a Reserve Account, and four Subsidy Accounts:

- **General Loan Account (GLA):** The purpose of the account is to cover all facilities of the PRGT. The GLA borrows resources from central banks, governments, and official institutions, as under the previous PRGF-ESF Trust, largely at market-related rates. The proceeds of these loans are used to finance lending to eligible low-income countries under all facilities of the PRGT.

- **Special Loan Accounts (SLAs):** These accounts accommodate donors' preferences for earmarking their contributions for specific facilities. Three separate loan accounts were created for the Extended Credit Facility, Standby Credit Facility, and Rapid Credit Facility.
- **Reserve Account:** The coverage of the Reserve Account was expanded to provide security for loans under all facilities of the PRGT. The role of the Reserve Account remains the same, however—to provide payment to the lenders to the Loan Accounts of the PRGT in the event of a payment delay or nonpayment by borrowers. It also serves to bridge temporary mismatches between repayments from borrowers and repayments to lenders. The Reserve Account is, and will continue to be, replenished upon the settlement by borrowers of the payment arrears or mismatches that resulted in disbursements from the Reserve Account.
- **General Subsidy Account (GSA):** This account receives and provides subsidies for existing and new loans under all facilities of the PRGT. Resources in a special subsidy account are used first to subsidize loans under the facility to which it is linked before resources in the General Subsidy Account are drawn.
- **Special Subsidy Accounts (SSAs):** These were established to accommodate donors' preferences for earmarking their contributions for specific facilities. Three separate subsidy accounts were created, for the Extended Credit Facility (ECF), Standby Credit Facility (SCF), and Rapid Credit Facility (RCF).
- **ECF Subsidy Account** provides resources to subsidize new ECF loans, outstanding PRGF loans, and loans disbursed under the ESF. The ECF Subsidy Account is the "default" subsidy account for the receipt of existing subsidy resources to be transferred from the PRGF-only and PRGF-ESF Subsidy Accounts of the PRGF-ESF Trust, and can also receive new bilateral contributions. The PRGF and PRGF-ESF Subsidy Accounts were terminated when the PRGT reforms became effective.
- **SCF Subsidy Account** provides resources for subsidizing SCF loans.
- **RCF Subsidy Account** provides resources for subsidizing RCF loans.

Precautionary Balances. Financial resources held in the form of General and Special Reserves and in the first Special Contingent Account, the latter of which was established in the context of the arrears strategy for dealing with existing or potential overdue obligations.

Precautionary and Liquidity Line (PLL). This is an additional financing tool of the IMF to flexibly meet the needs of member countries with sound economic fundamentals but with

some remaining vulnerabilities that preclude them from using the Flexible Credit Line. The PLL provides financing to meet any balance of payments needs and is intended to serve as insurance or help resolve crises under a broad range of situations.

Prescribed Holder. A nonparticipant in the SDR Department that has been prescribed by the IMF as a holder of SDRs, including nonmembers, member countries that are not SDR Department participants, institutions that perform the functions of a central bank for more than one member, and other official entities.

Poverty Reduction and Growth—Heavily Indebted Poor Countries (PRG-HIPC) Trust. This trust is composed of three subaccounts for receiving and providing grants for debt relief and subsidization of outstanding Extended Credit Facility (ECF) loans and Umbrella Accounts:

- *Subaccounts:* The ECF subaccount, the HIPC subaccount, and the ECF-HIPC subaccount permit contributors to earmark resources for either ECF or HIPC or both operations. In addition, resources in the ECF-HIPC account that are not earmarked for HIPC operations can be transferred to the ECF Subsidy Account if resources in the latter are insufficient for subsidizing ECF lending.
- *Umbrella accounts:* Separate subaccounts (Umbrella Accounts) are established for each HIPC beneficiary. Resources placed in the Umbrella Accounts—representing HIPC grants approved by the Executive Board and disbursed to the member at the completion point, interim assistance between the decision and completion points, plus accumulated interest—are used to meet each beneficiary's obligations to the IMF as they fall due based on a schedule approved by the Executive Board.

Program Review. Provides a framework to assess progress on policies that cannot easily be quantified or defined as performance criteria and to assess overall progress toward program objectives of macroeconomic adjustment and structural reform in the context of an IMF program. The completion of a review makes available the next installment for purchases under the arrangement.

Protracted Arrears. Arrears to the IMF of more than 6 months.

Purchases and Repurchases. When the IMF makes its general resources available to a member, it does so by allowing the member to purchase SDRs or other members' currencies in exchange for its own (domestic) currency. The IMF's general resources are, by nature, revolving: purchases (loans) have to be reversed by repurchases (repayments) in installments within the period specified for a particular policy or facility. Although the purchase-repurchase mechanism is not technically or legally a loan, it is the functional equivalent of a loan.

Q

Quantitative Performance Criteria (QPC). These are specific and measurable conditions that are so critical as to stop disbursements in the event of nonobservance. QPCs normally include targets on monetary and credit aggregates, international reserves, fiscal balances, and external borrowing.

Quota. Quotas constitute the primary source of the IMF's financial base and play several key roles in its relationship with its members. Each member is assigned a quota based broadly on its relative position in the world economy and pays a capital subscription to the IMF equal to the quota. Quotas also determine the distribution of voting power to IMF members and thereby their decision making and representation on the Executive Board. Quotas also play a role in determining members' access to IMF resources and their share in a general allocation of SDRs. Quotas are reviewed regularly, normally every 5 years.

R

Rapid Credit Facility (RCF). The RCF provides rapid, low-access financing with limited conditionality to low-income countries facing an urgent balance of payments need. The RCF streamlines the IMF's emergency assistance, provides significantly higher levels of concessionality, can be used flexibly in a wide range of circumstances, and places greater emphasis on a country's poverty reduction and growth objectives.

Rapid Financing Instrument (RFI). The RFI provides rapid and low-access financial assistance to all members facing an urgent balance of payments need without the need for a full-fledged program. It can provide support to meet a broad range of urgent needs, including those arising from commodity price shocks, natural disasters, postconflict situations, and emergencies resulting from fragility. As a single, flexible mechanism with broad coverage, the RFI replaced the IMF's previous policy that covered Emergency Natural Disaster Assistance and Emergency Post-Conflict Assistance. The RFI is similar to the RCF for member countries eligible for the Poverty Reduction and Growth Trust.

Remunerated Reserve Tranche Position. The IMF pays interest, called remuneration, on a member's reserve tranche position except on a small portion that is provided to the IMF as interest-free resources. This unremunerated (non-interest-bearing) portion of the reserve tranche position is equal to 25 percent of the member's quota on April 1, 1978—that part of the quota that was paid in gold prior to the Second Amendment of the IMF's Articles of Agreement. The gold tranche was never remunerated historically, so it was natural to set aside this same amount in SDRs on this date as the unremunerated reserve tranche. For a member that joined the IMF after that date, the unremunerated

reserve tranche is the same percentage of its initial quota as the average unremunerated reserve tranche was as a percentage of the quotas of all other members when the new member joined the IMF. The unremunerated reserve tranche remains fixed for each member in nominal terms, but because of subsequent quota increases, it is now significantly lower when expressed as a percentage of quota.

Reserve Tranche Position (RTP). In exchange for the reserve asset portion of its quota payment, an IMF member acquires a liquid claim on the IMF, called a reserve tranche position (RTP). The RTP forms part of the member's external reserves and is calculated as the difference between quota and the Fund's holdings of a member's currency, excluding holdings acquired as a result of the use of Fund credit, and excluding holdings in the No. 2 Account that are less than 1/10 of 1 percent quota.

Resource Mobilization Plan (RMP). The RMP allows for effective use of the New Arrangements to Borrow (NAB) for crisis prevention and ensures adequate burden sharing among NAB participants. The RMP is approved on a quarterly basis by the Executive Board for use of the NAB and to finance the General Resources Account. Previously, the NAB could be activated only on a loan-by-loan basis through procedures that were complex and relatively lengthy.

Rights Accumulation Program (RAP). An economic program agreed between the IMF and an eligible member in protracted arrears to the IMF that provides a framework for the member to establish a satisfactory track record of policy and payments performance and permits the member to accumulate rights to future drawings of IMF resources following its clearance of arrears to the IMF up to the level of arrears outstanding at the beginning of the program.

S

Safeguards Assessment. A diagnostic review of a central bank's governance and control framework. Specifically, it evaluates a member country's central bank's governance, control, reporting, and auditing systems. Assessments aim to ensure that resources, including those provided by the IMF, are adequately monitored and controlled (See also ELRIC).

Service Charge. A service charge of 0.5 percent is levied on each drawing from the General Resources Account.

Special Charges (Additional Charges). The IMF levies special charges on principal payments and charges that are less than 6 months overdue.

Special Contingent Account (SCA). Account established to hold precautionary balances to strengthen the IMF's financial position in connection with members' overdue financial obligations.

Special Drawing Right (SDR). International reserve asset created by the IMF in 1969 as a supplement to existing reserve assets.

- **SDR Allocation.** Distribution of SDRs to members by decision of the IMF. A "general" allocation requires a finding by the IMF that there is a global need for additional liquidity.
- **SDR Assessment.** An assessment levied by the IMF, at the same rate for all participants in the SDR Department, on a participant's net cumulative SDR allocations to cover the expenses of conducting the business of the SDR Department.
- **SDR Department.** This department, an accounting entity rather than an organizational unit of the IMF, records and administers all transactions and operations involving SDRs.
- **SDR Interest Rate.** Determined on a weekly basis, the SDR interest rate is a weighted average of interest rates on short-term financial instruments in the markets of the currencies included in the SDR valuation basket, except if the weighted average falls below the floor for the SDR interest rate of 0.050 percent (5 basis points). It is used to calculate interest payable/receivable on member's SDR holdings/allocations, the remuneration payable on creditor member's reserve tranche position and interest payable to creditor members for the use of borrowed resources.
- **SDR Interest and Charges on SDR Holdings and Allocations.** Based on the SDR Interest Rate, interest is paid to each holder of SDRs and charges are levied, at the same rate, on each participant's net cumulative SDR allocations.
- **SDR Use.** The SDR is used almost exclusively in transactions with the IMF, and it serves as the unit of account of the IMF and other international organizations.
- **SDR Valuation.** The currency value of the SDR is determined daily by the IMF by summing the values in U.S. dollars, based on market exchange rates, of a basket of five major currencies— U.S. dollar, euro, Chinese renminbi, Japanese yen, and pound sterling. The SDR valuation basket is normally reviewed every 5 years.

Staff-Monitored Program (SMP). A Staff-Monitored Program is an informal and flexible instrument for dialogue between the IMF staff and a member country on its economic policies. Under a Staff-Monitored Program the country's targets and policies are monitored by the IMF staff; a staff-monitored program is not supported by the use of the IMF's financial resources, nor is it subject to the endorsement of the Executive Board of the IMF.

Stand-By Arrangement (SBA). A decision of the IMF by which a member is assured that it will be able to make purchases from the General Resources Account up to a specified amount and during a specified period, so long as the member observes the terms specified.

Standby Credit Facility (SCF). The SCF provides financing similar to SBAs to low-income countries with short-term balance of payments needs, allowing also for precautionary use. SCF arrangements support programs that enable members with actual or potential short-term balance of payments needs to achieve, maintain, or restore stable and sustainable macroeconomic positions consistent with strong and durable poverty reduction and growth.

Surcharge to the Basic Rate of Charge. Surcharges are an important component of the IMF's risk-mitigation framework. The system of surcharges is based on the amount of credit above a certain quota-based threshold (level-based surcharges) and the period during which credit at that level is outstanding (time-based surcharges).

Surveillance. An essential aspect of the IMF's responsibilities associated with overseeing the policies of its members in complying with their obligations specified in the Articles of Agreement to ensure the effective operation of the international monetary system.

T

Transactions by Agreement. Transactions in which participants in the SDR Department (currently all IMF members) and/or prescribed holders voluntarily exchange SDRs for currency at the official rate determined by the IMF.

U

Upper Credit Tranche. This originally referred to credit available from the IMF in an amount between 25 and 100 percent of a country's quota. Since access to IMF credit is now permitted substantially above 100 percent of quota, the upper credit tranches now refer to any use of IMF credit above 25 percent of quota.

Usable Currency. The currency of a member that the IMF considers to be in a sufficiently strong external position that its currency can be used to finance IMF transactions with other members through the financial transactions plan. Not to be confused with freely usable currency.

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