

**Selected Decisions of the
International Monetary Fund
and Selected Documents**

Supplement

to Thirteenth Issue
International Monetary Fund

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PREFACE

This Supplement to the Thirteenth Issue of *Selected Decisions of the International Monetary Fund and Selected Documents* contains decisions of the Executive Board and a resolution of the Board of Governors adopted during the period from May 1, 1987 to April 30, 1988, inclusive. In addition, the volume contains certain documents relating to the Fund's decisions taken during that period.

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General Counsel

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**Selected Decisions of the Executive Board
and Related Documents
Supplement to Thirteenth Issue**

ARTICLE IV

Exchange Arrangements

SURVEILLANCE OVER EXCHANGE RATE POLICIES: GENERAL IMPLEMENTATION—REVIEW

The Executive Board has reviewed the general implementation of the Fund's surveillance over members' exchange rate policies, as required by Paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, including the procedures for the conduct of consultations under Article IV, which in principle shall comprehend the regular consultations under Article VIII and Article XIV, and approves the continuation of the procedures as described in SM/88/39, in the light of the Managing Director's summing up, until the next review, which shall be conducted not later than April 1, 1990.

Decision No. 8858-(88/64)

April 22, 1988

SURVEILLANCE OVER EXCHANGE RATE POLICIES: AMENDMENT OF 1977 DOCUMENT, AND REVIEW

I. Amendment of 1977 Document

The first sentence of Paragraph VI of Procedures for Surveillance contained in the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, shall be amended to read as follows:

The Executive Board shall review the general implementation of the Fund's surveillance over members' exchange rate policies at intervals of two years and at such other times as

consideration of it is placed on the agenda of the Executive Board.

Decision No. 8856-(88/64)

April 22, 1988

II. *Review*

The Executive Board has reviewed the document entitled "Surveillance over Exchange Rate Policies" attached to Decision No. 5392-(77/63), adopted April 29, 1977, as amended, as required by paragraph 2 of that decision. The next review of the document shall be conducted not later than April 1, 1990.

Decision No. 8857-(88/64)

April 22, 1988

The Chairman's Summing Up at the Conclusion of the Discussion on Article IV Consultation Procedures—Initiation of the Bicyclic Procedure and Changes in Cycles, and Simplified Interim Procedures—Executive Board Meeting 87/100, July 8, 1987

On the occasion of our earlier discussion on June 8, Executive Directors already broadly endorsed the general criteria for the periodicity of Article IV consultations in individual cases. Two issues remained to be addressed.

. . .

On the . . . issue of the involvement of the Executive Board, a number of Directors expressed a preference for Option II in SM/87/139, under which staff reports on the occasion of the simplified interim procedures would be placed on the tentative schedule of Executive Board meetings and, in the absence of a request for a Board discussion, the Article IV consultation would be deemed to have been completed without discussion. A majority of Directors, however, clearly preferred Option III whereby the staff papers on the occasion of the simplified interim procedure would be issued for information only. This is the practice that will be followed for the initial application of the bicyclic consultation procedure. There was no support for Option I.

SM/87/139

II.

...

a. Under Option I, the staff report would be submitted for consideration by the Executive Board and included in the tentative schedule of the Executive Board for a particular meeting. In the absence of a request by a certain date (to be indicated in the circulating note) from an Executive Director that the report be taken up for discussion in the Executive Board, the interim consultation with the member in question would be deemed to have been completed without discussion by the Executive Board, and the conclusions set forth in the staff appraisal would be deemed to have been adopted by the Executive Board, thereby completing the consultation in accordance with the current Procedures for Surveillance. As in the case of other decisions adopted without discussion, the minutes of the next meeting of the Executive Board would state that the Board has completed the interim consultation and approved the conclusions set forth in the staff appraisal.

Option I could be introduced without any amendment to the existing Procedures for Surveillance.

b. Under Option II, the staff report would be submitted for consideration by the Executive Board and included in the tentative schedule of the Executive Board for a particular meeting as under Option I. In the absence of a request by a certain date from an Executive Director that the report be taken up for discussion in the Executive Board, the interim consultation with the member in question would be deemed to have been completed. In contrast to Option I, the decision of the Executive Board completing the consultation would be a procedural one only and, therefore, the Executive Board would not be deemed to have approved the conclusions contained in the appraisal section of the staff report. It would be recorded in the minutes of the next Executive Board meeting that the interim consultation has been completed.

Option II would require an amendment to paragraph II of the existing Procedures for Surveillance, allowing for an interim consultation with a member to be completed without the Executive Board reaching conclusions (Annex III to SM/87/117).

c. Under Option III, the staff report would cover "consultation discussions" with a member but would be circulated to members of the Executive Board "for information only" and not "for consideration by the Executive Board." Any

Executive Director could request that the staff report be taken up for discussion by the Executive Board.

Option III would not require an amendment to the existing Procedures for Surveillance because the issuance and circulation of a staff report "for information only" could be regarded as an interim staff report of ongoing consultation discussions with the member in question.

III.

In conclusion, only the simplified interim procedures envisaged under Options I and II above would constitute "consultations" under Article IV, Section 3(b). Option III would furnish the Board with information on consultation discussions taking place under the same provision of the Articles. The role of the Executive Board under each option varies accordingly:

a. Under Option I, the Executive Board would adopt, without discussion, a decision approving the conclusions set forth in the staff report;

b. Under Option II, the Executive Board would adopt, without discussion, a decision completing the consideration of a staff report by the Executive Directors. Hence, the Executive Board would take note of the staff report, but would not approve any conclusions set forth in the report;

c. Under Option III, the Executive Board would not adopt any decision.

ARTICLE V, SECTION 2(b)

Financial and Technical Services

ESTABLISHMENT OF THE ENHANCED STRUCTURAL ADJUSTMENT
FACILITY TRUST*

1. The Fund adopts the Instrument to Establish the Enhanced Structural Adjustment Facility Trust that is annexed to this Decision.

2. The Fund is committed, if it appeared that any delay in payment by the Trust to lenders would be protracted, to consider fully and in good faith all such initiatives as might be necessary to assure full and expeditious payment to lenders.

Decision No. 8759-(87/176) ESAF

December 18, 1987

ANNEX

*Instrument to Establish the Enhanced Structural
Adjustment Facility Trust*

Introductory Section

To help fulfill its purposes, the International Monetary Fund (hereinafter called the "Fund") has adopted this Instrument establishing the Enhanced Structural Adjustment Facility Trust (hereinafter called the "Trust"), which shall be administered by the Fund as Trustee (hereinafter called the "Trustee"). The Trust shall be governed by and administered in accordance with the provisions of this Instrument.

*On the transfer of resources from the Special Disbursement Account to the Enhanced Structural Adjustment Facility Trust and retransfer to the Special Disbursement Account, see Decision No. 8760-(87/176) on page 59. On the establishment of the Enhanced Structural Adjustment Facility, see Decision No. 8757-(87/176) SAF/ESAF on page 65.

Section I. *General Provisions*

Paragraph 1. Purposes

The Trust shall assist in fulfilling the purposes of the Fund by providing loans on concessional terms (hereinafter called "Trust loans") to low-income developing members that qualify for assistance under this Instrument, in order to support programs to strengthen substantially and in a sustainable manner their balance of payments position and to foster growth.

Paragraph 2. Accounts of the Trust

The operations and transactions of the Trust shall be conducted through a Loan Account, a Reserve Account, and a Subsidy Account. The resources of the Trust shall be held separately in each Account.

Paragraph 3. Unit of account

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

*Paragraph 4. Media of payment of contributions
and exchange of resources*

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

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

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

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

Section II. *Trust Loans*

Paragraph 1. Eligibility and conditions for assistance

(a) Any member eligible for assistance from the Structural Adjustment Facility shall be eligible for assistance from the Trust.

(b) This assistance shall be committed and provided under the same conditions and on the same terms as prescribed in paragraph 14 of the Regulations for the Administration of the Structural Adjustment Facility, subject to the provisions of this Section.

(c) Before approving a three-year arrangement, the Trustee shall be satisfied that the member is making an effort to strengthen substantially and in a sustainable manner its balance of payments position.

(d) Commitments under three-year arrangements may be made during the period from January 1, 1988 to November 30, 1989.

Paragraph 2. Amount of assistance

(a) An initial maximum limit on access to the resources of the Trust shall be established by the Trustee, as a proportion of members' quotas in the Fund, and provision shall be made for a limit up to which that maximum limit may be exceeded in exceptional circumstances. The maximum access limit and the exceptional maximum limit shall be subject to review from time to time by the Trustee in the light of actual utilization of resources available to the Loan Account, and in any event not later than March 31, 1989.

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

(c) The access for each member that qualifies for assistance from the Trust shall be determined on the basis of an assessment by the Trustee of the balance of payments need of the member and the strength of its adjustment program.

(d) The amount of resources committed to a qualifying member under a three-year arrangement and the amounts for the second- and third-year arrangements shall be reviewed at the time of consideration of each annual program. The amounts committed to a member shall not be reduced because of developments in its balance of payments, unless such developments are substantially more favorable than envisaged at the time of approval of the three-year arrangement and the improvement for the member derives in particular from improvements in the external environment.

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

Paragraph 3. Disbursements

(a) Any disbursement shall be subject to the availability of resources to the Trust.

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

(c) No disbursement under a three-year commitment to a member shall be made after the expiration of the period specified in Section III, paragraph 3.

Paragraph 4. Terms of loans

(a) Interest on the outstanding balance of a Trust loan shall be charged at the rate of one half of one percent per annum subject to

the provisions of Section IV, paragraph 5, and provided that interest at a rate equal to the rate of interest on the SDR shall be charged on the amounts of any overdue interest on or overdue repayments of Trust loans.

(b) Trust loans shall be disbursed in a freely usable currency as decided by the Trustee. They shall be repaid, and interest paid, in U.S. dollars or other freely usable currency as decided by the Trustee. The Managing Director is authorized to make arrangements under which, at the request of a member, SDRs may be used for disbursements to the member or for payment of interest or repayments of loans by the member to the Trust.

(c) Paragraph 7(3) of the Regulations for the Administration of the Structural Adjustment Facility shall not apply to Trust loans.

Paragraph 5. Modifications

Any modification of these provisions will affect only loans made after the effective date of the modification, provided that a modification of the interest rate shall apply to interest accruing after the effective date of the modification.

Section III. Borrowing for the Loan Account

Paragraph 1. Resources

The resources held in the Loan Account shall consist of:

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

Paragraph 2. Borrowing authority

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

Paragraph 3. Commitments

Commitments of loans to the Trust for the Loan Account shall extend through June 30, 1992. The commitment period with respect to a loan to the Trust may be extended by mutual agreement between the Trustee and the lender.

Paragraph 4. Drawings on loan commitments

(a) Drawings on the commitments of individual lenders over time shall be made so as to maintain broad proportionality of these drawings relative to commitments.

(b) Calls on a lender's commitment shall be suspended temporarily if, at any time prior to December 31, 1991, the lender represents to the Trustee that it has a liquidity need for such suspension and the Trustee, having given this representation the overwhelming benefit of any doubt, agrees. The suspension shall not exceed three months, provided that it may be extended for further periods of three months by agreement between the lender and the Trustee. No extension shall be agreed which, in the judgment of the Trustee, would prevent drawing of the full amount of the lender's commitment.

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

Paragraph 5. Payments to lenders

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

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

Section IV. *Subsidy Account*

Paragraph 1. Resources

The resources held in the Subsidy Account shall consist of:

- (a) the proceeds of donations made to the Trust for that Account;
- (b) the proceeds of loans made to the Trust for that Account; and
- (c) net earnings from investment of donated or borrowed resources held in that Account.

Paragraph 2. Donations

The Trustee may accept donations of resources for the Subsidy Account on such terms and conditions as may be agreed between the Trustee and the respective donors, subject to the provisions of this Instrument. To the extent possible, annual contributions should be made before May 30 of each year.

Paragraph 3. Borrowing

The Trustee may, in exceptional circumstances, borrow resources for the Subsidy Account from official lenders on such terms and conditions as may be agreed between the Trustee and the lenders; in order

- (a) to refinance an amount that is firmly committed to be donated to the Trust for the Subsidy Account; repayment of principal and any payments of interest on such borrowing shall be contingent upon the re-

ceipt by the Subsidy Account of the Trust of the donation that has been prefinanced;

- (b) that the Subsidy Account may benefit from net investment earnings on the proceeds of a loan extended at a concessional interest rate; repayment of principal and any payment of interest on such borrowing shall be made exclusively from the proceeds of liquidation of the investment and the earnings thereon.

Paragraph 4. Authorized subsidy

The Trustee shall draw upon the resources available in the Subsidy Account to pay the difference, with respect to each interest period, between the interest due by the borrowers and the interest due on resources borrowed for Trust loans.

Paragraph 5. Calculation of subsidy

(a) The amount of the subsidy shall be determined by the Trustee in the light of (i) the objective of ensuring that the Enhanced Structural Adjustment Facility is a highly concessional facility and, to the extent possible, of reducing the rate of interest charged on Trust loans to 0.5 percent, (ii) the rate of interest on resources available to the Loan Account, and (iii) the availability and prospective availability of resources to the Subsidy Account.

(b) The Trustee shall keep the operation of the Subsidy Account under review. If at any time it determines that resources available or committed are likely to be insufficient to reduce the rate of interest on Trust loans to 0.5 percent throughout the operation of the Trust, the Trustee shall seek such additional resources as may be necessary to achieve this objective.

(c) Should adequate additional resources not be forthcoming to reduce the rate on Trust loans to 0.5 percent, the Trustee shall recalculate the subsidy with a view to reducing that interest rate to the lowest feasible rate that could be applied throughout the

remaining life of the Trust. The rate of interest charged on all outstanding loans by the Trust shall be adjusted accordingly in the succeeding interest periods. Borrowers shall be notified promptly of such adjustments. Further recalculations and adjustments shall be made in subsequent interest periods, as necessary in light of developments with respect to the rate of interest on resources available to the Loan Account and to the availability of resources to the Subsidy Account.

(d) If the interest due to lenders for an interest period has exceeded the interest due by borrowers together with the authorized subsidy under paragraph 4 of this Section for that period, and payment to lenders of that difference has been made from the Reserve Account in accordance with Section V, paragraph 2, an amount equivalent to that difference shall be added to the interest due by borrowers for the succeeding interest period. Payment of that amount shall be made to the Reserve Account in accordance with Section V, paragraph 3. The additional interest due shall not be taken into account in the calculation of the authorized subsidy for that same interest period.

Paragraph 6. Termination arrangements

Upon completion of the subsidy operations authorized by this Instrument, the Fund shall wind up the affairs of the Subsidy Account. Any resources remaining in the Subsidy Account shall be used first to reduce to the fullest extent possible, in accordance with this Instrument, to 0.5 percent the interest rate paid by borrowers, by means of payments to borrowers. Any resources remaining after that subsidization shall be distributed to donors and lenders that have contributed to the subsidy operation, in proportion to their contributions. For the purposes of this distribution, account will be taken of donations, the net earnings from investment of the proceeds of concessional loans extended to the Subsidy Account under paragraph 3(b) above, and the subsidy element of concessional loans extended to the Trust under Section

III; the subsidy element associated with such loans shall be calculated as the difference, if positive, between the SDR rate of interest and the interest on such loans, applied to the amount of the loans during the period they were outstanding.

Section V. *Reserve Account*

Paragraph 1. Resources

The resources held in the Reserve Account shall consist of:

- (a) transfers by the Fund from the Special Disbursement Account in accordance with Decision No. 8760-(87/176), adopted December 18, 1987;
- (b) net earnings from investment of resources held in the Reserve Account;
- (c) net earnings from investment of any resources held in the Loan Account pending the use of these resources in operations; and
- (d) payments of overdue principal or interest or interest thereon under Trust loans, and payments of interest under Trust loans to the extent that payment has been made to a lender from the Reserve Account.

Paragraph 2. Use of resources

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

Paragraph 3. Payments to the Reserve Account

Any payments of overdue principal or interest or interest thereon under Trust loans, and any payment of interest under Trust

loans to the extent that payment has been made to a lender from the Reserve Account, shall be made to the Reserve Account.

Paragraph 4. Review of resources

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

Paragraph 5. Reduction of resources and liquidation

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

(b) Upon liquidation of the Trust, all amounts in the Reserve Account remaining after discharge of liabilities authorized to be discharged by the Reserve Account shall be transferred to the Special Disbursement Account.

Section VI. *Transfer of Claims*

Paragraph 1. Transfers by lenders

(a) Any lender shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1 ("other fiscal agency"), or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

(b) The transferee shall, as a condition of the transfer, notify the Trustee prior to the transfer that it accepts all the obligations of the transferor relating to the transferred claim with respect to renewal

and new drawings, and shall acquire all the rights of the transferor with respect to repayment of and interest on the transferred claim.

Paragraph 2. Transfers among electing lenders

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

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

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

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

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

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

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

Section VII. *Administration of the Trust*

Paragraph 1. Trustee

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

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

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

- (i) to make all arrangements, including establishment of accounts in the name of the International Monetary

Fund, which shall be accounts of the Fund as Trustee, with such depositories of the Fund as the Trustee deems necessary; and

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

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

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

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

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

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

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

Paragraph 3. Investment of resources

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

(b) Investments may be made in any of the following: (i) marketable obligations issued by an international financial organiza-

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

Section VIII. *Period of Operation and Liquidation*

Paragraph 1. Period of operation

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

Paragraph 2. Liquidation of the Trust

(a) Termination and liquidation of the Subsidy Account shall be made in accordance with the provisions of Section IV, paragraph 6.

(b) All other resources, if any, shall be used to discharge any liabilities of the Trust, other than those incurred under Section IV, and any remainder shall be transferred to the Special Disbursement Account of the Fund.

Section IX. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except this Section and Section I, paragraphs 1 and 2; Section III, paragraphs 4 and 5; Section IV, paragraphs 4 and 6; Section V; Section VI; Section VII, paragraph 2(a) and (b); Section VIII, paragraph 2(b).

The Chairman's Summing Up of the Discussion on the Enhancement of the Structural Adjustment Facility—Operational Arrangements
Executive Board Meeting 87/171, December 15, 1987

Let me summarize the agreed position on a number of important points.

1. *Establishment of the enhanced structural adjustment facility and review of the existing facility*

Directors reviewed the existing structural adjustment facility and agreed that it should continue to operate as in the past. The existing facility will continue to be available to eligible members that already have arrangements under the facility as well as to those that have not yet requested use of the facility's resources.

Directors agreed that a new lending facility—the enhanced structural adjustment facility—should be established and that it will operate concurrently with the existing structural adjustment facility. The enhanced facility will be financed from two Fund-related sources—the Special Disbursement Account and the Enhanced Structural Adjustment Facility Trust—and will also include the possibility that other lenders might support enhanced structural adjustment arrangements through loans to qualifying members in association with loans under the enhanced facility. For a member qualifying for an arrangement under the enhanced facility, resources will be provided from the Special Disbursement Account to the extent that the member has not exhausted its potential access under the existing facility; resources made available in excess of these amounts will be provided from the Trust and from associated sources.

Until the cutoff date for commitment of resources, eligible members that have not yet made use of the resources of the structural adjustment facility will have the option to request a full three-year arrangement under either the existing facility or the enhanced facility. Members currently making use of the resources of the existing facility may request a new three-year arrangement under the enhanced facility or continue their current arrangement to its conclusion. If a member currently using the resources of the structural adjustment facility chooses to request a new three-year arrangement under the enhanced facility, that request should normally be made at the time of expiration of an annual arrangement under the existing facility. However, earlier replacement of an existing arrangement by a three-year arrangement under the enhanced facility could also be permitted in exceptional cases.

2. *Terms and conditions of loans under the enhanced structural adjustment facility*

Commitments of resources under the enhanced facility will be made upon approval of a three-year arrangement. All commitments and disbursements will be subject to the availability of resources. Commitments may be made at any time until the cutoff date. Most Directors agreed, taking into account the limited period of time during which the resources would be made available by contributors, that the cutoff date should be November 30, 1989. At the same time, most Directors considered that the final date for disbursements should not now be extended beyond June 30, 1992, although it was recognized that maintenance of this date would imply that there would be little flexibility to accommodate delays under annual programs in arrangements that were agreed later in the commitment period. This matter will be kept under review as experience is gained with the facility.

Disbursements from the Special Disbursement Account in conjunction with enhanced structural adjustment arrangements will be provided under the financial terms applying to loans under the existing facility, as amended. To the extent possible, the financial terms applying to loans from the Enhanced Structural Adjustment Facility Trust will be the same as those under the existing facility. In particular, it was agreed that the maturities of loans will be five and a half to ten years. Most Directors also believed that it would be appropriate to set the initial interest rate charged on loans from the Trust at 0.5 percent per annum, even if the amount of firmly committed resources in the Subsidy Account was initially not fully sufficient for this purpose, but additional resources were confidently expected. These Directors indicated that if it appeared, because of inadequate contributions or future adverse developments in interest or exchange rates, that resources available or committed to the Subsidy Account were likely to be insufficient to maintain the rate of interest at 0.5 percent throughout the period of operation of the Trust, the Fund should seek the additional resources necessary to achieve this objective. This issue is to be kept under review, and the interest rate will be adjusted as necessary at the beginning of each six-month interest period whenever resources available to the Subsidy Account are judged insufficient to maintain a rate of 0.5 percent on loans under the enhanced facility.

The intended terms for the Trust's lending, with which you have agreed, determine the essential features of the borrowing arrangements that will have to be concluded by the Fund as Trustee for the Enhanced Structural Adjustment Facility Trust and the lenders to it. These have been set out in a prototype circulated to potential lenders and annexed to EBS/87/245. While there will need to be comparability in *substance* among agreements, there will no doubt need to be alterations to the form and structure of this prototype to meet the

particular legal and institutional requirements of individual lenders, and we will be flexible in meeting these requirements. There was further discussion of the security to be provided to the claims on the Trust. Directors accepted that the proposals that had been put forward to safeguard the resources lent to the Trust were adequate to provide the necessary assurance to potential creditors. Although noting the views of some Directors, I have repeated that the phrase "all such initiatives as might be necessary" had to be understood to include the possible use of gold.

I should also comment on a few specific financial issues raised in the papers. First, most Directors did not favor the inclusion of a provision on rescheduling because, inter alia, it was considered that this would create undue complications in light of the limited period for which resources were being committed by contributors and also because it was felt that such a provision could threaten the integrity of the Reserve that most contributors find to be an essential component of the facility. Second, most Directors did not find it appropriate to provide for temporary encashment of claims through use of the Reserve, given the relatively small amounts that will be available in the early years and the importance of the Reserve as security for claims. Third, it appeared generally acceptable to most Directors that the provision for temporary suspension of calls should apply to all lenders. I should note in this connection that we appreciate the position of several contributors who are providing support to the enhanced facility, despite a very difficult balance of payments situation of their own.

3. Framework for lending under the enhanced structural adjustment facility

Resources to be made available under the enhanced facility will be committed upon Board approval of a three-year arrangement and disbursements will be made semiannually in accordance with the provisions specified in annual arrangements. The preparation of policy framework papers will be an essential element of the enhanced facility, and the policy framework process will be strengthened to reflect the summing up of the June 1987 review of the structural adjustment facility (EBM/87/93, 6/19/87), as well as continuing discussions with eligible recipient countries, the World Bank, and the interested donors.

. . .

Directors were in broad agreement that the *objectives* of programs under the enhanced facility should be to promote, in a balanced manner, both balance of payments viability and growth through mobilization of domestic and external resources, improvements in resource allocation, and the removal of structural impediments. Such programs should involve a substantial effort to strengthen the external payments position in a sustainable manner, and in particular to

assure substantial progress during the three-year program period toward an overall position and structure of the balance of payments that is consistent with orderly relations with creditors and a reduction in restrictions on trade and payments, while permitting the timely servicing of obligations to the Fund.

Directors agreed that monitoring of enhanced programs supported by arrangements under the enhanced facility will be conducted through *benchmarks*. Most Directors favored the establishment of quarterly quantitative benchmarks for the key financial variables, and the use of structural benchmarks to monitor implementation of the most important structural policy measures. Most Directors supported the establishment of some benchmarks, including, where appropriate, some structural benchmarks, as semiannual *performance criteria* in all cases. In addition, midyear reviews will also be required in most cases. I have carefully noted the reservations expressed by a number of Directors regarding the treatment of benchmarks as performance criteria, and I assure you that performance criteria will be limited in number and will generally involve only a subset of the benchmarks. Similarly, prior actions will be required sparingly, but when necessary to lay the basis for a long or difficult adjustment process, and particularly where arrangements involve a front-loading of disbursements. In the event of a substantial delay in completion of a midyear review or in agreeing on an annual program, the total amount of resources to be made available to a member could be reduced or rephased over the remaining period of the arrangement.

Most Directors agreed that *access* to the resources of the enhanced facility will be differentiated according to the strength of the member's adjustment program and its financing need. The structure of the member's external debt and its prospective debt service burden, along with the expected evolution of other macroeconomic aggregates, will be important elements in this assessment. Directors generally agreed that access under three-year enhanced structural adjustment arrangements will be subject to a maximum limit of 250 percent of quota. However, Directors stressed again that the access limits do not constitute entitlements, and they agreed that access should normally be below the maximum and that the guidelines should be applied so that the rate of access for all qualifying members would average about 150 percent of quota. It was also indicated that, in highly exceptional circumstances, the maximum could be exceeded, but it was not envisaged that access would exceed 350 percent of quota even in these cases. These access limits, along with the operation of both the enhanced facility and the existing facility, will be subject to review in light of experience and the utilization of the available resources.

Directors agreed that the amount of resources committed to an individual qualifying member under a three-year enhanced structural adjustment arrange-

ment and the amounts for the second- and third-year arrangements will be reviewed at the time of consideration of each annual program. However, most Directors indicated that, subject to the availability of resources, the amounts committed to a member would not normally be reduced because of developments in its balance of payments. However, in the event that balance of payments developments were markedly more favorable than envisaged at the time of approval of the three-year arrangement, and particularly because of improvements in the external environment, it would be suggested that the member reduce voluntarily its use of enhanced resources, either by requesting lower access at the time of approval of an annual arrangement or by forgoing in whole or in part a midyear disbursement.

Directors agreed that *disbursements* of loans under enhanced structural adjustment arrangements will be made semiannually, upon approval of an annual arrangement, and subsequently, on the basis of observance of performance criteria and, in most cases, completion of a midyear review. A range of views was expressed regarding the possibility of a limited frontloading of disbursements in some cases. Nonetheless, there seems to be a consensus that, subject to the availability of resources, the guideline should be that a uniform distribution of disbursements would be preferable and that any front-loading should not result in first-year disbursements exceeding 40 percent of the total amount to be made available under the three-year enhanced structural adjustment arrangement. However, I take it that there may be scope for a higher first-year disbursement in some very exceptional cases. Existing policies regarding members with overdue obligations to the Fund will be retained; how best to deal with cases of large and protracted arrears is a question to which we will return soon, but in a different context.

4. *Relationship with other Fund facilities*

Directors noted that members qualifying for loans under the enhanced structural adjustment facility would retain eligibility for access to the Fund's general resources. Access to those resources will have to be examined carefully on a case-by-case basis, taking into account a range of factors envisaged in the present guidelines, including past performance and use of Fund resources, terms, the possible availability of financing from the enhanced facility and other sources, and the speed and time profile of the anticipated balance of payments adjustment.

*The Chairman's Remarks at the Conclusion of the
Discussion on the Enhancement of the Structural
Adjustment Facility—Legal Documentation
Executive Board Meeting 87/176, December 18, 1987*

Two issues of substance raised during this meeting deserve special mention. First, it was reconfirmed that lending to the ESAF Trust could be considered as part of a member's official reserves by the Fund. Second, it was explained that access to the Fund's general resources could be provided for members that had extended loans to the Trust and that needed liquidity in an amount not exceeding their claim. Purchases under these circumstances would be allowed if the member represented that it had a need, because of developments in its reserves in the sense of Article V, Section 3(b)(ii), and the Fund agreed that the purchase was justified taking into account the amount of the requested purchase and the existence of a claim on the Trust. If the liquidity problem can be addressed on its own, there would be no need for an adjustment program to solve the balance of payments problem. Moreover, those purchases could be given certain characteristics by a decision to be taken when required. For instance, it could be decided, with respect to such purchases, to provide for special repurchase periods and for their exclusion from the definition of reserve tranche purchases. Those decisions would need to be adopted by an 85 percent majority. On the occasions on which this question was discussed, I heard no objections by an Executive Director to this approach, which had been suggested in the staff papers that have been discussed by the Board.

ENHANCED STRUCTURAL ADJUSTMENT FACILITY—ACCESS LIMITS

The Fund as Trustee under the Instrument to Establish the Enhanced Structural Adjustment Facility Trust decides:

1. In accordance with Section II, Paragraph 2(a) of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the initial maximum limit on access of each eligible member to the resources of the Trust shall be set at 250 percent of the member's quota in the Fund, minus any remaining access of the member to the resources of the Structural Adjustment Facility, and minus resources committed to the member for loans in association with Trust loans.

2. The maximum limit in paragraph 1 may be increased in exceptional circumstances not to exceed 350 percent of the member's quota in the Fund, subject to the same deductions as in paragraph 1.

Decision No. 8845-(88/61) ESAF

April 20, 1988

ENHANCED STRUCTURAL ADJUSTMENT FACILITY—INTEREST RATE
ON TRUST LOANS

The Fund as Trustee under the Instrument to Establish the Enhanced Structural Adjustment Facility Trust decides:

In accordance with Section II, Paragraph 4(a) and Section IV, Paragraph 5 of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the interest rate on loans from the Trust shall be set at 0.5 percent effective April 20, 1988.

Decision No. 8846-(88/61) ESAF

April 20, 1988

ENHANCED STRUCTURAL ADJUSTMENT FACILITY—BORROWING
AGREEMENT

Caisse Centrale de Coopération Economique of France

Pursuant to Section III, Paragraph 2 of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the International Monetary Fund, in its capacity as Trustee of that Trust, approves the agreement for borrowing from the Caisse Centrale de Coopération Economique in terms of the draft set out in the attachment to EBS/88/62, and authorizes the Managing Director to take such action as is necessary to conclude and implement the agreement.

Decision No. 8831-(88/56) ESAF

April 4, 1988

5.a. The amount outstanding in respect of each drawing under paragraph 1(a) shall bear interest at a rate of 1/2 percent per annum; provided, however, that if the rate of interest on Trust loans may need to be adjusted to exceed the rate of 1/2 percent per annum in any interest period under Section IV, paragraph 5 of the Instrument, CCCE and the Trustee shall review the matter and shall give consideration to an increase in the rate of interest to apply to amounts outstanding under paragraph 1(a) during that interest period of the Trust. Such review shall include consideration of the possible implications of any such increase for borrowers from the Trust and for the operations of the Trust. The interest rate applied to amounts outstanding under paragraph 1(a) during any interest period of the Trust shall in no event exceed the rate of interest on Trust loans during that interest period.

b. The amount outstanding in respect of each drawing under paragraph 1(b) shall bear interest at an annual rate determined by the Trustee at the time each drawing is made and at intervals of six calendar months thereafter, from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, on the business day of the Fund referred to in paragraph 9, as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month interbank rate in Germany,
- the six-month rate for interbank loans against private paper in France,
- the average rate for newly issued bank CDs in Japan with a maturity of between 150 and 180 days,
- the six-month interbank rate in the United Kingdom,
and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day.

The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places.

c. Interest in respect of each drawing shall be paid six calendar months after the drawdown date and every six calendar months thereafter. The amount of interest payable shall be calculated on an actual day basis and using a 360-day year, and shall be paid in respect of the period from and including the drawdown date to but excluding the first interest payment date and, for each successive period, from and including the previous interest payment date to but excluding the next interest payment date.

6. Unless otherwise agreed between CCCE and the Trustee, payments by the Trustee of principal and interest with respect to each drawing shall be made by crediting the equivalent amount of U.S. dollars, deutsche mark, Japanese yen, French francs, and pounds sterling, in proportion to the amounts of each currency unit in the SDR, to the accounts of CCCE as specified by CCCE in advance of such payments; the Trustee shall instruct its paying agent to confirm to the institution(s) to which payment is to be made the amounts of currency to be paid and the value date of the payment, such confirmation to be received not later than 11 A.M. in Paris on the value date of the payment.

7. a. CCCE shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1, or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

b. The transferee shall acquire all the rights of CCCE under this

agreement with respect to repayment of and interest on the transferred claim.

8. At the request of CCCE, calls on its commitment to meet drawings may be suspended temporarily at any time prior to December 31, 1991, subject to the provisions of Section III, paragraphs 4(b) and (c) of the Instrument.

9. Unless otherwise agreed between the Trustee and CCCE, all transfers, exchanges, and payments of principal and interest shall be made at the exchange rates for the relevant currencies in terms of the SDR established by the Fund for the third business day of the Fund before the value date of the transfer, exchange, or payment.

10. If the Fund changes the composition of the SDR or the method of valuing the SDR, all transfers, exchanges, and payments of principal and interest made three or more business days of the Fund after the effective date of the change shall be made on the basis of the new composition or method of valuation; provided, however, that no such change shall affect any drawing for which notice has been given for drawdown subsequent to the change.

11. Any question arising hereunder shall be settled by mutual agreement between CCCE and the Trustee.

If the foregoing proposal is acceptable to CCCE, this communication and your duly authenticated reply accepting this proposal shall constitute an agreement between CCCE and the Trustee, which shall enter into effect on the date the Trustee acknowledges receipt of your reply.*

ENHANCED STRUCTURAL ADJUSTMENT FACILITY—BORROWING AGREEMENT

Export-Import Bank of Japan

Pursuant to Section III, Paragraph 2 of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the

*Entered into effect on April 5, 1988.

International Monetary Fund, in its capacity as Trustee of that Trust, approves the agreement for borrowing from the Export-Import Bank of Japan in terms of the draft set out in the attachment to EBS/88/69, and authorizes the Managing Director to take such action as is necessary to conclude and implement the agreement.

Decision No. 8832-(88/56) ESAF

April 4, 1988

Attachment

EBS/88/69

*Enhanced Structural Adjustment Facility: Proposed Borrowing
Agreement with the Export-Import Bank of Japan*

I have been authorized to propose on behalf of the International Monetary Fund (the "Fund") as Trustee of the Enhanced Structural Adjustment Facility Trust (the "Trust") that the Export-Import Bank of Japan (the "Bank") agree to lend to the Fund as Trustee (the "Trustee") for the purpose of providing resources to the Loan Account of that Trust, in accordance with Decision No. 8759-(87/176)ESAF, adopted December 18, 1987 and the terms of the Instrument establishing the Trust (the "Instrument") adopted by that Decision. The purpose of this agreement is to set forth the terms and conditions, as authorized by Section III, Paragraph 2 of the Instrument attached hereto, for the loan by the Bank to the Fund as Trustee.

1. The amount of the loan shall be up to SDR 2,200 million.
2. The Trustee may make drawings under this agreement at any time during the period from the effective date of this agreement through June 30, 1992.

a. Unless otherwise agreed between the Trustee and the Bank, the Trustee shall give notice to the Bank on the occasion of each

drawing of the amount it intends to draw, the drawdown date, and the maturity as follows:

(i) An initial notice of each drawing, to be received by the Bank not later than six business days in Tokyo prior to the swap date; under exceptional circumstances, the Trustee may cancel this notice, and the Bank may similarly notify the Trustee that the drawing cannot be made on the intended drawdown date, within five business days in Tokyo after the initial notice is received by the Bank.

(ii) A final notice of each drawing, to be received by the Bank not later than one business day in Tokyo prior to the swap date. This notice shall constitute irrevocable and binding notice of call by the Trustee upon the Bank.

b. Unless otherwise agreed between the Trustee and the Bank, the Trustee shall seek normally to make drawings within the range of SDR 25 million to SDR 200 million and shall endeavor to make not more than twelve drawings during any calendar year.

c. If any amount of interest is not paid to the Bank within a period of ten days after the due date, the Trustee shall not make further drawings or give initial or final notice of a drawing under this agreement pending consultations with the Bank on the matter. However, the Trustee may resume drawings under this agreement once any arrears to the Bank have been discharged.

3. The Trustee shall make drawings on the commitment of the Bank so as to maintain over time broad proportionality of these drawings on the Bank relative to drawings on the commitments of all lenders to the Loan Account of the Trust.

4. The amount of each drawing shall be denominated in SDRs. Unless otherwise agreed between the Trustee and the Bank, the amount of each drawing shall be disbursed by the Bank, on the drawdown date specified in the Trustee's final notice, by transfer of the equivalent amount of U.S. dollars, deutsche mark, Japanese

yen, French francs, and pounds sterling, in proportion to the amounts of each currency unit in the SDR, to the accounts of the Trust as specified in the Trustee's notice.

5. Drawings shall mature 7, 8, 9 or 10 years after the date of the drawing. The Trustee shall select the maturity of each drawing in light of the Trust's funding requirements and shall notify the Bank of the maturity upon giving initial notice of the drawing. The Trustee shall repay the principal amount of each drawing to the Bank on the maturity date. No prepayment shall be made except by agreement between the Bank and the Trustee.

a. Amounts corresponding to principal payments due on Trust loans that were financed by a drawing under this agreement shall be deemed to be due and payable to the Bank, for purposes of Section V of the Instrument, on the due date for the Trust loan repayment, and shall be held in a suspense account within the Trust's Loan Account for the repayment to the Bank of drawings hereunder. Such amounts shall not be used for any other payments from the Loan Account except as provided under this Paragraph 5. This suspense account shall be designated as "ESAF Suspense Account—Japan."

b. To the extent any payment of principal referred to in Paragraph 5(a) is not received on its due date, an equivalent amount shall be transferred to the "ESAF Suspense Account—Japan" from the Trust's Reserve Account and held for the repayment to the Bank of drawings hereunder.

c. At the maturity date of any drawing, the Trustee shall repay to the Bank the principal amount of the drawing, and the "ESAF Suspense Account—Japan" shall be debited with the amount of such payment.

d. Amounts held in the "ESAF Suspense Account—Japan" shall be invested by the Trustee. To the extent that amounts corresponding to a drawing are held in the "ESAF Suspense Account—Japan," payments of interest by the Trustee on that draw-

ing shall be made exclusively from the earnings on the amounts invested by the account. The Trustee shall make its best efforts to achieve yields on investments by the account in any interest period that are equivalent to the rate of interest as calculated pursuant to Paragraph 6. Notwithstanding the provisions of Paragraph 6(b), interest due to the Bank in respect of these amounts shall not exceed the earnings from the investment of these amounts. So long as any obligation of the Trust to the Bank remains outstanding, earnings in excess of the rate of interest calculated pursuant to Paragraph 6 for any interest period should be retained in the "ESAF Suspense Account—Japan" and shall be used, if needed, for interest payments in respect of any other interest period. Any net balance remaining in the "ESAF Suspense Account—Japan" shall be transferred to the Bank at the time the Trust completes payment of its obligations to the Bank under this agreement.

e. Upon reasonable notice by the Bank, amounts held in the "ESAF Suspense Account—Japan" shall be paid to the Bank, provided that such payments shall at no time exceed transfers of principal amounts to the "ESAF Suspense Account—Japan" pursuant to Paragraphs 5(a) and (b) and amounts sufficient to meet the Trustee's obligations to pay interest pursuant to Paragraphs 5(d) and 6(b) in respect of balances arising from such transfers to the "ESAF Suspense Account—Japan." Any such payment to the Bank shall discharge the Trustee's obligations with respect to payment of principal and interest thereon to the extent of the payment.

f. At the request of either party, the Bank and the Trustee shall consult on the operations conducted under this Paragraph 5.

g. Alternative arrangements regarding the maturity of drawings may be established by agreement between the Bank and the Trustee, provided that such arrangements shall accommodate in full the Trust's requirements with respect to the maturities of Trust loans financed by drawings under this agreement.

h. The Trustee shall report to the Bank on the status of balances held in the “ESAF Suspense Account—Japan” at the end of each calendar quarter or at such other times as may reasonably be requested by the Bank.

6. a. The Trustee shall pay interest in respect of each drawing to the Bank on the interest payment date. In case the Trustee fails to pay any amount of principal on the maturity date, interest shall continue to accrue on such overdue amount of principal at the rate of interest calculated as provided in Paragraph 6(b) with respect to the interest period ending immediately prior to the maturity date, applied from (and including) the maturity date to (but excluding) the date of actual payment. The amount of interest payable for each interest period shall be calculated on an actual day basis and using a 360-day year.

b. The amount outstanding in respect of each drawing shall bear interest at an annual rate calculated by the Trustee at the commencement of each interest period, from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, on the combined interest rate computation date, as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month interbank rate in Germany,
- the six-month rate for interbank loans against private paper in France,
- the average rate for newly issued bank CDs in Japan with a maturity of between 150 and 180 days,
- the six-month interbank rate in the United Kingdom, and

(ii) the percentage weight of that currency in the valuation of the SDR on that combined interest rate computation date, calcu-

lated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day.

The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places of a percentage point.

7. Unless otherwise agreed between the Trustee and the Bank, payments by the Trustee of principal and interest with respect to each drawing shall be made with good value on the value date by crediting the equivalent amount of U.S. dollars, deutsche mark, Japanese yen, French francs, and pounds sterling, in proportion to the amounts of each currency unit in the SDR, to the accounts of the Bank in Tokyo as specified by the Bank in advance of such payments; the Trustee shall instruct its paying agent to confirm to the institutions to which payment is to be made the amounts of currency to be paid and the value date of the payment, such confirmation to be received not later than 12:00 noon in Tokyo on the value date of the payment. Such confirmation shall not constitute payment by the Trustee.

8. a. The Bank shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1, or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

b. The transferee shall acquire all the rights of the Bank under this agreement with respect to repayment of and interest on the transferred claim.

9. At the request of the Bank, calls on its commitment to meet drawings may be suspended temporarily at any time prior to December 31, 1991, subject to the provisions of Section III, Paragraphs 4(b) and (c) of the Instrument.

10. Unless otherwise agreed between the Trustee and the Bank, all transfers, exchanges, and payments of principal and interest

shall be made at the exchange rates for the relevant currencies in terms of the SDR calculated by the Fund on the exchange rate computation date.

11. If the Fund changes the composition of the SDR or the method of valuing the SDR, all transfers, exchanges, and payments of principal and interest made three or more business days of the Fund after the effective date of the change shall be made on the basis of the new composition or method of valuation; provided, however, that no such change shall affect any drawing for which the Trust has given final notice to the Bank for drawdown subsequent to the change.

12. For the purposes of this agreement, the terms "business day," "Libor business day," "calendar month," "calendar year," "swap date," "combined interest rate computation date," "exchange rate computation date," "drawdown date," "six-month anniversary date," "interest period," "interest payment date," and "maturity date" shall have the meanings as defined in the Annex to this agreement.

13. The Managing Director of the Trustee and the Bank shall establish such procedural and technical arrangements as are necessary for the implementation of this agreement.

14. This agreement and any operations under it may be reviewed upon request by the Bank or the Trustee.

15. Any question arising hereunder shall be settled by mutual agreement between the Bank and the Trustee.

If the foregoing proposal is acceptable to the Bank, this communication and your duly authenticated reply accepting this proposal shall constitute an agreement between the Bank and the Trustee, which shall enter into effect on the date the Trustee acknowledges receipt of your reply.*

*Entered into effect on April 12, 1988.

Definitions

a. "Business day": a day on which commercial banks are open for domestic and foreign exchange business in the relevant markets.

b. "Libor business day": a day on which dealings in deposits are carried on in the London interbank Eurocurrency Market.

c. "Calendar month": the period from a date in one month to the same date in the succeeding month, provided that if the first date is an end-month date, the date in the succeeding month shall also be an end-month date.

d. "Calendar year": a period consisting of twelve calendar months.

e. "Swap date": the date one business day in Tokyo prior to the initial combined interest rate computation date in respect of a drawdown, provided that if the date is not a business day in Tokyo, Frankfurt, Paris, and London, the swap date shall be the first preceding day that is a business day both in Tokyo and in the market(s) for which that date is not a business day.

f. "Combined interest rate computation date": the date two Libor business days prior to the commencement of the interest period to which such computation applies.

g. "Exchange rate computation date": the date three business days of the Fund prior to the value date of the transfer, exchange, or payment, which is also a business day in Tokyo and London. If the date three business days of the Fund prior to the value date of the transfer, exchange, or payment is not a business day in Tokyo and London, it shall be the first preceding business day of the Fund that is also a business day in Tokyo and London.

h. "Drawdown date": a date that is a business day in Tokyo, New York, Frankfurt, Paris, and London.

i. "Six-month anniversary date": the date six calendar months after the drawdown date, or after subsequent six-month anniversary dates.

j. "Interest period": for each drawdown, the period from (and including) the drawdown date to (but excluding) the first interest payment date or the period from (and including) an interest payment date to (but excluding) the next succeeding interest payment date for each drawdown.

k. "Interest payment date": the six-month anniversary date of the drawdown date for each drawing, provided that if that date is not a business day in Tokyo, it shall be the first succeeding business day in Tokyo. If on such interest payment date the domestic market for one or more currencies used in making an interest payment is closed, payment in that currency or currencies shall be made on the next succeeding business day in that market(s) which is also a business day in Tokyo.

l. "Maturity date": a date seven, eight, nine, or ten calendar years from the drawdown date depending upon the maturity of each drawing, provided that if the date is not a business day in Tokyo, it shall be the first succeeding business day in Tokyo. If on such maturity date the domestic market for one or more currencies used in making a principal repayment is closed, payment in that currency or currencies shall be made on the next succeeding business day in that market(s) which is also a business day in Tokyo.

ENHANCED STRUCTURAL ADJUSTMENT FACILITY—BORROWING AGREEMENT

Bank of Norway

Pursuant to Section III, Paragraph 2 of the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, the International Monetary Fund, in its capacity as Trustee of that Trust, approves the agreement for borrowing from the Bank of Norway in terms of the draft set out in the attachment to

EBS/88/72, and authorizes the Managing Director to take such action as is necessary to conclude and implement the agreement.

Decision No. 8833-(88/56) ESAF

April 4, 1988

Attachment

EBS/88/72

*Enhanced Structural Adjustment Facility: Proposed Borrowing
Agreement with the Bank of Norway*

I have been authorized to propose on behalf of the International Monetary Fund (the "Fund") as Trustee of the Enhanced Structural Adjustment Facility Trust (the "Trust") that the Bank of Norway (the "Bank") agree to lend to the Fund as Trustee for the purposes of providing resources to the Loan Account of that Trust, in accordance with the Instrument establishing the Trust (the "Instrument") adopted by the Executive Board of the Fund by Decision No. 8759-(87/176) ESAF, adopted December 18, 1987. The amount of the loan is to be the equivalent of SDR 90 million and the terms and conditions of this loan shall be as follows:

1. a. The Trustee may make drawings under this agreement at any time during the period from the effective date of this agreement through June 30, 1992, upon giving the Bank at least five business days (Washington, D.C.) notice by tested telex, provided that total drawings may not exceed SDR 30 million until January 1, 1989 and SDR 60 million until January 1, 1990.

b. If any installment of interest is not paid to the Bank within a period of ten days after its due date, the Trustee shall not make further drawings under this agreement pending consultations with the Bank on the matter. However, the Trustee may resume drawings under this agreement once the arrears to the Bank have been discharged.

2. The amount of each drawing shall be denominated in SDRs. Unless otherwise agreed between the Trustee and the Bank, the amount shall be paid by the Bank, on the value date specified in the Trustee's notice, by transfer of the equivalent amount of U.S. dollars to the account of the Trust at the Federal Reserve Bank of New York, New York.

3. a. Each drawing shall be repaid in ten equal semiannual installments beginning five and one-half years and ending ten years after the date of the drawing. Repayments by the Trust shall be made on or promptly after the relevant maturity date.

b. By agreement between the Bank and the Trustee, any drawing or part thereof may be repaid by the Trustee at any time in advance of maturity.

c. If a drawing matures on a date that is not a business day of the Fund, the maturity date shall be on the preceding business day.

4. a. The rate of interest applicable to each drawing shall be calculated at the time of the drawing and at intervals of six calendar months thereafter. The amount outstanding in respect of each drawing shall bear interest at an annual rate determined by the Trustee at the time of the calculation from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, on the business day of the Fund three business days prior to the interest calculation dates referred to in subparagraph (a) above, as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month interbank rate in Germany,
- the six-month rate for interbank loans against private paper in France,
- the average rate for newly issued bank CDs in Japan with a maturity of between 150 and 180 days,

—the six-month interbank rate in the United Kingdom,
and

(ii) the percentage weight of that currency in the valuation of the SDR on that business day, calculated by using the same amounts and exchange rates for currencies as are employed by the Fund for calculating the value of the SDR in terms of the U.S. dollar on that day.

The applicable interest rate shall be the sum of the products so calculated, rounded to two decimal places.

b. The amount of interest payable in respect of each drawing shall be calculated on an actual day basis and shall be paid on all outstanding drawings under this agreement promptly after June 30 and December 31 of each year.

5. a. Payments of principal and interest shall be made in U.S. dollars or in other media as may be agreed between the Trustee and the Bank.

b. Payments in U.S. dollars shall be made by crediting the amount due to the account of the Bank at the Federal Reserve Bank of New York, New York. Payments in SDRs shall be made by crediting Norway's holdings account in the Special Drawing Rights Department. Payments in other currencies shall be made to an account specified by the Bank.

6. a. The Bank shall have the right to transfer at any time all or part of any claim to any member of the Fund, to the central bank or other fiscal agency designated by any member for purposes of Article V, Section 1, or to any official entity that has been prescribed as a holder of SDRs pursuant to Article XVII, Section 3 of the Fund's Articles of Agreement.

b. The transferee shall acquire all the rights of the Bank under this agreement with respect to repayment of and interest on the transferred claim.

7. At the request of the Bank, calls on its commitment to meet drawings may be suspended temporarily at any time prior to

December 31, 1991, subject to the provisions of Section III, paragraph 4(b) and (c) of the Instrument.

8. Unless otherwise agreed between the Trustee and the Bank, all transfers, exchanges, and payments of principal and interest shall be made at the exchange rates for the relevant currencies in terms of the SDR established by the Fund for the third business day of the Fund before the value date of the transfer, exchange, or payment.

9. If the Fund changes the method of valuing the SDR, all transfers, exchanges, and payments of principal and interest made three or more business days of the Fund after the effective date of the change shall be made on the basis of the new method of valuation.

10. Any question arising hereunder shall be settled by mutual agreement between the Bank and the Trustee.

If the foregoing proposal is acceptable to the Bank, this communication and your duly authenticated reply accepting this proposal shall constitute an agreement between the Bank and the Trustee, which shall enter into effect on the date the Trustee acknowledges receipt of your reply.*

*Entered into effect on April 14, 1988.

ARTICLE V, SECTION 3(a), (b), AND (c)

Use of Fund's Resources

EXTENDED FUND FACILITY AND STAND-BY ARRANGEMENTS:
REVIEW

1. Pursuant to Decision No. 8192-(86/13), adopted January 27, 1986, the Fund has reviewed the experience with recent programs supported by stand-by and extended arrangements, and decides that the provisions of the extended Fund facility and the guidelines on conditionality will remain in force in the present circumstances.

2. The Fund will again review the experience relating to programs supported by stand-by and extended arrangements at an appropriate time pursuant to paragraph 12 of the guidelines on conditionality. At that time, the Fund will also review the provisions of the extended Fund facility.

3. In the light of forthcoming discussions by the Executive Board on issues relating to conditionality, the Executive Board will decide when it may be appropriate to have the next comprehensive review of conditionality.

Decision No. 8583-(87/72)

May 8, 1987

POLICY ON ENLARGED ACCESS: EXTENSION AND ACCESS LIMITS FOR
1988

The Fund, having reviewed the Decisions on the Policy on Enlarged Access and the limits on access to the Fund's resources under that Policy and under the special facilities of the Fund (No. 6783-(81/40); No. 7599-(84/3), as amended; No. 7600-(84/3), as amended; and No. 7602-(84/3)), decides that:

1. In paragraph a. of Decision No. 7599-(84/3), as amended, "1987" shall be replaced by "1988."

2.(a) In the third sentence of paragraph a. of Decision No. 7600-(84/3), as amended, "1986 and 1987" shall be replaced by "1986, 1987, and 1988."

(b) In paragraph b. of Decision No. 7600-(84/3), as amended, "1987" shall be replaced by "1988."

Decision No. 8744-(87/166)

December 4, 1987

COMPENSATORY FINANCING OF FLUCTUATIONS IN THE COST OF CEREAL IMPORTS: REVIEW

The Executive Board has reviewed Decision No. 6860-(81/81), adopted May 13, 1981, as amended, on Compensatory Financing of Fluctuations in the Cost of Cereal Imports, as required by paragraph 17 of that decision. The next review of the decision shall be conducted not later than May 13, 1989.

Decision No. 8586-(87/73)

May 13, 1987

MULTIPLE CURRENCY PRACTICES APPLICABLE SOLELY TO CAPITAL TRANSACTIONS

The phrase "multiple currency practices" in decisions of the Fund relating to the use of the Fund's resources does not, except as otherwise provided, include multiple currency practices applying solely to capital transactions.

Decision No. 8648-(87/104)

July 17, 1987

*The Acting Chairman's Concluding Remarks at the Discussion on
Additions to the Special Contingent Account
Executive Board Meeting 88/12, January 29, 1988*

...

Some Directors made reference to the enhanced structural adjustment facility in the context of the arrears problem. The Managing Director has stated several

times that members in arrears to the Fund would not have access to the enhanced structural adjustment facility, just as they do not currently have access to the structural adjustment facility (Buff/87/260, 12/17/87), or the facilities in its General Resources Account. Thus, the existing arrears policy is not changed or modified in the context of the enhanced structural adjustment facility. At the heart of dealing with those cases in which arrears exist are the elements of a strong adjustment program which will assist in attracting external resources to help the country clear its arrears. The Fund could then grant access to its facilities as appropriate, including, of course, the enhanced structural adjustment facility when it becomes operational.

The Acting Chairman's Summing Up at the Conclusion of the Discussion on Overdue Financial Obligations—Six-Monthly Report Executive Board Meeting 88/19, February 10, 1988

. . .

Second, Directors also agreed that the present practice, whereby the general policies and procedures relating to overdue financial obligations to the Fund are not applied to overdue maintenance of value adjustments, should be continued. Again, it was emphasized that prompt settlement of these adjustments constitutes an essential element of members' financial obligations to the Fund, and the staff was encouraged to follow up actively in cases of overdue valuation adjustments in order to achieve a more speedy settlement and to report periodically to the Board in the context of staff papers on individual members.

ARTICLE V, SECTIONS 8 AND 9

Charges and Remuneration

CHARGES: RATE OF CHARGE AS OF MAY 1, 1987*

Effective May 1, 1987, the rate of charge referred to in Rule I-6(4), determined in accordance with the provisions of Section III. 1(a) of Decision No. 8348-(86/122), adopted July 25, 1986, as amended, shall be 5.8 percent.

Decision No. 8621-(87/90)

June 17, 1987

CHARGES: SPECIAL CHARGES ON OVERDUE FINANCIAL OBLIGATIONS TO THE FUND

Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, effective February 1, 1986, Section V, paragraph 2, shall be amended by the addition of the following sentence:

“Such payments may be made also in SDRs to a prescribed holder on behalf of the Special Disbursement Account, provided that use of SDRs is in accordance with Decision No. 8642-(87/101) S/TR, adopted July 9, 1987.”

Decision No. 8641-(87/101) G/S/TR

July 9, 1987

INCOME POSITION—PRINCIPLES OF “BURDEN SHARING,” INCOME TARGET FOR FY 1987 AND FY 1988, RATE OF CHARGE, AND RATE OF REMUNERATION: RETROACTIVE REDUCTION OF RATE OF CHARGE FOR FY 1987

An amount of SDR 20,690,531 shall be used to reduce retroactively for financial year 1987 the rate of charge referred to in Rule

* For the rate of charge, effective February 1, 1988, see Decision No. 8780-(88/12), January 29, 1988 on page 51.

I-6(4), determined in accordance with the provisions of Section III. 1(a) of Decision No. 8348-(86/122), adopted July 25, 1986, as amended.

Decision No. 8618-(87/90)

June 17, 1987

RETROACTIVE REDUCTION OF RATE OF CHARGE FOR FY 1988

If the net income for financial year 1988 exceeds 10 percent of the Fund's reserves at the beginning of financial year 1988, the excess amount shall be used to reduce the rate of charge retroactively for financial year 1988.

Decision No. 8781-(88/12)

January 29, 1988

SPECIAL CONTINGENT ACCOUNT

In view of the existing overdue obligations, a special contingent account shall be established. It shall be recorded separately in the Fund's financial statements. There shall be placed to that account, for financial year 1987, an amount of SDR 26,547,074. This amount shall be distributed, to creditors and debtors for that year, in accordance with the principles of burden sharing, when the need for this account disappears.

Decision No. 8619-(87/90)

June 17, 1987

SPECIAL CONTINGENT ACCOUNT: ADDITIONS IN FY 1988, AND DISPOSITION OF AMOUNTS PLACED IN FY 1987 AND FY 1988

1. An amount equivalent to 2½ percent of the Fund's reserves at the beginning of financial year 1988 already provided for in accordance with Section II.1 of Decision No. 8348-(86/122), adopted July 25, 1986, as amended, shall be placed to the Special Contingent Account at the end of financial year 1988.

2. An additional amount equivalent to 2½ percent of the Fund's reserves at the beginning of financial year 1988 shall be raised in accordance with Section II.2 and Section V.1 and 2(a) of Decision No. 8348-(86/122), as amended, as follows:

(a) effective February 1, 1988 the rate of charge referred to in Rule I-6(4) shall be 6.15 percent;

(b) the rate of remuneration shall be adjusted for the period from February 1 through April 30, 1988 in order to generate an amount of net income equal to the amount generated under (a), subject to the limitation in Section V.2(c) of Decision No. 8348-(86/122), as amended.

That additional amount shall also be placed to the Special Contingent Account at the end of financial year 1988.

3. The amounts placed to the Special Contingent Account, including the amount placed to it in financial year 1987, shall be distributed when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide, in accordance with subparagraphs (a), (b), and (c) below:

(a) distributions of the amounts placed to the Special Contingent Account at the end of financial year 1988 shall be made in proportion to the amounts that have been paid, or have not been received, by each member in financial year 1988 as a result of adjustments made under paragraphs 1 and 2 above;

(b) the amount placed to the Special Contingent Account in financial year 1987 shall be distributed to members that have paid charges referred to in Rule I-6(4) in financial year 1987, in proportion to the amounts that have been paid;

(c) any distribution shall be made in proportion to the total amount to be distributed to each member under (a) and (b) cumulatively.

4. If any loss is charged against the Account, it shall be recorded in accordance with the principle of proportionality set forth in paragraph 3(c).

Decision No. 8780-(88/12)

January 29, 1988

PRINCIPLES OF "BURDEN SHARING," RATE OF CHARGE, AMOUNT FOR SPECIAL CONTINGENT ACCOUNT AND NET INCOME TARGET, AND IMPLEMENTATION OF "BURDEN SHARING" FOR FY 1989

Section I. Principles of "Burden Sharing"

1. The financial consequences for the Fund which stem from the existence of overdue financial obligations shall be shared between debtor and creditor member countries.

2. This sharing shall be applied in a simultaneous and symmetrical fashion.

Section II. Determination of the Rate of Charge

1.(a) The rate of charge for financial year 1989 referred to in Rule I-6(4)(a) shall be determined at the beginning of the financial year, on the basis of the estimated income and expense of the Fund during the year, to generate the target amount of net income for that year.

(b) When estimating income, no deduction shall be made for projected deferred income.

2. The rate of charge shall be adjusted in accordance with the provisions of Section IV.

3. The rate of charge in force as of the end of financial year 1989, as adjusted under Section IV, shall continue to apply subsequently unless it is otherwise decided.

4. Net income for financial year 1989 exceeding the amount specified in Section III shall be used to reduce the rate of charge retroactively for financial year 1989.

Section III. Amount for Special Contingent Account and Net Income Target for FY 1989

1. An amount equivalent to 5 percent of the Fund's reserves at the beginning of financial year 1989 shall be generated during financial year 1989, in accordance with the provisions of Section IV, and shall be placed to the Special Contingent Account.

2. In addition, during financial year 1989, in accordance with Rule I-6(4)(a), the target amount of net income referred to in Rule I-6(4)(a) shall be 5 percent of the Fund's reserves at the beginning of the year.

Section IV. Implementation of "Burden Sharing"

1. During financial year 1989, notwithstanding Rule I-6(4)(a) and (b) and Rule I-10, the rate of charge referred to in Rule I-6(4), and the rate of remuneration prescribed in Rule I-10 shall be adjusted in accordance with the provisions of this Section.

2.(a) In order to generate the amount to be placed in financial year 1989 to the Special Contingent Account, the rate of charge, and, subject to the limitation in (c), the rate of remuneration shall be adjusted, in accordance with the provisions of this paragraph, so as to produce equal amounts of income.

(b) If income from charges becomes deferred during an adjustment period as defined in (d), the rate of charge and, subject to the limitation in (c), the rate of remuneration shall be further adjusted, in accordance with the provisions of this paragraph, so as to generate, in equal amounts, an additional amount of income equal to the amount of deferred charges. For the purposes of this provision, special charges on overdue financial obligations under Decision No. 8165-(85/189) G/TR, adopted December 30, 1985, as amended, shall not be taken into account.

(c) No adjustment in the rate of remuneration under this paragraph shall be carried to the point where the average remuneration coefficient would be reduced below 85 percent for an adjustment period.

(d) The adjustments under this paragraph shall be made as of May 1, 1988, as of August 1, 1988, as of November 1, 1988, and as of February 1, 1989:

shortly after July 31 for the period from May 1 to July 31;

shortly after October 31 for the period from August 1 to October 31;

shortly after January 31 for the period from November 1 to January 31;

shortly after April 30 for the period from February 1 to April 30.

(e) The operation of this decision shall be reviewed when the adjustment in the rate of remuneration reduces the remuneration coefficient to the limit in (c) above.

3. A midyear review of the Fund's income position shall be held shortly after October 31, 1988. If, after any adjustment under paragraph 2, the actual net income for the first six months of the financial year, on an annual basis, is below the target amount for the year, by an amount equal to, or greater than, 2 percent of the Fund's reserves at the beginning of the financial year, the Executive Board will consider how to deal with the situation. If on December 15 no agreement has been reached as a result of this consideration, the rate of charge shall be increased as of November 1 to the level necessary to reach the target amount of net income for the year.

4.(a) Subject to paragraph 3 of Decision No. 8780-(88/12), adopted January 29, 1988, the balances held in the Special Contingent Account shall be distributed in accordance with the provisions of this paragraph to members that have paid additional charges or have received reduced remuneration as a result of the adjustment, when there are no outstanding overdue charges and repurchases, or at such earlier time as the Fund may decide.

(b) An amount equal to the proceeds of any adjustment for deferred charges shall be distributed, in accordance with the provisions of this paragraph, to members that have paid additional charges or have received reduced remuneration as a result of the adjustment, when, and to the extent that, charges, the deferral of which had given rise to the same adjustment, are paid to the Fund. Distributions under this provision shall be made quarterly.

(c) Distributions under (a) or (b) shall be made in proportion to the amounts that have been paid or have not been received by each member as a result of the respective adjustments.

(d) If a member that is entitled to a payment under this paragraph has any overdue obligation to the Fund in the General Department at the time of payment, the member's claim under this paragraph shall be set off against the Fund's claim in accordance with Decision No. 8271-(86/74), adopted April 30, 1986, or any subsequent decision of the Fund.

(e) Subject to paragraph 4 of Decision No. 8780-(88/12), adopted January 29, 1988, if any loss is charged against the Special Contingent Account, it shall be recorded in accordance with the principles of proportionality set forth in (c).

Decision No. 8861-(88/67)

April 27, 1988

ARTICLE V, SECTION 12(f)

Special Disbursement Account

SPECIAL DISBURSEMENT ACCOUNT: STRUCTURAL ADJUSTMENT FACILITY (SAF)—REGULATIONS FOR ADMINISTRATION—AMENDMENTS

Paragraph 5(5) of the Regulations for the Administration of the Structural Adjustment Facility, contained in the Annex to Decision No. 8238-(86/56) SAF, adopted March 26, 1986, shall be amended to read as follows:

“Resources under three-year commitments shall be made available in the form of loans under three annual arrangements approved by the Fund. An annual arrangement may not be approved before the expiration of the preceding annual arrangement, other than under exceptional circumstances. The approval of an annual arrangement under a three-year commitment must precede the expiration of the commitment period.”

Decision No. 8652-(87/105) SAF

July 22, 1987

1. The following paragraph shall be added to the Regulations for the Administration of the Structural Adjustment Facility annexed to Decision No. 8238-(86/56) SAF:

“Paragraph 14

Assistance from the Structural Adjustment Facility, in conjunction with loans from the Enhanced Structural Adjustment Facility Trust, under the Enhanced Structural Adjustment Facility established by Decision No. 8757-(87/176) SAF/ESAF, adopted December 18, 1987 shall be governed by these Regulations subject to the following provisions:

(1) The amounts of such assistance shall be identified in any commitment, arrangement, or disbursement under the Enhanced Structural Adjustment Facility.

(2) Disbursements under each annual arrangement shall be made in two installments, the first after approval of the corresponding annual arrangement, and the second after

(i) a finding by the Managing Director that the performance criteria that have been established for that disbursement have been met, and a determination by the Fund that the midterm review of the program supported by the arrangement has been completed to the satisfaction of the Fund, or

(ii) if so specified in the annual arrangement, a finding by the Managing Director that the performance criteria that have been established for that disbursement have been met.

(3) Disbursements shall be made at the same time as the corresponding disbursements under Trust loans.

(4) If, pursuant to subparagraph (2) above, a second disbursement under an annual arrangement is not made, the period of the three-year commitment may be extended, and the corresponding amount may be made available during the extended period, subject to these Regulations.”

2. In paragraph 6(2) of the Regulations referred to above, the terms “to the Fund as Trustee under the Trust Instrument” shall be replaced by “to the Fund as Trustee.”

Decision No. 8758-(87/176) SAF

December 18, 1987

SPECIAL DISBURSEMENT ACCOUNT: STRUCTURAL ADJUSTMENT FACILITY—AMOUNTS OF ASSISTANCE—AMENDMENT

Paragraph 2 of Decision No. 8240-(86/56) SAF, adopted March 26, 1986, as amended, shall be amended to read as follows:

“The potential access of each eligible member to the resources of the Facility as of July 22, 1987 shall be 63.5 percent of quota; no more than 20 percent of quota shall be disbursed under the first annual arrangement, and no more than 30 percent of quota shall be disbursed under the second annual arrangement.”

*Decision No. 8651-(87/105) SAF
July 22, 1987*

SPECIAL DISBURSEMENT ACCOUNT: TRANSFER OF RESOURCES FROM THE SPECIAL DISBURSEMENT ACCOUNT TO THE ENHANCED STRUCTURAL ADJUSTMENT FACILITY TRUST AND RETRANSFER TO THE SPECIAL DISBURSEMENT ACCOUNT

1. The following resources held in, or to be received by, the Special Disbursement Account shall be transferred to the Enhanced Structural Adjustment Facility Trust (“the Trust”)* for its Reserve Account upon the establishment of the Trust or upon receipt of these resources by the Special Disbursement Account, whichever is later:

- (i) all income already received or to be received from the investment of resources available for the Structural Adjustment Facility within the Special Disbursement Account;
- (ii) all interest already received or to be received, including from special charges, on loans under the Structural Adjustment Facility;
- (iii) all repayments of loans under the Structural Adjustment Facility; and
- (iv) all the resources held in the Special Disbursement Account that are derived from the termination of the 1976 Trust Fund and that can no longer be used under the Structural Adjustment Facility;

* On the Instrument to Establish the Enhanced Structural Adjustment Facility Trust, see Decision No. 8759-(87/176) ESAF on page 7.

provided that the above resources shall be retransferred to the Special Disbursement Account when and to the extent that they are needed for the reimbursement of the expenses incurred by the General Resources Account in the administration of the Structural Adjustment Facility and the Trust, which must be reimbursed in accordance with paragraph 10 of the Regulations for the Administration of the Structural Adjustment Facility and paragraph 3 of this Decision.

2. Whenever the Trustee determines that amounts in the Reserve Account of the Trust exceed the amount that may be needed to cover the total liabilities of the Trust to lenders that are authorized to be discharged by the Reserve Account, the Trustee shall retransfer such excess amounts to the Special Disbursement Account. Upon liquidation of the Trust, all amounts in the Reserve Account remaining after discharge of liabilities authorized to be discharged by the Reserve Account shall be transferred to the Special Disbursement Account.

3. The Special Disbursement Account shall reimburse the General Resources Account annually in respect of the expenses of conducting the business of the Enhanced Structural Adjustment Facility Trust.

4. This Decision replaces Decision No. 8237-(86/56) SAF, adopted March 26, 1986.

Decision No. 8760-(87/176)

December 18, 1987

*The Chairman's Summing Up at the Conclusion of the Discussion on
the Structural Adjustment Facility—Review of Experience
Executive Board Meeting 87/93, June 19, 1987*

The discussion today concludes the first review by Executive Directors of the operation of the structural adjustment facility (SAF). In summing up, I will begin with a few general comments and then turn to some conceptual and more specific operational issues.

1. *General observations*

Directors expressed strong support for the facility and indicated that they considered it to be an important channel for Fund assistance to low-income developing countries. The explicit orientation of the facility toward the alleviation of structural imbalances and rigidities was considered to be particularly important for these countries, many of which have suffered for many years from low rates of economic growth and declining per capita incomes. Recognizing that the modest amount of assistance available under the facility has been one of the important impediments to its wider utilization, most Directors supported the proposal to raise the amount of second-year disbursements to 30 percent of quota.

Directors expressed concern that the catalytic role that had been envisaged for the facility in mobilizing resource flows from other sources had thus far not materialized. That role remained a crucial one, and they therefore welcomed the indications by the leaders of the major industrial countries at the recent Venice Summit that they strongly supported our initiative to triple the resources available for lending in association with SAF arrangements. Directors urged management to explore all possible options to secure truly additional resources for the SAF. It was emphasized that the role that had been envisaged for the facility would not be fully realized unless the amounts of assistance that countries could obtain under SAF-supported programs were increased to levels that would be more commensurate with the problems that the facility was intended to address. Directors indicated that members who have made use of the facility or are currently negotiating arrangements should not be disadvantaged by prompt use of the SAF, in the event that its enhancement was realized. I am grateful for the indications received from a number of Directors that their authorities stood ready to contribute to the enhanced SAF. I am also pleased to hear that the suggestions which we have made regarding the modalities of financing are in the right direction.

2. *Role and content of policy framework papers*

Most, but not all, Directors thought that the content of policy framework papers (PFPs) should be further developed and strengthened. Many also stressed that the authorities should play a much greater role than they had so far in the formulation of PFPs. It was noted that policy framework papers should include a more pointed and forward-looking analysis and identification of macroeconomic and structural problems and of the sources of economic growth; a more focused discussion of the authorities' strategy and the priority to be attached to key structural reforms to be sought over the next three years; a fuller description and assessment of public investment programs; and a discussion of financing re-

quirements and the role of major aid agencies. Most Directors felt that specific policy undertakings in the initial period and general indications of policies to be pursued in the second and the third years should be spelled out in PFPs. Some Directors expressed concern that prior announcement of policy intentions could lead to speculative activities or involve sociopolitical sensitivities. In these cases, it was suggested that the precise timing and exact magnitude of intended changes could be left out of the PFP and could be included in the staff paper on the SAF program.

Directors were of the view that PFPs should contribute to the decision-making process of multilateral aid agencies, with many calling for a more central role for the PFP in guiding the World Bank's lending strategy. Directors indicated that PFPs should be designed in such a way as to help ensure consistency of policy advice and other activities of aid agencies and to direct aid resources to countries undertaking strong policy reform in amounts that would make such reform efforts viable and sustainable. I took note of the differing views of Executive Directors on the role to be played by bilateral donors in the PFP process. These views will be taken into account in our emerging relations with these donors. The suggestion that the Fund should hold a conference for representatives of aid agencies to familiarize these institutions with the PFP process and discuss the coordination of objectives will also be examined.

Most Directors agreed that PFPs should be revised each year to cover policies and objectives to be pursued by the authorities during the following three-year period. Such a rolling framework would provide for a continuity of policy, which was useful for both the authorities and those supporting the member's adjustment effort. Other Directors, however, stressed that an updating of the PFP would suffice; in their view a wholesale redesign of the PFP each year would be burdensome for both the staff and the authorities but might be warranted if the facility's resources were enhanced.

Most Directors agreed that a wide circulation of PFPs was desirable, consistent with the objective of a fuller role for PFPs in the aid coordination process; however, in view of concerns expressed by some Directors, circulation of PFPs has to be subject to the consent of the authorities of the member concerned. Directors encouraged the staff to develop circulation procedures along the lines suggested in EBS/87/46, Supplement 1 (6/9/87).

3. *Issues related to the PFP/SAF process*

a. *Fund-Bank collaboration*

Directors emphasized the importance that they attached to the members' requests for SAF arrangements. They urged the staffs of the two institutions to work closely together to expedite the process and to avoid undue delays. Closer

collaboration between the two institutions should not be allowed to lead to cross conditionality. However, for a very limited number of cases in which the Bank was not in a position to contribute to the preparation of a possible SAF operation within a reasonable time period, I take it that Directors would not regard it as an absolute requirement that the Bank be involved in the preparation of the PFP.

A number of Directors were disappointed that the PFP had not been utilized more fully for World Bank policy-based lending. Speakers welcomed the conclusion of IDA-8 negotiations and were pleased in particular that \$3.0–3.5 billion was to be used for structural adjustment lending in conjunction, to the extent possible, with the SAF. Several Directors hoped that policies governing use of IDA-8 would be finalized soon and in such a way that would enable IDA to lend in parallel with the SAF, drawing upon the policy undertakings stipulated in the PFP.

b. *Staged approach*

Directors emphasized that SAF-supported programs should continue to be based on comprehensive and detailed analysis and focused around comprehensive structural reform. However, some Directors indicated that in a limited number of exceptional cases where this was not practicable in the initial stages but where there may be assurance that macroeconomic policies would adequately address the immediate problems and thus improve the environment for structural reform, it would be useful to allow some flexibility and to experiment with a staged approach.

c. *Two-step procedure*

Most Directors expressed doubts as to whether the additional staff and Board time required by the two-step negotiation process—involving separate Board discussion of the PFP before presentation of the SAF loan request—was worthwhile. They encouraged the staff to present the PFP and the SAF request simultaneously to the Board and to limit use of the two-step procedure to cases in which there were outstanding arrears to the Fund or in which there were major difficulties in the negotiating process or significant doubts about the eventual endorsement by the Board of the policy strategy contained in the PFP. Where a two-step procedure was to be used, staff was encouraged to hold PFP discussions to the extent feasible in the context of Article IV or other discussions with the authorities.

4. *SAF-related issues*

a. *Conditionality*

The nature and form of conditionality underlying the request for SAF arrangements that have been brought to the Board thus far was considered by

most Directors to be broadly appropriate. Directors reiterated that SAF resources should be provided in support of strong macroeconomic and structural adjustment programs that would remove obstacles to growth and make, as a minimum, substantial progress toward the achievement of a viable balance of payments position during the three-year program period; the programs must provide reasonable assurance of timely repayments of loans from the SAF. A number of Directors, however, urged that conditionality should be more flexible and adapted in light of the objectives, particularly for growth, of the facility.

Because balance of payments viability cannot be attained by many SAF-eligible countries in the absence of increased concessional assistance, SAF programs for these countries would have to be strong so as to provide creditor governments and aid agencies with the assurance of satisfactory macroeconomic policies and the monitoring that they require in order to move forward with their operations in support of policy reform, several Directors stressed. In this connection, the decision of the Paris Club to undertake a debt rescheduling in certain cases on the basis of a SAF arrangement was welcomed.

b. *Benchmarks and prior actions*

Directors noted that the use of benchmarks was necessary to delineate the expected path of structural reform and to facilitate the evaluation of progress under SAF arrangements. They emphasized that benchmarks should be limited to those few variables that are considered most important for purposes of monitoring the program. Structural benchmarks should be formulated in specific terms so as to provide a clear understanding of the expected path of program implementation. A number of Directors considered that it would be useful to provide a more explicit framework of structural reform in the three-year program by including structural benchmarks that extend beyond the annual program in a few critical areas. While some Directors considered that the use of prior actions in SAF arrangements continued to be appropriate in those cases where much remained to be done and where past performance had been somewhat unsatisfactory, other Directors noted that such use should be exceptional.

c. *Protracted balance of payments criterion*

While the existence of protracted balance of payments problems should remain a criterion for use of the facility, most Directors emphasized that, a priori, a low-income country satisfied this criterion. They reiterated that the assessment should involve considerable flexibility and should not be based on the mechanical application of statistical indicators.

d. *Coincidence between arrangement and program periods*

Directors stressed that a significant divergence between the program and the arrangement period should be generally avoided and that there should be an interval of about 12 months between the two disbursements. However, they recognized that there was a need for flexibility in the timing of presentation to the Board of annual SAF arrangements; a normal delay of about three months between the initiation of the annual policy program and its presentation to the Board was acceptable. They indicated that approval of a longer delay should be granted only in exceptional cases. In those cases in which considerable delay had been experienced in the presentation of a first-year program, Directors considered that some shortening of the period between annual disbursements would be appropriate so as to minimize the difference in timing between the approval of the subsequent annual programs and the associated disbursements.

Directors noted that the preparation of PFPs and SAF programs has absorbed a substantial amount of the staff resources of borrowing countries, the Bank, and the Fund, and they directed the staff to look for ways to simplify procedures.

I have noted the call for generalized access to Fund resources by developing countries on a concessional basis, a matter to which we will return in the context of our consideration of the recommendations of the Group of Twenty-Four on the role of the Fund.

The discussion of the first review of the operation of the structural adjustment facility has been most helpful and should contribute to a more effective and efficient operation of the facility. This will be extremely important as we advance our efforts to increase the amount of resources that can be made available to the low-income countries under the facility. The next review of the structural adjustment facility will be held not later than May 31, 1988.

Let me reiterate that I am really grateful for the many expressions of support for the initiative to increase the resources available through the SAF. I intend to report to you frequently on the progress that we are able to make. That progress will depend crucially upon your continuing support.

SPECIAL DISBURSEMENT ACCOUNT: REVIEW OF STRUCTURAL ADJUSTMENT FACILITY AND ESTABLISHMENT OF THE ENHANCED STRUCTURAL ADJUSTMENT FACILITY

1. The Executive Board has reviewed the operation of the Structural Adjustment Facility within the Special Disbursement

Account, as provided in Decision No. 8241-(86/56) SAF, adopted March 26, 1986.

2.(a) The Executive Board decides to establish a Facility to be known as the Enhanced Structural Adjustment Facility. Loans under that Facility shall be provided by the Enhanced Structural Adjustment Facility Trust, normally in conjunction with loans under the Structural Adjustment Facility, on concessional terms, to low-income developing members that qualify for assistance.

(b) The use of resources provided by the Structural Adjustment Facility shall be subject to the Regulations for the Administration of the Structural Adjustment Facility, as amended by Decision No. 8758-(87/176) SAF, adopted December 18, 1987.

(c) The use of resources provided by the Enhanced Structural Adjustment Facility Trust shall be subject to the provisions of the Enhanced Structural Adjustment Facility Trust Instrument adopted by Decision No. 8759-(87/176) ESAF, adopted December 18, 1987.*

3. Resources provided by lenders that agree to support arrangements under the Enhanced Structural Adjustment Facility through loans to qualifying members shall be used in association with loans under the Enhanced Structural Adjustment Facility and in accordance with the arrangements between the Fund and the lenders.

4. The Fund shall review the operation of the Enhanced Structural Adjustment Facility, of the Structural Adjustment Facility, and of the Enhanced Structural Adjustment Facility Trust, not later than March 31, 1989.

*Decision No. 8757-(87/176) SAF/ESAF
December 18, 1987*

* See page 7.

ARTICLE VII

Borrowing

GENERAL ARRANGEMENTS TO BORROW: SIXTH RENEWAL

Executive Board Decision No. 7337-(83/37), adopted February 24, 1983, effective December 26, 1983, on the General Arrangements to Borrow, is hereby renewed for a period of five years from December 26, 1988.

Decision No. 8733-(87/159)

November 23, 1987

effective December 26, 1988

POLICY ON ENLARGED ACCESS: BORROWING AGREEMENT WITH THE SAUDI ARABIAN MONETARY AGENCY—AMENDMENT

The Executive Board authorizes the Managing Director to take such action as is necessary to amend Annexes A and B of the Borrowing Agreement between the Saudi Arabian Monetary Agency and the Fund effective May 7, 1981, and Annexes II-A and II-B of the Supplementary Agreement between the Saudi Arabian Monetary Agency and the Fund effective April 30, 1984, as set out in paragraph 5 of EBS/87/150 [below].

Decision No. 8643-(87/102)

July 10, 1987

EBS/87/150, Paragraph 5

. . .

a. The 1981 borrowing agreement would be amended by deleting the phrase “and weighted by the volume of transactions in” and replacing it with the word “for,” and by deleting the words “during the previous week,” in both Annex A, paragraph 3(b)(i) and Annex B, paragraph 2(c)(ii)(A). The amended paragraph in both Annexes A and B would read as follows:

“For the French franc, the yield to maturity on a representative sample of securities of major French public sector enterprises with an average remaining life in the range of four and a half to five and a half years, based on market prices for the securities, as calculated by the Caisse des Dépôts et Consignations using the same method as it uses for the yield it publishes weekly.”

b. The 1984 supplementary agreement would be amended by deleting the words “during the previous week,” in both Annex II-A, paragraph 3(b)(i) and Annex II-B, paragraph 2(c)(ii)(A). The amended paragraph in both Annexes II-A and II-B would read as follows:

“For the French franc, the average yield to maturity on a representative sample of securities of major French public sector enterprises with a remaining life in the range of two to three years, based on market prices for the securities, as calculated by the Caisse des Dépôts et Consignations.”

ARTICLE XVII, SECTION 3

Special Drawing Rights: Other Holders

USE OF SDRS IN PAYMENT OF TRUST FUND OBLIGATIONS

In accordance with Article XVII, Section 3, the Fund prescribes that:

1. A participant, by agreement with a prescribed holder and at the instruction of the Fund, may transfer SDRs to the prescribed holder in repayment of Trust Fund loans, in payment of interest on Trust Fund loans and in payment of special charges in respect of overdue repayments and interest of Trust Fund loans.
2. The Fund shall record operations pursuant to this prescription in accordance with Rule P-9.

Decision No. 8642-(87/101) S/TR

July 9, 1987

GENERAL
Trust Fund

TRUST FUND: MEANS OF PAYMENT OF TRUST FUND INTEREST AND
REPAYMENT OF PRINCIPAL

1. Decision No. 6358-(79/188) TR, adopted December 19, 1979, shall be amended by the addition of the following sentence:

“Such payments may be made also in SDRs in accordance with Decision No. 8642-(87/101) S/TR, adopted July 9, 1987.”

2. Decision No. 7142-(82/85) TR, adopted June 18, 1982, shall be amended by the addition of the following sentence:

“Such repayment may be made also in SDRs in accordance with Decision No. 8642-(87/101) S/TR, adopted July 9, 1987.”

*Decision No. 8640-(87/101) S/TR
July 9, 1987*

Subsidy Account

SUPPLEMENTARY FINANCING FACILITY: SUBSIDY ACCOUNT—
ADDITIONAL SUBSIDY PAYMENTS FOR JULY 1, 1985 THROUGH
JUNE 30, 1986 AND SUBSIDY PAYMENTS FOR JULY 1, 1986
THROUGH JUNE 30, 1987

1. In accordance with Section 10 of the Instrument establishing the Supplementary Financing Facility Subsidy Account, as amended, additional subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period July 1, 1985 through June 30, 1986, in the amount indicated to each of the eligible members as listed in Column 2 of Table 1 of the attachment to EBS/87/166.*

2. In accordance with Section 10 of the Instrument establishing

* Not included in this volume.

the Supplementary Financing Facility Subsidy Account, as amended, subsidy payments shall be made with respect to charges paid on holdings of currency referred to in Section 7 of the Instrument for the period July 1, 1986 through June 30, 1987, in the amount indicated to each of the eligible members as listed in Column 5 of Table 1 of the attachment to EBS/87/166.*

3. The subsidy payments shall be made to each eligible member on August 4, 1987, or as soon thereafter as the member has paid all overdue charges, if any, on balances eligible for the subsidy.

Decision No. 8674-(87/117) SBS

August 3, 1987

*Not included in this volume.

**Selected Resolutions of the Board of Governors
and Related Documents
Supplement to Thirteenth Issue**

Increases in Quotas of Members—Ninth General Review Report of the Executive Board to the Board of Governors

1. Article III, Section 2(a) of the Articles of Agreement provides that “The Board of Governors shall at intervals of not more than five years conduct a general review, and if it deems it appropriate propose an adjustment, of the quotas of the members.” The five-year period since the completion of the previous review will end on March 31, 1988. This report and the attached draft resolution are submitted to the Board of Governors, the organ competent under the Articles to deal with an adjustment of quotas, in accordance with Article III, Section 2.

2. In the course of the past year, the Executive Board has considered various aspects of the adjustment of quotas, including the formulas used to calculate quotas, the variables used in those formulas, the method of calculating quotas, and updated quota calculations. The Executive Board has also considered the need for and the size of an increase in the total of quotas, the techniques and criteria that might be considered in distributing a total increase among members, and matters relating to the payment of the increased subscriptions. While the Executive Board has concluded consideration of certain technical aspects of its work, it has not completed work on a number of substantive issues. Consequently, the Executive Board is not in a position to make recommendations in time for the Board of Governors to adopt a resolution completing the Ninth General Review by March 31, 1988.

3. The Interim Committee considered the subject of the Ninth General Review of Quotas during the twenty-ninth meeting of the Committee in Washington on September 27–28, 1987. Paragraph 7 of the communiqué issued at the conclusion of the meeting reads as follows:

“The Committee noted that the Committee of the Whole on the Ninth General Review of Quotas has begun its work by

considering preliminary quota calculations and reviewing issues bearing on the size of the Fund. The Committee urged Executive Directors to pursue their work on the Ninth General Review of Quotas so as to be in a position to make appropriate recommendations in due course."

The Managing Director intends to make a progress report on the Ninth General Review to the Interim Committee at the next meeting of the Committee on April 14, 1988.

4. The Executive Board proposes to continue its work on this subject and to submit a report to the Board of Governors, together with appropriate recommendations regarding the size of the overall increase in quotas, increases in the quotas of individual members, and on the mode of payment of increases in subscriptions, not later than April 30, 1989.

5. In view of the foregoing considerations, it is recommended that the Board of Governors adopt the resolution set forth in the attachment to this report.

March 18, 1988

*Proposed Resolution of the Board of Governors**

RESOLVED:

That the Board of Governors, having noted the report of the Executive Board entitled *Increases in Quotas of Members—Ninth General Review*, hereby resolves to continue its review under Article III, Section 2(a) and requests the Executive Board to complete its work on this matter and to submit appropriate proposals to the Board of Governors not later than April 30, 1989.

* Adopted by the Board of Governors, effective April 22, 1988, and designated No. 43-1.

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