INTERNATIONAL MONETARY FUND

Partial Distribution of the General Reserve Attributed to Windfall Gold Sale Profits—Proposed Decision

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(In consultation with the Strategy, Policy and Review Department)

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EXECUTIVE SUMMARY

- This paper proposes the distribution of a portion of the Fund's general reserve that is attributed to profits from recent Fund gold sales. The proposed distribution is part of a strategy endorsed by the Board in July 2009 involving the use of resources linked to gold sale profits to facilitate members' contributions towards Poverty Reduction and Growth Trust (PRGT) subsidies.

- The strategy was formulated in the context of a comprehensive reform of the Fund's Low Income Country (LIC) facilities and concessional financing framework approved by the Executive Board that included a financing package aimed at ensuring the PRGT's capacity to lend concessional resources of up to SDR 11.3 billion ($17 billion) during the period 2009–14. The financing package included an agreement to raise SDR 1.5 billion in subsidy resources, of which SDR 0.5–0.6 billion (in end-2008 NPV terms) was expected to be generated from resources linked to profits from gold sales.

- Following completion of the gold sales, the Board held further discussions on use of the gold sale profits in April and September 2011, and in both contexts confirmed the strategy endorsed in 2009. In the September discussion, Directors agreed that a Board decision to distribute gold profits of up to SDR 0.7 billion should be considered in 2011; many also expressed support for the staff proposal that this process should be initiated only once the lower end of the target range for bilateral contributions has been met.

- As of end-2011, bilateral subsidy pledges under the 2009 package had reached SDR 202.8 million, broadly in line with the bottom end of the SDR 0.2–0.4 billion target range.

- Consistent with the strategy endorsed in 2009, staff proposes that a distribution of SDR 700 million be made to members using a portion of the gold windfall profits that have been placed in the general reserve. The distribution would be funded with a partial reduction of the principal in the Investment Account (to which the gold profits have been transferred). The proposed partial distribution of the general reserve would reduce the Fund's overall reserves. However, that part of general reserve that is attributable to gold windfall profits (along with that part of the special reserve attributable to gold profits) has been excluded from the computation of the Fund's precautionary balances.

- It is proposed that the distribution be subject to the receipt of satisfactory assurances that members will provide new PRGT subsidy contributions equivalent to at least 90 percent of the amount to be distributed (SDR 630 million). This threshold is consistent with the upper end of the target range of subsidy resources linked to gold sales profits that was identified under the 2009 financing package.

- The timeframe within which the distribution would be effected is uncertain, as it depends on the pace at which members will provide satisfactory assurances of PRGT contributions in the minimum amount contemplated.

I. Introduction and Background

1. **This paper proposes the distribution of a portion of the Fund's general reserve attributed to part of the "windfall" profits from recent Fund gold sales**. The proposed distribution is part of a strategy endorsed by the Board in July 2009 involving the use of resources linked to gold sale profits to facilitate members' contributions towards PRGT subsidies.

2. **In July 2009, the LIC facilities and financing framework reforms were approved by the Executive Board and a financing package was endorsed aimed at ensuring capacity to lend concessional resources of up to SDR 11.3 billion ($17 billion) during the period 2009–14**.[1] The financing reforms built upon discussions in response to a call by the G-20 Heads of State at the London Summit on April 2, 2009, "consistent with the new income model, that additional resources from agreed sales of IMF gold will be used, together with surplus income, to provide US$6 billion additional concessional and flexible finance for the poorest countries over the next 2 to 3 years." The LIC financing package required additional subsidy resources for the PRGT of SDR 1.5 billion for the period 2009–14, of which SDR 0.2–0.4 billion was to be generated from new bilateral contributions and a further SDR 0.5–0.6 billion (in end-2008 NPV terms) was expected to be generated as part of a strategy involving the use of resources linked to the profits from gold sale to facilitate members' contributions towards PRGT subsidies.[2] In this context, most Directors agreed that the strategy for subsidy financing would in the first instance involve use of the "windfall" profits arising from gold sales at an average price in excess of the US$850 per fine ounce that had been assumed at the time of the endorsement of key aspects of the new income model. To the extent that the realized windfall profits fell short of the required contribution, the difference was to be generated through investment income from the gold endowment.

3. **The limited gold sale were approved in September 2009, initiated in October 2009, and concluded in December 2010**. They resulted in overall profits of SDR 6.85 billion, reflecting an average sales price of US$1,144 per fine ounce. This amount included windfall profits of about SDR 2.45 billion, representing profits above the SDR 4.4 billion that would have been obtained at the initial assumed price of US$850 per fine ounce. As required under the amended Articles, currency amounts equivalent to the total gold sale profits of SDR 6.85 billion were transferred in March 2011 from the General Resources Account (GRA) to the Investment

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[1] See *A New Architecture of Facilities for Low-Income Countries and Reform of the Fund's Concessional Financing Framework—Supplementary Information* (7/20/09) and *IMF Reforms Financial Facilities for Low-Income Countries*, Public Information Notice (PIN) No. 09/94 (7/29/09).

[2] As noted in (PIN) No. 09/94 (7/29/09), "*Directors noted that the strategy agreed upon today regarding the use of gold sales-linked resources for financing subsidy needs will guide future Board decisions to be taken after the completion of the gold sales. These decisions will provide for the transfer of such resources from the Investment Account to the General Resources Account, to be followed by the distribution of an equivalent amount to members in proportion to quotas. Directors expressed their expectation that members would then allocate this distribution, or broadly equivalent amounts, as subsidy contributions to the PRGT.*"

Account (IA). These resources are currently being invested in short-term deposits as an interim measure, pending completion of the work to establish the gold endowment and the decisions on the use of the windfall profits. In the context of the FY 2010 and FY 2011 income decisions,[3] the Board decided to place in the special reserve a total of SDR 4.4 billion of net income attributed to gold profits. Consistent with the purposes of the gold endowment, these amounts placed in the special reserve are not available for future distribution to the membership. The Board also decided to place the remaining amount of SDR 2.45 billion, corresponding to the gold "windfall" profits, in the general reserve, pending further Board discussions.

4. **For policy and analytical purposes, the Fund's precautionary balances currently exclude all the gold profits earned from the limited gold sales**.[4] The largest part of these gold profits are intended to be used to fund the permanent endowment (SDR 4.4 billion) to generate long-term income for the Fund. In addition, a portion of the windfall profits (SDR 0.7 billion) has been endorsed for use as part of a strategy to facilitate increased concessional lending, as discussed in this paper. The use of the remaining windfall (SDR 1.75 billion) has not yet been decided by the Executive Board. In the September 2011 discussion (see below), most Directors were willing to support a sequenced approach, under which the remaining windfall would remain in the general reserve but would not be counted toward precautionary balances, on the understanding that the Board would revisit the ultimate use of the windfall profits in a year's time.[5]

5. **In April 2011, following completion of the gold sales, the Board held a preliminary discussion of the uses of gold sale profits**. During this discussion, Directors affirmed their support for the strategy to use resources linked to the gold sale profits to facilitate contributions of SDR 0.5–0.6 billion (in end 2008 NPV terms) for the PRGT, as endorsed under the 2009 financing package for LICs. They emphasized the importance of minimizing leakage in the process by seeking satisfactory assurances from members, prior to distribution of any resources, that they would provide broadly equivalent amounts to the Fund as bilateral contributions to the PRGT.[6]

6. **In September 2011, Executive Directors held a second discussion on the use of windfall gold sale profits**. Directors agreed with the staff proposal that a Board decision to distribute up to SDR 0.7 billion of gold profits (which, taking into account leakage, would be the amount needed to facilitate the contributions of SDR 0.5–0.6 billion envisaged under

[3] See *Review of the Fund's Income Position for FY 2010 and FY 2011* (4/14/10) and *Review of the Fund's Income Position for FY 2011 and FY 2012*, (4/7/11).

[4] See *Review of the Fund's Income Position for FY 2010 and FY 2011* (4/14/10) and *Review of the Fund's Income Position for FY 2011 and FY 2012*, (4/7/11).

[5] See *IMF Executive Board Considers Use of Windfall Gold Sale Profits, Public Information Notice (PIN) No. 11/121* (9/16/11).

[6] See *IMF Executive Board Considers Use of Gold Sale Profits, Public Information Notice (PIN) No. 11/48* (4/8/11) and *Use of Gold Sale Profits—Initial Considerations and Options* (3/16/11).

the 2009 package) be considered in 2011.[7] In this context, many also expressed support for the staff proposal that this process should be initiated only once the lower end of the target range for bilateral contributions has been met; however a few preferred to delink the distribution process from the fund-raising target. Directors also broadly agreed that, before the distribution is made, satisfactory assurances should be in place that resources equivalent to at least 90 percent of the amounts being distributed were being provided as PRGT subsidy contributions.

7. **Significant progress has been made in securing additional bilateral subsidy resources for the PRGT**. Since the September 2011 Board discussion, pledges have been received from Japan and the United Kingdom for contributions of SDR 28.8 million and SDR 19.8 million, respectively. As a result of these new pledges, 25 members have now pledged to contribute a total of SDR 202.8 million (Annex Table 2). This is broadly in line with the lower end of the target range of SDR 0.2–0.4 billion envisaged under the 2009 financing reform package for such contributions. The staff continues to explore possible bilateral contributions with other donors, and these contributions remain very important as part of the multilateral effort to support the Fund's concessional lending capacity.

8. **In light of the above considerations, this paper puts forward a specific proposal for a partial distribution of the general reserve equivalent to SDR 0.7 billion of the amount in that reserve that is attributed to windfall gold sales profits**. With bilateral financing commitments broadly in line with the lower end of the bilateral fund-raising target range, and consistent with the views expressed by the Board in September 2011, the staff now proposes that this distribution be effected subject to satisfactory assurances that members will contribute resources equivalent to at least 90 percent of this amount (SDR 630 million) as subsidy contributions to the PRGT.[8] A distribution of the full amount of SDR 700 million is considered appropriate to ensure that the PRGT is adequately financed, and given that bilateral contributions and those from delaying PRGT reimbursement of the GRA are currently expected to be near the lower end of the ranges envisaged previously (see Annex).

9. **Section II of the paper discusses key legal, financial and operational aspects of the distribution, including modalities to facilitate members' ability to transfer amounts distributed to them as PRGT subsidy contributions**. The text of the proposed decision is set forth in Section III. An Annex recalls the key elements of the LIC financing package and provides additional information on progress to date with fundraising.

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[7] See *Public Information Notice (PIN) No. 11/121* (9/16/11) and *Use of Windfall Gold Sale Profits—Further Considerations* (8/04/11).

[8] The proposed target for minimum assurances of SDR 0.63 billion is currently slightly below SDR 0.6 billion in end 2008 NPV terms, the upper end of the target range of SDR0.5–0.6 billion identified under the agreed 2009 financing package. To the extent that receipt of this amount is delayed, its value in end-2008 NPV terms would fall.

II. The Proposed Distribution

A. Key Legal and Financial Issues

10. Consistent with the strategy endorsed in 2009, staff proposes that a distribution be made to members using a portion of the gold windfall profits that have been placed in the general reserve. GRA resources are uniformly available to all members and cannot be placed in the PRGT for the benefit of only some members. Accordingly, the Fund has two basic options for implementing the strategy to use resources linked to gold sale profits to facilitate PRGT subsidy resources. Both of these would require an indirect mechanism involving a distribution to all members (in proportion to quotas) of resources linked to the gold sale profits on the expectation that members would contribute these resources (or broadly equivalent amounts) to the PRGT as subsidy contributions. The two options are: (i) a distribution of net income from any particular year, in accordance with Article XII, Section 6(a); or (ii) a distribution from the general reserve pursuant to Article XII, Section 6(d). Staff proposes the latter (a partial distribution of the general reserve), as the exact timing of the distribution following the receipt of sufficient financing assurances (see below) would be uncertain, and may not align with the timing of the Executive Board's discussion and decisions on the disposition of the Fund's annual net income, typically taken in April each year.

11. **In accordance with Article XII, Section 6(d) the Fund may decide at any time to distribute part of the general reserve**.[9] The Articles specify no substantive criteria for such a distribution, nor are any noted in the Commentary accompanying the Second Amendment of the Articles of Agreement.[10] The Articles do require, however, that the distribution be made to all members in proportion to their quotas on the date of the distribution,[11] and that it be approved by the Executive Board by a 70 percent majority of the total voting power. In addition, Article XII, Section 6(e) specifies that a distribution of the general reserve is to be made in SDRs, provided that either the Fund or the member may decide that it be made in the member's own currency. More generally, and as discussed above, while the proposed partial distribution of the general reserve would reduce the Fund's overall reserves, that portion of reserves that is attributable to gold sales profits has already been excluded from the Fund's precautionary balances.

[9] The Fund has previously paid distributions to members, but only out of *net income*, pursuant to Article XII, Section 6(a) as it existed prior to the Second Amendment.

[10] Article XII, Section 6(d) was added to the Articles of Agreement in the context of the Second Amendment. Among other differences, the Articles prior to the Second Amendment provided only for the payment of distributions out of net income and not out of the general reserve. See *Proposed Second Amendment to the Articles of Agreement—A Report by the Executive Board to the Board of Governors,* 1976, Part II, Chapter L, Paragraphs 1–5.

[11] Based on quotas as of January 31, 2012, the proposed distribution of SDR 0.7 billion would imply distribution to each member of an amount equivalent to 0.294 percent of its quota. The final proportion of quotas represented by the distribution could change, however, as it would be based on members' quotas as of the time of the distribution.

B. Funding of the Distribution

12. **It is proposed that the distribution of SDR 0.7 billion be funded through a partial reduction of the amounts (representing GRA reserves) that have been invested in the Investment Account (IA)**.[12] This funding modality is consistent with the strategy endorsed in 2009, which specifically contemplated a transfer from the IA. Pursuant to Article XII, Section 6(f)(vi), the reduction in IA principal requires a decision by the Executive Board with a 70 percent majority of the total voting power. As the purpose of the transfer is to fund the partial distribution of the general reserve, the reduction would only take place after the assurances threshold for contributions discussed above has been reached. Once the assurances are in place, the IA currencies would be transferred to GRA pursuant to Article XII, Section 6(f)(ix), which provides that resources resulting from a reduction of the amount of investment in the Investment Account are to be transferred to the GRA for immediate use in operations and transactions. Covered operations for these purposes include distributions to members (as was noted in the Executive Board Report to the Board of Governors on the new income model).[13]

13. As required under Article XII, Section 6(e), the partial distribution of the general reserve would be made in SDRs or, if the Fund or the member so decides, in balances of the member's own currency.[14] For members with overdue repurchase obligations to the GRA, it is proposed that the distribution would have the effect of reducing the amount of these overdue obligations. Accordingly, pursuant to Article XII, Section 6(e), the Fund would decide that the distribution be made in the member's own currency and that the corresponding reduction in Fund holdings of the member's currency be attributed to holdings that are subject to repurchase. This will ensure that the member's share of the distribution is used to reduce its overdue obligations to the Fund. Attributing the reduction to Fund holdings of the member's currency subject to repurchase requires a change in the Fund's general attribution rules, as these rules currently give all members with outstanding purchases the option to attribute the use of their currencies by the Fund to enlarging their reserve tranche positions (in lieu of reducing repurchase obligations).[15]

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[12] Gold profits were transferred to the IA in March 2011 and invested on an interim basis. See *Review of the Fund's Income Position for FY 2011 and FY 2012* (4/7/11).

[13] See *Report of the Executive Board to the Board of Governors on the Proposed Amendment to the Articles of Agreement of the International Monetary Fund to Expand the Investment Authority of the International Monetary Fund, as attached to the Report of the Managing Director to the International Monetary and Financial Committee on a New Income and Expenditure Framework for the IMF* (4/9/2008).

[14] Although the distribution would be made mainly in SDRs and not the currencies transferred from the Investment Account, the immediate distribution following transfer from the IA would reduce GRA resources by the full amount transferred. Any temporary impact of the currency transfer would be offset in the allocation of that currency in the context of the Financial Transactions Plan (FTP).

[15] Decision No. 6831-(81/65), as amended. The proposed change would provide that, for members with overdue repurchase obligations, the Fund would attribute the use of their currencies to holdings subject to repurchase (see paragraph 6 of the proposed decision). The proposed amendment to the attribution decision would also delete obsolete references from that decision.

C. Adequate Assurances

14. **Given the endorsed strategy involving the use of resources linked to gold sale profits to facilitate PRGT subsidy contributions, it would be important to have strong ex-ante assurances from the membership regarding these contributions**. The modalities proposed by staff in this regard, which are summarized below, are similar to those used in context of the 2007 fund-raising effort to finance Fund debt relief for Liberia (which involved a similar distribution to members of resources from the First Special Contingent Account (SCA-1) to facilitate contributions from members towards Liberian debt relief).[16] The mechanism in this case would involve a Board decision to distribute part of the general reserve to members, with the actual distribution to be made only after the Fund has received satisfactory assurances that resources equal to a minimum threshold are being provided by members as new PRGT subsidy contributions.

15. **As noted earlier, during the September 2011 discussion on the use of gold profits, Executive Directors broadly supported establishing a minimum contribution threshold equal to 90 percent of the distribution amount**. Thus, the distribution would be effected once satisfactory assurances have been received from the membership that new PRGT subsidy contributions equivalent to SDR 630 million would be made. The Managing Director would inform the Executive Board once these assurances have been received and at that time the actual distribution would be effected. The time within which the distribution would be effected is highly uncertain, as staff cannot predict the pace at which members will provide satisfactory assurances of PRGT contributions in the minimum amount contemplated.

D. Modalities for the Distribution and Receipt of Contributions for PRGT Subsidy Purposes

16. **As noted, it is proposed that the distribution be effected using modalities similar to those used in the context of the partial distribution of the SCA-1 to facilitate the financing of debt relief for Liberia**. As in the Liberia example, there would thus be a number of options to facilitate members' contributions of PRGT subsidy resources equivalent to their share in the distribution. Specifically, it is proposed that:

- Members be given the option to instruct the Fund to transfer their share in the distribution directly to the General Subsidy Account of the PRGT or to one of three facility-specific subsidy accounts (the ECF Subsidy Account, the SCF Subsidy Account, and the RCF Subsidy Account) as a contribution from the member;

[16] Funding of the enhanced HIPC Initiative also involved a similar structure, pursuant to which the then Second Special Contingent Account or SCA-2 (which had been maintained by the Fund for prudential purposes) was liquidated and resources equivalent to SDR 1 billion distributed to members, with the expectation that members would return broadly equivalent amounts as PRG-HIPC Trust contributions.

- A new administered account, the Interim Administered Account for Windfall Gold Sales Profits (the "Administered Account"), be established pursuant to Article V, Section 2(b) to facilitate subsidy contributions to the PRGT in the context of the partial distribution of the general reserve.[17] (The Attachment to the proposed decision contains the Instrument to Establish the Administered Account, which sets out the key terms regarding its operation.) The purpose of the account would be to temporarily hold members' distributions, upon their request, pending the resolution of the domestic processes needed to enable these members to make PRGT subsidy contributions. At the member's request, its share of the distribution could then be transferred directly from the Administered Account to one or more of the PRGT subsidy accounts. The Fund would authorize the use of SDRs in connection with the operations of the Administered Account. As with the similar transitional account used in the Liberia operation, the Administered Account would remain open for three years, or until such time as there are no contributor resources remaining in the account, whichever is earlier; and its resources could also be invested, at the discretion of the Managing Director, following the same investment authority and procedures as resources held in the PRG Trust. The Administered Account would be subject to a number of additional terms that are standard for similar financial services accounts administered by the Fund;

- Members could choose to have their share in the distribution paid directly to them before they make new contributions to finance PRGT subsidies. Members could also indicate that they do not wish to contribute any portion of their share of the distribution towards PRGT subsidies;

- Members could specify that their share of the distribution be allocated towards more than one of the above purposes; and

- Members that do not respond by the date of the distribution will by default receive their share of the distribution through a deposit to their SDR account.

17. **The Board would be notified before the distribution becomes effective**. In particular, paragraph 5 of the decision provides that all of the key terms of the decision—including paragraph 3, which provides for the distribution; paragraph 4, which deals with the transfer from the Investment Account; and paragraph 1, which provides for establishment of the Administered Account—shall become effective only when the Managing Director has provided notification to the Executive Board that, in her assessment, satisfactory financing assurances exist regarding the availability of at least SDR 630 million for new subsidy contributions to the PRGT. In assessing that satisfactory assurances are in place, the Managing Director would take into account (i) the amounts that members have requested in writing be transferred as PRGT subsidy

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[17] A member has formally requested establishment of the Administered Account.

contributions from their share of the distribution; (ii) the amount of other new contributions that members have provided as PRGT subsidy contributions in light of the decision; and (iii) the amount of other PRGT contributions that members have given written assurances that they will provide in light of the decision.

18. **Following approval of the decision, all members will receive a letter from the Managing Director seeking their commitment that distributed resources or broadly equivalent amounts would be contributed for PRGT subsidies**. Model communications that members could use to convey their preferences regarding options summarized above are set forth in Appendix I of this paper. Staff will periodically update the Executive Board regarding progress towards obtaining satisfactory assurances of PRGT contributions in the minimum amount specified in the decision. As discussed above, the Board would also be notified in any event prior to the distribution becoming effective, as required under paragraph 5 of the decision.

III. PROPOSED DECISION

Accordingly, the following decision, which may be adopted by a 70 percent majority of the total voting power, is proposed for adoption by the Executive Board:

1. Pursuant to Article V, Section 2(b), the Fund adopts the *Instrument to Establish the Interim Administered Account for Windfall Gold Sales Profits* (the “Administered Account”) that is attached to this decision.

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

(a) an SDR Department participant or prescribed holder, by agreement with an SDR Department participant or prescribed holder and at the instruction of the Fund, may transfer SDRs to that participant or prescribed holder in effecting a transfer to or from the Administered Account or in effecting a payment due to or by the Fund in connection with financial operations under the Administered Account.

(b) Operations pursuant to these prescriptions shall be recorded in accordance with Rule P-9.

3. Pursuant to Article XII, Section 6(d), an amount equivalent to SDR 0.7 billion of the general reserve shall be distributed to all members in proportion to their quotas. The payment of the distribution shall be made in SDRs or, if the Fund or a member so decides, in the member's own currency, provided that payment to a member with overdue repurchase obligations in the General Resources Account shall be made in the member's own currency.

4. In accordance with Article XII, Section 6(f)(vi) and Article XII, Section 6(f)(ix), the Fund decides to reduce the amount of investment in the Investment Account by an amount equivalent to SDR 0.7 billion and to transfer the proceeds from this reduction to the General Resources Account for immediate use in the Fund's operations and transactions.

5. Paragraphs 1 through 4 above shall become effective when the Managing Director has notified the Executive Board that, in her assessment, satisfactory financing assurances exist regarding the availability of at least SDR 630 million for new subsidy contributions to the Poverty Reduction and Growth Trust based upon: (a) the amount that members have requested in writing be transferred as subsidy contributions to the PRGT from their share in the partial distribution of the general reserve provided for in paragraph 3 of this decision; (b) the amount of other new contributions that members have provided as subsidy contributions to the PRGT in light of this decision; and (c) the amount of other subsidy contributions that members have given written assurances that they will provide to the PRGT in light of this decision.

6. Paragraph 1(b) of the decision on Attribution of Reductions in Fund’s Holdings of Currencies, Decision No. 6831-(81/65), adopted April 22, 1981 and effective May 1, 1981, as amended, shall be amended to read as follows:

> “(b) For a member with overdue repurchase obligations, the reduction shall be attributed to any obligation to repurchase.”

ATTACHMENT

Instrument to Establish the "Interim Administered Account for Windfall Gold Sales Profits"

To help fulfill its purposes, the International Monetary Fund (the "Fund") has adopted this Instrument to establish the Interim Administered Account for Windfall Gold Sales Profits in accordance with Article V, Section 2(b) (the "Account"), which shall be governed and administered by the Fund in accordance with the terms and conditions of this Instrument.

1. The purpose of the Account is to serve as an interim vehicle for the holding and administration of contributions representing all or a portion of members' shares of the partial distribution the general reserve provided for in Decision No. 15092, pending instruction from each such contributing member as to the subsequent disposition of its share of such resources.

2. The SDR shall be the unit of account. Resources provided to the Account shall be in SDRs or currencies as paid to the relevant contributing member by the Fund in the context of the distribution of the general reserve provided for in Decision No. 15092.

3. Upon the instruction of a contributing member, the Fund shall transfer all or part of the resources in the Account that are attributable to that member, including the member's pro rata share of any investment returns, to one or more of the Subsidy Accounts of the Poverty Reduction and Growth Trust (PRGT), or as otherwise specified by the member.

4. The resources held in the Account and not immediately needed for operations of the Account shall be invested at the discretion of the Managing Director. Investments pursuant to this paragraph may be made in any of the following: (i) marketable obligations issued by international financial organizations and denominated in SDRs or in the currency of a member of the Fund, (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member, and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member.

5. The assets held in the Account shall be kept separate from the assets and property of all other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet any liabilities, obligations or losses incurred in the administration of the Account; nor shall the assets of the Account be used to discharge or meet any liabilities, obligations or losses incurred in connection with any such other accounts of, or administered by, the Fund.

6. The Fund shall maintain separate financial records and prepare financial statements for the Account. The financial statements for the Account shall be expressed in SDRs and prepared in accordance with International Financial Reporting Standards.

7. The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions of the Account. The audit shall relate to the financial year of the Fund.

8. The Fund shall report on the assets and property and on the operations and transactions of the Account in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the audit report of the external audit firm on the Account.

9. Subject to the provisions of this Instrument, the Fund, in administering the Account, shall apply, *mutatis mutandis,* the same rules and procedures as apply to operations of the General Resources Account of the Fund.

10. The Managing Director is authorized (a) to make all arrangements, including the establishment of accounts in the name of the Fund, with such depositories as she deems necessary to carry out the operations of the Account, and (b) to take all other measures he deems necessary to implement the provisions of this Instrument.

11. No charge shall be levied in respect of the services rendered by the Fund in the administration, operation, and termination of this Account. All investment costs, including but not limited to costs associated with the exchange of currencies, purchase of securities, and hiring of external asset managers and custodian banks, shall be borne by, and deducted from, the Account.

12. The Account shall be terminated (a) three years from the effective date of the decision adopting this Instrument, or (b) as promptly as practicable following the receipt of instructions from every contributing member regarding the distribution of its resources in the Account, whichever is earlier. In the event of termination pursuant to (a) above, each Participant with resources remaining in the Account at the time of termination shall have paid in full to it the amount of such resources.

13. The provisions of this Instrument may be amended by a decision of the Fund and with the concurrence of each contributing member with resources remaining in the Account at the time of such decision.

14. Any questions arising under this Instrument between a contributing member and the Fund shall be settled by mutual agreement between the contributing member and the Fund.

APPENDIX I: Sample Communications from Participants

Sample Communication No. 1

(To be sent by a member who requests transfer to one or more of the PRGT Subsidy Accounts of its portion in the distribution of the general reserve contemplated in the proposed decision)

Pursuant to the decision set forth in EBS/11/---, [Member] hereby requests the transfer to the PRGT General Subsidy Account [OR the ECF Subsidy Account, OR the SCF Subsidy Account, OR the RCF Subsidy Account of the Poverty Reduction and Growth Trust] of all [a portion] of its share in the distribution of the general reserve that is covered by the terms of that decision.

Sample Communication No. 2

(To be sent by a member who requests transfer to the Interim Administered Account for Windfall Gold Sales Profits of its portion in the distribution of the general reserve contemplated in the proposed decision)

Pursuant to the decision set forth in EBS/11/---, [Member] hereby requests the transfer to the Interim Administered Account for Windfall Gold Sales Profits of all [a portion] of its share in the partial distribution of the general reserve that is covered by the terms of that decision.

Sample Communication No. 3

(To be sent by a member who does NOT wish to request transfer to the PRGT or the Interim Administered Account for Windfall Gold Sales Profits of its portion in the distribution of the general reserve contemplated in the proposed decision)

When the decision set forth in EBS/11/--- becomes effective, please transfer to [Member's] SDR Account [or any account designated for currencies, where applicable] its share in the distribution of the general reserve that is covered by the terms of that decision. [In light of this distribution [Member] pledges to provide to the PRGT General Subsidy Account [OR the ECF Subsidy Account, OR the SCF Subsidy Account, OR the RCF Subsidy Account of the Poverty Reduction and Growth Trust] an amount equivalent to this distribution [OR to SDR -------].]

ANNEX. STATUS OF PRGT FUND-RAISING EFFORTS

1. **In the discussions leading up to the reform of the Fund's concessional financing framework in 2009, staff estimated that SDR 2.5 billion in end-2008 NPV terms would be needed to fully subsidize PRGT lending of up to SDR 11.3 billion from 2009 through 2014**. New PRGT commitments have totaled SDR 4.9 billion in the period 2009–11, leaving a lending capacity of about SDR 2.1 billion per year for 2012–14, assuming the agreed 2009 financing package is completed. This level of capacity remains necessary to provide scope for PRGT commitments to rise significantly to meet possible needs associated with uncertain global economic developments, while allowing self-sustained subsidization of the PRGT to commence in 2015 at an annual capacity of about SDR 0.7 billion.[18]

2. **With available resources at the time of SDR 1.0 billion, *additional subsidy-resources* of at least SDR 1.5 billion needed to be mobilized**. The Board agreed on a financing package comprising a combination of sources that broadly covered this target[19] (Table 1):

- A transfer of resources from the PRGT Reserve Account (up to SDR 0.62 billion);
- New bilateral contributions (SDR 0.2–0.4 billion);
- Delaying reimbursement to the GRA for PRGT administrative costs for three financial years, FY 2010–12 (SDR 0.15–0.20 billion) and instead transferring equivalent amounts from the PRGT Reserve Account to the General Subsidy Account of PRGT; and
- Use of resources linked to gold sale profits as part of a strategy to facilitate bilateral contributions (SDR 0.5–0.6 billion, after an assumed leakage of 10 percent from the distribution to members of SDR 0.6–0.7 billion linked to gold sale profits).

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[18] See *Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Member Countries* (9/13/11).

[19] See IMF Factsheet: *Financing the Fund's Concessional Lending to Low-Income Countries* (9/23/11).

Table 1. Subsidy Needs and Possible Sources of Financing
(In billions of SDRs; end-2008 NPV terms)

Subsidy requirements	**2.5**
Minus: available resources	1.0
Remaining needs	**1.5**
Possible sources	
Transfer from PRGF-ESF Reserve Account	0.62
New bilateral contributions	0.20-0.40
Delaying PRGF-ESF reimbursement (for 3 years)	0.15-0.20
Gold sales resources 1/	0.50-0.60

1/ After assumed leakage of 10 percent of the distribution of gold sales.

3. **The PRGT Trust Instrument has been amended to allow for the transfer of resources from the *Reserve Account* to the PRGT General Subsidy Account**. The transfer of up to SDR 0.62 billion will take place when these subsidy resources are needed, currently projected to be around end-2012. In addition, following the 2009 Board decision, the estimated *costs of administering* the PRGT of SDR 38.4 million in FY 2010 and SDR 46.4 million in FY 2011 have already been transferred from the Reserve Account to the PRGT General Subsidy Account. A final transfer for FY 2012 is expected to take place in April or May 2012, and could be of a similar magnitude to previous years.

4. **Significant progress has been made in securing *additional bilateral subsidy resources* for the PRGT**. Total commitments now exceed the minimum threshold of SDR 0.2 billion that had been sought under the 2009 financing reform package. Since the 2011 Annual Meetings, pledges have been received from Japan and the United Kingdom for contributions of SDR 28.8 million and SDR 19.8 million, respectively. As a result of these new pledges, 25 members have now pledged to contribute a total of SDR 202.8 million (Table 2). In addition, the staff continues to discuss the modalities of possible bilateral contributions from other donors and these contributions remain very important as part of the multilateral effort to support the Fund's concessional lending capacity.

Table 2. New Subsidy Commitments to the PRGT
(In millions of currency units; as of end-December, 2011)

		Contributions pledged		
		Amount	SDR equivalent	
1	Algeria	SDR 2.3	2.3	
2	Argentina	SDR 3.9	3.9	
3	Australia	A$30	17.6	
4	Austria	SDR 3.9	3.9	
5	Botswana	SDR 0.2	0.2	1/
6	Canada	CAN$40 and SDR 2.8	28.0	
7	China	SDR 17.5	17.5	1/
8	Denmark	DKK 30	3.6	
9	Italy	SDR 22.1	22.1	
10	Japan	SDR 28.8	28.8	
11	Korea	SDR 8.8	8.8	
12	Kuwait	US$3.9	2.6	
13	Malta	SDR 0.2	0.2	
14	Morocco	SDR 1.1	1.1	1/
15	Netherlands	SDR 9.5	9.5	
16	Peru	SDR 1.2	1.2	1/
17	Philippines	SDR 1.9	1.9	
18	Qatar	SDR 0.6	0.6	
19	South Africa	SDR 3.4	3.4	
20	Spain	SDR 9.0	9.0	
21	Sweden	SEK 50	4.7	2/
22	Switzerland	SFr 16	11.0	2/
23	Trinidad and Tobago	SDR 0.6	0.6	
24	United Kingdom	SDR 19.8	19.8	
25	Uruguay	SDR 0.6	0.6	1/
	Total		**202.8**	

1/ Reflecting net investment income (in end-2008 NPV terms) to be generated from investment agreements.

2/ Calculated using the exchange rates as of December 31, 2011.

5. **Good progress has also been made in securing new loan resources, though there is some way to go to reach the target**. Fourteen members have pledged SDR 9.8 billion in new loan resources for the PRGT, compared to the target of SDR 10.8 billion under the 2009 financing package (Table 3).

Table 3. New Commitments of Loan Resources to the PRGT 1/

(In millions of SDRs; as of end-December, 2011)

	Amount	Effective Date	Media	Type	Account
Effective	**9,461**				
Canada	500	3/5/2010	USD	Loan	GLA
China	800	9/3/2010	SDR	NPA	ECF
Denmark	200	1/28/2010	USD	Loan	GLA
France	1,328	9/3/2010	SDR	Loan	ECF
Italy	800	4/18/2011	SDR	Loan	ECF
Japan	1,800	9/3/2010	SDR	NPA	GLA
Korea	500	1/7/2011	SDR	Loan	GLA
Netherlands	500	7/27/2010	EUR	Loan	GLA
Norway	300	6/25/2010	USD	Loan	SCF, RCF
Saudi Arabia	500	5/13/2011	SDR	Loan	GLA
Spain	405	12/17/2009	SDR	Loan	GLA
Switzerland	500	4/21/2011	EUR	Loan	GLA
U.K.	1,328	9/3/2010	SDR	NPA	GLA
Pledged	**350**				
Belgium	350				
Total	**9,811**				

1/ Germany (KfW) made a pledge of SDR 1.53 billion. As mutually acceptable lending terms could not be agreed, it is excluded from the total.

Appendix Table. Possible Distribution of Gold Sale Windfall of SDR 700 million to Fund Members
(In millions of SDRs)

Member	Quota 1/	Percent of Total Quota	Possible Distribution 2/
Afghanistan, Islamic Republic of	161.9	0.07	0.48
Albania	60.0	0.03	0.18
Algeria	1,254.7	0.53	3.69
Angola	286.3	0.12	0.84
Antigua and Barbuda	13.5	0.01	0.04
Argentina	2,117.1	0.89	6.23
Armenia	92.0	0.04	0.27
Australia	3,236.4	1.36	9.52
Austria	2,113.9	0.89	6.22
Azerbaijan	160.9	0.07	0.47
Bahamas, The	130.3	0.05	0.38
Bahrain	135.0	0.06	0.40
Bangladesh	533.3	0.22	1.57
Barbados	67.5	0.03	0.20
Belarus	386.4	0.16	1.14
Belgium	4,605.2	1.94	13.55
Belize	18.8	0.01	0.06
Benin	61.9	0.03	0.18
Bhutan	6.3	0.003	0.02
Bolivia	171.5	0.07	0.50
Bosnia and Herzegovina	169.1	0.07	0.50
Botswana	87.8	0.04	0.26
Brazil	4,250.5	1.79	12.50
Brunei Darussalam	215.2	0.09	0.63
Bulgaria	640.2	0.27	1.88
Burkina Faso	60.2	0.03	0.18
Burundi	77.0	0.03	0.23
Cambodia	87.5	0.04	0.26
Cameroon	185.7	0.08	0.55
Canada	6,369.2	2.68	18.73
Cape Verde	9.6	0.004	0.03
Central African Republic	55.7	0.02	0.16
Chad	66.6	0.03	0.20
Chile	856.1	0.36	2.52
China	9,525.9	4.00	28.02
Colombia	774.0	0.33	2.28
Comoros	8.9	0.004	0.03
Congo, Democratic Republic of the	533.0	0.22	1.57
Congo, Republic of	84.6	0.04	0.25
Costa Rica	164.1	0.07	0.48
Côte d'Ivoire	325.2	0.14	0.96
Croatia	365.1	0.15	1.07
Cyprus	158.2	0.07	0.47
Czech Republic	1,002.2	0.42	2.95
Denmark	1,891.4	0.79	5.56
Djibouti	15.9	0.01	0.05
Dominica	8.2	0.003	0.02
Dominican Republic	218.9	0.09	0.64
Ecuador	347.8	0.15	1.02

Appendix Table (continued). Possible Distribution of Gold Sale Windfall of SDR 700 million to Fund Members
(In millions of SDRs)

Member	Quota 1/	Percent of Total Quota	Possible Distribution 2/
Egypt	943.7	0.40	2.78
El Salvador	171.3	0.07	0.50
Equatorial Guinea	52.3	0.02	0.15
Eritrea	15.9	0.01	0.05
Estonia	93.9	0.04	0.28
Ethiopia	133.7	0.06	0.39
Fiji, Republic of	70.3	0.03	0.21
Finland	1,263.8	0.53	3.72
France	10,738.5	4.51	31.58
Gabon	154.3	0.06	0.45
Gambia, The	31.1	0.01	0.09
Georgia	150.3	0.06	0.44
Germany	14,565.5	6.12	42.84
Ghana	369.0	0.16	1.09
Greece	1,101.8	0.46	3.24
Grenada	11.7	0.005	0.03
Guatemala	210.2	0.09	0.62
Guinea	107.1	0.05	0.32
Guinea-Bissau	14.2	0.01	0.04
Guyana	90.9	0.04	0.27
Haiti	81.9	0.03	0.24
Honduras	129.5	0.05	0.38
Hungary	1,038.4	0.44	3.05
Iceland	117.6	0.05	0.35
India	5,821.5	2.45	17.12
Indonesia	2,079.3	0.87	6.12
Iran, Islamic Republic of	1,497.2	0.63	4.40
Iraq	1,188.4	0.50	3.50
Ireland	1,257.6	0.53	3.70
Israel	1,061.1	0.45	3.12
Italy	7,882.3	3.31	23.18
Jamaica	273.5	0.11	0.80
Japan	15,628.5	6.57	45.97
Jordan	170.5	0.07	0.50
Kazakhstan	365.7	0.15	1.08
Kenya	271.4	0.11	0.80
Kiribati	5.6	0.002	0.02
Korea	3,366.4	1.41	9.90
Kosovo	59.0	0.02	0.17
Kuwait	1,381.1	0.58	4.06
Kyrgyz Republic	88.8	0.04	0.26
Lao People's Democratic Republic	52.9	0.02	0.16
Latvia	142.1	0.06	0.42
Lebanon	266.4	0.11	0.78
Lesotho	34.9	0.01	0.10
Liberia	129.2	0.05	0.38
Libya	1,123.7	0.47	3.31
Lithuania	183.9	0.08	0.54
Luxembourg	418.7	0.18	1.23

Appendix Table (continued). Possible Distribution of Gold Sale Windfall of SDR 700 million to Fund Members
(In millions of SDRs)

Member	Quota 1/	Percent of Total Quota	Possible Distribution 2/
Macedonia, former Yugoslav Republic of	68.9	0.03	0.20
Madagascar	122.2	0.05	0.36
Malawi	69.4	0.03	0.20
Malaysia	1,773.9	0.75	5.22
Maldives	10.0	0.004	0.03
Mali	93.3	0.04	0.27
Malta	102.0	0.04	0.30
Marshall Islands	3.5	0.001	0.01
Mauritania	64.4	0.03	0.19
Mauritius	101.6	0.04	0.30
Mexico	3,625.7	1.52	10.66
Micronesia, Federated States of	5.1	0.002	0.02
Moldova	123.2	0.05	0.36
Mongolia	51.1	0.02	0.15
Montenegro	27.5	0.01	0.08
Morocco	588.2	0.25	1.73
Mozambique	113.6	0.05	0.33
Myanmar	258.4	0.11	0.76
Namibia	136.5	0.06	0.40
Nepal	71.3	0.03	0.21
Netherlands	5,162.4	2.17	15.18
New Zealand	894.6	0.38	2.63
Nicaragua	130.0	0.05	0.38
Niger	65.8	0.03	0.19
Nigeria	1,753.2	0.74	5.16
Norway	1,883.7	0.79	5.54
Oman	237.0	0.10	0.70
Pakistan	1,033.7	0.43	3.04
Palau	3.1	0.001	0.01
Panama	206.6	0.09	0.61
Papua New Guinea	131.6	0.06	0.39
Paraguay	99.9	0.04	0.29
Peru	638.4	0.27	1.88
Philippines	1,019.3	0.43	3.00
Poland	1,688.4	0.71	4.97
Portugal	1,029.7	0.43	3.03
Qatar	302.6	0.13	0.89
Romania	1,030.2	0.43	3.03
Russian Federation	5,945.4	2.50	17.49
Rwanda	80.1	0.03	0.24
Samoa	11.6	0.005	0.03
San Marino	22.4	0.01	0.07
São Tomé and Príncipe	7.4	0.003	0.02
Saudi Arabia	6,985.5	2.94	20.55
Senegal	161.8	0.07	0.48
Serbia	467.7	0.20	1.38
Seychelles	10.9	0.005	0.03
Sierra Leone	103.7	0.04	0.31

Appendix Table (continued). Possible Distribution of Gold Sale Windfall of SDR 700 million to Fund Members
(In millions of SDRs)

Member	Quota 1/	Percent of Total Quota	Possible Distribution 2/
Singapore	1,408.0	0.59	4.14
Slovak Republic	427.5	0.18	1.26
Slovenia	275.0	0.12	0.81
Solomon Islands	10.4	0.004	0.03
Somalia	44.2	0.02	0.13 3/
South Africa	1,868.5	0.79	5.50
Spain	4,023.4	1.69	11.83
Sri Lanka	413.4	0.17	1.22
St. Kitts and Nevis	8.9	0.004	0.03
St. Lucia	15.3	0.01	0.05
St. Vincent and the Grenadines	8.3	0.003	0.02
Sudan	169.7	0.07	0.50 3/
Suriname	92.1	0.04	0.27
Swaziland	50.7	0.02	0.15
Sweden	2,395.5	1.01	7.05
Switzerland	3,458.5	1.45	10.17
Syrian Arab Republic	293.6	0.12	0.86
Tajikistan	87.0	0.04	0.26
Tanzania	198.9	0.08	0.59
Thailand	1,440.5	0.61	4.24
Timor-Leste	8.2	0.003	0.02
Togo	73.4	0.03	0.22
Tonga	6.9	0.003	0.02
Trinidad and Tobago	335.6	0.14	0.99
Tunisia	286.5	0.12	0.84
Turkey	1,455.8	0.61	4.28
Turkmenistan	75.2	0.03	0.22
Tuvalu	1.8	0.001	0.01
Uganda	180.5	0.08	0.53
Ukraine	1,372.0	0.58	4.04
United Arab Emirates	752.5	0.32	2.21
United Kingdom	10,738.5	4.51	31.58
United States	42,122.4	17.70	123.89
Uruguay	306.5	0.13	0.90
Uzbekistan	275.6	0.12	0.81
Vanuatu	17.0	0.01	0.05
Venezuela, República Bolivariana de	2,659.1	1.12	7.82
Vietnam	460.7	0.19	1.36
Yemen, Republic of	243.5	0.10	0.72
Zambia	489.1	0.21	1.44
Zimbabwe	353.4	0.15	1.04
Total	**237,993.4**	**100.00** 4/	**700.00**

1/ Quota as per January 31, 2012.

2/ The exact amount of the distribution will depend on the quota shares as of the time of the distribution. For current quota see: http://www.imf.org/external/np/sec/memdir/members.aspx.

3/ Owing to member's overdue repurchase obligations to the Fund, proposed distribution would be made in the member's own currency and the use of the member's currency would be attributed to Fund holdings of the member's currency subject to repurchase.

4/ This figure may differ from the sum of the percentages shown for individual countries because of rounding.