

**Subsidization of the Fund's Emergency Assistance for Natural Disasters to PRGF-Eligible Members**

The following documents have been published and are included in this package:

- Subsidization of the Fund's Emergency Assistance for Natural Disasters to PRGF, January 10, 2005
- Public Information Notice summarizing the views of the Executive Board as expressed during its January 21, 2005 discussion of this paper.

The views expressed in the paper are those of the staff and do not necessarily reflect the views of the Executive Board of the IMF. The Executive Board's assessment is summarized in the Public Information Notice. Some country-specific or market-sensitive information may have been deleted, as allowed by the IMF's publication policy.

INTERNATIONAL MONETARY FUND

**SUBSIDIZATION OF THE FUND'S EMERGENCY ASSISTANCE FOR NATURAL DISASTERS TO PRGF-ELIGIBLE MEMBERS**

Prepared by the Finance, Legal, and Policy Development and Review Departments

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January 10, 2005

**I. INTRODUCTION**

1. At the March 31, 2004 discussion of the Fund's support for low-income member countries,<sup>1</sup> most Executive Directors saw the benefit of subsidizing emergency assistance for natural disasters to PRGF-eligible members, provided resources are available, and asked that staff prepare specific proposals on implementation.

2. **This paper sets out the proposed modalities for subsidizing emergency natural disaster assistance to PRGF-eligible members.** Specifically, it proposes expanding the scope of the administered account established to subsidize emergency post-conflict assistance (EPCA) to PRGF-eligible members (the "Account")<sup>2</sup> to also subsidize the rate of charge on purchases under emergency assistance for natural disasters. The Instrument establishing the administered account would need to be amended accordingly.<sup>3</sup> Under the proposal, existing contributions for EPCA would be placed in a sub-account within the Account to continue to provide subsidies only for that purpose. The paper also provides preliminary estimates of subsidy needs for natural disaster assistance, which could amount to SDR 45-65 million over the next five years. These needs would need to be met through new bilateral contributions.

3. **The paper is organized as follows.** Section II provides background information on emergency assistance for natural disasters. Section III briefly reviews relevant aspects of the experience with subsidization of EPCA, while Section IV discusses the proposed extension

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<sup>1</sup> *The Acting Chair's Summing Up—The Fund's Role in Low-Income Member Countries—Considerations on Instruments and Financing* (BUFF/04/69, 4/7/04).

<sup>2</sup> See *Establishment of an Administered Account to Subsidize the Fund's Post-Conflict Emergency Assistance to PRGF-Eligible Members* (EBS/01/63, 4/27/01).

<sup>3</sup> The Instrument to establish the existing account is reproduced in the attachment.

of subsidization to natural disaster assistance. Section V discusses the modification of the existing administered account to accommodate the subsidization of both types of emergency assistance, as well as the handling of existing contributions. A draft decision effecting the necessary changes to the existing instrument, which may be taken by a majority of the votes cast, is proposed in Section VI.<sup>4</sup>

## II. EMERGENCY ASSISTANCE FOR NATURAL DISASTERS

4. **The Fund has a longstanding policy of providing emergency financial assistance to members adversely affected by natural disasters.** The provision of such assistance dates back to the early 1960s; specific guidelines were adopted in 1982 and these guidelines were reviewed again in 1989.<sup>5</sup> In 2000, emergency assistance for both natural disasters and post-conflict cases was converted into a special policy.<sup>6</sup> Under the current framework:

(i) emergency natural disaster assistance is provided in the form of outright purchases when a member cannot meet its immediate balance of payments financing needs arising from a natural disaster without serious depletion of its external reserves; (ii) the amount of resources is limited to the equivalent of 25 percent of quota, with larger amounts available only in exceptional cases; (iii) the emergency purchase is taken into consideration in determining the amount of support under a subsequent stand-by or extended arrangement; and (iv) a request for emergency assistance requires a statement of economic policies that the member intends to pursue to address its balance of payments difficulties. The request is granted if the Fund is satisfied that the member would cooperate in finding a solution to its balance of payments difficulties.

5. Since the inception of the policy, provision of Fund assistance for natural disasters has been relatively infrequent (Table 1). Emergency natural disaster assistance has been provided to 24 members on 27 occasions since 1962, on average roughly once every 19 months. The timing of such emergency assistance has been uneven, with no assistance provided in more than half of the years since 1962, but 5 drawings in 1998 alone. In most

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<sup>4</sup> The revised Instrument can be found as part of the proposed decision.

<sup>5</sup> *Fund Policies with Regard to Emergency Assistance Related to Natural Disasters* (SM/82/7, 1/8/82), *The Chairman's Concluding Remarks* (EBM/82/16, 2/10/82), and *Review of Fund Policies with Regard to Emergency Assistance Related to Natural Disasters* (EBS/89/69, 4/13/89).

<sup>6</sup> Decision No. 12341-(00/117), November 28, 2000.

**Table 1. History of IMF Emergency Assistance, 1962 to 2004**

| Country                          | Year | Event         | Purchases           |   |
|----------------------------------|------|---------------|---------------------|---|
|                                  |      |               | In millions of SDRs | In percent of Quota at the time of the purchase |
| <b>1. Natural Disasters (27)</b> |      |               |                     |   |
| Egypt *                          | 1962 | Crop failure  | 22.4                | 24.9  |
| Yugoslavia *                     | 1963 | Earthquake    | 30.0                | 25.0  |
| India                            | 1966 | Drought       | 187.5               | 25.0  |
| Nicaragua                        | 1973 | Earthquake    | 12.0                | 44.4  |
| Chad                             | 1974 | Drought       | 2.8                 | 21.5  |
| Dominica                         | 1979 | Hurricane     | 1.0                 | 50.0  |
| Dominican Republic *             | 1979 | Hurricane     | 23.3                | 42.3  |
| St. Lucia                        | 1980 | Hurricane     | 1.8                 | 50.0  |
| St. Vincent and the Grenadines   | 1980 | Hurricane     | 0.4                 | 25.0  |
| Yemen, P.D.R.                    | 1982 | Floods        | 15.4                | 25.0  |
| Yemen, Arab Republic             | 1983 | Earthquake    | 9.8                 | 50.3  |
| Madagascar                       | 1986 | Cyclone       | 16.6                | 25.0  |
| Mexico *                         | 1986 | Earthquake    | 291.4               | 25.0  |
| Solomon Islands                  | 1986 | Cyclone       | 1.3                 | 25.0  |
| Ecuador *                        | 1987 | Earthquake    | 37.7                | 25.0  |
| Bangladesh                       | 1988 | Floods        | 71.9                | 25.0  |
| Jamaica *                        | 1989 | Hurricane     | 36.4                | 25.0  |
| Pakistan                         | 1992 | Floods        | 189.6               | 25.0  |
| Bangladesh                       | 1998 | Floods        | 98.1                | 25.0  |
| Dominican Republic *             | 1998 | Hurricane     | 39.7                | 25.0  |
| Haiti                            | 1998 | Hurricane     | 15.2                | 25.0  |
| Honduras                         | 1998 | Hurricane     | 47.5                | 50.0  |
| St. Kitts and Nevis *            | 1998 | Hurricane     | 1.6                 | 25.0  |
| Turkey *                         | 1999 | Earthquake    | 361.5               | 37.5  |
| Malawi                           | 2002 | Food shortage | 17.4                | 25.0  |
| Grenada                          | 2003 | Hurricane     | 2.9                 | 25.0  |
| Grenada                          | 2004 | Hurricane     | 2.9                 | 25.0  |
| <b>Total</b>                     |      |               | <b>1,537.8</b>      |   |
| <b>2. Post-conflict (18)</b>     |      |               |                     |   |
| Bosnia and Herzegovina *         | 1995 | Post Conflict | 30.3                | 25.0  |
| Albania                          | 1997 | Post Conflict | 8.8                 | 25.0  |
| Rwanda                           | 1997 | Post Conflict | 8.9                 | 15.0  |
| Rwanda                           | 1997 | Post Conflict | 6.0                 | 10.0  |
| Tajikistan                       | 1997 | Post Conflict | 7.5                 | 12.5  |
| Tajikistan                       | 1998 | Post Conflict | 7.5                 | 12.5  |
| Congo, Republic of               | 1998 | Post Conflict | 7.2                 | 12.5  |
| Sierra Leone                     | 1998 | Post Conflict | 11.6                | 15.0  |
| Guinea-Bissau                    | 1999 | Post Conflict | 2.1                 | 15.0  |
| Sierra Leone                     | 1999 | Post Conflict | 15.6                | 15.0  |
| Guinea-Bissau                    | 2000 | Post Conflict | 1.4                 | 10.0  |
| Sierra Leone                     | 2000 | Post Conflict | 10.4                | 10.0  |
| Congo, Republic of               | 2000 | Post Conflict | 10.6                | 12.5  |
| Yugoslavia, Federal Rep. of *    | 2000 | Post Conflict | 116.9               | 25.0  |
| Burundi                          | 2002 | Post Conflict | 9.6                 | 12.5  |
| Burundi                          | 2003 | Post Conflict | 9.6                 | 12.5  |
| Central African Republic         | 2004 | Post Conflict | 5.6                 | 10.0  |
| Iraq *                           | 2004 | Post Conflict | 297.1               | 25.0  |
| <b>Total</b>                     |      |               | <b>566.7</b>        |   |

\* Countries that are not PRGF-eligible.

cases, access amounted to 25 percent of quota, and, in the majority of cases, the total amount disbursed did not exceed SDR 100 million. The exceptions were the large-quota cases of Turkey (1999 earthquake, SDR 361.5 million), Mexico (1986 earthquake, SDR 291.4 million), Pakistan (1992 floods, SDR 189.6 million), and India (1966 drought, SDR 187.5 million). Of these, only the latter two countries—Pakistan and India—are PRGF-eligible.

### III. EXPERIENCE WITH SUBSIDIZATION OF EMERGENCY POST-CONFLICT ASSISTANCE

6. **The Executive Board established an administered account for subsidizing EPCA to PRGF-eligible countries in May 2001.**<sup>7</sup> Directors had agreed that it would be desirable to provide EPCA to low-income countries on concessional terms in the early post-conflict period before the country had moved to a PRGF-supported program, and supported efforts to encourage bilateral donors to provide interest subsidies for this purpose through a multi-donor administered account established by the Fund.<sup>8</sup> Grant contributions made by members to the administered account would be used to subsidize the rate of charge to 0.5 percent per annum, the same interest rate as that charged on PRGF loans.

7. **As of end-2004, grant contributions to subsidize EPCA from seven countries had amounted to SDR 11.2 million** (Table 2).<sup>9 10</sup> Of this amount, SDR 2.1 million has been used to date to subsidize charges on EPCA to eight PRGF-eligible members (most of whom had received EPCA prior to the establishment of the Account but had not yet fully repaid the

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<sup>7</sup> *Establishment of an Administered Account to Subsidize the Fund's Post-Conflict Emergency Assistance to Poverty Reduction and Growth Facility-Eligible Members* (EBS/01/63, 4/27/01); Decision No. 12481-(01/45), May 4, 2001, as amended by Decision No. 12848-(02/94), September 6, 2002; and Decision No. 12482-(01/45) S May 4, 2001.

<sup>8</sup> At the time, some members had already indicated their willingness to consider contributing to such an account (BUFF/01/57, 04/19/01).

<sup>9</sup> Belgium had originally made a pledge of SDR 1.0 million, with this contribution earmarked for subsidizing Burundi's EPCA. After Burundi made an early repurchase in February 2004, Belgium decided not to contribute beyond the SDR 0.6 million that had already been received by the account.

<sup>10</sup> The current cash balance, including accrued interest, stands at SDR 9.4 million.

assistance). Latest staff estimates suggest that the remaining contributions should be sufficient to subsidize EPCA through 2006.<sup>11</sup>

**Table 2. Subsidy Contributions for Post-Conflict Emergency Assistance**  
(In millions; as of end-December 2004)

| Contributor    | Contribution pledged | Date of pledge | SDR equivalent | Contribution received | Subsidy disbursed |
|----------------|----------------------|----------------|----------------|-----------------------|-------------------|
| Belgium        | SDR 0.63             | Mar. 2002      | 0.6            | 0.6                   | 0.3               |
| Canada         | Can\$ 3.25           | Oct. 2002      | 1.7            | 1.7                   | --                |
| Netherlands    | US\$ 2.0             | Mar. 2002      | 1.5            | 1.5                   | --                |
| Norway         | SDR 3.0              | Jun. 2002      | 3.0            | 3.0                   | --                |
| Sweden         | SDR 0.8              | Jan. 2002      | 0.8            | 0.8                   | 0.8               |
| Switzerland    | US\$ 1.0             | Mar. 2002      | 0.8            | 0.8                   | --                |
| United Kingdom | £ 2.5                | Oct. 2001      | 2.9            | 2.9                   | 1.0               |
| <b>Total</b>   |                      |                | <b>11.2</b>    | <b>11.2</b>           | <b>2.1</b>        |

Source: Finance Department.

1/ Belgium has fulfilled its pledge to subsidize Burundi's post-conflict emergency assistance in full, as Burundi made early repurchase in February 2004.

#### IV. SUBSIDIZATION OF EMERGENCY ASSISTANCE FOR NATURAL DISASTERS

8. **The rationale for subsidization of emergency assistance for natural disasters to PRGF-eligible members would be similar to that for EPCA.** It would allow a quick response by the Fund to assist low-income members facing natural disasters on terms that are less likely to contribute to a debt burden than at present. It would also make the terms of such assistance consistent with that for EPCA, though in both cases the concessionality would be less than that for standard PRGF arrangements, reflecting the longer repayment terms on the latter. For those PRGF-eligible members with current PRGF arrangements, therefore, emergency assistance in response to natural disasters would be expected to continue to be handled primarily through augmentation of the existing arrangement.<sup>12</sup> No changes are proposed to the guidelines governing access to emergency natural disaster assistance.

<sup>11</sup> These projections are based on a forward-looking assessment of when PRGF-eligible countries currently in conflict could be in a position to request EPCA, but are very tentative, particularly with respect to the timing of future requests for assistance.

<sup>12</sup> To date, there have been 12 such augmentations in response to a natural disaster shock.

9. **Unlike EPCA, there would be no presumption that members receiving subsidized assistance would move subsequently to a PRGF arrangement.** The Fund's policy on EPCA effectively provides a bridge to a PRGF arrangement for low-income countries that need time to develop the necessary administrative and institutional capacity to implement a medium-term program that could be supported by a Fund arrangement. Accordingly, EPCA is available only if the member intends to move to a regular Fund arrangement, and scope exists to adjust the level and/or timing of access under that arrangement to allow for an early repurchase of EPCA. In the case of natural disasters, a country may qualify for emergency assistance without necessarily having a need for a successor PRGF arrangement, and thus an explicit link to the latter would not be appropriate. Where a country does move to a successor PRGF arrangement, however, the policy provides that the emergency purchase would be taken into account in determining access under that arrangement. Thus, the country could potentially obtain full or partial replacement of emergency assistance with PRGF resources to avail itself of the higher degree of concessionality.

10. **Subsidization of emergency natural disaster assistance would be subject to the availability of resources.** It is proposed that subsidization of such assistance would be granted upon request, rather than automatically as is the case for EPCA. This would provide an opportunity for the staff to discuss a request for subsidization with members, in particular with members with large quotas where the subsidization of natural disaster assistance could severely limit the availability of subsidy resources for other members. If there are insufficient resources in the Account to subsidize all outstanding purchases for which requests for subsidization have been made, the regime on the pro-rated adjustment of the rate of charge set out in paragraphs 6 (b) and (c) of the Instrument would also apply to emergency assistance for natural disasters.

11. **It is difficult to estimate the contributions needed to subsidize emergency natural disaster assistance with any certainty.** By their very nature, natural disasters are hard to predict, as is the extent to which members encountering natural disasters will request assistance from the Fund. It does seem likely, however, that the amount of subsidies required would be more than for EPCA, given the larger number of countries potentially qualifying for assistance. Using history as a guide, the provision of emergency assistance for natural disasters to PRGF-eligible countries since 1979 (there were relatively few drawings prior to 1979, as shown in Table 1) has averaged SDR 14 million per annum, excluding the largest members.<sup>13</sup> A continuation of demand at a similar level in the future would require subsidies of almost SDR 5 million per annum, adjusted to take into account of the increases in members' quotas (given that access is determined in relation to quota).

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<sup>13</sup> For the purposes of these calculations, members with quotas above SDR 1 billion have been excluded.

12. **However, such a subsidy level is likely to be insufficient given already anticipated demands.** Sri Lanka, severely hit by the recent tsunami disaster, has already requested emergency natural disaster assistance and that this be made available on concessional terms if possible. Other requests are possible and the subsidy needs for addressing this disaster alone could be on the order to SDR 20-40 million over the next five years. A relatively small amount of subsidy resources would also be needed to cover the currently outstanding natural disaster assistance to PRGF-eligible countries.<sup>14</sup> Finally, it could be expected that the provision of subsidies may itself lead to increased demand for natural disaster assistance in the future. On balance, therefore, a reasonable target for resource mobilization to subsidize emergency assistance for natural disasters for the next five years could be in the range of SDR 45-65 million.

#### V. AMENDMENT OF THE INSTRUMENT TO ESTABLISH THE POST-CONFLICT EMERGENCY ASSISTANCE SUBSIDY ACCOUNT FOR PRGF-ELIGIBLE MEMBERS

13. **In order to provide for the subsidization of emergency assistance for natural disasters, it is proposed to amend the Instrument to Establish the Post-Conflict Emergency Assistance Subsidy Account for PRGF-Eligible Members.** This approach—rather than the creation of a new administered account—is proposed to avoid a proliferation of administered accounts and to reduce costs. In addition to expanding the scope of the existing account to include emergency assistance for natural disasters, it is also proposed to create three sub-accounts to facilitate the earmarking of resources:<sup>15</sup>

- the first sub-account for contributions from members wishing to contribute to the subsidization of EPCA only;
- the second sub-account for contributions from members wishing to contribute to the subsidization of emergency natural disaster assistance only; and

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<sup>14</sup> As for EPCA, subsidization of emergency assistance for natural disasters would also be available for those members that have already received, but not yet fully repaid, such assistance. Currently, only two PRGF-eligible members—Grenada and Malawi—have outstanding balances on emergency assistance for natural disasters.

<sup>15</sup> The earmarking of resources could also be achieved through an agreement between the Fund and the contributors, without creating sub-accounts. Creation of sub-accounts, however, allows the continued use of already contributed resources for EPCA for that purpose only, without the need for new agreements between the Fund and the contributors.



- the third sub-account for contributions from members wishing to contribute to the subsidization of emergency assistance, but who do not choose to specifically earmark them for either kind of emergency assistance.

The amended instrument will also authorize the creation of further sub-accounts, if needed, for contributions earmarked for a specific eligible member.

14. **Existing contributions in the administered account would be placed in the first sub-account (earmarked for subsidizing EPCA), unless contributing members specify otherwise.** Specifically, the Fund would contact all currently contributing members and advise them of the fact that their contributions will be placed in the newly created first sub-account, to be used only for the subsidization of EPCA, unless the member advises the Fund otherwise by a specified date.

15. **Once the Account has been modified, the Fund would be in the position to subsidize both forms of emergency assistance for PRGF-eligible countries, provided the necessary resources are forthcoming.** Interested bilateral donors would be encouraged to contribute additional resources to ensure adequate support for those countries adversely affected by natural disasters.

## VI. PROPOSED DECISION

16. The following draft decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

The Instrument to Establish the Post-Conflict Emergency Assistance Subsidy Account for PRGF-Eligible Members shall be amended to read as follows:

### **Instrument to Establish the Post-Conflict and Natural Disaster Emergency Assistance Subsidy Account for PRGF-Eligible Members**

To help fulfill its purposes, the International Monetary Fund (the “Fund”) has adopted this Instrument to establish an account in accordance with Article V, Section 2(b) (the “Account”) which shall be governed by, and administered in accordance with, the following provisions:

*Paragraph 1. Purpose of the Account*

The purpose of the Account shall be the administration and disbursement of resources provided to the Account by Contributors for the subsidization of the rate of charge on post-conflict and natural disaster emergency assistance purchases made by PRGF-eligible members under Decision No. 12341-(00/117), November 28, 2000 (“eligible purchases”). A member is PRGF-eligible if it is included in the list of members annexed to Decision No. 8240-(86/56) SAF.

*Paragraph 2. Sub-accounts*

(a) The Account shall have at least three separate sub-accounts to hold and administer

(i) resources contributed for the subsidization of the rate of charge on post-conflict emergency assistance only;

(ii) resources contributed for the subsidization of the rate of charge on natural disaster emergency assistance only; and

(iii) resources contributed for both the subsidization of the rate of charge on post-conflict emergency and natural disaster emergency assistance.

(b) Further sub-accounts may be established to hold and administer resources for the purposes of the Account contributed for a specific eligible member. Resources contributed to subsidize post-conflict emergency assistance prior to January 21, 2005 will be placed into the sub-account referred to under (i) of this paragraph, unless otherwise specified, by the Contributor, and used only for the subsidization of the rate of charge on post-conflict emergency assistance purchases by eligible members.

*Paragraph 3. Resources of the Account*

The resources held in the Account shall consist of:

(i) grant contributions made to the Account for the purposes of paragraph 1;

(ii) loans, deposits and other types of investments made by Contributors to the Account to generate income to be used for the purposes of paragraph 1; and

(iii) net earnings from the investment of resources held in the Account.

*Paragraph 4. Contributions to the Account*

The Fund may accept contributions of resources to the Account on such terms and conditions as may be agreed between the Fund and the respective Contributors, subject to the provisions of this Account. For this purpose, the Managing Director is authorized to accept grants and enter into loan, deposit or other types of investment agreements with the Contributors to the Account.

*Paragraph 5. Unit of Account*

The SDR shall be the unit of account.

*Paragraph 6. Media of payment of contributions and exchange of resources*

(a) Resources provided to the Account shall be in any freely usable currency or such other media as may be agreed by the Fund and the Contributor.

(b) Resources held in the Account may be currencies or currencies exchanged for SDRs in accordance with such arrangements as may be made by the Fund for holding and use of SDRs.

(c) The Fund may exchange any of the resources held in the Account provided that any balance of a currency held in the Account may be exchanged only with the consent of the issuer of such currency.

(d) Payments made from the Account shall be made in SDRs or such other media as may be determined by the Fund.

*Paragraph 7. Use of the Resources*

(a) The resources of the Account (including any net income from the investment of such resources) shall be used to provide grants to PRGF-eligible members that have made post-conflict and/or natural disaster emergency assistance purchases under Decision No. 12341-(00/117) (“eligible recipients”), in order to subsidize to an annual rate of 0.5 percent the rate of charge payable to the Fund on the Fund’s holding of the member’s currency resulting from those purchases. Only charges payable after the establishment of the Account will be eligible for subsidization. An otherwise eligible recipient will not be eligible for grants under this provision while in arrears to the General Resources Account, the Special Disbursement Account, the SDR Department, or to a Trust administered by the Fund as Trustee. Once arrears are cleared, only charges payable after such clearance will be eligible for subsidization. The subsidization of emergency natural disaster assistance will be provided upon request by eligible recipients.

(b) The grants will be made available to eligible recipients at the same time as quarterly charges on eligible purchases fall due, subject to the availability of adequate resources in the Account, in an amount sufficient to reduce that quarterly rate of charge to 0.5 percent on an

annual basis. If, in any quarter, the resources of the Account are insufficient to subsidize the rate of charge on all eligible purchases to 0.5 percent for that quarter, the subsidy to each eligible recipient shall be pro-rated to bring the effective rate of charge paid after subsidization to the closest common percentage to 0.5 percent.

(c) Earmarked resources contributed to the Account shall be used in accordance with the terms agreed with the Contributor and shall not be taken into consideration in the determination of the grant subsidy under subparagraph (b) above. An eligible recipient beneficiary of earmarked resources shall not receive a lower grant subsidy than provided under subparagraph (b) above.

*Paragraph 8. Authority to Invest Resources in the Account*

(a) Resources held in the Account and not immediately needed for operations of the Account shall be invested at the discretion of the Managing Director, subject to the provisions of subparagraph (c).

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

(c) Investments may be made in any of the following: (i) marketable obligations issued by an international financial organization and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member.

*Paragraph 9. Administration of the Account*

(a) 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 of the Fund 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 by the Fund in the administration of such other accounts.

(b) The Fund shall maintain separate financial records and prepare separate financial statements for the Account. The financial statements for the Account shall be expressed in SDRs and prepared in accordance with International Accounting Standards.

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

(d) The Fund shall report on the resources and position 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.

(e) 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.

*Paragraph 10. Fees*

(a) No charge shall be levied in respect of the services rendered by the Fund in the administration, operation, and termination of this Account.

(b) 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.

*Paragraph 11. Termination*

(a) The Account may be terminated at any time by the Fund.

(b) Termination shall be effective on the date that all Contributors have received a notice of termination or on such later date, if any, as may be specified in the notice of termination.

(c) Any balance remaining in the Account on the date of its termination and after discharge of all obligations of the Account shall be transferred promptly to each of the Contributors in the proportion that the SDR equivalent of its respective contribution bears on the total contributions; except that:

(i) in the case of earmarked contributions that have been fully used no such transfer shall be made, and

(ii) a Contributor may instruct that its share or a specified portion thereof be utilized for such other purposes as may be mutually agreed between the Contributor and the Managing Director.

*Paragraph 12. Amendments*

The provisions of this Instrument may be amended by a decision of the Fund. Should the Fund amend the terms and conditions of this Instrument in a manner that changes the purpose for which contributions are to be used, each Contributor shall have the right to withdraw its

individual unused contribution in the proportion that the SDR equivalent of its respective contribution bears to the total contributions.

*Paragraph 13. Settlement of Questions*

Any questions arising under this Instrument shall be settled by mutual agreement between the Fund and the Contributors.



**Instrument to Establish the Post-Conflict Emergency Assistance Subsidy Account  
for PRGF-Eligible Members**

To help fulfill its purposes, the International Monetary Fund (the “Fund”) has adopted this Instrument to establish an account in accordance with Article V, Section 2(b) (the “Account”) which shall be governed by, and administered in accordance with, the following provisions:

*Paragraph 1. Purpose of the Account*

The purpose of the Account shall be the administration of resources provided to the Account by Contributors for the subsidization of the rate of charge on post-conflict emergency assistance purchases made by PRGF-eligible members under Decision No. 12341-(00/117), November 28, 2000 (“eligible purchases”). A member is PRGF-eligible if it is included in the list of members annexed to Decision No. 8240-(86/56) SAF.

*Paragraph 2. Resources of the Account*

The resources held in the Account shall consist of:

- (i) grant contributions made to the Account for the purposes of paragraph 1;
- (ii) loans, deposits and other types of investments made by Contributors to the Account to generate income to be used for the purposes of paragraph 1; and
- (iii) net earnings from the investment of resources held in the Account.

*Paragraph 3. Contributions to the Account*

The Fund may accept contributions of resources to the Account on such terms and conditions as may be agreed between the Fund and the respective Contributors, subject to the provisions of this Account. For this purpose, the Managing Director is authorized to accept grants and enter into loan, deposit or other types of investment agreements with the Contributors to the Account.

*Paragraph 4. Unit of Account*

The SDR shall be the unit of account.

*Paragraph 5. Media of payment of contributions and exchange of resources*

- (a) Resources provided to the Account shall be in any freely usable currency or such other media as may be agreed by the Fund and the Contributor.

(b) Resources held in the Account may be currencies or currencies exchanged for SDRs in accordance with such arrangements as may be made by the Fund for holding and use of SDRs.

(c) The Fund may exchange any of the resources held in the Account provided that any balance of a currency held in the Account may be exchanged only with the consent of the issuer of such currency.

(d) Payments made from the Account shall be made in SDRs or such other media as may be determined by the Fund.

*Paragraph 6. Use of the Resources*

(a) The resources of the Account (including any net income from the investment of such resources) shall be used to provide grants to PRGF-eligible members that have made post-conflict emergency purchases under Decision No. 12341-(00/117) (“eligible recipients”), in order to subsidize to an annual rate of 0.5 percent the rate of charge payable to the Fund on the Fund’s holding of the member’s currency resulting from those purchases. Only charges payable after the establishment of the Account will be eligible for subsidization. An otherwise eligible recipient will not be eligible for grants under this provision while in arrears to the General Resources Account, the Special Disbursement Account, the SDR Department, or to a Trust administered by the Fund as Trustee. Once arrears are cleared, only charges payable after such clearance will be eligible for subsidization.

(b) The grants will be made available to eligible recipients at the same time as quarterly charges on eligible purchases fall due, subject to the availability of adequate resources in the Account, in an amount sufficient to reduce that quarterly rate of charge to 0.5 percent on an annual basis. If, in any quarter, the resources of the Account are insufficient to subsidize the rate of charge on all eligible purchases to 0.5 percent for that quarter, the subsidy to each eligible recipient shall be pro-rated to bring the effective rate of charge paid after subsidization to the closest common percentage to 0.5 percent.

(c) Earmarked resources contributed to the Account shall be used in accordance with the terms agreed with the Contributor and shall not be taken into consideration in the determination of the grant subsidy under subparagraph (b) above. An eligible recipient beneficiary of earmarked resources shall not receive a lower grant subsidy than provided under subparagraph (b) above.

*Paragraph 7. Authority to Invest Resources in the Account*

(a) Resources held in the Account and not immediately needed for operations of the Account shall be invested at the discretion of the Managing Director, subject to the provisions of subparagraph (c).

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

(c) Investments may be made in any of the following: (i) marketable obligations issued by an international financial organization and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member.

*Paragraph 8. Administration of the Account*

(a) 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 of the Fund 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 by the Fund in the administration of such other accounts.

(b) The Fund shall maintain separate financial records and prepare separate financial statements for the Account. The financial statements for the Account shall be expressed in SDRs and prepared in accordance with International Accounting Standards.

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

(d) The Fund shall report on the resources and position 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.

(e) 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.

*Paragraph 9. Fees*

- (a) No charge shall be levied in respect of the services rendered by the Fund in the administration, operation, and termination of this Account.
- (b) 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.

*Paragraph 10. Termination*

- (a) The Account may be terminated at any time by the Fund.
- (b) Termination shall be effective on the date that all Contributors have received a notice of termination or on such later date, if any, as may be specified in the notice of termination.
- (c) Any balance remaining in the Account on the date of its termination and after discharge of all obligations of the Account shall be transferred promptly to each of the Contributors in the proportion that the SDR equivalent of its respective contribution bears on the total contributions; except that:
  - (i) in the case of earmarked contributions that have been fully used no such transfer shall be made, and
  - (ii) a Contributor may instruct that its share or a specified portion thereof be utilized for such other purposes as may be mutually agreed between the Contributor and the Managing Director.

*Paragraph 11. Amendments*

The provisions of this Instrument may be amended by a decision of the Fund. Should the Fund amend the terms and conditions of this Instrument, each Contributor shall have the right to withdraw its individual unused contribution in the proportion that the SDR equivalent of its respective contribution bears to the total contributions.

*Paragraph 12. Settlement of Questions*

Any questions arising under this Instrument shall be settled by mutual agreement between the Fund and the Contributors.



INTERNATIONAL MONETARY FUND

*Public Information Notice*

EXTERNAL  
RELATIONS  
DEPARTMENT

Public Information Notice (PIN) No. 05/8  
FOR IMMEDIATE RELEASE  
January 27, 2005

International Monetary Fund  
700 19<sup>th</sup> Street, NW  
Washington, D. C. 20431 USA

## **IMF Executive Board Approves Proposal to Subsidize Emergency Assistance for Natural Disasters for PRGF-Eligible Members**

On January, 21, 2005, the Executive Board of the International Monetary Fund (IMF) approved a proposal to subsidize the Fund's emergency assistance for natural disasters to low-income members eligible for the Poverty Reduction Growth Facility (PRGF). The decision followed a discussion of an IMF staff paper on the subject.<sup>1</sup>

### **Background**

The IMF has a longstanding policy of providing emergency financial assistance to members adversely affected by natural disasters. To date, 24 members affected by natural disasters have received emergency assistance on 27 occasions. In most cases, such assistance has amounted to 25 percent of recipient countries' quotas in the IMF.

Emergency assistance for natural disasters is provided in the form of outright purchases when a member cannot meet its immediate balance of payments financing needs arising from a natural disaster without serious depletion of its external reserves. The amount of resources is limited to 25 percent of quota, with larger amounts available only in exceptional cases. The emergency purchase is taken into consideration in determining the amount of support under a subsequent Stand-By or Extended Arrangement. A request for emergency assistance requires a statement of economic policies that the member intends to pursue to address its balance of payments difficulties. The request is granted if the IMF is satisfied that the member would cooperate in finding a solution to its balance of payments difficulties.

Purchases under emergency assistance are subject to a market-based rate of charge (linked to the SDR interest rate) and repurchase obligations of 3¼ - 5 years from the date of purchase (eight quarterly installments). In 1995, the IMF decided to expand the policy on emergency financial assistance to cover countries in post-conflict situations. In May 2001,

<sup>1</sup> <http://www.imf.org/external/np/pp/eng/2005/011005.htm>.

the IMF established an administered account for subsidizing emergency post-conflict assistance to low-income members eligible for the IMF's PRGF. Grant contributions made by members to the administered account have since been used to subsidize the rate of charge on post-conflict emergency assistance to PRGF-eligible members to 0.5 percent per annum, the same interest rate as that charged on PRGF loans.

The Board's decision extends the practice of subsidizing the rate of charge on post-conflict assistance for PRGF-eligible members to cover emergency assistance for natural disasters as well. Subject to resource availability, PRGF-eligible members requesting emergency assistance for natural disasters would—upon request—receive a subsidy to bring the rate of charge on the financial assistance to 0.5 percent per annum. Subsidization would also be available on request for those members that have already received emergency assistance for natural disasters but have not yet fully repaid such assistance. It is estimated that subsidy needs for natural disaster assistance could amount to SDR 45-65 million (or about \$68-98 million) over the next five years, which would need to be met through new bilateral contributions.

### **Executive Board Assessment**

Executive Directors welcomed the proposal to subsidize emergency assistance for natural disasters to PRGF-eligible members by extending the existing practice of subsidizing the rate of charge on emergency post-conflict assistance. The proposal will allow the Fund to provide emergency natural disaster assistance to PRGF-eligible members at a concessional interest rate, thereby supporting the broader effort by the international community to provide grants and other financial assistance to deal with natural disasters. In addition to member countries affected by future natural disasters, beneficiaries of this initiative will include members affected by the recent tsunami, and those that have previously received emergency assistance for natural disasters, but have not yet fully repaid such assistance. Directors agreed to amend the Instrument to Establish the Post-Conflict Emergency Assistance Subsidy Account for PRGF-eligible Members to expand the scope of the existing account to include emergency assistance for natural disasters.

The amended Instrument provides for the granting of a subsidy on emergency natural disaster assistance upon request, rather than automatically as is the case for emergency post-conflict assistance. A number of Directors considered that this will allow the staff an opportunity to discuss the need for subsidization, in particular with members with large quotas, where the subsidization of natural disaster assistance could severely limit the availability of subsidy resources for other members. A number of other Directors, however, would have favored automatic subsidization of emergency assistance for natural disasters, as is the case for emergency post-conflict assistance, in the interest of more symmetrical treatment of the two types of emergency assistance.

The amended Instrument expands the scope of the administered account established to subsidize emergency post-conflict assistance to subsidize also the rate of charge on purchases under emergency assistance for natural disasters. Directors considered how best to

set up the administrative arrangements for the sub-accounts under the Instrument for this purpose. It was agreed that establishing three sub-accounts as proposed by the staff would both retain the distinction that some contributors may wish to maintain between the two types of emergency assistance, while allowing the necessary flexibility and avoiding a proliferation of instruments. Several Directors felt that it would be undesirable to create sub-accounts that would earmark contributions for specific countries, on the grounds that that this could be perceived as being inconsistent with the multilateral character of the Fund.

Directors considered that PRGF-eligible members struck by natural disaster and with a PRGF arrangement in place should, as a first option, request an augmentation of the existing PRGF arrangement to cover any additional balance of payments needs. For countries without a current PRGF arrangement or in cases where the current PRGF arrangement is off-track, separate emergency assistance for natural disasters could be pursued. Directors observed that there would be no presumption that members requesting emergency assistance for natural disasters would subsequently move to a PRGF arrangement. In accordance with the current policy on emergency assistance, countries will be expected to provide a statement of economic policies.

Directors noted the staff's assessment that resources in the range of SDR 45-65 million will need to be mobilized to finance the intended subsidization of emergency assistance for natural disasters over the next five years, although the estimates are subject to a considerable degree of uncertainty. A number of Directors stated the readiness of their authorities to consider providing subsidy contributions, while the Executive Director for France indicated a firm pledge by the French authorities for this effort. Directors underscored the urgency of securing sufficient contributions from a broad spectrum of countries in order to make this initiative fully effective. They also urged management and the staff to follow up on pledges of bilateral contributions and update the Board on the financing situation at an early date.

Directors underscored the importance of ensuring that undue delays in the Board's consideration of requests for emergency assistance following a country's request are avoided.

**Public Information Notices (PINs)** form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.