INTERNATIONAL MONETARY FUND

Review of the Fund's Income Position for FY 2009 and FY 2010

Prepared by the Finance Department

In consultation with the Legal Department and the Office of Budget and Planning

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I. INTRODUCTION

1. **This paper reviews the Fund's income position for FY 2009 and FY 2010.** The proposals build on previous discussions relating to implementation of the new income model, the framework for accumulating precautionary balances, and the recent reform of the Fund's lending toolkit.

2. **The paper is structured as follows:** Section II reviews the income position for FY 2009 and explains the main changes from the projections at the midyear review; Section III makes proposals that pertain to the FY 2009 income position, including the disposition of investment income, the overall income position of the General Resources Account (GRA), and the annual reimbursement of the GRA for the expenses of conducting the business of the SDR Department and the MDRI-I Trust; Section IV reviews the FY 2010 income outlook, including the margin for the rate of charge; Section V reviews the burden sharing mechanism; and Section VI reviews special charges.

II. REVIEW OF THE FY 2009 INCOME POSITION

3. **Overall net income for FY 2009 is projected at about SDR 80 million compared with SDR 7 million at the midyear review (see Table 1).**[1] The improved income position primarily reflects the strong performance of the Investment Account (IA). This and other key factors are discussed below:

- **Investment income**. FY 2009 investment income is projected at SDR 345 million compared with SDR 236 million at the midyear review (see Table 2). In the context of a rapid deterioration of global economic conditions, the performance of the IA was buoyed by investor flight-to-quality and policy rate cuts by all four central banks in the underlying SDR markets. In the ten months through end-February, investment income totaled SDR 332 million and the return on the IA of 5.6 percent exceeded the three-month SDR interest rate by 388 basis points.[2] The full year projection assumes yields and spreads are unchanged in March and April 2009; for the year as a whole the IA would return about 5.82 percent.

- **Lending income.** Projected lending income has increased by SDR 12 million, reflecting new arrangements approved after end-November (Armenia, Belarus, and

[1] See *Review of the Fund's Income Position for FY 2008 and FY 2009* and *The Fund's Income Position for FY 2009—Midyear Review*.

[2] The current investment objective of the IA is to achieve returns that exceed the SDR interest rate over time.

Latvia)[3] and, to a lesser extent, commitment fees (SDR 3 million) on precautionary arrangements that expired recently without being drawn.[4]

Box 1. Decisions in Effect Related to the FY 2009 Income Position[1]

The Executive Board has taken the following decisions affecting the Fund's income position for FY 2009:

Rate of Charge
The margin for calculating the rate of charge in FY 2009 was set at 100 basis points. This decision was adopted under the *exceptional circumstances* clause of Rule I-6(4), by which the margin for calculating the rate of charge may be set on a basis other than the estimated income and expense of the Fund and a target amount of net income for the year.

PRGF-ESF Administrative Expenses
Beginning the financial year in which the Fund adopts a decision authorizing the sale of post-Second Amendment gold, the Fund will resume annual reimbursements of the GRA in respect of the expenses of conducting the business of the PRGF-ESF Trust.

Burden Sharing for Deferred Charges
Income losses resulting from unpaid charges are shared equally between debtor and creditor members under the burden sharing mechanism largely pursuant to a decision taken in 2000. Unless amended by the Board, this mechanism will continue for as long as overdue obligations to the Fund persist.

[1] See *Review of the Fund's Income Position for FY 2008 and FY 2009*.

- **Reimbursements.** The reimbursement to the GRA for the costs of administering the PRGF-ESF Trust is assumed to resume in FY 2010 rather than the current financial year, reflecting a delay in the decision to authorize gold sales, thus reducing projected income in FY 2009 by SDR 43 million. The reimbursements to the GRA for the expenses of conducting the business of the SDR Department and the MDRI-I Trust are estimated at SDR 4 million (from earlier projections of SDR 3 million).

- **Expenditures.** The budget underrun for FY 2009 is now projected at US$50 million, US$15 million (SDR 9 million) higher than the estimate of US$35 million at midyear. However, these savings are more than offset by the depreciation of the SDR against the U.S. dollar (from an average of US$1.59 projected at mid year to US$1.55) that, in SDR terms, raised the administrative budget by some SDR 13 million.

[3] The midyear projections included arrangements approved to end-November.

[4] Since commitment fees are refundable in the event that purchases are made, income only accrues to the Fund upon cancellation or expiration of the arrangement consistent with International Financial Reporting Standards (IFRS).

Table 1. Projected Income Position—FY 2009
(In millions of SDRs)

Income projected at midyear	**7**
Income variances	**79**
Changes due to:	
Updated lending projections	12
Investment Account returns	109
Reimbursements	-42
Expenditure variances	**-4**
Changes due to:	
Projected budget outturn	9
US$/SDR exchange rate	-13
Income now projected	**82**

4. **Restructuring costs**. The estimate for FY 2009 restructuring costs remains unchanged at SDR 39 million. Annex II provides a summary of the utilization of the restructuring provision.

Table 2. Projected Income and Expenditures—FY 2009
(In millions of SDRs)

	FY 2009		
	Initial Projections 1/	Mid-year Projections 2/	Current Projections
A. Operational income	**408**	**604**	**683**
Lending income	140	300	312
Margin for the rate of charge	72	126	125
Service charges 3/	12	82	92
Surcharges	56	92	95
Investment income	194	236	345
Returns from GRA interest-free resources 4/	28	22	22
Reimbursements 5/	46	46	4
B. Expenses	**560**	**558**	**562**
Administrative budget	526	524	528
Capital budget not capitalized	11	11	11
Depreciation expense	23	23	23
C. Net operational income position (A-B)	**-152**	**46**	**121**
Restructuring costs	-39	-39	-39
Net income position after restructuring costs	**-191**	**7**	**82**
Memorandum Items:			
Fund credit (average stock, SDR billions)	7.2	12.6	12.5
SDR interest rate (in percent)	2.75	2.20	1.81
US$/SDR exchange rate	1.65	1.59	1.55

1/ See *Review of the Fund's Income Position for FY 2008 and FY 2009*.
2/ See *The Fund's Income Position for FY 2009-Midyear Review*.
3/ Includes commitment fees, which are refundable (when disbursements take place) so income only arises at expiration or cancellation of an arrangement to the extent planned disbursements were not drawn.
4/ GRA interest free resources approximate the SCA-1 balance.
5/ GRA reimbursement for the expenses of administering the PRGF-ESF Trust is assumed to resume in FY 2010.

III. Disposition Decisions

5. **The projected net operational income for FY 2009 of SDR 82 million comprises net income earned in the IA and a deficit in the GRA.** The IA is projected to earn about SDR 345 million, and the GRA, prior to transfers of investment income from the IA, is projected to incur a deficit of about SDR 263 million, after taking account of restructuring expenses.[5] The Executive Board needs to consider the disposition of FY 2009 investment income and the overall income position for the year.

6. **Disposition of FY 2009 investment income**. The Executive Board may decide to either keep investment income in the IA for reinvestment or use it for meeting the expenses of conducting the business of the Fund (Article XII, Section 6 (f)(iv)). The Articles also provide for the Board, with a 70 percent majority of the total voting power, to decide to reduce amounts invested in the IA beyond income earned (Article XII, Section 6 (f)(vi)). In the past two years, FY 2007 and FY 2008, the Executive Board decided to transfer the investment income of the IA to the GRA for meeting the expenses of conducting the business of the Fund during those financial years.

[5] In FY 2008, the IA earned SDR 317 million and the GRA incurred a deficit of SDR 278 million, before taking account of provisions for restructuring costs, resulting in an overall operational deficit of SDR 39 million.

7. **Staff proposes that FY 2009 investment income of the IA be transferred to the GRA**. Such a transfer would be consistent with the objective of the IA to generate, over time, additional income to meet the Fund's expenditure needs. As noted in the last two annual reviews of the Fund's income position, this is consistent with the expectation that IA income will be used to help meet the Fund's expenses, since without transfers from the IA, the GRA will generally record a loss because it carries all the administrative and remuneration expenses of the Fund.[6]

8. **Disposition of FY 2009 net income**. If IA income is transferred as proposed by staff, the GRA will have projected net operational income of about SDR 80 million. In such instance, staff proposes that the Executive Board adopt a decision to place the Fund's net income for FY 2009 to the Fund's Special Reserve after the end of the financial year.[7] This would be consistent with past practice in financial years when the Fund has had a positive net operational income position.

9. **On an annual basis, the GRA is reimbursed for the expenses of conducting the business of the SDR Department and the MDRI-I Trust.** Staff proposes adoption of decisions related to the reimbursement for the expenses of conducting the business of the SDR Department and the related assessment on participants in the SDR Department, and to the reimbursement of the expenses of administering the MDRI-I Trust. These expenses are estimated at SDR 1.601 million and SDR 2.142 million, respectively.[8]

IV. FY 2010 Income Outlook

10. **The income outlook for FY 2010 is more than usually uncertain.** Further significant demand for Fund financing is expected as a result of the global financial crisis, but the full extent of this demand is difficult to predict. In addition, the Fund has recently reformed its GRA lending toolkit, including through the creation of the Flexible Credit Line (FCL). Early indications are that these reforms could lead to a significant increase in members' precautionary demand for Fund resources. Staff has prepared two scenarios: one based on arrangements approved through end-March, and the second includes the staff's current assessment of possible new arrangements in the pipeline. In both cases, the scenarios

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[6] Retention of the resources in the IA would reduce the level of the Fund's reserves since the full GRA deficit estimated at SDR 263 million would have to be charged against reserves. Transfer of investment income from the IA to the GRA, to the contrary, will lead to an increase in reserves by an estimated SDR 82 million. Under the Articles, a reduction in reserves lowers the scope to make transfers to the IA when the Fund subsequently has positive net income because of the ceiling—not to exceed the total amount of reserves—on the amount of currencies that can be transferred to the IA (Article XII, Section 6 (f)(ii)).

[7] The income shortfalls incurred in recent years were charged against the Special Reserve on the basis of a 1957 Board decision which provides that any administrative deficit for any fiscal year of the Fund shall be written off first against the Special Reserve.

[8] Based on total SDR allocations of SDR 21,433.3 million, the assessments on participants in the SDR Department will be in an amount equivalent to 0.00746969 percent of their net cumulative SDR allocations.

include the impact of the proposed FCL with Mexico, which would add to commitment fee income in FY 2010 assuming that it is not drawn.

11. **In March 2008, the Board broadly endorsed several principles for setting the basic rate of charge in the new income model:**

- the margin on the rate of charge should be set in a stable and predictable manner;
- the margin on the rate of charge should no longer cover the full range of the Fund's activities but rather be set as a margin over the SDR rate to cover the Fund's intermediation costs and the buildup of reserves; and
- a mechanism should be developed for checking the alignment of the rate of charge with long-term credit market conditions, including to ensure that the cost of borrowing from the Fund does not become too expensive or too low relative to the cost of borrowing from the market.

12. **The margin for FY 2009 was set consistent with the above principles.** It was recognized that most elements of the new income model were not yet in place, but an initial margin of 100 basis points was viewed as a reasonable benchmark, as it would cover the Fund's intermediation costs and allow scope for modest reserve accumulation in the then-prevailing low lending environment. The margin was established under the exceptional circumstances clause of Rule I-6(4),[9] with the formal decision on a new rule postponed until the new surcharge structure was agreed and the review of the Fund's precautionary balances had been completed.

13. **Staff proposes that the lending margin be maintained at 100 basis points for FY 2010.** This reflects the following considerations:

- **It would be consistent with the principle of stability and predictability.** In this context, the Fund has only just adopted a new surcharge structure that sought to balance the goals of simplifying the existing structure while not significantly adding to the costs for borrowers or reducing the pace of reserve accumulation. This provides an additional argument for stability in the short term, unless there are compelling reasons to change.
- **It would more than cover the Fund's intermediation costs.** The most recent estimates of the cost of intermediation are provided in Annex I. The income associated from higher lending (the lending margin, plus charges and fees) is expected to be well in excess of intermediation costs in FY 2010.

[9] Under the existing Rule I-6(4), the margin for the rate of charge is set on the basis of the estimated income and expenses of the Fund and a "net income target" (five percent of reserves). In exceptional circumstances, the margin may be determined on a basis other than the estimated income and expense and a target amount of net income.

- **It would allow for a significant pick-up in reserve accumulation,** which Directors have stressed as an important goal given the need to achieve the SDR 10 billion target for precautionary balances as quickly as possible. Reserve growth, including surcharge income, is projected at about SDR 290 million in the baseline scenario (or 5 percent of beginning period reserves), and SDR 740 million (12 ½ percent) in the higher lending scenario.

- **It would be low relative to market borrowing costs,** which have increased sharply as a result of the global financial crisis (see Figure 1). While the relative cost of borrowing from private markets has increased over the past year, the Fund does not generally seek to follow such short-term developments. Rather, as recommended by the Crockett Committee, it is envisaged that the margin should maintain reasonable alignment with broader developments in long-term credit market conditions.

14. **Staff further proposes that the margin for FY 2010 continue to be set under the existing Rule I-6(4).** It could be argued that agreeing a new rule now would build on the steps already taken toward implementing the new income model,[10] avoid the continued need for recourse to the exceptional circumstances clause, and reflect the intention that the basic rate of charge should play a more limited role in meeting the Fund's costs going forward. On the other hand, it should be recognized that new income from the gold sales endowment will likely be generated only gradually (assuming that the gold sales are phased as currently envisaged), which means that lending income may continue to provide a major part of the Fund's income for the next 2–3 years. Also, it may be premature to implement a new rule before the decision on gold sales and the associated amendment of the Articles are effective. Annex I further elaborates on the new framework for setting the margin for the rate of charge, building on the March 2008 discussion. Staff does not propose a new rule for decision at this stage. However, if there is a Board consensus on the early adoption of a new rule, staff could come back to the Board with a specific proposal.

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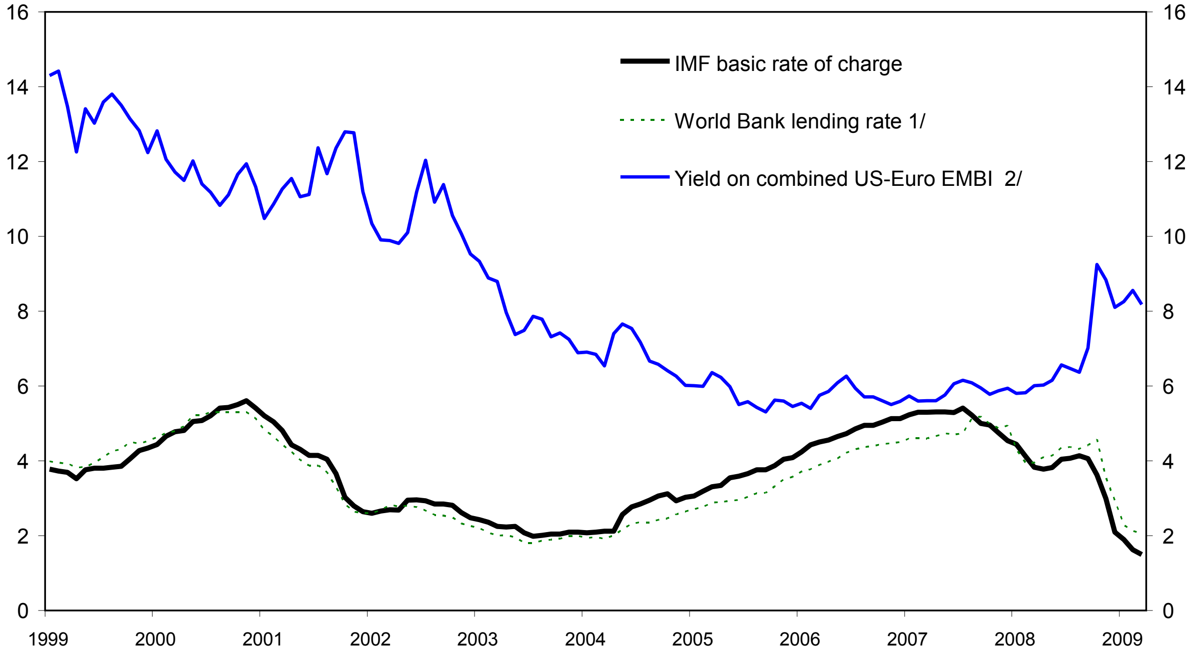
[10] A new surcharge structure was agreed recently as part of the broader reforms of the Fund's GRA lending facilities (see *GRA Lending Toolkit and Conditionality—Reform Proposals*).

Figure 1. Lending rates: EMBI, the World Bank and the IMF
(In percent, SDR or SDR equivalent)



Sources: JP Morgan, World Bank, and Finance Department.
1/ Average rate on Fixed Spread Loans and Variable Spread Loans expressed in SDR-equivalent terms.
2/ See Table 8 for a definition of the combined U.S. dollar-Euro EMBI.

15. **Other elements of the FY 2010 income outlook include:**

- a sharp rise in surcharge income based on the high access programs already agreed and those in the pipeline. The projections take into account the new surcharge framework that becomes effective on August 1 and the new commitment fee structure already in place. Also, given the recent abolition of the repurchase expectations schedule, all projections are now based on the obligations schedule, which may overstate lending income to the extent that members chose to repay the Fund early;

- a further decline in income from the Fund's interest free resources in light of the low interest rate environment;

- a sharp decline in investment income, reflecting the absence of the one-off gains from falling interest rates in FY 2009 and the continued low interest rate structure expected in FY 2010. It should be noted that a sharp rise in interest rates could also lead to losses on the Fund's investment portfolio in the short term. The projections assume a 50 basis point spread of IA income over the SDR rate throughout FY 2010, given the difficult investment environment and uncertainties over the timing of a broadening in the Fund's investments, which could be initiated once the proposed amendments to the Articles of Agreement to broaden the Fund's investment authority become effective;

- resumption of reimbursement of the GRA for the costs of administering the PRGF-ESF Trust in FY 2010, as agreed as part of the new income model and assuming the decision on gold sales is taken in that year; no allowance is made at this stage for a possible increase in the expenses of conducting the business of the SDR Department resulting from an SDR allocation;

- net administrative and capital expenditures consistent with those set out in the budget paper for FY 2010; and

- gold sales assumed to be evenly phased over a three-year period commencing in the second half of FY 2010 at an average price of US$810 per ounce (the average price over the past two years), and with the profits retained in the endowment until the gold sales are substantially completed (implying no payout to the GRA in FY 2010).

16. **The projections for FY 2010 yield a net operational income position of about SDR 290 million in the baseline and SDR 740 million in the high lending scenario (Table 3)**.[11] These compare with the previous projection of SDR 260 million in December 2008. The increase in projected income under the baseline scenario primarily reflects higher lending income arising from new arrangements approved since end-November and higher average credit outstanding as a result of the abolition of expectations-based repurchases. However these gains are partly offset by the decline in global interest rates by about 100 basis points for the FY 2010 projected average SDR interest rate—which lowers investment income and implicit returns compared with the earlier projection. On the expenditure side, carry forwards from the FY 2009 projected underrun finance some SDR 20 million (about US$30 million) in costs associated with the Fund's response to the global crisis. These projections suggest it may be possible to return to the practice of placing surcharges directly to reserves in FY 2010, but such a decision could be taken at the end of FY 2010.

[11] See Annex III for assumptions underlying the projections. Annex IV provides projected income sources and uses for FY 2010–FY 2012.

Table 3. Projected Income Sources and Uses (FY 2009–2010)
(In millions of SDRs unless otherwise stated)

	FY 2009	FY 2010	FY 2010 Scenario 1/
	(in SDR millions)		
A. Operational income 2/	**683**	**931**	**1379**
Lending income	312	779	1225
Margin for the rate of charge	125	324	479
Service charge 3/	92	167	286
Surcharges	95	288	460
Investment income	345	83	83
Reserves	345	83	83
Gold endowment pay-out	0	0	0
Interest free resources 4/	22	14	16
SCA-1 and other	22	13	15
Gold book value	0	1	1
Reimbursements	4	55	55
MDRI-I Trust and SDR Department	4	4	4
PRGF-ESF Trust	0	51	51
B. Expenses	**562**	**641**	**641**
Net administrative expenditures	528	603	603
Capital budget items expensed	11	11	11
Depreciation	23	26	26
C. Net operational income (A - B)	**121**	**290**	**738**
Gold profits 5/	0	719	719
Restructuring charge and rule of 50	-39	-8	-8
IAS 19 timing adjustment 6/	72	0	0
Retained endowment income 7/	0	9	9
Net income 8/	**154**	**1010**	**1458**
Memorandum Items:			
Fund credit (average stock, SDR billions)	12.5	32.4	47.9
SDR interest rate (in percent)	1.81	0.90	0.90
US$/SDR exchange rate	1.55	1.50	1.50

Source: Finance Department and Office of Budget and Planning

1/ High lending scenario taking account of current staff assessment of arrangements in the pipeline based on discussions with members (see Annex I).

2/ Excludes profit from gold sales and income retained to preserve real value of gold endowment.

3/ Includes commitment fees, which are refundable (when disbursements take place) so income only arises at expiration or cancellation of an arrangement to the extent planned disbursements were not drawn.

4/ Interest free resources reduce the Fund's remuneration expenses. SCA-1 contributions are currently the main source of these resources. Gold sales would increase these resources because proceeds equal to the book value of gold would be retained in the GRA, reducing reserve tranche positions.

5/ Gold sales are assumed to be evenly phased and conducted over a three-year period beginning in the second half of FY 2010. The FY 2010 gold profits therefore represent one-sixth of total assumed profits.

6/ IAS 19 is the accounting standard that prescribes the treatment of pension and employee benefit expenses, and involves actuarial valuations. The FY 2010 IAS 19 expense will be determined in the actuarial valuation to be completed in May 2009.

7/ Gold endowment income is assumed to be reinvested until the gold sales are substantially completed.

8/ Net income on the basis presented in the Fund's annual IFRS financial statements.

Table 4. Sensitivity Analysis—Effect of Changes in Selected Assumptions in FY 2010

Approval of Flexible Credit Line (FCL) arrangements amounting to SDR 50 billion 1/	135
Change in:	
SDR interest rate by 50 basis points	36
Credit tranche purchases (non-FCL) by SDR 10 billion 2/	185
Gold price of $50 per ounce 3/	70
U.S. Dollar vis-à-vis SDR by 5 percent	30
Investment income margin by 50 basis points	30

1/ Assumes average access of 1,000 percent of quota and that the arrangements are precautionary and expire during FY 2010. The projected income represents commitment fees upon expiration of the arrangements.
2/ Assumes an August 1 transaction (beginning of second quarter) with a one-time drawing of SDR 10 billion and access of 500 percent of quota. Includes service charges, the margin on the basic rate of charge and surcharges (excludes commitment fees).
3/ Gold profits are assumed to be reinvested in the gold endowment, and are not part of net operational income.

V. Burden Sharing

17. **The Board last reviewed the burden sharing mechanism in March 2008.** Directors generally noted that the mechanism has been an important element of the Fund's strategy for dealing with the financial consequences of overdue obligations (see Box 2) and has served the Fund well. At the same time, it was recognized that the mechanism had come under strain with the decline in Fund credit, and a number of Directors were concerned about the equity of the distribution of costs between creditors and debtors. The view was also expressed that all members should contribute to burden sharing, and a number of Directors questioned the need for burden sharing in light of the policy on reserve accumulation. To reduce pressures on the mechanism in a low credit environment, Directors also supported consideration of a modification to the Fund's de-escalation policy to make remaining current on new obligations falling due a firm test of cooperation with the Fund.

Box 2. The Burden Sharing Mechanism

The burden sharing mechanism has been in place since 1986. The mechanism plays a crucial role in protecting the Fund's income position by offsetting the impact of unpaid charges (burden sharing for "deferred charges") and has helped to strengthen the Fund's precautionary balances through accumulation in the Special Contingent Accounts. The mechanism has also facilitated the Fund's continued compliance with International Financial Reporting Standards (IFRS), in the face of the very limited scope afforded in the Articles for the Fund to write down or make specific provision for members with arrears to the Fund.

Mechanism. Adjustments are made to the rates of charge and remuneration to generate resources from debtors and creditors, respectively. The "burden sharing adjustments" are made by increasing the rate of charge and decreasing the rate of remuneration. Burden sharing contributions are generated in equal amounts from debtors and creditors on a quarterly basis. While debtors are a distinct group, i.e., members with Fund credit outstanding, creditors include members that participate in the Financial Transactions Plan (FTP) and any other "neutral" member with a remunerated reserve tranche position (RRTP) (see Table 6). Reserve tranche positions arise through participation in the FTP or payment of the reserve asset portion quota subscriptions. See Annex V for cumulative adjustments by member, net of refunds, as of end-January 2009.

Deferred Charges. Amounts collected under burden sharing for deferred charges are equal to the unpaid charges in the GRA in any particular quarter. The collected amounts are taken directly into Fund income, thus offsetting the impact of unpaid charges by members in arrears. When overdue charges are eventually settled, refunds are paid to contributors, i.e., debtor and creditor members that participated in burden sharing when the unpaid charges arose. Since inception, SDR 2.0 billion has been collected of which SDR 1.3 billion was refunded upon eventual settlement of unpaid charges.

Special Contingent Accounts (SCAs). Resources have been accumulated in the SCAs to help protect against the negative financial impact of protracted arrears. The SCA-1 was established in 1987 to provide a first line of defense for possible losses arising from the ultimate failure of members to settle overdue principal obligations in the GRA and currently has a balance of SDR 1.2 billion.[1] After an initial placement of SDR 26 million of excess income, contributions have been split equally by adjustments to the rates of charge and remuneration. The Board suspended SCA-1 accumulations effective November 2006,[2] and early last year took a decision to refund SDR 0.5 billion to contributors in the context of arrears clearance and financing debt relief for Liberia.

[1] A second account, the SCA-2, was established in 1990 and terminated in 1999 after it was concluded that other precautionary balances in the GRA provided adequate protection against the risks its was intended to safeguard. Upon termination, the accumulated balance of SDR 1 billion was distributed to contributors in the context of financing the enhanced HIPC Initiative.

[2] See *The Fund's Income Position for FY 2007—Midyear Review*.

18. **Before turning to possible options for reform, it is useful to take stock of the current operation of the mechanism.** In this regard, several considerations appear relevant: the nature of the mechanism, the effect of the current low interest rate environment, the extent of participation across the membership; the current level of burden sharing adjustments, and the potential implications of greater reliance on borrowed resources to finance the Fund's lending operations:

- **The burden sharing mechanism relies on equivalent adjustments in the rate of charge and the rate of remuneration.** Because the rates of charge and remuneration must be uniform across members, the costs fall on debtor members in proportion to their Fund credit outstanding, and on creditor members in proportion to their remunerated reserve tranche positions (RRTPs). Under the existing Articles, it is not possible to base burden sharing adjustments directly on alternative metrics such as members' quota shares (though under current policies, the distribution of the burden falling on FTP participants is broadly quota-based).

- **The capacity of the mechanism has fallen in the current low interest rate environment.** Under the existing Articles, the rate of remuneration cannot fall below 80 percent of the SDR rate[12] (with a current floor of 85 percent set by Board decision). With interest rates at historic lows, the maximum adjustment is therefore roughly 9 basis points, which corresponds at existing credit and RRTP levels to about SDR 37 million. Accordingly, the capacity of the mechanism could quickly be exhausted if a large access borrower were to fail to meet charges falling due.

- **Participation in the burden sharing mechanism is already wide, extending well beyond debtors and FTP creditors.** As outlined in Box 2, this reflects the fact that the mechanism covers debtor members and any member (FTP and non-FTP) that has a RRTP. For the quarter ended January 2009, 113 members (61 percent of the membership accounting for 90 percent of Fund quotas) participated in burden sharing. Currently, this group is comprised of 47 FTP participants, 29 members with Fund credit outstanding, and 37 non-FTP/non-debtor members with RRTPs.[13]

- **Actual burden sharing adjustments have fallen to historic lows**. Since the March 2008 review, burden sharing adjustments declined to 7–9 basis points in the first half of FY 2009, and to 2 basis points in the third quarter, reflecting the clearance of Liberia's arrears and the subsequent rise in credit outstanding. A further decline to 1 basis point for both the rates of charge and remuneration is projected for the fourth quarter of FY 2009 (see Table 5) and for FY 2010, assuming no new arrears emerge.

- **The prospect of increased lending funded with borrowed rather than quota resources will also have implications for burden sharing.** As Fund credit expands, the cost of burden sharing will fall on a broader range of debtor members. However, to the extent that the Fund uses borrowed rather than quota resources to finance that lending, RRTPs will tend not to rise to the same extent as credit. This means that the required downward adjustments to the rate of remuneration will tend to be larger (subject to the above limits) than the corresponding upward adjustments to the rate of

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[12] Article V, Section 9 (a).

[13] Some Fund debtors also have an RRTP (currently nine members), representing less than one percent of total remunerated positions.

charge, and it will also tend to limit the increase in the maximum burden sharing capacity that would otherwise result from an expansion of lending.

Table 5. Recent Average Burden Sharing Adjustment Rates and FY 2010 Projected Rates
(In basis points unless otherwise stated)

	Financial Years										
	2002	2003	2004	2005	2006	2007	2008	2009			2010
								H1	Q3	Q4	
											(projected)
Rate of Remuneration 1/											
Total average adjustment	14	10	9	12	23	23	14	8	2	1	1
Deferred charges	4	2	1	2	5	13	14	8	2	1	1
SCA-1	10	8	8	10	18	10		–	–	–	–
Rate of Charge 1/											
Total average adjustment	13	10	8	11	19	23	16	9	2	1	1
Deferred charges	3	2	1	2	4	13	16	9	2	1	1
SCA-1	10	8	7	9	15	10		–	–	–	–
Average SDR interest rate (in percent)	2.80	2.06	1.58	2.09	2.93	3.96	3.64	2.81	1.01	0.53	0.90
Average basic rate of charge (in percent) 2/	3.26	2.54	2.09	3.01	4.00	5.04	4.72	3.81	2.01	1.53	1.90

1/ The average rates have been calculated using the quarterly burden sharing rates and SDR interest rates.
2/ For FY 2010, assumes a margin for the rate of charge of 100 basis points.

19. **Given the above, options for reform of the burden sharing mechanism would seem to fall into two broad categories:**

- **Maintaining the current mechanism but changing the distribution of the cost between creditors and debtors as a group.** For example, if it was desired to reduce the share of debtors, the current 50/50 distribution could be changed, to say 70/30, broadly similar to that applying to the SCA-2, which was based on a 3 to 1 split respectively between creditors and debtors. This would not expand the overall coverage of the mechanism but would shift more of the burden to creditors (and other members with RRTPs). Given the floor on the rate of remuneration, however, such a change would further reduce the maximum burden sharing capacity, at a time when this capacity is already relatively low. Alternatively, more of the burden of arrears could be shifted to adjustments in the rate of charge through an increase in the aggregate share of debtors, in order to increase the overall capacity of the burden sharing mechanism. Any such changes would require a 70 percent majority of total voting power.

- **A more fundamental change to align relative burdens, say, with individual members' quotas.** This option would expand the scope of the mechanism to cover all members. However, as noted above, participation is already relatively broad in terms of the number of members, and also covers about 90 percent of quotas (though the distribution would change if it was purely quota based). Moreover, such a change would require an amendment of the Articles of Agreement, and could raise broader issues as it would be akin to charging a levy on members, which has not been supported in previous Board discussions.[14]

20. **Table 6 illustrates the general impact of these two options using data for the quarter ending January 31, 2009.** A distribution of 70 to 30 percent between creditors and debtors would tend to align the debtors' costs, as a group, to their current participation level of about 25 percent. Alignment of relative burdens with members' quotas would result in creditors bearing almost 96 percent of the cost. In both cases, the maximum capacity of the burden sharing mechanism would be reduced, given the floor on remuneration stipulated in the Articles.

21. **On balance, staff does not propose any immediate changes to the burden sharing mechanism.** The financial strains on the burden sharing mechanism have eased substantially, as the needed adjustments in the rates of remuneration and charges have fallen to historical lows. Also, with the pick-up in lending, the impact of the remaining adjustments will be spread across a broader range of debtors. At the same time, the maximum burden sharing capacity has fallen with the decline in interest rates, and the mechanism would likely be insufficient to handle significant new arrears. Moreover, reforms to shift more of the burden to creditors would tend to further reduce that capacity. Given the high majorities needed (70 percent) to change the current mechanism, Directors may wish to indicate their views on whether a change is warranted at present, or whether the current mechanism should be kept under review in light of developments.

[14] Introduction of a general levy could, given the Fund's status as a specialized agency of the United Nations, provide grounds for the administrative budget to be subject to review by the UN General Assembly pursuant to Article 17, paragraph 3 of the UN charter. The UN agreed in 1947 that the administrative budget of the Fund would not be subject to review because the Fund does not rely, for its annual budget, on contributions from members.

Table 6. Burden Sharing Contributions under Illustrative Scenarios
Quarter ended January 31, 2009

	Current Allocation 50:50 split	Allocation on 70:30 split 1/	Allocation on relative quotas 2/
	(In SDR millions)		
All members participating in burden sharing (*113 countries*)	1.64	1.64	1.64
FTP members (*47 countries*)	0.75	1.05	1.45
Borrower members (*28 countries*)	0.82	0.49	0.07
Non-FTP/non-debtor members with RRTPs (38 *countries*)	0.07	0.10	0.12
	(In percent)		
All members participating in burden sharing (*113 countries*)	100	100	100
FTP members (*47 countries*)	46.0	63.8	88.6
Borrower members (*28 countries*)	50.0	30.0	4.3
Non-FTP/non-debtor members with RRTPs (38 *countries*)	4.0	6.2	7.1

Note: Totals may not add due to roundings.
Scenario 1: Burden sharing contributions allocated based on a 70:30 split between creditors and debtors.
Scenario 2: Burden sharing contributions allocated based on the relative quota share of each member.

22. **Staff has also reviewed the desirability of modifying the de-escalation policy to make remaining current on new GRA charges falling due a firm test of cooperation.** Such a change was raised in March 2008 as one possible measure to deal with the impact of arrears on a reduced number of debtor members under the burden sharing mechanism in the then existing low credit environment. By encouraging members in arrears to attribute the payments to the Fund to charges falling due rather than principal, it could reduce the need for burden sharing adjustments for deferred charges. On balance, staff proposes that this measure be kept under review but that it should not be implemented now for the following reasons:

- As noted above, the financial strains that prompted consideration of such a change have dissipated.

- The immediate applicability of such a change would be limited to the existing protracted arrears cases (Sudan and Somalia). For new arrears cases, the change would only apply to remedial measures, including declaration of non-cooperation, which would normally be 2–3 years after the emergence of arrears.

- Such a change could limit the Board's future flexibility in resolving arrears cases, given the difficulties involved in anticipating the full range of individual country circumstances with which the Fund could be confronted in the future. For example, Liberia would not have met this test in 2006 as it was attributing its token payments to repay overdue GRA principal rather than new charges falling due.

VI. Review of Special Charges

23. The decision on special charges on overdue financial obligations in the GRA and the Trust Fund calls for an annual review. Special charges were established to provide members with an incentive to settle their financial obligations to the Fund in a timely manner. Under

the current system, special charges are levied on overdue repurchases and charges that are in arrears for less than six months. One implication of this system is that members in protracted arrears have a financial incentive to pay principal rather than charges falling due, which as discussed above, can add to strains on the burden sharing mechanism. Special charges on GRA obligations that are overdue six months or more were eliminated effective May 1, 1992, reflecting a concern that these charges may complicate the efforts of a member in protracted arrears and those of its donors and creditors to resolve its arrears problem, by increasing the financing needs and making it more difficult for the member to make payments to the Fund equivalent to obligations falling due. While this policy could be reviewed in the event of new arrears, no special charges have been billed or collected during FY 2009 and no new considerations have arisen during the financial year. Accordingly, no changes are proposed to the current system.

Annex I. New Framework on the Margin for the Rate of Charge

24. **This annex outlines a new framework for setting the margin for the rate of the charge in the context of the new income model.**

25. **The main elements of the proposed framework are as follows:**

- The margin over the SDR rate would be set at a level sufficient to cover the Fund's estimated intermediation costs and allow for reserve accumulation.

- The pace of reserve accumulation would not be pre-defined. Rather it would be left to the Executive Board to assess whether the pace is adequate in light of the level of reserves relative to the target, and the expected contribution from surcharge income.

- The framework envisages a cross-check of the alignment of the margin with long-term credit market conditions.

- It is proposed that the margin be set for two year periods with a mid-term review.

- The framework seeks to avoid an overly mechanistic approach. Judgment would be required in several areas, including the pace of reserve accumulation, the comparison with private market borrowing costs, and the outlook for intermediation costs, particularly when significant change in demand for Fund credit is in prospect.

Table 7. Margin Required to Cover Intermediation Costs and Reserve Accumulation
(In millions of U.S. dollars, unless otherwise indicated)

	FY 2006	FY 2007	FY 2008	FY 2009	FY 2010	FY2010 Scenario 1/
A. Intermediation costs 2/	151	120	89	113	120	200
Less						
B. Service charges 3/	16	17	20	138	123	302
C. Commitment fees 4/	17	7	3	5	128	128
D. Remaining costs to be covered by income from margin (A - B - C)	118	96	66	-30	-131	-230
E. Income from margin 5/						
E.1 80 basis point margin	413	145	89	155	389	575
E.2 100 basis point margin	516	182	112	194	486	719
E.3 120 basis point margin	619	218	134	233	583	862
F. Reserves accumulation (E - D)						
F.1 80 basis point margin	295	49	23	185	520	805
F.2 100 basis point margin	398	86	46	224	617	949
F.3 120 basis point margin	501	122	68	263	714	1092
G. Reserves accumulation (as a percent) 6/						
G.1 80 basis point margin	3.6%	0.5%	0.3%	2.1%	5.9%	9.1%
G.2 100 basis point margin	4.8%	1.0%	0.5%	2.5%	7.0%	10.7%
G.3 120 basis point margin	6.1%	1.4%	0.8%	3.0%	8.1%	12.3%
Memorandum items						
Fund reserves at the beginning of FY (in SDR billions)	5.7	6.0	5.9	5.7	5.9	5.9
Surcharges	426	137	58	147	432	689
Average Fund credit outstanding (in SDR billions)	35.6	12.2	7.3	12.5	32.4	47.9
Number of active arrangements (average)	14	10	8	10	11	18
Average exchange rate U.S dollar/SDR	1.45	1.49	1.53	1.55	1.50	1.50

Source: Office of Budget and Planning and Finance Department.

1/ A high lending scenario taking account of staff's current assessment of arrangements in the pipeline, based on discussions with members.

2/ Costs under "generally available facilities" item of the Fund's outputs for country programs and financial support. Data for FY 2010 based on staff estimates.

3/ Based on income projections for FY 2009 and FY 2010, and actuals for FY 2006–08.

4/ Includes commitment fees received for expired arrangements in FY 2006–09. FY 2010 takes account of the proposed FCL (SDR 31 billion) and assumes it expires with approved amounts remaining undrawn.

5/ Derived by applying margin against the average Fund credit outstanding at the average U.S. dollar/SDR exchange rate.

6/ Reserves accumulation as a percent of reserves at the beginning of the financial year. Assumes other sources of income sufficient to cover remaining Fund annual costs.

26. **The application of the framework may be illustrated with respect to the margin for FY 2010-2011**. These calculations illustrate the type of decision-making process that would be envisaged once the new income model is fully in place. However, as noted in the main text, this is not expected to be the case for 2–3 years, during which time lending income will continue to cover a broader range of the Fund's costs. As a result, the calculations in Table 7 of potential reserve accumulation under different assumptions for the margin are hypothetical, and actual reserve accumulation in FY 2010 will be significantly below these estimates. The key points may be summarized as follows:

a. *Intermediation costs* in FY 2010 based on arrangements approved to date are projected at US$120 million, moderately higher than the latest estimate for FY 2009. This estimate is based on an average number of active arrangements of 11, compared with 10 in FY 2009 and takes into account the budget allocation for additional crisis-related work in FY 2010. However, staff is already in various stages of discussions with a range of members on potential new arrangements and the share of the Fund's costs devoted to lending activities in FY 2010 may be significantly higher. The second scenario assumes 18 active arrangements on average, with intermediation costs totaling US$200 million.

b. *Service charge income* increased significantly in FY 2009 with the renewed lending activity during the second half. Income from service charges would be somewhat lower in FY 2010 based on existing arrangements, but could rise sharply again if there are a number of new large arrangements that result in drawings.

c. *Commitment fee income* has so far been low but could rise if there is significant demand for precautionary FCLs. As noted, the Fund only accounts for commitment fee income once it becomes non-refundable (upon cancellation or expiration of an arrangement). Both scenarios include the commitment fee for a precautionary FCL with Mexico which will expire during FY 2010.[15]

27. **These calculations highlight the sensitivity of potential reserve accumulation from the margin to the level of lending.** While the share of the Fund's costs devoted to lending activities increases with the level of lending, the increase is not proportional, particularly for high access arrangements (staff and other intermediation costs for an active arrangement tend to be similar, regardless of the absolute access involved). Also, the Fund obtains additional income from service charges and, for non-drawing arrangements, commitment fees, both of which are linked to access. Thus, if the new income model was already fully in place, potential reserve accumulation from the margin, plus service charges and fees, in FY 2010 could be in the range of $0.6–0.9 billion (7–11 percent of existing reserves), compared with the very low scope for additions to reserves in FY 2007–08. On the same basis, total amounts available for reserve accumulation, including income from surcharges, would be $1.1–1.7 billion (12–18 percent of existing reserves). However, as the new income model is not yet in place, actual reserve growth in FY 2010 is projected at $0.4 billion under the baseline and $1.1 billion under the higher lending scenario.[16]

28. **The framework includes a cross check on the alignment of Fund borrowing costs relative to long-term conditions in credit markets.** Comparisons with market conditions require estimates of two elements implicit in market lending: the term premium, given that the Fund provides credit for 3 ¼ –5 years but charges a floating short-term interest rate; and the credit risk premium implicit in market borrowing. Proxy measures need to be developed for both elements (see Table 8):

- **Term premium**: two measures were considered previously—the simple spread between the yield on a five-year fixed rate (synthetic) SDR bond and the three-month interest rate, and the difference in yields between a five-year (synthetic) SDR bond and the average 3-month (synthetic) SDR rate implicit in futures market contracts over a five-year period—though it was noted that the former overstates the term premium that should be applied to Fund credit. Data for 2009 suggest that both measures have widened sharply in the crisis, but over the longer term, the latter measure yields a term premium of 6–9 basis points.

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[15] Assuming it is not drawn, this would result in commitment fee income of SDR 85 million.

[16] See net operational income for FY 2010 in Table 3.

- **Credit risk premium**: Table 8 updates the data on median EMBI spreads for different groups of emerging market borrowers. These spreads narrowed significantly in the period 2002–08, reflecting both structural and cyclical developments, but have widened sharply again in the current crisis. As a result, the cost of borrowing from the Fund is well below current market rates. Looking at longer term conditions, a margin of 100 basis points also remains well below the average spread faced by previous Fund borrowers in 2002–2008, and also below the average spreads in the bottom quartile of the countries in the EMBI index (in both cases, adjusted for the term premium).

Table 8. Term Premium and Country Risk

	1992 - 2008	1999 - 2008	2002 - 2008	2009-to-date
	(Median spread, in SDR-equivalent basis points) 1/			
Five-year term premium				
Measure 1 2/	73.5	67.5	71.0	121.8
Measure 2 3/	n.a.	5.9	8.7	34.5
Country risk--EMBI-based measures 4/				
All EMBI countries	n.a.	360.4	236.5	550.1
Countries in quartile with lowest spreads	n.a.	144.3	96.7	386.5
Countries in decile with lowest spreads	n.a.	87.3	59.6	268.2
Country with lowest spread	n.a.	46.9	36.7	156.7
Past users of Fund resources				
Arrangements during 1991–2000 5/	n.a.	292.0	206.2	556.6
Arrangements during 1991–2008 6/		521.3	420.9	844.3

Source: Bloomberg, JP Morgan and Fund staff calculations.

1/ SDR-equivalent rates are calculated using the currency weights in the SDR basket.
2/ Difference in yields between a five-year, fixed-rate bond and the 3-month SDR interest rate.
3/ Difference in yields between a five-year, fixed-rate bond and the five-year average 3-month interest rate as implied in futures market contracts. (Difference adjusted for the higher risk premium of instruments in future markets.)
4/ Table reports linear combination of spreads in EMBIG-U.S. dollar and EMBIG-Euro composites. Series were combined using the weights of the U.S. dollar and Euro in the SDR basket (normalized to 100). During the sample period, the combined EMBIG indices contained spreads for a total of 45 countries.
5/ Median level of the combined U.S. dollar-Euro EMBI spread for the 16 countries in the EMBI sample that had Fund arrangements in the upper credit tranches from January 1991 to December 2000, and no Fund arrangements thereafter, excluding countries that borrowed mainly from the PRGF.
6/ Median level of the combined U.S. dollar-Euro EMBI spread for the 31 countries in the EMBI sample that had Fund arrangements in the upper credit tranches from January 1991 to December 2008, and no Fund arrangements thereafter, excluding countries that borrowed mainly from the PRGF.

Annex II. Restructuring Provision

The Fund's financial statements are prepared in accordance with International Financial Reporting Standards (IFRS). In accordance with IFRS, the Fund recognized a restructuring provision of SDR 68 million (about US$111 million) in FY 2008 for costs for which no rendered services are expected (e.g., the modified SBF payments) and outplacement and retraining of separating staff. Costs related to services from which the Fund will benefit, such as salaries during the staff delay period of up to 12 months under the separation plan were not included in the provision and are recognized as those expenditures are incurred.

At the end of the third quarter of FY 2009 (January 31, 2009), the restructuring provision was SDR 56 million, primarily reflecting incurred costs of SDR 15 million related to separating staff. Other changes include an update of the effects of movements in the SDR/U.S. dollar exchange rate, which increased the provision, in SDR terms, by about SDR 5 million.[17] The initial estimates for outplacement costs were revised downward by US$1.6 million (about SDR 1 million). A summary of the movements in the provision is shown below.

Restructuring Provision as at end-January 2009
(In millions of SDRs)

Restructuring provision recognized in FY 2008 financial statements	68
Amounts utilized	-15
Change in estimate for outplacement costs	-1
Effects of movements in exchange rates and the discount rate	4
Restructuring provision as at January 31, 2009	56

In addition, at end-January total FY 2009 delay costs and SRP contributions for separating staff amounted to SDR 26 million (US$ 40 million). Thus, total restructuring costs at end-January, including the above SBF costs of SDR 15 million, were SDR 41 million (US$64 million).

[17] The SDR/US$ exchange rate was 0.670276 at January 31, 2009 (0.615847 on April 30, 2008). In accordance with IFRS, costs incurred more that 12 months after the balance sheet date are discounted. The change in the discount rate was about 60 basis points (5.1 percent from 4.4 percent in April last year based on the Citigroup Pension Discount two-year spot rate). This had a modest effect on the provision (less than SDR 500,000).

Annex III. Assumptions Underlying the Income Projections (FY 2009–2010)

	FY 2009			FY2010	FY 2010 Scenario 1/
	Actual through end-February	Midyear Projections	Updated Projections	Current Projections	
			(In billions of SDRs)		
Regular Facilities:					
1. Purchases (excl. reserve tranche purchases)	13.3	16.3	17.6	16.4	40.1
2. Repurchases	1.5	1.8	1.8	0.0	0.0
3. Average balances subject to charges	11.1	12.6	12.5	32.4	47.9
4. Average SDR holdings	1.9	1.9	1.9	2.0	2.0
5. Average remunerated positions 2/	11.8	13.3	13.2	32.8	48.3
6. Average investment account assets 3/	6.0	6.0	6.0	6.0	6.0
			(In percent)		
Return on investments 4/	5.60	3.93	5.82	1.40	1.40
Average interest rates:					
SDR interest rate and basic rate of remuneration	2.06	2.20	1.81	0.90	0.90
Basic rate of charge	3.06	3.20	2.81	1.91	1.91
Margin on the rate of charge	1.00	1.00	1.00	1.00	1.00

1/ Assumptions underlying the high lending scenario provided in Table 3.
2/ FY 2010 figures do not take account of prospective use of borrowed resources for Fund credit, which should not have an effect on income since interest payments on borrowings are at the SDR interest rate (same as remuneration).
3/ The figures are based on a general assumption that investment income is transferred to the GRA.
4/ End-February figure is not annualized.

Annex IV. Projected Income Sources and Uses (FY 2010–2012)

	Projected		
	FY 2010	FY 2011	FY 2012
A. Operational income 1/	**931**	**1,064**	**1,124**
Lending income	779	811	795
Margin for the rate of charge	324	394	383
Service charge	167	16	5
Surcharges	288	401	407
Investment income	83	159	202
Reserves	83	159	202
Gold endowment pay-out	0	0	0
Interest free resources 2/	14	39	72
SCA-1 and other	13	25	34
Gold book value	1	14	38
Reimbursements	55	55	55
MDRI-I Trust and SDR Department	4	4	4
PRGF-ESF Trust	51	51	51
B. Expenses	**641**	**647**	**657**
Net administrative expenditures	603	612	621
Capital budget items expensed	11	7	7
Depreciation	26	28	29
C. Net operational income (A - B)	**290**	**417**	**467**
Gold profits	719	1,439	1,439
Restructuring expense	-8	0	0
IAS 19 timing adjustment 3/	0	0	0
Retained endowment income 4/	9	72	148
Net income 5/	**1010**	**1,928**	**2,054**
Memorandum Items:			
Fund credit (average stock, SDR billions)	32.4	39.4	38.3
SDR interest rate (in percent)	0.90	1.60	2.10
US$/SDR exchange rate	1.50	1.50	1.50

Source: Finance Department and Office of Budget and Planning

1/ Excludes profit from gold sales and income retained to preserve the real value of gold endowment.

2/ Interest free resources reduce the Fund's remuneration expenses. SCA-1 contributions are currently the main source of these resources. Gold sales would increase these resources because proceeds equal to the book value of gold would be retained in the GRA, reducing reserve tranche positions.

3/ The IAS 19 expenses are determined by an independent actuary on an annual basis. The actuarial valuations to determine IAS 19 expenses for FY 2010-2012 have not yet been conducted.

4/ Estimate of gold endowment income retained in the Investment Account to preserve the real value of the endowment.

5/ Net income on the basis presented in the Fund's annual IFRS financial statements.

Annex V. Cumulative Burden Sharing Adjustments by Member as of end-January 2009

(In millions of SDRs unless otherwise indicated)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Albania	0.1	0.0	0.1	0.01	0.1	0.0	0.1	0.01
Algeria	7.4	0.4	7.8	1.13	13.2	0.5	13.6	1.15
Angola	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Argentina	31.0	-	31.0	4.48	64.7	-	64.7	5.45
Armenia	0.1	0.0	0.1	0.01	0.2	0.0	0.2	0.02
Australia	-	2.9	2.9	0.41	-	7.0	7.0	0.59
Austria	-	4.5	4.5	0.65	-	7.6	7.6	0.64
Azerbaijan	0.3	-	0.3	0.05	0.9	-	0.9	0.08
Bahamas, The	-	0.0	0.0	0.01	-	0.0	0.0	0.00
Bahrain	-	0.7	0.7	0.10	-	0.9	0.9	0.07
Bangladesh	3.1	-	3.1	0.45	2.9	-	2.9	0.24
Barbados	0.1	0.0	0.2	0.02	0.2	0.0	0.2	0.02
Belarus	0.4	-	0.4	0.06	1.0	-	1.0	0.09
Belgium	-	6.1	6.1	0.88	-	12.3	12.3	1.04
Belize	0.0	0.0	0.1	0.01	0.0	0.0	0.1	0.01
Bhutan	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Bolivia	0.9	-	0.9	0.13	0.9	-	0.9	0.08
Bosnia	0.5	-	0.5	0.07	0.8	-	0.8	0.07
Botswana	-	0.2	0.2	0.03	-	0.3	0.3	0.03
Brazil	23.8	-	23.8	3.44	57.4	-	57.4	4.83
Brunei Darussalam	-	0.1	0.1	0.01	-	0.3	0.3	0.02
Bulgaria	3.7	0.1	3.8	0.54	8.2	0.1	8.3	0.70
Burkina Faso	-	0.1	0.1	0.01	-	0.1	0.1	0.01
Burundi	0.0	0.0	0.0	0.01	0.0	0.0	0.0	0.00
Cambodia	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Cameroon	0.7	-	0.7	0.11	0.8	-	0.8	0.06
Canada	-	5.9	5.9	0.86	-	14.3	14.3	1.20
Cape Verde	-	0.0	0.0	0.00	-	-	0.0	0.00
Central African Republic	0.1	-	0.1	0.02	0.1	-	0.1	0.01
Chad	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Chile	5.8	0.5	6.3	0.92	5.7	1.6	7.3	0.62
China	4.0	7.5	11.6	1.67	3.5	16.2	19.7	1.66
Colombia	-	1.3	1.3	0.19	-	2.3	2.3	0.19
Comoros	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Congo, D.R.	3.4	-	3.4	0.49	3.9	-	3.9	0.33
Congo, Rep.	0.1	-	0.1	0.02	0.2	-	0.2	0.01
Costa Rica	0.4	0.0	0.5	0.07	0.5	0.1	0.6	0.05
Cote d'Ivoire	2.4	-	2.4	0.35	2.4	-	2.4	0.20
Croatia	1.1	-	1.1	0.16	1.6	-	1.6	0.13
Cyprus	-	0.2	0.2	0.03	-	0.4	0.4	0.03

Cumulative Burden Sharing Adjustments by Member as of end-January 2009 (continued)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Czech Republic	2.2	0.2	2.4	0.35	2.7	0.6	3.3	0.28
Denmark	-	3.5	3.5	0.50	-	6.2	6.2	0.52
Djibouti	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Dominica	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Dominican Republic	2.3	-	2.3	0.34	2.2	-	2.2	0.18
Ecuador	2.0	0.1	2.1	0.30	2.6	0.1	2.7	0.23
Egypt	1.4	0.1	1.5	0.22	1.5	0.2	1.7	0.14
El Salvador	0.0	-	0.0	0.01	0.0	-	0.0	0.00
Equatorial Guinea	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Estonia	0.1	-	0.1	0.02	0.3	-	0.3	0.02
Ethiopia	0.2	0.0	0.2	0.03	0.2	0.0	0.2	0.02
Fiji	0.0	0.1	0.1	0.02	0.0	0.2	0.2	0.01
Finland	-	2.6	2.6	0.38	-	4.6	4.6	0.38
France	-	18.5	18.5	2.68	-	33.5	33.5	2.82
Gabon	0.7	-	0.7	0.09	1.0	-	1.0	0.08
Gambia, The	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Georgia	0.2	-	0.2	0.02	0.4	-	0.4	0.03
Germany	-	38.0	38.0	5.49	-	59.1	59.1	4.98
Ghana	1.7	0.0	1.7	0.24	1.8	0.0	1.8	0.15
Greece	-	1.1	1.1	0.16	-	2.1	2.1	0.18
Grenada	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Guatemala	0.4	0.0	0.4	0.06	0.3	0.0	0.3	0.03
Guinea	0.1	-	0.1	0.02	0.1	-	0.1	0.01
Guinea-Bissau	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Guyana	0.4	-	0.4	0.06	0.4	-	0.4	0.04
Haiti	0.2	-	0.2	0.03	0.3	-	0.3	0.03
Honduras	0.4	0.0	0.4	0.06	0.6	0.0	0.7	0.05
Hungary	5.9	0.4	6.3	0.92	6.9	1.3	8.2	0.69
Iceland	0.0	0.1	0.1	0.01	0.0	0.1	0.1	0.01
India	24.0	2.3	26.3	3.80	28.4	3.4	31.9	2.68
Indonesia	14.7	0.9	15.6	2.26	42.5	1.6	44.0	3.71
Iran, I. Rep. of	-	0.1	0.1	0.01	-	0.0	0.0	0.00
Iraq	0.6	0.4	1.0	0.15	0.6	0.3	0.9	0.08
Ireland	-	1.9	1.9	0.28	-	3.3	3.3	0.28
Israel	0.6	0.3	0.8	0.12	0.9	0.9	1.7	0.15
Italy	-	17.4	17.4	2.52	-	28.2	28.2	2.37
Jamaica	2.5	-	2.5	0.37	2.9	-	2.9	0.25
Japan	-	39.5	39.5	5.70	-	64.5	64.5	5.43
Jordan	1.7	0.0	1.7	0.24	3.1	0.0	3.1	0.26
Kazakhstan	0.8	-	0.8	0.11	1.7	-	1.7	0.15

Cumulative Burden Sharing Adjustments by Member as of end-January 2009 (continued)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Kenya	1.2	0.0	1.2	0.17	1.1	0.0	1.1	0.09
Kiribati	-	0.0	0.0	0.00	-	-	0.0	0.00
Korea	7.8	3.3	11.1	1.60	19.6	5.0	24.6	2.07
Kuwait	-	2.7	2.7	0.39	-	4.2	4.2	0.35
Kyrgyz Republic	0.1	-	0.1	0.02	0.3	-	0.3	0.02
Lao P.D.R	0.0	-	0.0	0.00	0.0	-	0.0	0.00
Latvia	0.3	-	0.3	0.04	0.5	-	0.5	0.05
Lebanon	0.1	0.3	0.4	0.06	-	0.3	0.3	0.03
Lesotho	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Liberia	2.3	-	2.3	0.33	3.1	-	3.1	0.26
Libya	-	5.0	5.0	0.72	-	6.4	6.4	0.54
Lithuania	0.5	-	0.5	0.08	1.2	-	1.2	0.11
Luxembourg	-	0.3	0.3	0.04	-	0.6	0.6	0.05
Macedonia, F.Y.R.	0.3	-	0.3	0.04	0.5	-	0.5	0.04
Madagascar	0.4	-	0.4	0.06	0.4	-	0.4	0.03
Malawi	0.3	-	0.3	0.04	0.3	-	0.3	0.03
Malaysia	-	3.1	3.1	0.45	-	5.8	5.8	0.49
Maldives	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Mali	0.2	0.1	0.2	0.03	0.2	0.1	0.2	0.02
Malta	-	0.4	0.4	0.06	-	0.5	0.5	0.05
Mauritania	0.2	-	0.2	0.03	0.2	-	0.2	0.02
Mauritius	0.2	0.0	0.2	0.03	0.1	0.1	0.2	0.02
Mexico	38.3	0.6	38.9	5.62	57.0	1.2	58.2	4.90
Micronesia	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Moldova	0.5	-	0.5	0.07	1.1	-	1.1	0.09
Mongolia	0.0	-	0.0	0.01	0.1	-	0.1	0.01
Montenegro, Rep. of	-	0.0	0.0	0.00	-	-	0.0	0.00
Morocco	2.8	0.2	2.9	0.42	2.8	0.3	3.0	0.26
Myanmar	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Namibia	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Nepal	0.1	0.0	0.2	0.02	0.1	0.0	0.1	0.01
Netherlands	-	9.6	9.6	1.38	-	17.7	17.7	1.49
New Zealand	-	0.6	0.6	0.09	-	1.8	1.8	0.15
Nicaragua	0.1	-	0.1	0.01	0.1	-	0.1	0.01
Niger	0.2	0.1	0.3	0.04	0.2	0.1	0.3	0.03
Norway	-	6.3	6.3	0.91	-	9.2	9.2	0.77
Oman	-	0.5	0.5	0.07	-	0.7	0.7	0.06
Pakistan	6.3	-	6.3	0.91	9.4	-	9.4	0.79
Panama	1.2	0.0	1.2	0.17	1.5	0.0	1.6	0.13
Papua New Guinea	0.3	0.0	0.3	0.05	0.6	0.0	0.6	0.05

Cumulative Burden Sharing Adjustments by Member as of end-January 2009 (continued)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Paraguay	-	0.2	0.2	0.03	-	0.2	0.2	0.02
Peru	7.1	-	7.1	1.03	9.4	-	9.4	0.80
Philippines	9.2	0.4	9.6	1.38	14.4	0.6	15.0	1.26
Poland	3.4	0.5	3.9	0.56	4.1	1.5	5.6	0.47
Portugal	0.8	2.0	2.7	0.40	0.8	3.8	4.6	0.38
Qatar	-	0.4	0.4	0.05	-	0.7	0.7	0.05
Romania	4.4	-	4.4	0.63	7.4	-	7.4	0.62
Russian Federation	23.7	0.0	23.8	3.43	61.9	-	61.9	5.21
Rwanda	0.0	0.0	0.1	0.01	0.1	0.0	0.1	0.01
Samoa	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
San Marino	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Saudi Arabia	-	10.5	10.5	1.52	-	17.1	17.1	1.44
Senegal	0.5	-	0.5	0.08	0.6	-	0.6	0.05
Serbia	1.7	-	1.7	0.24	3.2	-	3.2	0.27
Seychelles	0.0	0.0	0.0	0.00	-	0.0	0.0	0.00
Sierra Leone	0.5	-	0.5	0.07	0.5	-	0.5	0.04
Singapore	-	1.8	1.8	0.26	-	3.2	3.2	0.27
Slovak Republic	1.6	0.0	1.6	0.23	2.5	0.0	2.5	0.21
Slovenia	0.4	0.1	0.5	0.08	0.4	0.4	0.8	0.07
Solomon Islands	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Somalia	1.1	-	1.1	0.16	1.5	-	1.5	0.13
South Africa	1.7	-	1.7	0.24	2.9	-	2.9	0.25
Spain	-	11.0	11.0	1.59	-	16.3	16.3	1.37
Sri Lanka	2.0	0.1	2.1	0.31	2.1	0.1	2.3	0.19
St. Kitts and Nevis	0.0	-	0.0	0.00	0.0	-	0.0	0.00
St. Vincent and the Grenadines	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Sudan	6.1	-	6.1	0.88	8.3	-	8.3	0.70
Suriname	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Swaziland	0.0	0.0	0.0	0.00	0.0	0.0	0.0	0.00
Sweden	-	4.5	4.5	0.65	-	8.2	8.2	0.69
Switzerland	-	4.3	4.3	0.62	-	10.8	10.8	0.91
Tajikistan	0.0	-	0.0	0.00	0.1	-	0.1	0.01
Tanzania	0.3	-	0.3	0.05	0.3	-	0.3	0.02
Thailand	4.1	1.2	5.3	0.77	9.0	2.0	11.0	0.92
Togo	0.2	-	0.2	0.02	0.2	-	0.2	0.01
Tonga	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Trinidad and Tobago	1.5	0.2	1.7	0.24	1.5	0.3	1.7	0.15
Tunisia	2.4	0.0	2.5	0.35	2.8	0.1	2.8	0.24
Turkey	25.5	0.3	25.8	3.73	50.9	0.5	51.4	4.33
Uganda	0.4	-	0.4	0.06	0.3	-	0.3	0.03

Cumulative Burden Sharing Adjustments by Member as of end-January 2009 (concluded)

	Adjustments for Deferred Charges				Adjustments for SCA-1			
Member	Charges	Remuneration	Total	Percentage of total	Charges	Remuneration	Total	Percentage of total
Ukraine	5.1	-	5.1	0.74	12.2	-	12.2	1.03
United Arab Emirates	-	2.2	2.2	0.32	-	3.3	3.3	0.28
United Kingdom	-	13.0	13.0	1.88	-	25.8	25.8	2.18
United States	-	100.3	100.3	14.49	-	157.9	157.9	13.30
Uruguay	2.2	0.0	2.2	0.32	5.8	0.0	5.9	0.49
Uzbekistan	0.3	-	0.3	0.04	0.8	-	0.8	0.06
Vanuatu	-	0.0	0.0	0.00	-	0.0	0.0	0.00
Venezuela	15.4	2.0	17.4	2.52	19.8	2.4	22.2	1.87
Vietnam	0.6	-	0.6	0.09	0.9	-	0.9	0.07
Yemen, Rep. of	0.3	0.0	0.3	0.04	0.7	0.0	0.7	0.06
Zambia	5.2	-	5.2	0.75	5.5	-	5.5	0.46
Zimbabwe	0.8	-	0.8	0.12	1.6	-	1.6	0.14
	345.6	346.4	692.0	100.00	603.8	583.9	1,187.7	100.00

Values of 0.0 represent amounts of less than SDR 0.1 million; "-" denotes no adjustments.

1/ Adjustments to charges and remuneration are billed quarterly; the most recent billing was for the quarter ending January 31, 2009.

Annex VI. Reconciliation of Administrative Expenses (FY 2008 and FY 2009)
(In millions of U.S. dollars unless otherwise indicated)

	FY 2009	FY 2010
Net administrative expenditures	818	905
Capital budget expenditures not capitalized	17	17
Depreciation expense	36	39
Total administrative expenses 1/	871	961
Total administrative expenses in SDRs 2/	562	641

1/ Excludes restructuring expenses.
2/ Based on the average U.S. dollar/SDR exchange rate of 1.55 for FY 2009 and a projected average rate of 1.50 for FY 2010.