

INTERNATIONAL MONETARY FUND

Proposal for a Post-Catastrophe Debt Relief Trust Fund—Proposed Decisions

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

Approved by Sean Hagan, Reza Moghadam, and Andrew Tweedie

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1. This paper sets forth the proposed decisions and related legal instruments that are needed to implement the arrangements set forth in [Proposal for a Post-Catastrophe Debt Relief Trust Fund](#), which have been endorsed by most Directors. It discusses adjustments made to the proposal following the May 19, 2010 Executive Board meeting, and also summarizes key aspects of the proposed decisions and related instruments. The related documents include the Instrument to Establish the Post-Catastrophe Debt Relief Trust (the “PCDR Trust” or “Trust”) and the Terms and Conditions for Administration of the PCDR Trust Umbrella Account (the “Umbrella Account”).

I. OVERVIEW

2. The PCDR Trust would have the key substantive features set forth in [Proposal for a Post-Catastrophe Debt Relief Trust Fund](#), although certain specific aspects would be adjusted to reflect views expressed by Directors during the Board discussion of the proposal. Specifically, compared with the original proposal:

- The link between updated debt sustainability assessments and the “criticality” test for stock of debt relief from the PCDR Trust has been amplified and clarified (PCDR Trust Instrument Section III, paragraph 2(b)(i)). Specifically, resources freed up by stock relief would normally be considered critical for meeting the member’s needs only if, based on an updated debt sustainability analysis, the member has a high level of debt in relation to GDP or exports, typically resulting in an assessment that the member is in debt distress or has a high risk of debt distress.
- A minimum post-catastrophe “cooling-off” period of six months would normally apply before the Fund may take a decision on a member’s qualification for stock of debt relief (Section III, paragraph 2(b)(ii)) of the Instrument). This six month period would provide time to collect the necessary information on the catastrophic disaster

and the international community's response and to undertake the needed economic and debt sustainability analysis in order to assess qualification for debt stock relief.

3. While most Directors supported the original proposal's income criterion for PCDR eligibility, a few Directors would have preferred a higher income cut-off, in particular for small states. It is not proposed to amend the income eligibility criteria, reflecting several considerations. First, the Fund can generally provide effective support through existing PRGT and GRA instruments to meet financing needs created by catastrophic disasters. The purpose of the PCDR is to supplement this with additional exceptional support in the form of debt relief for the *poorest* countries where the economic and human toll of disasters can be particularly severe and long-lasting.¹ Second, scarce grant resources are most efficiently used when targeted at those member countries that are most in need of concessional support. The income cut-off for PCDR eligibility thus covers in practice those low-income countries that would in almost all cases use PRGT-only financing rather than a blend of PRGT and GRA resources. Third, the income threshold for small states is set at twice the IDA operational cut-off, which takes into account the particular vulnerabilities of small states and is consistent with the Fund's approach to entry onto the PRGT eligibility list; it would be useful to avoid having different small state thresholds for different Fund LIC purposes.

4. The PCDR Trust is established separate from the PRGT, and no changes are proposed to the Fund's existing concessional facilities architecture. Guidance on emergency post-catastrophe financing and subsequent financial support under the PRGT is discussed in Section III of [Proposal for a Post-Catastrophe Debt Relief Trust Fund](#), including that access to post-catastrophe PRGT financing would typically be moderate or low (i.e. below the access norm), as the country's policy capacity would typically be severely constrained, much of the financing needs would be expected to be met by donor grants, and PCDR debt relief would in itself provide exceptional balance of payments support complementing the Fund's lending under the PRGT. For instance, while an emergency disbursement through the PRGT would typically not exceed 50 percent of quota (the annual ceiling for access under the shocks window of the Rapid Credit Facility), it would often be at lower access levels in light of the above factors. Future staff operational guidance will also clarify that the substantial reduction in debt vulnerabilities resulting from post-catastrophe debt relief would not be a justification for setting access at or above the norm for subsequent Fund arrangements.

5. Two separate decisions are proposed for adoption by the Executive Board:

- Decision A governs the establishment of the PCDR Trust and sets forth (in its Attachment) the substantive terms and conditions for the operation of that Trust.

¹ The approach of targeting the poorest LICs is also consistent with the debt relief provided under the MDRI-I Trust, which was available only to PRGT-eligible members with per capita incomes below US\$380 a year, a much lower threshold than that applicable for PRGT eligibility at the time of the MDRI.

- Decision B, which would only be adopted if Decision A is adopted, is a more technical provision governing the Umbrella Account that would be used to effect disbursements to members from the PCDR Trust.

II. SUMMARY OF KEY PROVISIONS

Decision A

6. Key features of Decision A are summarized in this paragraph (the terms of the PCDR Trust Instrument attached to Decision A are discussed in paragraph 7 below). Parenthetical cross-references throughout this paper are to the relevant paragraphs of the proposed decisions, Trust Instrument or Umbrella Account conditions, as applicable:

- As with other concessional financing trusts previously established by the Fund, the PCDR Trust would be established pursuant to Article V, Section 2(b) of the Articles of Agreement (paragraph 1). This provision authorizes the Fund, upon request, to provide financial services that are consistent with the purposes of the Fund. A request for establishment of the PCDR Trust has been received from a group of Executive Directors (Mr. Hockin and Ms. Lundsager).
- The decision addresses the financing arrangements for the PCDR Trust (paragraph 2), by amending the MDRI-I Trust so as to authorize the transfer from that Trust (through the Special Disbursement Account (“SDA”)) to the PCDR Trust of SDR 280 million of excess SDA resources currently in the MDRI-I Trust. As this is a new use of this portion of the Fund’s SDA resources, this amendment (and hence Decision A overall) would require an 85 percent majority of the total voting power for its adoption, as discussed in [*Proposal for a Post-Catastrophe Debt Relief Trust Fund*](#).²
- Paragraphs 3 and 4 of Decision A contain other technical provisions typically found in the Board decisions on similar trusts. First, consistent with Article V, Section 12(i) and the approach followed in other cases involving trusts that are initially funded with SDA-only resources (e.g., MDRI-I Trust), the decision would provide for PCDR Trust reimbursement of the GRA for the costs of administering the PCDR Trust. Again consistent with the precedents, this provision would exclude expenses already attributed to other accounts or trusts administered by the Fund (paragraph 3).³

² As discussed in *Proposal for a Post-Catastrophe Debt Relief Trust Fund*, no contributor consent is required for the MDRI-I Trust amendment, as there are currently no third party resources in that Trust, but rather only SDA resources.

³ The amounts to be reimbursed to the GRA by the PCDR Trust are expected to be minimal, as much of the work related to the PCDR Trust is expected to arise in the context of activities attributed to other trusts (particularly the PRGT in respect of post-catastrophe disbursements from that Trust to the member).

Separately, the decision also includes standard SDR “prescription” provisions, which are intended to facilitate the use of SDRs by the PCDR Trust (paragraph 4).

7. The PCDR Trust Instrument attached to Decision A contains the key features, terms and conditions for the Trust which, as noted earlier, are consistent with the proposals in [Proposal for a Post-Catastrophe Debt Relief Trust Fund](#) and are discussed in more detail in that earlier staff report. Key aspects may be summarized as follows:

- *Overall Structure:* The overall structure of the Trust Instrument and its standard provisions governing the management and administration of the Trust (Sections I-II and Section IV) are similar to comparable provisions in other Fund debt relief trusts; i.e., the PRG-HIPC Trust and the more recent MDRI Trusts.
- *Eligibility for Debt Relief:* As discussed above, the provisions on eligibility (Section III, paragraph 1) specify that members must both be on the PRGT eligibility list and meet the income criteria for entry onto that list (including the more flexible requirements for small states) as recently approved by the Executive Board.⁴
- *Eligible Debt:* Eligible debt for PCDR purposes includes (i) all outstanding debt to the Fund as of the date of the catastrophe in respect of which the member had made regular scheduled debt service payments (interest and amortization) before the disaster, plus (ii) any disbursements made normally within four months following the catastrophe. The coverage of only debt on which regular scheduled payments were made pre-catastrophe is justified by the purpose of PCDR Trust financing, which is to free up resources for recovery related needs by relieving the debt service the member would otherwise have paid to the Fund.⁵ While not covered by PCDR debt relief, debt in protracted arrears owed by members hit by a qualifying catastrophe would be expected to be addressed by the application of flexibility in accepting significantly reduced payments to sustain cooperation in the context of the Fund’s strategy on overdue financial obligations.⁶ The concept of eligible debt under the PCDR Trust also excludes debt that is covered by assistance under other Fund debt relief trusts.

⁴ See Executive Board Decision No. 14521-(10/3), January 11, 2010, and *Eligibility to Use the Fund’s Facilities for Concessional Financing*.

⁵ In the case of debt in protracted arrears, as members are by definition not paying to the Fund their due obligations in full, there is no clear and objective basis for determining how much debt service (if any) such members would make after a catastrophic disaster. Providing such members with PCDR grants to pay debt service on debt already in arrears would therefore not necessarily achieve the purpose of the Trust, which is to free up additional resources for recovery.

⁶ While the Fund’s existing policy on de-escalation of remedial measures establishes a general expectation that members will make payments at least equal to newly maturing obligations, the need for flexibility has been recognized, particularly in post-conflict situations (e.g., in the recent case of Liberia, only token payments were

(continued)

- *Debt Flow Relief:* Section III, paragraph 2 contains the requirements that must be met in order for an eligible member to qualify for debt flow relief and, in appropriate cases, debt stock relief. Debt flow relief is disbursed without any further substantive requirements once the Fund concludes that the member has a balance of payments need resulting from a Qualifying Catastrophic Disaster (Section III, paragraph 2(a)). It is provided to cover all payments falling due on the member's eligible debt from the date of the debt flow relief decision to the second anniversary of the Qualifying Catastrophic Disaster (Section III, paragraph 3(a)).⁷
- *Debt Stock Relief:* Debt stock relief is provided to enable the early repayment of eligible debt held by the member on the second anniversary of the catastrophe or the date the Fund determines that the requirements for disbursement of debt stock relief have been met, whichever is later (Section III, paragraph 3(b)(i)). Certain specific requirements must be met both for a member to be found qualified for debt stock relief, and for the subsequent delivery of that relief. The requirements for qualification for debt stock relief (Section III, paragraph 2) are analogous to the qualification determinations made at the decision point under the HIPC Initiative, while those governing the actual delivery of debt stock relief (Section III, paragraph 3) are analogous to HIPC Initiative completion point provisions. Specifically, as under the HIPC Initiative, debt stock relief is only *committed* when the member is determined to qualify for it (Section III, paragraph 3(b)(i)); delivery of that assistance to the member's subaccount is made only when the Fund determines that the applicable creditor participation, cooperation and track record requirements for debt stock relief are met (Section III, paragraph 3(b)(ii)).⁸
- *Administration of the Trust:* As under the PRG-HIPC and MDRI Trusts, resources may be provided to the Trust in any currency, and contributions to the Trust may be made in or exchanged for SDRs (Section I, paragraph 4). In addition, resources held in the Trust pending use would be invested in the same instruments as resources of

made in the lead up to de-escalation and normalization of Fund relations given the member's severely limited payments capacity). A clarification regarding the exercise of similar flexibility in the first couple of years following a catastrophic disaster could be added to the current policy in the context of the next annual review of the strategy on overdue financial obligations.

⁷ As debt flow relief is only available for amounts falling due from the date of the relief decision, there would be no "refund" or other retroactive adjustment for debt service payments made to the Fund subsequent to the catastrophe but prior to the date of that decision.

⁸ There could thus be a gap in a member's receipt of assistance from the PCDR Trust, if the member were to meet the requirements for stock debt relief later than the second anniversary of the catastrophe (as debt flow relief only covers amounts due from the member in the first two years after the disaster). The member would have to make debt service payments (interest and principal) out of its own resources until it is found by the Fund to meet the requirements for delivery of debt stock relief.

the PRG-HIPC and MDRI Trusts may be invested (Section IV, paragraph 3).⁹ The Fund is authorized to amend the Trust Instrument, but amendment of certain provisions can be effected only with the consent of contributors (Section VI). Again as under the existing debt relief trusts, these “protected” provisions requiring consent are generally those that affect the interests of contributors, and relate to the purposes of the Trust and the rules for its administration and liquidation.

Decision B

8. Regarding Decision B:

- The Umbrella Account established by that decision is substantially similar to the similarly named account that exists under the PRG-HIPC Trust. As under the HIPC Initiative, this account would be established by the Fund as trustee of the PCDR Trust pursuant to the provisions of that Trust. Once the PCDR Trust Umbrella Account is established, all debt relief resources disbursed by the Trust to a member would be placed in a specific subaccount (within the Umbrella Account) established for the benefit of the member; donors may also make direct contributions to the member via a transfer to this subaccount.
- Resources in a member’s Umbrella Account subaccount are invested pending their use,¹⁰ and are ultimately used to make payments on the member’s eligible debt, consistent with the terms of the PCDR Trust Instrument governing debt flow relief and debt stock relief (discussed above). Unlike under the HIPC Initiative, however, excess resources in a member’s subaccount (i.e., resources remaining after all PCDR eligible debt has been repaid according to the terms of the PCDR Trust) would be transferred from the subaccount back to the PCDR Trust, where they would be available to fund debt relief to other eligible members.¹¹

⁹ The PCDR Trust and the Umbrella Account do not require that the consent of the issuer of a currency be obtained prior to certain transactions involving the member’s currency. Although a similar provision has been included in other Trust Instruments adopted by the Fund, it is not mandatory under the Articles, and staff is of the view that it is not needed for the PCDR Trust and the Umbrella Account, given the likely scale of the transactions.

¹⁰ The investment authority proposed for resources of the PCDR Trust Umbrella Account is similar to that applicable to the Umbrella Account of the PRG-HIPC Trust.

¹¹ Under the terms of the PRG-HIPC Trust (and subject to certain limited exceptions related to data reporting), amounts disbursed to members’ HIPC subaccounts constitute assets that have been irrevocably transferred to the member by the Trust.

III. PROPOSED DECISIONS

Accordingly, the following two decisions are proposed for adoption by the Executive Board. Decision A may be adopted by an 85 percent majority of the total voting power. Decision B may be adopted by a majority of the votes cast, and would be taken by the Executive Board for the Fund as Trustee of the PCDR Trust that is proposed to be established pursuant to Decision A. *Accordingly, Decision B is proposed for adoption only in the event that Decision A is adopted.*

A. Establishment of the Post-Catastrophe Debt Relief Trust and Related Matters

1. Pursuant to Article V, Section 2(b), the Fund adopts the Instrument to Establish the Post-Catastrophe Debt Relief Trust (“PCDR Trust” or “Trust”) that is annexed as Attachment I to this decision. It is expected that the Fund shall review the financing and operations of the PCDR Trust at least every five years.

2. Section V of the Multilateral Debt Relief Initiative Trust-I, annexed to Decision No. 13588-(05/99) MDRI, adopted November 23, 2005, shall be amended as follows:

(a) The title of Section V shall be revised to read: “Period of Operation, Reduction of Balances and Liquidation.”

(b) Paragraph “2” shall become paragraph “3” and a new paragraph 2 shall be added to read as follows:

“Paragraph 2. *Reduction of Balances:*

Prior to the liquidation of the Trust in accordance with paragraph 3 below, the equivalent of SDR 280 million of the resources in the Account shall be transferred from the Account (through the Special Disbursement Account) to the Post-Catastrophe Debt Relief Trust established pursuant to Decision No. 14649-(10/64).”

3. In accordance with Article V, Section 12(i), the General Resources Account of the Fund shall be reimbursed annually by the PCDR Trust, from resources transferred to the

PCDR Trust from the SDA, in respect of the expenses of administering SDA resources in the PCDR Trust, other than expenses already attributed to other accounts or trusts administered by the Fund, or to the General Resources Account.

4. In accordance with Article XVII, section 3, the Fund prescribes that:

(a) an SDR Department participant or prescribed holder, by agreement with an SDR Department participant or prescribed holder and at the instruction of the Fund, may transfer SDRs to that participant or prescribed holder in effecting a transfer to or from (i) the PCDR Trust, or (ii) the Account and subaccounts established pursuant to Section III, paragraph 4(b) of the PCDR Trust Instrument; or in effecting a payment due to or by the Fund in connection with financial operations under the PCDR Trust or the referred accounts; and

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

B. PCDR Trust Umbrella Account—Establishment of Account and Terms and Conditions

Pursuant to Section III, paragraph 4(b) of the Instrument to Establish the Post-Catastrophe Debt Relief Trust (“PCDR Trust”), the Fund, as Trustee of the PCDR Trust, (a) establishes the PCDR Trust Umbrella Account provided for under Section III, paragraph 4(b) of the PCDR Trust Instrument, and (b) adopts the terms and conditions for the administration of the PCDR Trust Umbrella Account that are set forth in Attachment A to this decision.

Attachment I. Instrument to Establish the Post-Catastrophe Debt Relief Trust

To help fulfill its purposes, the International Monetary Fund (the “Fund”), pursuant to Article V, Section 2(b) of the Fund’s Articles of Agreement, has adopted this Instrument to Establish the Post-Catastrophe Debt Relief Trust (the “Trust”), which shall be administered by the Fund as Trustee (the “Trustee”). The Trust shall be governed by, and administered in accordance with, the following provisions:

*Section I. General Provisions**Paragraph 1. Purposes*

The Trust shall assist in fulfilling the purposes of the Fund by providing balance of payments assistance in the form of grants (“Trust grants”) to eligible low-income members that qualify for assistance under the terms of this Instrument. Trust grants shall be used to deliver temporary relief of debt service payments (interest and principal) on such members’ eligible debt (“debt flow relief”) and, in appropriate cases, permanent debt relief on such debt (“debt stock relief”), subject to the terms of this Instrument, including the requirements set forth in Section III of this Instrument.

Paragraph 2. Trust Account and resources

- (a) The operations and transactions of the Trust shall be conducted through an account (“the Account”). Within the Account, the Trustee may establish such sub-accounts as it deems necessary for the administration of the resources held in the Account.
- (b) The resources held in the Account shall consist of:

- (i) transfers from the Special Disbursement Account in accordance with Section V, paragraph 2 of the Multilateral Debt Relief Initiative-I Trust established pursuant to Decision No. 13588-(05/99) MDRI, as amended by Decision No. 14649-(10/64);
- (ii) grant contributions made to the Trust for the purposes set forth in Section I, paragraph 1;
- (iii) loans, deposits and other types of investments made by contributors with the Trust to generate income to be used for the purposes set forth in Section I, paragraph 1; and
- (iv) net earnings from investment of resources held in the Account.

Paragraph 3. *Unit of Account*

The SDR shall be the unit of account for commitments and all other operations and transactions of the Trust, provided that commitments for contributions may also be made in currency.

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

- (a) Resources provided to the Account shall be in any currency.
- (b) Payments by the Trust shall be made in U.S. dollars or such other media as may be agreed between the Trustee and the payee.

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

(d) The Trustee may exchange any of the resources of the Trust for other resources.

Section II. *Contributions to the Trust*

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

Section III. *Trust Grants*

Paragraph 1. *Eligibility for assistance*

In order to be eligible for either debt flow relief or debt stock relief from the Trust, a member shall meet the following requirements:

- (a) the member is PRGT-eligible (i.e., is included in the list of members annexed to Decision No. 8240-(86/56) SAF, as amended); and
- (b) the member has an annual per capita gross national income, as assessed by the Trustee in accordance with paragraph 1(E) of Decision No. 14521-(10/3), that is below the International Development Association operational cut-off or, for a member qualifying as a “small country” under the definition set forth in

paragraph 1(D) of that decision, is less than twice the International Development Association operational cut-off.

Paragraph 2. *Qualification for assistance*

The Trustee shall determine whether an eligible member qualifies under this Instrument for debt flow relief and, in appropriate cases, for debt stock relief, in accordance with the respective criteria set forth below:

(a) *Debt Flow Relief*

An eligible member shall qualify for debt flow relief when the Trustee determines that the member is experiencing a balance of payments need that arises from a Qualifying Catastrophic Disaster. For purposes of this Instrument, a Qualifying Catastrophic Disaster shall mean an exceptional natural disaster occurring any time after January 1, 2010 that the Trustee determines, based on available information, including preliminary estimates, has had the following effects on the member:

- (i) a large portion of the member's population has been directly affected (i.e., deceased, injured, and/or displaced), such portion normally being at least one-third of the population; and
- (ii) a large portion of the member's economy has been directly affected, as evidenced by either (I) the destruction of more than a quarter of the member's productive capacity measured by destroyed structures, impact on key economic sectors and public institutions, and other relevant early indicators,

or (II) damage in an amount exceeding 100 percent of the member's GDP prior to the Qualifying Catastrophic Disaster.

(b) *Debt Stock Relief*

- (i) An eligible member that qualifies for debt flow relief shall also qualify for debt stock relief when the Trustee determines, based on available information, that: (I) the member has substantial balance of payments needs that have been created or exacerbated by the Qualifying Catastrophic Disaster and the subsequent economic recovery efforts and are expected to persist beyond the period covered by debt flow relief; and (II) the resources that would be freed up by the debt stock relief would be critical for meeting these needs. For purposes of (II), resources would normally be considered critical for meeting the member's needs only if, based on an updated debt sustainability analysis conducted after the Qualifying Catastrophic Disaster, the member has a high level of debt in relation to GDP or exports prior to the delivery of any debt relief after the Qualifying Catastrophic Disaster, typically resulting in an assessment that the member is in debt distress or has a high risk of debt distress.
- (ii) Decisions on a member's qualification for debt stock relief will normally be adopted by the Trustee in the period beginning six months after the occurrence of the Qualifying Catastrophic Disaster and ending in all cases no later than twenty-four months after such disaster.

Paragraph 3. *Amount and delivery of assistance*

The Trustee shall deliver assistance to eligible members that it has determined qualify for debt flow relief or debt stock relief in accordance with the following terms:

(a) *Debt Flow Relief*

- (i) Upon a determination that a member qualifies for debt flow relief pursuant to paragraph 2(a) above, the Trustee shall disburse to the subaccount established for the benefit of the member pursuant to paragraph 4(b) below a Trust grant in an amount equivalent to all payments on the member's eligible debt falling due within the period beginning on the date of the debt flow relief decision and ending two years after the occurrence of the Qualifying Catastrophic Disaster. For the purposes of this paragraph 3, eligible debt shall be defined as all of the member's debt to the Fund (including to the Fund as Trustee) that was outstanding as of the date of the Qualifying Catastrophic Disaster and in respect of which the member had made regular scheduled debt service payments (interest and principal) before the Qualifying Catastrophic Disaster, plus any disbursements by the Fund (including by the Fund as Trustee) to the member made normally within four months following such disaster, but shall exclude any debt to the Fund that is scheduled to be repaid with assistance under other debt relief trusts administered by the Fund.

(b) *Debt Stock Relief*

- (i) Upon a determination that a member qualifies for debt stock relief pursuant to paragraph 2(b) above, the Trustee shall commit an amount up to which the

Trust will disburse a Trust grant for debt stock relief to the member pursuant to subparagraph 3(b)(ii) below. The amount committed shall be the amount needed to effect the early repayment of the member's eligible debt that is outstanding as of the second anniversary of the occurrence of the Qualifying Catastrophic Disaster. The amount actually disbursed pursuant to subparagraph 3(b)(ii) below shall be the amount needed to effect the early repayment of the member's eligible debt that is outstanding as of the second anniversary of the occurrence of the Qualifying Catastrophic Disaster or on the date of the Trustee's decision to disburse debt stock relief, whichever is later.

- (ii) The Trustee shall disburse debt stock relief in the amount specified in paragraph 3(b)(i) above to the subaccount established for the benefit of the member pursuant to paragraph 4(b) below as of the date the Trustee determines that: (I) a concerted effort exists within the international community to provide similar debt relief to the member, which shall be evidenced by satisfactory assurances regarding the debt relief to be provided by the member's other official sector creditors whose debts together account for at least eighty percent of the member's total sovereign external debt outstanding to official creditors (less amounts due to the Fund) at the time of the Qualifying Catastrophic Disaster, (II) the member has provided assurances that it will cooperate with the Trustee in an effort to find solutions to its balance of payments problems and will refrain from any inappropriate policies that could compound these problems, and (III) taking into account the

member's implementation capacity after the Qualifying Catastrophic Disaster, the member has established a track record of adequate macroeconomic policies, normally for a period of at least six months immediately preceding the Trustee's decision to disburse debt stock relief.

Paragraph 4. *Disbursements*

- (a) All disbursements of Trust grants shall be subject to the availability of resources to the Trust.
- (b) The proceeds of Trust grants shall be paid into a subaccount for the benefit of the relevant member that is maintained within a separate account (the "Umbrella Account") established and administered by the Trustee pursuant to this subparagraph. The Trustee shall use the proceeds disbursed as debt flow relief (including any income from investments of such proceeds) to make payments on the member's eligible debt as they fall due within the period specified in paragraph 3(a)(i) above. The Trustee shall use the proceeds disbursed as debt stock relief promptly after such disbursement to effect the early repayment of the member's eligible debt as of the date specified in the last sentence of paragraph 3(b)(i) above. If the amounts disbursed by the Trustee to the subaccount exceed the amounts needed to effect payments falling due on, and early repayment of, the member's eligible debt pursuant to the terms of this Instrument, then the Trustee shall be authorized to retransfer to the Trust an amount equivalent to such excess. The terms and conditions for the operation of the Umbrella Account shall be determined by the Trustee.

Paragraph 5. *Modifications*

Any modification of these provisions will affect only Trust grants made after the effective date of the modification.

Section IV. *Administration of the Trust*

Paragraph 1. *Trustee*

- (a) The Trust shall be administered by the Fund as Trustee. Decisions and other actions taken by the Fund as Trustee shall be identified as taken in that capacity.
- (b) Subject to the provisions of this Instrument, the Fund in administering the Trust shall apply the same rules as apply to the operation of the General Resources Account of the Fund.
- (c) The Trustee, acting through its Managing Director, is authorized:
 - (i) to make all arrangements, including establishment of accounts in the name of the International Monetary Fund, which shall be accounts of the Fund as Trustee, with such depositories of the Fund as the Trustee deems necessary; and
 - (ii) to take all other administrative measures that the Trustee deems necessary to implement the provisions of this Instrument.

Paragraph 2. *Separation of assets and accounts, audits and reports*

- (a) The resources of the Trust shall be kept separate from the property and assets of all other accounts of the Fund, including other administered accounts, and shall be used only for the purposes of the Trust in accordance with this Instrument.
- (b) The property and assets held in the other accounts of the Fund shall not be used to discharge liabilities or to meet losses arising out of the administration of the Trust. The resources of the Trust shall not be used to discharge liabilities or to meet losses arising out of the administration of the other accounts of the Fund.
- (c) The Fund shall maintain separate financial records and prepare separate financial statements for the Trust in accordance with International Financial Reporting Standards.
- (d) The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the financial transactions and records of the Trust. The audit shall relate to the financial year of the Fund.
- (e) The Fund shall report on the resources and operations of the Trust in the Annual Report of the Executive Board to the Board of Governors and shall include in the Annual Report the report of the external audit firm on the Trust.

Paragraph 3. *Investment of resources*

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

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

Section V. *Period of Operation and Liquidation*

Paragraph 1. *Period of operation*

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

Paragraph 2. *Liquidation of the Trust*

If the Trustee decides to wind up the operations of the Trust, the resources in the Account shall be used first to discharge all the liabilities of the Trust. Any amount remaining in the Account after the discharge of all the liabilities of the Trust shall be transferred to the General Subsidy Account of the Poverty Reduction and Growth Trust established pursuant to Decision No. 8759-(87/176) ESAF, as amended, (“PRGT”) for use in accordance with the provisions of the PRGT Instrument; provided that, at the request of a contributor that has provided resources to the Trust, its pro rata share of any such remaining resources in the Trust, or any portion of such share, shall be distributed to the contributor.

Section VI. *Amendment of the Instrument*

The Fund may amend the provisions of the Instrument, except that any amendment of Section I, paragraph 1, Section IV, Section V, and this Section shall require the consent of all contributors to the Trust.

Attachment A. Post-Catastrophe Debt Relief Trust—Terms and Conditions for Administration of Umbrella Account Provided For Under Section III, Paragraph 4(b) of the Trust Instrument

Pursuant to Section III, paragraph 4(b) of the Instrument to Establish a Post-Catastrophe Debt Relief Trust (PCDR Trust), the Fund, as Trustee of the PCDR Trust, establishes the following terms and conditions for the administration of the Umbrella Account provided for under that provision:

1. The resources of the Umbrella Account shall consist of (i) the proceeds of grants paid into the Account for the benefit of a member by the PCDR Trust, (ii) contributions by other donors to finance debt relief on a member's eligible debt to the Fund, and (iii) net earnings from the investment of resources held in the Umbrella Account.

2. Within the Umbrella Account, the Trustee shall establish a separate subaccount for the administration of the resources paid into the Umbrella Account for the benefit of each member for which the resources have been paid. The Trustee shall establish a subaccount within the Umbrella Account, at the latest, whenever the Fund as Trustee of the PCDR Trust grants final approval of the disbursement of a Trust grant under the PCDR Trust.

3. Following the establishment of a subaccount, the Fund, as Trustee, shall be authorized to use the resources of the subaccount (including any net income from the investment of such resources) to make payments for the benefit of the member as specified in Section III, paragraph 4(b) of the Instrument to Establish the PCDR Trust.

4. (a) Resources held in a subaccount of the Umbrella Account and not immediately needed for operations shall be invested.

(b) Investments may be made in any of the following: (i) marketable obligations issued by international financial organizations and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that

member; and (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution that are denominated in SDRs or in the currency of a member. Earnings, net of any transactions costs, shall accrue to the subaccount and shall be available for the purposes of the subaccount.

(c) The Managing Director of the Trustee is authorized (i) to make all arrangements, including establishment of accounts in the name of the Trustee, with such depositories as may be necessary to carry out the operations of the Account, and (ii) to take all measures necessary to implement the provisions of this decision.

5. The SDR shall be the unit of account.

6. (a) Resources received into a subaccount may be in U.S. dollars or such other media as may be determined by the Trustee.

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

(c) The Trustee may exchange any of the resources held in a subaccount for other resources.

(d) Payments made from a subaccount shall be made in U.S. dollars or such other media as may be determined by the Trustee.

7. Assets held in the Umbrella Account shall be kept separate from the assets and property of all other accounts of, or administered by, the Trustee. The assets of the Umbrella Account shall not be used to discharge or meet any liabilities, obligations, or losses incurred by the Trustee in the administration of such other accounts. Except as expressly authorized in the PCDR Trust Instrument and this decision, the assets and property held in a subaccount of

the Account shall not be used to discharge or meet any liabilities, obligations, or losses of the Trustee in the administration of any other subaccount of the Account.

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

9. No charge shall be levied for the services rendered by the Trustee in the administration, operation, and termination of the Umbrella Account.

10. (a) The Trustee shall maintain separate financial records and prepare separate financial statements for the Umbrella Account in accordance with International Financial Reporting Standards. The financial statements for the Umbrella Account shall be expressed in SDRs.

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

(c) The Trustee shall report on the resources and operations of the Umbrella Account in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the external audit firm on the Umbrella Account.

11. (a) The Umbrella Account shall remain in effect for as long as is necessary, in the judgment of the Trustee, to conduct and to wind up the business of the Umbrella Account. A subaccount for a particular member would be wound up when the resources of that subaccount have been exhausted in providing debt relief to the member according to the terms of the PCDR Trust Instrument.

(b) Any balance remaining in a subaccount upon termination and after the discharge of all obligations of that subaccount shall be transferred promptly to the PCDR Trust for use

in accordance with the purposes of that Trust; provided that, at the request of a donor that has contributed directly to a subaccount pursuant to paragraph 1(ii) above, its pro rata share of any such resources remaining in the subaccount, shall be distributed to the donor.