



March 2017

POVERTY REDUCTION AND GROWTH TRUST— 2016–17 BORROWING AGREEMENTS WITH THE GOVERNMENT OF CANADA, DE NEDERLANDSCHE BANK NV, AND THE BANK OF KOREA

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International Monetary Fund
Washington, D.C.



February 17, 2017

POVERTY REDUCTION AND GROWTH TRUST—2016–17 BORROWING AGREEMENTS WITH THE GOVERNMENT OF CANADA, DE NEDERLANDSCHE BANK NV, AND THE BANK OF KOREA

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INTRODUCTION

1. The Fund, as Trustee of the Poverty Reduction and Growth Trust (PRGT or Trust), has entered into a new borrowing agreement with the Government of Canada (Canada), and has entered into amendments to the 2010 borrowing agreement with De Nederlandsche Bank NV (The Netherlands) and the 2011 borrowing agreement with the Bank of Korea (Korea). The new borrowing agreement with Canada and the amendments to the borrowing agreements with The Netherlands and Korea will each provide new resources of SDR 500 million to the General Loan Account of the PRGT, for a total amount of SDR 1.5 billion in new PRGT lending resources (see attachments). Except for the increase in amount for drawings, all other elements of the borrowing agreements with The Netherlands and Korea remain unchanged.

2. The augmentations under the amendments and the new borrowing agreement are among the first seven loan contributions concluded in the context of the current Board endorsed effort to raise SDR 11 billion in new PRGT loan resources.¹ These amendments and new agreement became effective on December 20, 2016, for both Korea and The Netherlands; and January 10, 2017, for Canada.

¹ See [Update on the Financing of the Fund's Concessional Assistance and Proposed Amendments to the PRGT](#) (4/7/2014).

3. Pursuant to Section III, paragraph 2 of the Instrument to establish the PRGT, the Managing Director is authorized to enter into borrowing agreements and agree to their terms and conditions with lenders to the Loan Accounts of the Trust. This paper presents the amendments to augment the existing agreements with Korea and The Netherlands, and the new borrowing agreement with Canada to the Executive Board for information.

4. The new borrowing agreement with Canada incorporates the following recent changes to the Fund’s framework for concessional lending to low-income countries, which have also been adopted, as applicable, in prior amendments to the borrowing agreements with The Netherlands and Korea, namely: (i) the extensions of the commitments and drawdown period for PRGT loans to end-2020 and -2024, respectively; (ii) the incorporation of the Chinese Renminbi (RMB) interest rate instrument of six-month maturity for borrowing agreements in currencies; and (iii) the provision that if the derived six-month SDR interest rate formula results in a negative rate, the applicable interest rate shall be zero percent.^{2,3}

PRINCIPAL ELEMENTS OF THE BORROWING AGREEMENTS⁴

5. **Account designations.** The borrowing agreements with Canada (in a total amount of SDR 500 million), Korea, and The Netherlands (in a total amount of SDR 1 billion each) are for the benefit of the General Loan Account (GLA) to finance disbursements under any of the facilities of the Trust.

6. **Drawings on commitments.** Drawings under all the agreements can be made through December 31, 2024. The notification period of the intention to draw is five business days (creditor's location). In the case of The Netherlands, the Trustee shall endeavor to make no more than five drawings per twelve-month period (paragraph 2(a)). In the case of Canada, unless otherwise agreed between Canada and the Trustee, there will be no more than SDR 50 million drawn in any calendar month (paragraph 4(b)).

² See [Update on the Mobilization of Loan Resources for PRGT Lending, Proposed Amendment to the PRGT Instrument, and Floor for the Six-Month Derived SDR Interest Rate](#) (9/13/2016).

³ Effective October 1, 2016, the six-month derived SDR interest rate is based on the Chinese treasury bill rate, the Euro-denominated Euro government bond yield for bonds rated AA and above (as published by the ECB), the Japanese treasury bill rate, the Libor, and the U.S. treasury bill rate (all at six months maturity), see [Update on the Mobilization of Loan Resources for PRGT Lending, Proposed Amendment to the PRGT Instrument, and Floor for the Six-Month Derived SDR Interest Rate](#) (9/13/2016). Although explicitly referenced in the new borrowing agreement with Canada, the zero interest rate floor is applicable to all PRGT borrowing agreements that use the derived six-month SDR rate, regardless of whether PRGT lenders choose to make new contributions of lending resources to the PRGT, or whether these contributions are made in the form of augmentations of existing PRGT borrowing agreements, or new borrowing agreements with the Fund, as Trustee of the PRGT.

⁴ The amendments to the borrowing agreements with The Netherlands and Korea were limited to the increase in the total amount for drawings. The reference to the key provisions of these agreements in this section is for convenience purposes only.

- 7. Denomination and media.** Loan commitments and operations are denominated in SDRs. Disbursements are to be made by the transfer of the equivalent amount of euros for The Netherlands (paragraph 3(a)), U.S. dollars for Canada (paragraph 4(a)), and SDRs for Korea (paragraph 4(a)), to an account specified by the Trustee, unless otherwise agreed between the Trustee and the creditors. Payments of principal and interest by the Trust are to be made in euros for The Netherlands (paragraph 6(a)), U.S. dollars for Canada (paragraph 7(a)), and SDRs for Korea (paragraph 7(a)) or in other media as may be agreed between the Trustee and the creditors.
- 8. Maturity.** Paragraph 4(a) for The Netherlands and paragraph 5(a) for Korea and Canada, respectively, provide for each drawing to be repaid in accordance with the repayment schedule for loan disbursements under the facility of the Trust for which it was drawn.
- 9. Interest.** Korea's agreement provides for the payment of the official SDR interest rate on outstanding claims (paragraph 6(a)). Interest will be payable on a quarterly basis promptly after July 31, October 31, January 31, and April 30 of each year (paragraph 6(b)). The borrowing agreements for Canada and The Netherlands provide for outstanding drawings to earn interest at the six-month derived SDR rate. Interest will be payable on a semi-annual basis promptly after June 30 and December 31 of each year for Canada (paragraph 6(b)) and The Netherlands (paragraph 5(b)), provided that interest payments will be made earlier than these dates for The Netherlands if such early payment is needed to ensure that outstanding drawings and accrued interest on such drawings do not exceed the maximum amount of the loan under the agreement (paragraph 5(b)).
- 10. Suspension of drawings in event of nonpayment by the Trust.** In the event that any installment of principal or interest is not paid under the agreements within a period of ten days after its due date, the agreements provide for the suspension of further drawings pending consultations on this matter with the respective creditor (paragraph 2(b)).
- 11. Transfer of claims.** Provision is made in the agreements for the voluntary transfer of claims on the Trust to a limited group of official-sector entities and for temporary suspension of disbursements at any time prior to June 30, 2024, in the event of a liquidity need by the creditor (paragraphs 8(a) and 9 (Canada); paragraphs 8(a) and 10 (Korea); and paragraphs 7(a) and 8 (The Netherlands)).
- 12. Encashment.** Korea's agreement includes the right to seek early repayment of outstanding claims on the Trust in case of balance of payments and reserve needs, and authorizes drawings by the Trustee to fund such encashment requests of other participating creditors to any of the Loan Accounts of the Trust. The right to encashment under the agreement is in all cases subject to the availability of resources under borrowing agreements of other participating creditors (paragraph 9).

CONCLUSION

13. The augmentation of Korea’s and The Netherland’s existing borrowing agreements and the new borrowing agreement with Canada are among the first six PRGT loan contributions under the 2015–17 PRGT loan mobilization round and represent an important additional step towards meeting the SDR 11 billion target. Nevertheless, additional bilateral loan contributions, including from other new lenders, are still needed to ensure that the Trust remains in a position to meet low-income countries’ needs over the near and medium term.

**Attachment I. Amendment to the Borrowing Agreement
Between the Bank of Korea
and the International Monetary Fund as Trustee of
the Poverty Reduction and Growth**

On December 20, 2016, Korea’s new loan contribution was made effective when the Managing Director acknowledged the Bank of Korea’s consent to the amendment of its borrowing agreement with the Poverty Reduction and Growth Trust, dated January 7, 2011.

Accordingly, paragraph 1 of the 2011 borrowing agreement has been amended to augment the amount with the Bank of Korea’s new contribution of up to SDR 500 million, to a total amount of SDR 1 billion. Therefore, the amended paragraph 1 of the agreement now reads as follows (to help identify the change, the additional text is underlined and the deleted text is struck through):

“1. The amount of the loan shall be the equivalent of up to SDR ~~500 million~~ 1 billion.”

All other elements of the 2011 borrowing agreement remain unchanged.¹

¹ See [Press Release No. 11/50 \(02/16/2011\)](#).

**Attachment II. Amendment to the Borrowing Agreement
Between De Nederlandsche Bank NV
and the International Monetary Fund as Trustee of
the Poverty Reduction and Growth**

On December 20, 2016, The Netherlands' new loan contribution was made effective when the Managing Director acknowledged De Nederlandsche Bank NV's consent to the amendment of its borrowing agreement with the Poverty Reduction and Growth Trust, dated July 27, 2010.

Accordingly, paragraph 1 of the 2010 borrowing agreement has been amended to augment the amount with De Nederlandsche Bank NV's new contribution of up to SDR 500 million, to a total amount of SDR 1 billion. Therefore, the amended paragraph 1 of the agreement now reads as follows (to help identify the change, the additional text is underlined and the deleted text is struck through):

"1. The maximum amount of the loan including any accrued interest shall be the equivalent of up to SDR ~~500 million~~ 1 billion."

All other elements of the 2010 borrowing agreement remain unchanged.¹

¹ See [Press Release No. 10/309 \(08/04/2010\)](#).

**Attachment III. Borrowing Agreement
Between Her Majesty in Right of Canada and
the International Monetary Fund as Trustee of
the Poverty Reduction and Growth Trust**

HER MAJESTY IN RIGHT OF CANADA REPRESENTED BY THE MINISTER OF FINANCE (“Canada”) agrees to lend to the INTERNATIONAL MONETARY FUND (the “Fund”) as Trustee (the “Trustee”) of the Poverty Reduction and Growth Trust (the “Trust”), for the purposes of providing loan resources to the Trust. Such loan resources will be provided in accordance with the terms of the Instrument establishing the Trust adopted by the Executive Board of the Fund by Decision No. 8759-(87/176) ESAF, as amended (the “PRGT Instrument”), and on the terms and conditions set out below. This agreement is based on Section III, paragraph 2 of the PRGT Instrument, which authorizes the Managing Director to enter into borrowing agreements with creditors to the Loan Accounts of the Trust.

1. The amount of the loan will be the equivalent of up to SDR 500 million.
2. (a) The Trustee may make drawings under this agreement on any business day (Ottawa) during the period from the effective date of this agreement through December 31, 2024. Unless otherwise agreed between Canada and the Trustee, the Trustee will give the Canada at least five business days (Ottawa) notice of its intention to draw, and will provide payment instructions at least two Fund business days prior to the value date of the transaction by SWIFT.

(b) If any installment of principal or interest is not fully paid to Canada within a period of ten days after its due date, the Trustee will not make further drawings under this agreement pending consultations with Canada on the matter. However, the Trustee may resume drawings under this agreement once arrears to Canada have been discharged.
3. The Trustee may make drawings under this agreement to finance loan disbursements by the Trustee under the General Loan Account.
4. (a) The amount of each drawing will be denominated in SDRs. Unless otherwise agreed between Canada and the Trustee, the amount will be paid by Canada on the value date specified in the Trustee’s notice by transfer of the equivalent amount of U.S. dollars to an account specified by the Trustee.

(b) Unless otherwise agreed between Canada and the Trustee, there will be no more than SDR 50 million drawn under this agreement in any calendar month.

(c) Upon request, the Trustee will issue to Canada a non-negotiable certificate evidencing its claim on the Trust resulting from a drawing outstanding under this agreement.

5. (a) Each drawing will be repaid in accordance with the repayment schedule for loan disbursements under the facility of the Trust for which it was drawn. At the time of each drawing, the Trustee will indicate in the notice requesting the drawing the specific repayment schedule for the amount drawn. Repayments by the Trust will be made on the relevant maturity dates.

(b) By agreement between Canada and the Trustee, any drawing or part thereof may be repaid by the Trustee at any time in advance of maturity. Unless otherwise agreed between Canada and the Trustee, a request for agreement on early repayment will be made by the Trustee with at least five business days (Ottawa) notice.

(c) If the relevant maturity date is not a business day of the Fund, the Target system and the domestic markets of the other (non-euro) currencies included in the SDR basket, the repayment date will be on the first preceding business day that is a business day for the Fund, the Target system and the domestic markets of the other (non-euro) currencies included in the SDR basket.

6. (a) Interest on the amount outstanding in respect of each drawing will be computed at an annual rate determined by the Trustee at the time each drawing is made and at intervals of six calendar months thereafter, from the product of:

(i) the interest rates on domestic instruments in each currency included in the SDR basket, as reported to the Trustee by each reporting agency, two LIBOR business days prior to the commencement of the interest rate period to which such computation applies—provided that if this date is not a business date of the Fund, such date will be the first preceding business day of the Fund that is also a LIBOR business day—as follows:

- the bond equivalent yield for six-month U.S. Treasury bills,
- the six-month euro-denominated euro government bond yield for bonds rated AA and above, as published by the European Central Bank,
- the bond equivalent yield on six-month Chinese treasury bills,
- the bond equivalent yield on six-month Japanese treasury bills,
- the six-month interbank rate in the United Kingdom, and

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

calculated, rounded to two decimal places, provided that, if such calculation results in a negative interest rate, the interest rate will be zero percent.

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

7. (a) Payments of principal and interest will be made in U.S. dollars or in other media as may be agreed between Canada and the Trustee.

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

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

(b) The transferee will acquire all the rights of Canada under this agreement with respect to repayment of and interest on the transferred claim.

9. At the request of Canada, calls on its commitment to meet drawings may be suspended temporarily at any time prior to June 30, 2024, subject to the provisions of Section III, paragraph 4(c) and (d) of the PRGT Instrument.

10. Unless otherwise agreed between Canada and the Trustee, all transfers, exchanges, and payments of principal and interest in currencies will be made at the exchange rates for the relevant currencies in terms of the SDR established by the Fund pursuant to Article XIX, Section 7(a) of the Fund's Articles of Agreement and the rules and regulations of the Fund thereunder for the second business day of the Fund before the value date of the transfer, exchange or payment.

11. If the Fund changes the method of valuing the SDR, all transfers, exchanges, and payments of principal and interest made three or more business days of the Fund after the effective date of the change will be made on the basis of the new method of valuation. If there is a change in the currency composition of the SDR basket, the interest rate calculations and instruments under paragraph 6(a)(i) will be modified by operation of this clause to (i) incorporate, for any new currency included in the SDR basket, the interest rate on a widely used six-month domestic instrument for such

currency as determined by the Trustee after consultation with Canada and (ii) delete, for any currency removed from the SDR basket, the reference to the relevant domestic instrument. This modification will be effective as of the date the changes in the method of valuing the SDR become effective.

12. This agreement is of an operational and financial nature. Any question arising hereunder will be settled by mutual agreement between Canada and the Trustee.

13. (a) This agreement may be executed in duplicate counterparts, each of which will be deemed an original and both of which together will constitute but one and the same instrument.

(b) This agreement will become effective on the last date written below.

IN WITNESS WHEREOF, Canada and the Trustee have executed this Agreement.

For HER MAJESTY IN RIGHT OF CANADA REPRESENTED BY THE MINISTER OF FINANCE:

December 15, 2016

William F. Morneau /s
Minister of Finance

Date

For the INTERNATIONAL MONETARY FUND as Trustee:

January 10, 2017

Christine Lagarde /s
Managing Director

Date