December 28, 1966

Mr. Sarma thinks it better for him to see you alone at this stage - a meeting has been arranged for 3 p.m. today.
Mr. Sarma would like to see you about this before he meets with Legal next week.
OFFICE MEMORANDUM

TO:  Mr. Irving S. Friedman
FROM: N. A. Sarma
SUBJECT: Supplementary Financing

DATE: December 22, 1966

Attached hereto is a preliminary outline for a scheme from Mr. Szasz (Legal), which you may like to see.

Last week Mr. Szasz and I talked about some of these questions briefly; I would like to have a word with you before I take this up with Mr. Szasz again next week.

I would draw your attention to the following:

It would seem that some attention needs to be given, even at this stage, to the organizational question: Section I (Structure) deals with this. The relationship to UNCTAD is one of the matters that would come up.

A question pertaining to resources is whether and to what extent the beneficiary countries would make a contribution. The question of rationing assistance is also included in the resources section.

In Section 3, dealing with arrangements with beneficiary countries, the possibility of an appellate set-up is raised. Another important question in this area relates to the formula for assistance, whether it should be automatic or whether there would be discretionary elements. While the procedures themselves are likely to be fairly automatic, there would have to be a certain discretionary element, especially in the Policy Package, Terms of Loans, Amount to be Paid Out, as well as in regard to repayments.
SUPPLEMENTARY FINANCING

Questions Preliminary to Drafting a Scheme

1. Formal Matters

1.1. Structure: alternatives:

(a) Completely independent

(b) Independent, but closely associated with:

(i) IDA
(ii) IBRD
(iii) IMF
(iv) Jointly: IBRD/IDA and IMF

(c) Incorporated into:

(i) IDA
(ii) IBRD
(iii) IMF
(iv) Some other organization

1.2. Evaluation of alternatives:

1.2.1. Membership (inclusion of non-members of IDA, IBRD...)

1.2.2. Voting control (see 1.3.2.2.) (weighted voting easier to achieve in organization incorporated into Bank/Fund Group)

1.2.3. Use of staff and expertise of existing organization(s)

1.2.4. Use of resources of an existing organization (see 2.1.3.)

1.3. Organs

1.3.1. Secretariat, with:

1.3.1.1. Dispositive or merely advisory authority

1.3.1.2. Discretionary or merely ministerial authority

1.3.2. Political organ
1.3.2.1. Authority to decide:

List of potential beneficiaries (see 3.1.(b))

Approval and termination of Prior Arrangements (see 3.2.1.1. and 3.2.1.4.2.)

Grant of assistance (see 3.3.3.)

Terms of assistance-repayment (see 3.4.2.1. and 3.4.2.5.2.)

1.3.2.2. Composition - control (see 1.2.2.)

Weight of Contributing States

Weight of Beneficiary States

1.3.3. Appellate organ

1.3.3.1. Necessity - if political organ has wide discretion on certain questions (e.g., grant and terms of assistance) (see 3.2.1.1(c); 3.2.1.4.2(b); 3.3.3.)

1.3.3.2. Composition

1.4. Relationships to (if not incorporated into or closely associated with): (see 1.2.3. and 1.2.4.)

1.4.1. IBRD/IDA

1.4.2. IMF

1.4.3. ECOSOC

1.4.4. UNCTAD

1.5. Form of scheme - depends on structure (see 1.1.)

1.5.1. If independent - intergovernmental agreement, formulated by:

IBRD/IDA

ECOSOC

UNCTAD

Ad hoc conference

1.5.2. If incorporated into existing organization - resolution of appropriate organ

2. Resources

2.1. Sources:
2.1.1. "Contributing States" (which - IDA Part I)

2.1.2. "Beneficiary States"
   (a) Contributions from none
   (b) Contributions from some
   (c) Calculated at arbitrary rate
   (d) Calculated as percentage of net overages

2.1.3. International organization(s) - possible contribution in case of:
   2.1.3.1. Initial shortfall from pledge goal
   2.1.3.2. Unexpectedly heavy drawings (see 2.5.3.)

2.2. Method of contributing (some mix of):
   (a) Payments
   (b) Promissory Notes
   (c) Pledges

2.3. Form of contributions (some mix of):
   (a) National currencies - restricted convertibility
   (b) National currencies - fully convertible
   (c) US dollars
   (d) Gold

2.4. Period of availability of resources:
   2.4.1. Single (renewable) period, at termination of which either:
      (a) Scheme is renegotiated, left-over resources are rededicated for
          a further period and additional resources are secured; or
      (b) Scheme is terminated, left-over resources are returned (or
          pledges released) and arrangements are made for reimbursing
          the Contributing States (or paying over to some organization)
          the repayment periodically made by Beneficiary States
2.4.2. Continuing scheme, under which Prior Understandings are made with Beneficiary States, either:

(a) Only as long as resulting potential liabilities do not exceed uncommitted resources - at which point no further commitment made until resources increased

(b) At all times, except that pay-out formula provides for a reduction if actual demands exceed resources (see 3.3.1.6.)

2.5. Insufficiency of resources - possible reactions

2.5.1. Discontinue entry into force of further Prior Understandings, but maintain existing ones (see 2.4.2(a))

2.5.2. Ration the amount of assistance (see 2.4.2(b) and 3.3.1.6)

2.5.3. Draw automatically on resources of some organization (see 2.1.3.2.)

3. Arrangement with Beneficiary States

3.1. Eligible States

(a) Static list - attached as schedule to basic instrument

(b) Semi-dynamic list - political organ determines from time to time

(c) Dynamic list - Eligibility determined from time to time according to objective factors (e.g., ratio exports to GNP)

3.2. Prior Understanding on "Policy Package"

3.2.1. Procedure for agreeing and changing:

3.2.1.1. Final decision with:

(a) Secretariat

(b) Political organ

(c) Appelate organ

3.2.1.2. Duration

3.2.1.2.1. Standard period, regardless of when started

3.2.1.2.2. Only until end of period of availability of resources (see 2.4.1.)
3.2.1.3. Initiation of changes (under what conditions), by:
3.2.1.3.1. Beneficiary State
3.2.1.3.2. Agency
3.2.1.4. Termination
3.2.1.4.1. For inability to agree on changes
3.2.1.4.2. For non-compliance - determined by:
   (a) Political organ
   (b) Subject to appellate organ

3.2.2. Contents of "Policy Package"
3.2.2.1. Definition of development program
3.2.2.2. Export projections
3.2.2.3. Agreed standard of behavior
3.2.2.3.1. Export policies
3.2.2.3.2. Monetary and financial policies
3.2.2.4. Prior resources to be used
3.2.2.5. Provisions of current data, to permit:
   (a) Periodic reviews
   (b) Calculation of eligibility for assistance (or of obligation to repay)

3.3. Grant of Assistance
3.3.1. Formula - factors to be taken into account:
3.3.1.1. Accumulated shortfalls from beginning of projection period
3.3.1.2. Accumulated overages from beginning of projection period
3.3.1.3. Coefficient of adjustment of consumption
   (a) Fixed standard
   (b) Agreed in Policy Package
   (c) Variable
3.3.1.4. Prior resources to be used
3.3.1.5. Prior net assistance received from beginning of projection period
3.3.1.6. Reduction to "ration" resources
3.3.2. Formula - fully automatic or including discretionary factors
3.3.3. Organ(s) deciding on grant (see 1.3):
3.3.3.1. Factual questions (e.g., amount of exports)
3.3.3.2. Discretionary factors in formula (see 3.3.2.)
3.4. Terms of Assistance
3.4.1. Contingent Credit (until end of projection period)
3.4.1.1. Repayment - Formula (same questions as under 3.3.1.-3.3.3.)
3.4.1.2. Interest
3.4.2. Long-term credit (for net assistance at end of policy period)
3.4.2.1. Organ to decide terms (see 1.3.)
3.4.2.2. Period
3.4.2.3. Interest
3.4.2.4. Currency of repayment
3.4.2.5. Default:
3.4.2.5.1. Consequences
3.4.2.5.2. Organ authorized to waive
Draft Articles of Agreement

of the proposed

International Agency for Supplementary Financial Assistance

The Governments on whose behalf this Agreement is signed, having regard to recommendation A.IV.18 adopted by the First United Nations Conference on Trade and Development, agree to establish an INTERNATIONAL AGENCY FOR SUPPLEMENTARY FINANCIAL ASSISTANCE (hereinafter referred to as "the Agency") as an affiliate of the International Bank for Reconstruction and Development (hereinafter referred to as "the Bank"), which shall operate in accordance with the following provisions:

ARTICLE I

Purpose

The purpose of the Agency is to prevent the disruption of development programmes in the developing countries included in the Agency's membership resulting from unexpected shortfalls in export proceeds (including invisibles, wherever feasible) which prove to be of a nature or duration that cannot adequately be dealt with by short-term balance of payments support. In carrying out this purpose, the Agency shall aim at providing these countries a ready source of long-term assistance on flexible terms, adjusted to the individual economic circumstances of recipient countries, so as to enable them to maintain the integrity of development programmes in the face of unforeseen adverse export movements that are beyond their control.

ARTICLE II

Membership

Section 1. Types of Membership

Membership in the Agency shall be divided into two categories, respectively designated as Category I and Category II. Category I shall comprise those members whose level of national income on a per capita basis and economic develop-
ment are such as to make their economies less vulnerable to unexpected export shortfalls. Category II shall comprise those members whose level of national income on a per capita basis, and economic development are such as to make their economies highly vulnerable to unexpected shortfalls in their export proceeds.

Section 2. Original Members

The original members of the Agency shall be those countries listed in Parts I and II of Schedule A hereto which, on or before the date specified in Article XI, Section 2(c), accept membership in the Agency.

Section 3. Other Members

Membership shall be open to other countries at such times and in accordance with such terms as the Agency may determine.

Section 4. Reclassification of Members

The Board of Governors shall, at every quinquennial meeting, review the classification of all the members of the Agency and may, by a two-third majority of the total voting power, and with the consent of the member concerned, reclassify the category of any member. Upon the request of a member, the Board may also, at any time, decide, by a two-third majority of the total voting power, to reclassify that member.

ARTICLE III

Resources

Section 1. Initial Subscriptions

(a) Upon accepting membership, each member shall subscribe funds in the amount assigned to it. Such subscriptions are herein referred to as initial subscriptions.

(b) The initial subscriptions assigned to each original member shall be in the amount set forth opposite its name in Schedule A, expressed in terms of United States dollars of the weight and fineness in effect on ......
(c) Five percent of the initial subscription of each original member shall be payable in gold or freely convertible currency as follows: Fifty percent within thirty days after the date on which the Agency shall begin operations pursuant to Article XI, Section 4, or on the date on which the original member becomes a member, whichever shall be later; twelve and one-half percent one year after the beginning of operations of the Agency; and twelve and one-half percent each year thereafter at annual intervals until the five percent portion of the initial subscription shall have been paid in full.

(d) The remaining ninety-five percent of the initial subscription of each member shall be payable in gold or freely convertible currency in the case of members listed in Part I of Schedule A, and in the currency of the subscribing member in the case of members listed in Part II of Schedule A. This ninety-five percent portion of initial subscriptions of original members shall be payable in five equal annual instalments as follows: The first such instalment within thirty days after the date on which the Agency shall begin operations pursuant to Article XI, Section 4, or on the date on which the original member becomes a member, whichever shall be later; the second instalment one year after the beginning of operations of the Agency, and succeeding instalments each year thereafter at annual intervals until the ninety-five percent of the initial subscription shall have been paid in full. 1/

(e) The Agency shall accept from any member, in place of any part of the member’s currency paid in or payable by the member under the preceding subsection (d) or under Section 2 of Article IV and not needed by the Agency in its operations, notes or similar obligations issued by the government of the member or the······

1/ Explanatory Note:
If the total initial subscriptions add up to $2.5 billion and if the Category II members have the same relative share of the total as IDA Part II members in the total initial subscriptions of IDA, they will contribute about $600 million to the Agency. However, of this amount, only $50 million will be payable in the form of gold or convertible currencies over a period of five years. Thus over the initial five year period, the Agency will have access to nearly $1,900 million in convertible currencies or gold, an amount considered adequate by the IDB staff for meeting the financial claims on the Agency during the initial five years.
depository designated by such member, which shall be non-negotiable, non-interest bearing and payable at their par value on demand and to the account of the Agency in the designated depository.

(f) For the purposes of this Agreement the Agency shall regard as "freely convertible currency":

(i) currency of a member which the Agency determines, after consultation with the International Monetary Fund, is adequately convertible into the currencies of other members for the purposes of the Agency’s operations; or

(ii) currency of a member which such member agrees, on terms satisfactory to the Agency, to exchange for the currencies of other members for the purposes of the Agency’s operations.

(g) Except as the Agency may otherwise agree, each member listed in Part I of Schedule A shall maintain, in respect of its currency paid in by it as freely convertible currency pursuant to subsection (d) of this Section, the same convertibility as existed at the time of payment.

(h) The conditions on which the initial subscriptions of members other than original members may be made, and the amounts and the terms of payment thereof, shall be determined by the Agency pursuant to Section 3 of Article II.

Section 2. Limitation on Liability

No member shall be liable, by reason of its membership, for obligations of the Agency.

Section 3. Additional Subscriptions

(a) The Agency shall at such time as it deems appropriate in the light of the schedule for completion of payments on initial subscriptions of original members, and at intervals of approximately five years thereafter, review the adequacy of its resources and, if it deems desirable, shall authorize a general increase
in subscriptions. Notwithstanding the foregoing, general or individual increases in subscriptions may be authorized at any time, provided that an individual increase shall be considered only at the request of the member involved.

Subscriptions pursuant to this Section are herein referred to as additional subscriptions.

(b) Subject to the provisions of paragraph (c) below, when additional subscriptions are authorized, the amounts authorized for subscription and the terms and conditions relating thereto shall be as determined by the Agency.

(c) When any additional subscription is authorized, each member shall be given an opportunity to subscribe, under such conditions as may be reasonably determined by the Agency, an amount which will enable it to maintain its relative voting power, but no member shall be obligated to subscribe.

(d) All decisions under this Section shall be made by a two-thirds majority of the total voting power.

Section 4. Supplementary Resources provided by a Member

The Agency shall be free to accept supplementary resources from a member on such terms as may be agreed upon, between the Agency and the member concerned.

ARTICLE IV

Currencies

Section 1. Use of Currencies

(a) Currency of any member listed in Part II of Schedule A, whether or not freely convertible, received by the Agency pursuant to Article III, Section 1(d), in payment of the ninety five percent portion payable thereunder in the currency of such member, and currency of such member derived therefrom as principal, interest, or other charges, may be used by the Agency for administrative expenses incurred by the Agency in the territories of such member and, insofar as consistent with sound monetary policies, in payment for goods and services produced in the territories of such member and required for projects financed by the Agency and located in such territories; and in addition when and to the extent justified
by the economic and financial situation of the member concerned as determined by agreement between the member and the Agency, such currency shall be freely convertible or otherwise usable for projects financed by the Agency and located outside the territories of the member.

(b) The usability of currencies received by the Agency in payment of subscriptions other than initial subscriptions of original members, and currencies derived therefrom as principal, interest or other charges, shall be governed by the terms and conditions on which such subscriptions are authorized.

(c) The usability of currencies received by the Agency as supplementary resources other than subscriptions, and currencies derived therefrom as principal, interest or other charges, shall be governed by the terms of the arrangements pursuant to which such currencies are received.

(d) All other currencies received by the Agency may be freely used and exchanged by the Agency and shall not be subject to any restriction by the member whose currency is used or exchanged; provided that the foregoing shall not preclude the Agency from entering into any arrangements with the member in whose territories any project financed by the Agency is located restricting the use by the Agency of such member's currency received as principal, interest or other charges in connection with such financing.

(e) The Agency shall take appropriate steps to ensure that, over reasonable intervals of time, the portions of the subscriptions paid under Article III, Section 1(d) by members listed in Part I of Schedule A shall be used by the Agency on an approximately pro rata basis, provided, however, that such portions of such subscriptions as are paid in gold or in a currency other than that of the subscribing member may be used more rapidly.

Section 2. Maintenance of Value of Currency Holdings

(a) Whenever the par value of a member's currency is reduced or the foreign exchange value of a member's currency has, in the opinion of the Agency, depreciated
to a significant extent within that member's territories, the member shall pay
to the Agency within a reasonable time an additional amount of its own currency
sufficient to maintain the value, as of the time of subscription, of the amount
of the currency of such member paid in to the Agency by the member under Article III,
Section 1(d), and currency furnished under the provisions of the present
paragraph, whether or not such currency is held in the form of notes accepted
pursuant to Article III, Section 1(e), provided, however, that the foregoing
shall apply only so long as and to the extent that such currency shall not have
been initially disbursed or exchanged for the currency of another member.
(b) Whenever the par value of a member's currency is increased, or the foreign
exchange value of a member's currency has, in the opinion of the Agency,
appreciated to a significant extent within that member's territories, the Agency
shall return to such member within a reasonable time an amount of that member's
currency equal to the increase in the value of the amount of such currency to
which the provisions of paragraph (a) of this Section are applicable.
(c) The provisions of the preceding paragraphs may be waived by the Agency when
a uniform proportionate change in the par value of the currencies of all its
members is made by the International Monetary Fund.
(d) Amounts furnished under the provisions of paragraph (a) of this Section to
maintain the value of any currency shall be convertible and usable to the same
extent as such currency.

ARTICLE V

Operations

Section I. Use of Resources

(a) The resources of the Agency shall be used exclusively to implement the
purpose set out in Article I.

(b) The Agency shall impose no conditions that the proceeds of its financing
shall be spent in the territories of any particular member or members. The
The foregoing shall not preclude the Agency from complying with any restrictions on the use of funds imposed in accordance with the provisions of these Articles, including restrictions attached to supplementary resources pursuant to agreement between the Agency and the contributor.

(c) The Agency shall make arrangements to ensure that the proceeds of any financing are used only for the purposes for which the financing was provided, with due attention to considerations of economy, efficiency and competitive international trade and regardless of political or other non-economic influences or considerations.

(d) Funds to be provided under any financing operation shall be made available to the recipient only to meet expenses in connexion with the agreement provided for in Section 2 below as they are actually incurred.

Section 2. Eligibility for Participation

(a) Entitlement of any member listed in Part II of Schedule A to benefit from the Agency’s operations shall be based on a previously concluded agreement between the member and the Agency concerning:

(i) export expectations, which shall be defined in the form of a precise export projection for a period coinciding with the duration of the member’s medium-term development plan;

(ii) the member’s development programme and related policies especially in so far as they have a bearing on export performance.

(b) The export projection shall constitute an integral part of the development programme and / or change shall be made in such a projection unless the development programme itself is revised. Revisions in development programmes, and associated export projections shall be undertaken only in exceptional circumstances consistent with the need to maintain the pre-agreed planned rates of growth, by mutual consent between the Agency and a member government on the proposal of either party, where both parties agree that unforeseen developments make such revision necessary.

(c) The agreement referred to in paragraph (a) of this Section shall provide for periodic consultations between the Agency and the member concerned.
(d) Assistance from the Agency to offset unexpected export shortfalls of any member adhering to the terms of the agreement, shall be prompt and certain.

Section 3. Financing of Export Shortfalls

(a) Export shortfalls shall be calculated as the excess of the value of projected exports, as specified under Section 2(a)(i) above, over the actual value of exports during any year of the planning period. At the request of the member concerned, the agreement referred to in Section 2(a) shall provide that the Agency shall calculate export shortfalls in real terms, i.e. after allowing for an unexpected adverse movement in the purchasing power of exports taking account of any unexpected rise in import prices. In such cases, also the agreement referred to in Section 2(a) shall include provisions regarding the manner in which allowance for the effect of import prices should be made.

(b) Any excess of actual exports over projected exports shall be recorded as overages. If a member records an overage or overages in one or more years, the Agency may require that any shortfall occurring in a subsequent year of the projection period be reduced by the amount of such overage or overages, provided that net overages of one projection period, if any, shall not be carried over to the next projection period. The Agency shall, however, entertain requests from members for the disregarding of overages in cases where overages had been used to rebuild gold or foreign exchange reserves, to accelerate or expand sound investment programmes, or for other purposes consistent with the development programme upon the basis of which the Agency and the member concerned concluded the agreement referred to in Section 2(a).

(c) In the event of an export shortfall, the Agency shall consult with the member concerned and with the International Monetary Fund as to the extent to which such shortfall may be dealt with by recourse to alternative sources of finance, including the use of the member’s gold or foreign exchange reserves as well as the compensatory financing facility of the International Monetary Fund.
(d) The Agency shall promptly provide finance to the extent of any residual shortfall, after taking into account the provisions of Sections 3(b) and 3(c) of this Article.
(e) Export shortfalls and overages shall normally be calculated on the basis of one-year periods.

Section 4. Rationing of Resources

If the Agency is faced with a situation where the aggregate level of export shortfalls eligible for financing during any year is likely in the Agency's view to exceed the financial resources at the Agency's disposal, it shall forthwith undertake to establish an equitable system of rationing the use of its resources. The Agency shall promptly announce the establishment and discontinuation of rationing to all member governments, together with the relevant effective dates.

Section 5. Form and Terms of Financing

(a) Financing by the Agency shall take the form of loans.
(b) The terms of loans provided by the Agency shall be adjusted to the economic position and prospects, including debt service capacity, of the member country concerned. Such terms shall take into account any reduction in debt service capacity resulting from the export shortfall itself, or from any adverse movement in export prospects.
(c) If the Agency has announced the introduction of a system of rationing under Section 4 of this Article, it may request member governments recording overages to reimburse to the extent of such overages any loans granted in respect of previous export shortfalls recorded in the same projection period.
(d) In implementing the provisions of Sections 3(b) and 3(c) of this Article, the Agency shall take into account the need to encourage member countries to expand their exports above the levels foreseen in the export projections.

Section 6. Cooperation with other International Organizations and Members

Providing Development Assistance

(a) The Agency shall cooperate with those public international organizations and members which provide financial and technical assistance to the developing countries of the world.
Section 7. Miscellaneous Operations

In addition to the operations specified elsewhere in this Agreement, the Agency may:

(i) borrow funds with the approval of the member in whose currency the loan is denominated;

(ii) guarantee securities in which it has invested in order to facilitate their sale;

(iii) buy and sell securities it has issued or guaranteed or in which it has invested;

(iv) in special cases, guarantee loans from other sources for purposes not inconsistent with the provisions of this Agreement;

(v) provide technical assistance and advisory services at the request of a member; and

(vi) exercise such other powers incidental to its operations as shall be necessary or desirable in furtherance of its purposes.

Section 8. Political Activity Prohibited

The Agency and its officers shall not interfere in the political affairs of any member; nor shall they be influenced in their decisions by the political character of the member or members concerned. Only economic considerations shall be relevant to their decisions, and these considerations shall be weighed impartially in order to achieve the purposes stated in this Agreement.

ARTICLE VI

Organisation and Management

Section 1. Structure of the Agency

The Agency shall have a Board of Governors, Executive Directors, a President and such other officers and staff to perform such duties as the Agency may determine.

Section 2. Board of Governors
(a) All the powers of the Agency shall be vested in the Board of Governors. Each Governor and Alternate Governor of the Bank appointed by a member of the Bank which is also a member of the Agency shall ex officio be a Governor and Alternate Governor, respectively, of the Agency. In addition, each member of the Agency which is not a member of the Bank shall appoint one Governor and one Alternate Governor in such manner as it may determine. No Alternate Governor may vote except in the absence of his principal. The Chairman of the Board of Governors of the Bank shall ex officio be Chairman of the Board of Governors of the Agency except that if the Chairman of the Board of Governors of the Bank shall represent a state which is not a member of the Agency, then the Board of Governors shall select one of the Governors as Chairman who shall hold office until the next meeting of the Board. Any Governor or Alternate Governor shall cease to hold office if the member by whom he was appointed shall cease to be a member of the Agency.

(b) The Board of Governors may delegate to the Executive Directors authority to exercise any of its powers, except the power to:

(i) admit new members and determine the conditions of their admission, including their representation on the Board of Executive Directors;

(ii) authorize additional subscriptions and determine the terms and conditions relating thereto;

(iii) suspend a member;

(iv) decide appeals from interpretations of this Agreement given by the Executive Directors;

(v) make arrangements pursuant to Section 7 of this Article to cooperate with other international organisations (other than informal arrangements of a temporary and administrative character);
(vi) decide to suspend permanently the operations of the Agency and to distribute its assets;
(vii) determine the distribution of the Agency's net income pursuant to Section 12 of this Article; and
(viii) approve proposed amendments to this Agreement.

c) The Board of Governors shall hold an annual meeting and such other meetings as may be provided for by the Board of Governors or called by the Executive Directors. Meetings of the Board shall be called by the Directors whenever requested by members having one-quarter of the total voting power.

d) The annual meeting of the Board of Governors shall be held in conjunction with the annual meeting of the Board of Governors of the Bank.

e) A quorum for any meeting of the Board of Governors shall be a majority of the Governors, exercising not less than two-thirds of the total voting power.

f) The Agency may by regulation establish a procedure whereby the Executive Directors may obtain a vote of the Governors on a specific question without calling a meeting of the Board of Governors.

g) The Board of Governors, and the Executive Directors to the extent authorised, may adopt such rules and regulations as may be necessary or appropriate to conduct the business of the Agency.

h) Governors and Alternate Governors shall serve as such without compensation from the Agency.

Section 3. Voting

(a) Each original member shall, in respect of its initial subscription, have 500 votes plus one additional vote for each $5,000 of its
initial subscription. Subscriptions other than initial subscriptions of original members shall carry such voting rights as the Board of Governors shall determine pursuant to the provisions of Article II, Section 3 or Article III, Sections 3 (b) and (c), as the case may be. Additions to resources other than subscriptions under Article II, Section 3 and additional subscriptions under Article III, Section 3, shall not carry voting rights.

(b) Except as otherwise specifically provided, all matters before the Agency shall be decided by a majority of the votes cast.

Section 4. Executive Directors

(a) The Executive Directors shall be responsible for the conduct of the general operations of the Agency, and for this purpose shall exercise all the powers given to them by this Agreement or delegated to them by the Board of Governors.

(b) The Executive Directors of the Agency shall be composed:

(i) ex officio of each Executive Director of the Bank who shall have been (1) appointed by a member of the Bank the which is also a member of Agency, or (2), elected in an election in which the votes of at least one member of the Bank which is also a member of the Agency shall have counted toward his election. The alternate to each such Executive Director of the Bank shall ex officio be an Alternate Director of the Agency;

(ii) of a specified number of persons appointed or elected by which those members of the Agency / are not members of the Bank. Provided further that the Board of Governors of the Agency shall determine, at its first meeting and as and when necessity arises thereafter, the basis and mode of representation of such members;
(c) Any Director shall cease to hold office if the member by which he was appointed, or if all the members whose votes counted toward his election, shall cease to be members of the Agency.

(d) Each Director who is an appointed Executive Director of the Bank shall be entitled to cast the number of votes which the member by which he was appointed is entitled to cast in the Agency. Each Director who is an elected Executive Director of the Bank shall be entitled to cast the number of votes which the member or members of the Agency whose votes counted toward his election in the Bank are entitled to cast in the Agency.

(e) A Director appointed by a member of the Agency / which is not a member of the Bank shall be entitled to cast the number of votes which the member by which he was appointed is entitled to cast in the Agency. / which are not members of the Bank shall be entitled to cast the number of votes which the member or members of the Agency whose votes counted toward his election are entitled to cast in the Agency.

(f) All the votes which a Director is entitled to cast shall be cast as a unit.
(f) An Alternate Director shall have full power to act in the absence of the Director who shall have appointed him. When a Director is present, his Alternate may participate in meetings but shall not vote.

(g) A quorum for any meeting of the Executive Directors shall be a majority of the Directors exercising not less than one-half of the total voting power.

(h) The Executive Directors shall meet as often as the business of the Agency may require.

(i) The Board of Governors shall adopt regulations under which a member of the Agency not entitled to appoint an Executive Director may send a representative to attend any meeting of the Executive Directors of the Agency when a request made by, or a matter particularly affecting, that member is under consideration.

Section 5. President and Staff

(a) The President of the Bank shall be ex officio President of the Agency. The President shall be Chairman of the Executive Directors of the Agency but shall have no vote except a deciding vote in case of an equal division. He may participate in meetings of the Board of Governors but shall not vote at such meetings.

(b) The President shall be chief of the operating staff of the Agency. Under the direction of the Executive Directors he shall conduct the ordinary business of the Agency and under their general control
shall be responsible for the organization, appointment and dismissal of the officers and staff. To the extent practicable, officers and staff of the Bank shall be appointed to serve concurrently as officers and staff of the Agency.

(c) The President, officers and staff of the Agency, in the discharge of their offices, owe their duty entirely to the Agency and to no other authority. Each member of the Agency shall respect the international character of this duty and shall refrain from all attempts to influence any of them in the discharge of their duties.

(d) In appointing officers and staff the President shall, subject to the paramount importance of securing the highest standards of efficiency and of technical competence, pay due regard to the importance of recruiting personnel on as wide a geographical basis as possible.

Section 6. Relationship to the Bank

(a) The Agency shall be an entity separate and distinct from the Bank and the funds of the Agency shall be kept separate and apart from those of the Bank. The Agency shall not borrow from or lend to the Bank, except that this shall not preclude the Agency from investing funds not needed in its financing operations in obligations of the Bank.

(b) The Agency may make arrangements with the Bank regarding facilities, personnel and services and arrangements for reimbursement of administrative expenses paid in the first instance by either organization on behalf of the other.
(c) Nothing in this Agreement shall make the Agency liable for the acts or obligations of the Bank, or the Bank liable for the acts or obligations of the Agency.

Section 7. Relations with other International Organizations

The Agency shall enter into formal arrangements with the United Nations and may enter into such arrangements with other public international organizations having specialized responsibilities in related fields.

Section 8. Location of Offices

The principal office of the Agency shall be the principal office of the Bank. The Agency may establish other offices in the territories of any member.

Section 9. Depositories

Each member shall designate its central bank as a depository in which the Agency may keep holdings of such member’s currency or other assets of the Agency, or, if it has no central bank, it shall designate for such purpose such other institution as may be acceptable to the Agency. In the absence of any different designation, the depository designated for the Bank shall be the depository for the Agency.

Section 10. Channel of Communication

Each member shall designate an appropriate authority with which the Agency may communicate in connexion with any matter arising under this Agreement. In the absence of any different designation, the channel of communication designated for the Bank shall be the channel for the Agency.
Section 11. Publication of Reports and Provision of Information

(a) The Agency shall publish an annual report containing an audited statement of its accounts and shall circulate to members at appropriate intervals a summary statement of its financial position and of the results of its operations.

(b) The Agency may publish such other reports as it deems desirable to carry out its purposes.

(c) Copies of all reports, statements and publications made under this Section shall be distributed to members.

Section 12. Disposition of Net Income

The Board of Governors shall determine from time to time the disposition of the Agency's net income, having due regard to provision for reserves and contingencies.

ARTICLE VII

Withdrawal; Suspension of Membership;

Suspension of Operations

Section 1. Withdrawal by Members

Any member may withdraw from membership in the Agency at any time by transmitting a notice in writing to the Agency at its principal office. Withdrawal shall become effective upon the date such notice is received.

Section 2. Suspension of Membership

(a) If a member fails to fulfill any of its obligations to the Agency, the Agency may suspend its membership by decision of a majority of the Governors, exercising a majority of the total voting power. The member so suspended shall automatically cease to be a member one year from the date of its suspension unless a decision is taken by the same majority to restore the member to good standing.

(b) While under suspension, a member shall not be entitled to exercise any rights under this Agreement except the right of withdrawal, but shall remain subject to all obligations.
Section 3. Rights and Duties of Governments Ceasing to be Members

(a) When a government ceases to be a member, it shall have no rights under this Agreement except as provided in this Section and in Article X(c), but it shall, except as in this Section otherwise provided, remain liable for all financial obligations undertaken by it to the Agency, whether as a member, borrower, guarantor or otherwise.

(b) When a government ceases to be a member, the Agency and the government shall proceed to a settlement of accounts. As part of such settlement of accounts, the Agency and the government may agree on the amounts to be paid to the government on account of its subscription and on the time and currencies of payments. The term "subscription" when used in relation to any member government shall for the purposes of this Article be deemed to include both the initial subscription and any additional subscription of such member government.

(c) If no such agreement is reached within six months from the date when the government ceased to be a member, or such other time as may be agreed upon by the Agency and the government, the following provisions shall apply:

(i) The government shall be relieved of any further liability to the Agency on account of its subscription, except that the government shall pay to the Agency forthwith amounts due and unpaid on the date when the government ceased to be a member and which in the opinion of the Agency are needed by it to meet its commitments as of that date under its financing operations.

(ii) The Agency shall return to the government funds paid in by the government on account of its subscription or derived therefrom as principal
repayments and held by the Agency on the date when the government ceased to be a member, except to the extent that in the opinion of the Agency such funds will be needed by it to meet its commitments as of that date under its financing operations.

(iii) The Agency shall pay over to the government a pro rata share of all principal repayments received by the Agency after the date on which the government ceases to be a member on loans contracted prior thereto, except those made out of supplementary resources provided to the Agency under arrangements specifying special liquidation rights. Such share shall be such proportion of the total principal amount of such loans as the total amount paid by the government on account of its subscription and not returned to it pursuant to clause (ii) above shall bear to the total amount paid by all members on account of their subscriptions which shall have been used or in the opinion of the Agency will be needed by it to meet its commitments under its financing operations as of the date on which the government ceases to be a member. Such payment by the Agency shall be made in instalments when and as such principal repayments are received by the Agency, but not more frequently than annually. Such instalments shall be paid in the currencies received by the Agency except that the Agency may in its discretion make payment in the currency of the government concerned.

(iv) Any amount due to the government on account of its subscription may be withheld so long as that government remains liable, as borrower, to the Agency, and such amount may, at the option of the Agency, be applied against any such liability as it matures.

(v) In no event shall the government receive under this paragraph (c) an amount exceeding, in the aggregate, the lesser of the following (a) the amount paid by the government on account of its subscription, or (b) such proportion of the net assets of the Agency, as shown on the books of the Agency as of the date on which the government ceased
to be a member, as the amount of its subscription shall bear to the aggregate amount of the subscriptions of all members.

(vi) All calculations required hereunder shall be made on such basis as shall be reasonably determined by the Agency.

d) In no event shall any amount due to a government under this Section be paid until six months after the date upon which the government ceases to be a member. If within six months of the date upon which any government ceases to be a member the Agency suspends operations under Section 4 of this Article, all rights of such government shall be determined by the provisions of such Section 4 and such government shall be considered a member of the Agency for purposes of such Section 4, except that it shall have no voting rights.

Section 4. Suspension of Operations and Settlement of Obligations

(a) The Agency may permanently suspend its operations by vote of a majority of the Governors exercising a majority of the total voting power. After such suspension of operations the Agency shall forthwith cease all activities, except those incident to the orderly realization, conservation and preservation of its assets and settlement of its obligations. Until final settlement of such obligations and distribution of such assets, the Agency shall remain in existence and all mutual rights and obligations of the Agency and its members under this Agreement shall continue unimpaired, except that no member shall be suspended or shall withdraw and that no distribution shall be made to members except as in this Section provided.

(b) No distribution shall be made to members on account of their subscriptions until all liabilities to creditors shall have been discharged or provided for and until the Board of Governors, by vote of a majority of the Governors exercising a majority of the total voting power, shall have decided to make such distribution.

(c) Subject to the foregoing, and to any special arrangements for the disposition of supplementary resources agreed upon in connexion with the provision of such resources to the Agency, the Agency shall distribute its assets to members pro rata in proportion to amounts paid in by them on account of their subscriptions.
Any distribution pursuant to the foregoing provision of this paragraph (c) shall be subject, in the case of any member, to prior settlement of all outstanding claims by the Agency against such member. Such distribution shall be made at such times, in such currencies, and in cash or other assets as the Agency shall deem fair and equitable. Distribution to the several members need not be uniform in respect of the type of assets distributed or of the currencies in which they are expressed.

(d) Any member receiving assets distributed by the Agency pursuant to this Section or Section 3 shall enjoy the same rights with respect to such assets as the Agency enjoyed prior to their distribution.

ARTICLE VIII
Status, Immunities and Privileges

Section 1. Purposes of Article

To enable the Agency to fulfill its functions, the status, immunities and privileges provided in this Article shall be accorded to the Agency in the territories of each member.

Section 2. Status of the Agency

The Agency shall possess full juridical personality and, in particular, the capacity:

(i) to contract;

(ii) to acquire and dispose of immovable and movable property;

(iii) to institute legal proceedings.

Section 3. Position of the Agency with Regard to Judicial Process

Actions may be brought against the Agency only in a court of competent jurisdiction in the territories of a member in which the Agency has an office, has appointed an agent for the purpose of accepting service or notice of process, or has issued or guaranteed securities. No actions shall, however, be brought by members or persons acting for or deriving claims from members. The property and assets of the Agency shall, wheresoever located and whomsoever held, be immune from all forms of seizure, attachment or execution before the delivery
of final judgment against the Agency.

Section 4. **Immunity of Assets from Seizure**

Property and assets of the Agency, wherever located and by whomsoever held, shall be immune from search, requisition, confiscation, expropriation or any other form of seizure by executive or legislative action.

Section 5. **Immunity of Archives**

The archives of the Agency shall be inviolable.

Section 6. **Freedom of Assets from Restrictions**

To the extent necessary to carry out the operations provided for in this Agreement and subject to the provisions of this Agreement, all property and assets of the Agency shall be free from restrictions, regulations, controls and moratoria of any nature.

Section 7. **Privilege for Communications**

The official communications of the Agency shall be accorded by each member the same treatment that it accords to the official communications of other members.

Section 8. **Immunities and Privileges of Officers and Employees**

All Governors, Executive Directors, Alternates, officers and employees of the Agency.

(i) shall be immune from legal process with respect to acts performed by them in their official capacity except when the Agency waives this immunity;

(ii) not being local nationals, shall be accorded the same immunities from immigration restrictions, alien registration requirements and national service obligations and the same facilities as regards exchange restrictions as are accorded by members to the representatives, officials, and employees of comparable rank of other members;

(iii) shall be granted the same treatment in respect of travelling facilities as is accorded by members to representatives, officials and employees of comparable rank of other members.
Section 9. **Immunities from Taxation**

(a) The Agency, its assets, property, income and its operations and transactions authorized by this Agreement, shall be immune from all taxation and from all customs duties. The Agency shall also be immune from liability for the collection or payment of any tax or duty.

(b) No tax shall be levied on or in respect of salaries and emoluments paid by the Agency to Executive Directors, Alternates, officials or employees of the Agency who are not local citizens, local subjects, or other local nationals.

(c) No taxation of any kind shall be levied on any obligation or security issued by the Agency (including any dividend or interest thereon) by whomsoever held

   (i) which discriminates against such obligation or security solely because it is issued by the Agency; or

   (ii) if the sole jurisdictional basis for such taxation is the place or currency in which it is issued, made payable or paid, or the location of any office or place of business maintained by the Agency.

(d) No taxation of any kind shall be levied on any obligation or security guaranteed by the Agency (including any dividend or interest thereon) by whomsoever held

   (i) which discriminates against such obligation or security solely because it is guaranteed by the Agency; or

   (ii) if the sole jurisdictional basis for such taxation is the location of any office or place of business maintained by the Agency.

Section 10. **Application of Article**

Each member shall take such action as is necessary in its own territories for the purpose of making effective in terms of its own law the principles set forth in this Article and shall inform the Agency of the detailed action which it has taken.
ARTICLE IX

Amendments

(a) Any proposal to introduce modifications in this Agreement, whether emanating from a member, a Governor or the Executive Directors, shall be communicated to the Chairman of the Board of Governors who shall bring the proposal before the Board. If the proposed amendment is approved by the Board, the Agency shall, by circular letter or telegram, ask all members whether they accept the proposed amendment. When three-fifths of the members, having four-fifths of the total voting power, have accepted the proposed amendments, the Agency shall certify the fact by formal communication addressed to all members.

(b) Notwithstanding (a) above, acceptance by all members is required in the case of any amendment modifying

(i) the right to withdraw from the Agency provided in Article VII, Section 1;
(ii) the right secured by Article III, Section 3(c);
(iii) the limitation on liability provided in Article III, Section 2.

(c) Amendments shall enter into force for all members three months after the date of the formal communication unless a shorter period is specified in the circular letter or telegram.

ARTICLE X

Interpretation and Arbitration

(a) Any question of interpretation of the provisions of this Agreement arising between any member and the Agency or between any members of the Agency shall be submitted to the Executive Directors for their decision. If the question particularly affects any member of the Agency not entitled to appoint an Executive Director, it shall be entitled to representation in accordance with Article VI, Section 4(g).

(b) In any case where the Executive Directors have given a decision under (a) above, any member may require that the question be referred to the Board of Governors, whose decision shall be final. Pending the result of the reference to the Board of Governors, the Agency may, so far as it seems necessary, act on
the basis of the decision of the Executive Directors.

(c) Whenever a disagreement arises between the Agency and a country which has ceased to be a member, or between the Agency and any member during the permanent suspension of the Agency, such disagreement shall be submitted to arbitration by a tribunal of three arbitrators, one appointed by the Agency, another by the country involved and an umpire who, unless the parties otherwise agree, shall be appointed by the President of the International Court of Justice or such other authority as may have been prescribed by regulation adopted by the Agency. The umpire shall have full power to settle all questions of procedure in any case where the parties are in disagreement with respect thereto.

ARTICLE XI

Final Provisions

Section 1. Entry into Force

This Agreement shall enter into force when it has been signed on behalf of governments whose subscriptions comprise not less than sixty-five percent of the total subscriptions set forth in Schedule A and when the instruments referred to in Section 2(a) of this Article have been deposited on their behalf, but in no event shall this Agreement enter into force before

Section 2. Signature

(a) Each government on whose behalf this Agreement is signed shall deposit with the Bank an instrument setting forth that it has accepted this Agreement in accordance with its law and has taken all steps necessary to enable it to carry out all of its obligations under this Agreement.

(b) Each government shall become a member of the Agency as from the date of the deposit on its behalf of the instrument referred to in paragraph (a) above except that no government shall become a member before this Agreement enters into force under Section 1 of this Article.

(c) This Agreement shall remain open for signature until the close of business on at the principal office of the Bank on behalf of the governments of the states whose names are
set forth in Schedule A, provided that, if this Agreement shall not have entered into force by that date, the Executive Directors of the Bank may extend the period during which this Agreement shall remain open for signature by not more than six months. 

(d) After this Agreement shall have entered into force, it shall be open for signature on behalf of the government of any state whose membership shall have been approved pursuant to Article II, Section 1(b).

Section 3. Territorial Application

By its signature of this Agreement, each government accepts it both on its own behalf and in respect of all territories for whose international relations such government is responsible except those which are excluded by such government by written notice to the Agency.

Section 4. Inauguration of the Agency

(a) As soon as this Agreement enters into force under Section 1 of this Article the President shall call a meeting of the Executive Directors.

(b) The Agency shall begin operations on the date when such meeting is held.

(c) Pending the first meeting of the Board of Governors, the Executive Directors may exercise all the powers of the Board of Governors except those reserved to the Board of Governors under this Agreement.

Section 5. Registration

The Bank is authorized to register this Agreement with the Secretariat of the United Nations in accordance with Article 102 of the Charter of the United Nations and the Regulations thereunder adopted by the General Assembly.

Done in a single copy which shall remain deposited in the archives of the International Bank for Reconstruction and Development, which has indicated by its signature below its agreement to act as depository of this Agreement, to register this Agreement with the Secretariat of the United Nations and to notify all governments whose names are set forth in Schedule A of the date when this Agreement shall have entered into force under Article XI, Section I hereof.