Ms. Ingrid Glad  
Acting Deputy Director General  
Multilateral Bank and Finance Section  
Royal Ministry of Foreign Affairs G  
7 Juni Plass/ Victoria Terrasse  
Oslo 0033  
NORWAY

Amendment to the Administration Agreement between the Royal Ministry of Foreign Affairs of the Government of Norway and the International Bank for Reconstruction and Development and the International Development Association concerning the Norwegian Trust Fund for Debt Sustainability, Volatility and Relief (TF054299)

Dear Ms. Glad:

1. We refer to the Administration Agreement between the Royal Ministry of Foreign Affairs of the Government of Norway (the “Donor”) and the International Bank for Reconstruction and Development ("IBRD") and the International Development Association ("IDA") (collectively the “Bank”) concerning the Norwegian Trust Fund for Debt Sustainability, Volatility and Relief (TF054299) (the “Trust Fund”) effective January 27, 2005, as amended (the “Agreement”).

2. We are pleased to acknowledge, on behalf of the Bank, the intention of the Donor to make a supplemental contribution to the Trust Fund in the amount of eight hundred eighty nine thousand three hundred thirteen United States Dollars (USD 889,313) (the “Supplemental Contribution”).

3. Upon countersignature of this Amendment, the Donor authorizes the Bank to transfer the Supplemental Contribution from the Donor Balance Account (TF029001) to the Trust Fund. Additionally, pursuant to recent discussions between the Bank and the Donor, the Bank proposes to amend the Agreement as follows:

   a. Paragraph 10.1 of the Administration Agreement to extend the end disbursement date to April 30, 2013. Therefore, paragraph 10.1 shall be deleted in its entirety and replaced with the following:

      “10.1. It is expected that the Contribution funds will be fully disbursed by the Bank in accordance with the provisions of this Agreement by April 30, 2013. The Bank shall only disburse Contribution funds for the purposes of this Agreement after such date with the written approval of the Donors.”

   b. Paragraph III of Annex 2 shall be deleted in its entirety and replaced with the following:
III. Integrating the IDA Debt Reduction Facility with the HIPC Initiative

Background. The Debt Reduction Facility for IDA-only Countries (DRF) was established prior to the HIPC Initiative as an instrument to reduce the stock of external debt owed to commercial creditors by IDA-only countries. Since its inception in 1989, the DRF has played a significant role in extinguishing commercial external debt for LICs where high debt burdens have constrained poverty reduction. It provides grant funding to eligible countries to buy back the debts owed to external commercial creditors at a deep discount. Often, the settlement of arrears with commercial creditors enables countries to manage their debt in a more cost effective way vis-à-vis expensive legal cases and penalty interest awards. Many HIPCs have used the DRF to reduce their exposure to commercial creditors. A growing number of commercial creditors and distressed debt funds are engaging in litigation against HIPCs, including significant litigation against Republic of Congo, Guyana, and Uganda. Litigating creditors have generally won lawsuits against HIPCs, estimated to cost US$1 billion.

Proposed activities include: (i) supporting HIPCs in using the DRF to reduce stocks of commercial debt; (ii) strengthening the HIPC program against predatory creditor practices; (iii) tracking and releasing data on lawsuits, litigators, and settlements/awards against HIPCs, and (iv) raising public awareness with country authorities and NGOs of the issues and costs involved in lawsuits against HIPCs.

- Supporting HIPCs in using the DRF to reduce stocks of commercial debt. Historically, the DRF has not been well integrated with the HIPC program, since it was created before HIPC and managed elsewhere in the Bank. Now that the facility has been transferred to PRMED, the department is working to enhance the synergies between the DRF and HIPC, and is particularly keen to provide early support to HIPCs to avoid aggressive claims emanating from predatory creditor practices (e.g., the purchase by vulture funds of LIC commercial debt on secondary markets and subsequent litigation).

- Strengthening the HIPC program against predatory creditor practices. The HIPC Progress report provides cursory evidence of the costs of litigation and claims of predatory creditors (“vulture funds”) against HIPCs. We propose to do a more thorough analysis of the issue, including determining: (i) how big a problem holdouts are in sovereign debt restructuring, and how easy it is to enforce claims against sovereign debtors, and (ii) identifying potential solutions to strengthen the Bank’s HIPC/MDRI/DRF programs and operations from such claims (e.g. incentives, timing, anti-assignment) or considering options for developing legal approach to holdout creditors (e.g., those operative in the major financial centers.)

- Engaging the services of legal and financial advisers to: (i) estimate the total amount of eligible external commercial debt that could be bought with DRF support, by country and in total (41 HIPC countries); (ii) identify the options and constraints posed by the market for future buyback operations, including proposing pragmatic options to deal with the key issues and providing a brief assessment of costs and benefits - legal, financial, and operational - associated with each option, and recommending the best options for the DRF to follow.

- Organizing conferences to disseminate the findings on the results of the legal and financial advisors work.
4. Except as specifically amended hereby, all other terms and conditions of the Administration Agreement remain in full force and effect.

5. The Bank will disclose this Amendment and related information on this Trust Fund in accordance with the World Bank Policy on Access to Information. By entering into this Amendment, the Donor consents to such disclosure.

6. Please confirm your understanding of the foregoing on behalf of the Donor, by signing, dating, and returning to us one of the enclosed originals of this Amendment. Upon receipt by the Bank of the original of the Amendment countersigned by you, this Amendment will become effective as of the countersignature.

Sincerely,

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

/s/ Jeffrey D. Lewis
Director
Economic Policy and Debt Department
Poverty Reduction and Economic Management

CONFIRMED AND AGREED:

THE ROYAL MINISTRY OF FOREIGN AFFAIRS OF THE GOVERNMENT OF NORWAY

By: /s/ Ingrid Glad Date: October 10, 2011
Name: Ingrid Glad
Title: Acting Deputy Director General