

**LAPSE OF
TIME**

EBS/22/23

April 4, 2022

To: Members of the Executive Board

From: The Secretary

Subject: **Establishment of a Multi-Donor Administered Account for Ukraine**

Board Action:	Executive Directors' consideration on a lapse of time basis
Deadline to Request a Board Meeting, after which Proposed Decision Deemed Approved:	Friday, April 8, 2022 12:00 (noon)
Proposed Decision:	Page 6
Publication:	Not proposed
Questions:	Mr. Bauer, FIN (ext. 39455) Ms. Khaw, FIN (ext. 37820) Mr. Otokwala, LEG (ext. 35842)



April 4, 2022

ESTABLISHMENT OF A MULTI-DONOR ADMINISTERED ACCOUNT FOR UKRAINE

EXECUTIVE SUMMARY

The Managing Director has received a request from Canada, the Netherlands, Poland, Ukraine, and the Executive Director for, and on behalf of, all the countries in the Nordic-Baltic Constituency, that the Fund establish an account pursuant to Article V, Section 2(b) of the Articles of Agreement, for the administration of resources to be made available in support of Ukraine. The proposed "Administered Account for Ukraine" is intended to channel resources in the form of grants and loans from members, their official institutions, and intergovernmental agencies and organizations to assist Ukraine in meeting its balance of payments and budgetary needs in order to help stabilize Ukraine's economy.

Staff supports the request for the establishment of the Account. Article V, Section 2(b) provides the Fund with authority to perform financial and technical services, including the administration of contributions by members. The establishment of the Account would be a service for the requesting countries, that is consistent with the purposes of the Fund, as the contributed resources are intended to assist Ukraine in meeting its balance of payments and budgetary needs. The draft instrument for the Administered Account for Ukraine includes provisions that are similar to those governing a number of accounts established and administered in recent years at the request of Fund members.

Approved By
**Bernard Lauwers and
Rhoda Weeks-Brown**

Prepared by the Legal and Finance Departments

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REQUEST AND PURPOSE OF THE ACCOUNT

1. **The Managing Director has received a request from Canada, the Netherlands, Poland, Ukraine, and the Executive Director for, and on behalf of, all the countries in the Nordic-Baltic Constituency (“Requesting Countries”),¹ that the Fund establish an account pursuant to Article V, Section 2(b) of the Articles of Agreement, for the administration of resources to be made available in support of Ukraine (see Annex).** Consistent with the purposes of the Fund, the proposed “Administered Account for Ukraine” (or “Account”) is intended to channel resources in the form of grants and loans from members, their official institutions, and intergovernmental agencies and organizations (“Donors”) to assist Ukraine in meeting its balance of payments and budgetary needs in order to help stabilize Ukraine’s economy.

2. **The Account would facilitate collective action by channeling donor resources under an IMF-administered vehicle, while providing financial safeguards through the disbursement of funds into Ukraine’s SDR account at the Fund.**

RESOURCES AND ADMINISTRATION OF THE ACCOUNT

3. **The Administered Account for Ukraine would be a multi-donor account. Resources may be placed into the account by the Requesting Countries or other contributors (collectively “Donors”).** The addition of new Donors will require the consent of the Managing Director and the consent of existing Donors, which may be obtained on a non-objection basis seven days after a new Donor’s request has been communicated to the existing Donors by the Fund. The Managing Director shall periodically inform all existing Donors of each placement of new resources. Each Donor to the Account agrees that the administration of resources contributed to the Account shall be governed by the attached Instrument for an Administered Account for Ukraine.

4. **While the Account may hold resources, it shall primarily operate as a pass-through vehicle.** Accordingly, grants, loans, repayments, and interest payments received into the Account shall be disbursed or transferred promptly when instructed by a Donor.

5. **The terms applicable to each grant or loan shall be agreed between Ukraine and the Donor in individual or coordinated grant or loan agreements and furnished to the Managing Director.** Such terms shall be consistent with the purpose of providing balance of payments assistance and budgetary support. In the event of coordinated lending or provision of grants, a memorandum of understanding shall be signed among the lenders or contributors and furnished to the Managing Director.

¹ See the letter dated March 30, 2022 (Annex).

6. The Fund would act purely as an administrator of disbursements and repayments/payments of interest, and the Fund's obligations are limited to the administration of the Account in accordance with its terms. The Fund has no legal authority to assume the credit risk of any lending made to Ukraine pursuant to the Instrument. Accordingly, the Donors would have the underlying loan claims against Ukraine for repayment of principal and payment of any interest and bear the credit risk.

7. Overall, the proposed Account provides considerable flexibility for the channeling of Donor resources to Ukraine, while offering important safeguards. Donors will be able to rely on the IMF's tested infrastructure for delivering payments via authenticated means to Ukraine. The Account would receive loan or grant resources from Donors in either usable currencies or SDRs and disburse these resources into Ukraine's SDR account at the IMF, thus providing safeguards regarding access. The financial terms of loans (e.g., maturity and interest rate) to be channeled through the Account can be coordinated among Donors or set bilaterally between Donors and Ukraine, and Donors can contribute to the Account whenever the domestic procedures for their loan or grant contributions are finalized.

LEGAL AUTHORITY

8. Article V, Section 2(b) provides the Fund with authority to perform financial and technical services, including the administration of contributions by members. Article V, Section 2(b) reads as follows:

"If requested, the Fund may decide to perform financial and technical services, including the administration of resources contributed by members, that are consistent with the purposes of the Fund. Operations involved in the performance of such financial services shall not be on the account of the Fund. Services under this subsection shall not impose any obligation on a member without its consent."

The establishment of the Account would be a service for the Requesting Countries, that is consistent with the purposes of the Fund, as the contributed resources are intended to assist Ukraine in meeting its balance of payments and budgetary needs in order to help stabilize Ukraine's economy. Accordingly, the Fund has authority to accede to the request of the Requesting Countries to establish the Account and to decide upon related arrangements under which resources are transferred by Donors to the Account, disbursements are made from the Account, and any resources held in the Account are invested pending such disbursements.

9. As is the case with other administered accounts, any assets held in the Account would be under the legal ownership of the Fund. Therefore, the Account, its assets and income, and its operations and transactions authorized by the provisions of the Instrument would enjoy the status, immunities, and privileges of the Fund as provided under Article IX of the IMF's Articles of Agreement. Since the underlying claims held in the Account are official bilateral claims rather than

the provision of Fund financing, such claims will not enjoy the Fund's *de facto* Preferred Creditor Status (see also paragraph 6 above). The Fund is not expected to incur any obligation or liability by reason of the establishment, administration, or termination of the Account. The Fund will charge each Donor an administration fee of US\$40,000 for the first 12 months and of US\$20,000 per annum thereafter to cover audit and other costs. This fee could be revised in future years, in consultation with Donors, depending on the number of participating Donors and the evolution of actual costs.

10. The account may be terminated by the Managing Director at any time or at the unanimous request of existing Donors.

11. Staff supports the request for the establishment of the Account. The request by the Requesting Countries would be met by the adoption of the attached draft Instrument pursuant to which the Fund would establish and administer the Account as a separate account under Article V, Section 2(b). The draft Instrument includes provisions that are similar to those governing a number of accounts established and administered in recent years at the request of Fund members.

Proposed Decision

Accordingly, the following decision, which may be adopted by a majority of the votes cast, is proposed for adoption by the Executive Board:

1. Pursuant to Article V, Section 2(b), as requested by Canada, the Netherlands, Poland, Ukraine and the Executive Director for, and on behalf of, all the countries in the Nordic-Baltic Constituency, the Fund adopts the Instrument to establish an account (“Account”) for the administration by the Fund of resources to be provided by a number of contributors (“Donors”) in accordance with the terms and conditions set forth in the Instrument that is attached to this decision (Attachment).
2. The provisions of the Instrument may be amended only by a decision of the Fund and with the concurrence of all existing Donors. Such concurrence for any proposed amendment may be presumed if Donors do not object within thirty days after the issuance of the proposed amendment to Donors.
3. In accordance with Article XVII, Section 3, the Fund prescribes that:
 - a) an SDR Department participant or a prescribed holder, by agreement with an SDR Department participant or a 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 the Account, or in effecting a payment due to or by the Fund in connection with financial operations under the Account; and
 - b) operations pursuant to these prescriptions shall be recorded in accordance with Rule P-9.

Attachment. Instrument for an Administered Account for Ukraine

To help fulfill its purposes, the International Monetary Fund (the "Fund") has, as requested by Canada, the Netherlands, Poland, Ukraine and the Executive Director for, and on behalf of, all the countries in the Nordic-Baltic Constituency, adopted this Instrument to establish an account in accordance with Article V, Section 2(b) (the "Account"), which shall be governed by, and administered in accordance with, the provisions of this Instrument.

A. Establishment, Purpose and Resources of the Account

1. The Fund hereby establishes an account (the "Administered Account for Ukraine" or the "Account") for the administration of resources contributed by members, their institutions, and intergovernmental agencies or organizations ("Donors") to assist Ukraine in meeting its balance of payments and budgetary needs in order to help stabilize Ukraine's economy.
2. The Account shall be a multi-donor account. The addition of new Donors will require the consent of the Managing Director and the consent of existing Donors, which may be obtained on a non-objection basis seven days after a new Donor's request has been communicated to the existing Donors by the Fund. Each Donor to the Account agrees that the administration of resources contributed to the Account shall be governed by this Instrument.
3. While the Account shall primarily operate on a pass-through basis, it may hold on a temporary basis (i) grants and loans from Donors to be disbursed to, or for the benefit of, Ukraine; (ii) earnings, net of any investment costs, accruing from investments of the assets of the Account; and (iii) any proceeds of loan repayment and payment of interest made by Ukraine, in line with the terms of the loan agreements between Ukraine and individual Donors or groups of Donors.
4. The terms under which a disbursement is to be made shall be established in an agreement between Ukraine and the respective Donors and furnished to the Managing Director. Such terms shall be consistent with the purpose of providing balance of payments assistance and budgetary support.
5. (a) Transactions and operations between Donors and the Account shall be made in SDRs or in usable currencies, that is, the currencies of members included in the Fund's Financial Transactions Plan for transfers.
 - (b) Transactions and operations between Ukraine and the Account shall be made in SDRs.
 - (c) The SDR shall be the unit of account.

B. Disbursements

6. Disbursements from the Account shall be made to, or for the benefit of, Ukraine in line with agreement between the Donor(s) and Ukraine and this Instrument.

7. (a) Each disbursement will be effected upon the instruction of the Donor via authenticated means. Upon making a disbursement, the Fund shall notify Ukraine, and the Donor through the office of the Executive Director for that country, that the disbursement has been made as instructed by the Donor.

(b) Disbursements pursuant to subparagraph (a) above shall be made by the Fund into Ukraine's SDR account.

(c) Instructions for disbursement from the Account shall be received by the Fund 5-7 business days of the Fund before the intended date of the disbursement unless the disbursement is subject to an automatic trigger.

C. Administration of the Account

8. The Fund's role in the administration of the Account shall be confined to the performance of services in accordance with this Instrument. The Fund has no legal authority to assume the credit risk of any lending made to Ukraine pursuant to the Instrument.

9. The Fund shall keep separate records of (i) the amounts transferred to the Account by each Donor, (ii) any net investment earnings attributable to those amounts, (iii) the disbursement or other disposition of those amounts and earnings, and (iv) any payment or repayment of interest and principal into the Account in connection with a disbursement made from the Account.

10. The Managing Director is authorized (i) to make all arrangements, including establishment of accounts in the name of the Fund with such depositories of the Fund 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 Instrument.

11. Any resources held in the Account pending disbursement shall be invested at the discretion of the Managing Director. Earnings net of any costs associated with such investments shall accrue to the Account.

12. An annual administration fee of US\$40,000 for the first 12 months and of US\$20,000 per annum thereafter will be paid by each Donor to the Fund to cover audit and other costs. This fee may be revised by the Fund in future years, in consultation with Donors, to reflect the evolution of actual costs.

13. Assets held in the Account shall be kept separate from the assets and property of all other accounts of, or administered by, the Fund. The assets and property held in such other accounts shall not be used to discharge or meet liabilities, obligations, or losses of the Fund incurred in the

administration of the Account nor shall the assets of the Account be used to discharge or meet any liabilities, obligations, or losses incurred by the Fund in the administration of such other accounts.

14. (a) The Fund shall maintain separate financial records and prepare separate financial statements for the Account. The financial statements for the Account shall be expressed in SDRs and prepared in accordance with accounting principles followed by the Fund.

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

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

15. Subject to the provisions of the Instrument, the Fund, in administering the Account, shall apply mutandis, the same rules and procedures as apply to the operation of the General Resources Account of the Fund.

D. Amendments and Termination

16. The provisions of the Instrument may be amended only by a decision of the Fund and with the concurrence of all existing Donors. Such concurrence for any proposed amendment may be presumed if Donors do not object within thirty days after the issuance of the proposed amendment to Donors.

17. (a) The Account may be terminated at any time by the Fund or by a unanimous decision of all existing Donors. Termination shall be effective on the date that either party receives a notice of termination, or such later date, if any, as may be specified in the notice of termination.

(b) At any time before termination of the Account, each Donor reserves the right to request return of part of its balances remaining in the Account which have not been committed by the Fund at the request of the Donor.

(c) Any balances that may remain in the Account upon its termination shall be transferred promptly to Donors in line with their contributions. Each Donor may instruct that all or a specified amount be transferred to Ukraine, or be utilized for such other purposes as may be mutually agreed between the Donor and the Managing Director.

18. Any questions arising under this Instrument shall be settled by mutual agreement between the Fund and Donors.

Annex. Request to Establish Administered Account

March 30, 2022

Ms. Kristalina Georgieva
Managing Director
International Monetary Fund
700 19th Street N.W. Washington, D.C. 20431

Dear Ms. Georgieva,

Russia's invasion of Ukraine is having devastating impacts on Ukraine's people, infrastructure, and economy. It is also a major blow to the global economy that will hurt growth and raise prices.

On March 9th the IMF Executive Board approved US\$1.4 billion (SDR 1,005.9 million) in emergency financing to support Ukraine, the maximum allowed under current Fund policy. While this support is helping meet urgent financing needs and mitigate the economic impact of the war, additional financing is urgently required.

We therefore request that you urgently establish an Administered Account for Ukraine, pursuant to Article V, Section 2(b) of the Articles of Agreement and subject to Board approval. This Account could help channel grants and loans from contributors to assist Ukraine in meeting its balance of payments and budgetary needs in order to help stabilize Ukraine's economy. The Account would facilitate collective action by channeling donor resources under an IMF-administered vehicle and providing necessary financial safeguards.

Sincerely,

Philip Jennings

Executive Director

(On behalf of Canada)

Paul Hilbers

Executive Director

(On behalf of the Netherlands and Ukraine)

Mika Pösö

Executive Director

(On behalf of the Nordic-Baltic Constituency)

Piotr Trabinski

Executive Director

(On behalf of Poland)