

**IMMEDIATE
ATTENTION**

EBS/09/27

March 6, 2009

To: Members of the Executive Board

From: The Acting Secretary

Subject: **Establishment of a New Framework Administered Account for Selected Fund Activities**

Attached for consideration by the Executive Directors is a paper on the establishment of a new framework administered account for selected Fund activities.

It is not proposed to bring this matter to the agenda of the Executive Board for discussion unless an Executive Director so requests by **noon on Friday, March 13, 2009**. In the absence of such a request, the draft decision that appears on page 7 will be deemed approved by the Executive Board and it will be so recorded in the minutes of the next meeting.

It is intended that this paper will be published on the Fund's external website after Friday, March 20, 2009.

Questions may be referred to Mr. DiMaina (ext. 38455) and Ms. Latortue (ext. 34975) in FIN; Ms. SenGupta (ext. 30032) and Mr. Bergthaler (ext. 34287) in LEG; and Ms. Kostial, OTM (ext. 35349).

This document will shortly be posted on the extranet, a secure website for Executive Directors and member country authorities.

Att: (1)

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Department Heads

INTERNATIONAL MONETARY FUND

Establishment of a New Framework Administered Account for Selected Fund Activities

Prepared by the Legal and Finance Departments and the Office of Technical Assistance
Management
(in consultation with other Departments)

Approved by Ross Leckow, Andrew Tweedie, and Alfred Kammer

March 5, 2009

I. INTRODUCTION

1. This paper proposes the approval of an instrument for the establishment of a new framework administered account to administer external financial resources for selected Fund activities (the “SFA Instrument”). The SFA Instrument is designed to provide a more flexible platform through which the Fund may attract donor resources and meet the demand for its technical assistance (TA) and other activities.¹ It builds on the Executive Board’s endorsement of management’s proposal that the Fund take a more vigorous and systematic approach in raising external financing.² During a transitional period, the SFA Instrument will operate in parallel with the existing Instrument for a Framework Administered Account for Technical Assistance Activities (the “FAA”), and new subaccounts will be opened exclusively under the SFA Instrument.³ It is expected that the FAA would be phased out in due course.

II. WHY IS THERE A NEED FOR A NEW INSTRUMENT?

2. **External financing is playing an increasingly important role in meeting the demand for the Fund’s advice.** In particular, external financing has become a critical

¹ For purposes of this paper, TA means any technical service provided upon request to the Fund, pursuant to Article V, Section 2(b) of the Fund’s Articles. This is broader than the treatment in the Fund’s budget structure, where TA and external training exclude FSAPs, and ROSCs.

² *Summing Up of the Acting Chairman, Enhancing the Impact of Fund Technical Assistance*, BUFF/08/64 (5/20/2008).

³ Ultimately, all active donor subaccounts for TA activities would be expected to migrate to the SFA Instrument.

component of the Fund's TA program and is expected to grow in importance in the years ahead. While internal funding has declined over the last decade, external financing has increased substantially and has allowed the Fund to maintain its TA field delivery at a constant level. Internally financed TA is expected to decline as envisaged in the Fund's FY2009-2011 Medium-Term Budget - by about 20 percent in real terms - but demand for Fund TA is expected to grow, as evidenced, inter alia, by the expanding list of requests for new Regional Technical Assistance Centers (RTACs); low- and lower middle-income countries seeking to build the institutions necessary to implement growth-enhancing policies; and emerging markets and developing countries seeking to put in place more effective legal and regulatory frameworks governing the operation of their financial systems.

3. **The Fund needs to take a more systematic approach to external financing.** As has already been discussed by Executive Directors, existing strategies fall short of what is needed to meet the challenges of the future. Moving forward, the Fund's external financing strategy will continue to support mainly TA and, in line with TA reforms as endorsed by the Executive Board,⁴ will:

- embody a forward-looking TA agenda for its membership that responds to countries' priorities, and focuses the Fund's resources on areas most firmly within its expertise;
- establish deeper and more far-reaching partnerships with donors, and expand the sources of external financing to the private sector (e.g., private foundations);
- strengthen country ownership through the introduction of the Fund's new charging policy;
- ensure that external financing is used to support the full range of the Fund TA activities, including not only direct TA advice and training but also related research, policy development, conferences and seminars, and staff exchanges and secondments;
- make use of a TA costing model that is more transparent and comprehensive in scope, which will include the full actual costs of each project, not only for expert salary and travel, but also for Fund staff costs.

⁴ *Enhancing the Impact of Fund Technical Assistance*, EBS/08/97 (4/2/08) and *Policy for Country Contributions for Capacity Building*, EBS/08/252 (7/23/08).

4. **The Fund’s external financing strategy will also provide for the use of external financing to support a limited range of activities that go beyond TA.** Historically, the Fund has used external financing almost exclusively to support technical and financial services,⁵ and has rarely made use of external financing for other purposes.⁶ While it is envisaged that virtually all non-TA related Fund activities will continue to be financed from the Fund’s own internal resources, there are a few areas where external financing may play a useful role. These include, for instance, the financing of non-TA related research conferences and the use of external financing to strengthen Fund staff’s own capacity on issues relevant to the Fund.⁷ Before a subaccount is opened for such a purpose, important safeguards would be established to ensure that the use of external financing for all relevant activities would not undermine the Fund’s control over its own work program, or the substance of its advice to members.⁸

5. **The implementation of such a broad-based strategy to attract and use external financing will effectively require the establishment of this SFA instrument.** While the Fund’s existing FAA⁹ has served the institution well, it is outmoded. It would be possible to amend the FAA, but the consent of each contributor to the sub-accounts established under the instrument would be required, a process which is likely to be lengthy and uncertain. The more workable approach would be to establish a new instrument that embodies the necessary features and to allow the two instruments to operate in parallel for a transitional period.

III. FEATURES OF THE NEW SFA FRAMEWORK ACCOUNT

6. **The SFA Instrument will build on the structure of the FAA Instrument with a number of important enhancements to address the objectives set out above.** Like the FAA Instrument, the SFA Instrument will establish and set forth the terms of governance for a framework administered account (the “SFA Framework Account”). The SFA Framework Account will function as an umbrella administered account under Article V, Section 2(b) of the Fund’s Articles and will be comprised of individual subaccounts.

⁵ Technical services consist primarily of technical assistance and training; financial services include the establishment of trust funds for Fund lending of concessional resources and debt relief.

⁶ The Fund may accept donations so long as the donations are consistent with the purposes of the Fund as set forth in the Articles of Agreement.

⁷ The SFA would also be available to administer existing external financing arrangements that currently operate outside the FAA, such as external financial support for Executive Directors’ offices.

⁸ Similar safeguards are in place with respect to the provision of Fund TA.

7. **The SFA Instrument will:**

- **Support a broader range of activities than is permitted under the FAA.** Reflecting the priorities of the Fund's donors, the SFA will facilitate the use of external financing to cover the full range of the Fund's capacity building activities, including not only direct TA and training but also the participation by Fund personnel (staff and experts) in TA-related conferences, research, and the international standard setting activities in which the Fund participates.¹⁰ Moreover, the SFA will provide for the use of external financing to support Fund activities that go beyond TA and training, including the financing of non-TA related research conferences, the use of external financing to strengthen Fund staff's own capacity on issues relevant to the Fund, and staff exchanges and secondments with other organizations. In particular, donors have expressed interest in strengthening their partnership with the Fund through exchanges and secondments to promote broader knowledge and information sharing.
- **Expand the pool of donors.** The SFA will allow sub-accounts established under the instrument to receive resources from both public sector and private sector donors. Under the FAA, only governments, other official agencies of countries and international organizations may contribute resources. Contributions from nongovernmental donors are not allowed. This limitation excludes an important source of financing that could be used to support the Fund's work in the future, in particular foundations that are active in low income countries.
- **Expand the modalities for attracting external financing.** The FAA precludes the Fund from opening an account in anticipation of securing donor resources for a particular purpose: rather, it requires understandings to be reached with at least one donor before a subaccount may be opened. While this model will continue to be useful for specific, donor-initiated engagements, flexibility is needed to initiate larger, multi-donor programs, in particular the topical trust funds. Under the latter approach, the Fund would open a sub-account before donor commitments are necessarily secured. By opening the subaccount, Management would seek to attract and catalyze

⁹ Some donors provide funds through ad hoc project financing (so-called reimbursement agreements), whose scope is similar to the scope of the FAA. Reimbursement agreements amount to only a small portion of external financing.

¹⁰ The activities that may be supported under the SFA will include the full range of activities that fall within the definition of "technical services" under Article V, Section 2 (b) of the Fund's Articles. Such a broad range of coverage is particularly important for the topical trust funds the Fund may establish. The first of these new trust funds, on AML/CFT, is expected to be operational on May 1, 2009. However, it is envisaged that FSAPs and ROSCs, which are closely aligned with Fund surveillance priorities, and classified in the Fund's output structure as surveillance, would continue to be financed internally.

donor commitments from a wide range of sources and over an extended period. Authorizing Management to specify the essential terms of subaccounts will better align donor support with the Fund's TA priorities as set forth in Resource Allocation Plans (RAPs) and Regional Strategy Notes (RSNs) and also, in turn, allow the Fund to better highlight the link between its TA strategies and donor development strategies. This flexibility will allow for topical trust funds to be designed to foster a long-term partnership framework between the Fund and a broad pool of donors, the composition of which could evolve over time and will foster operational and administrative consistency across topical trust funds.

- **Authorize the Fund to transfer resources between sub-accounts at the request of a donor.** Under the FAA, the Fund may not transfer resources between sub-accounts even if requested to do so by the relevant donors. To simplify their budgetary processes, some donors have expressed interest in establishing individual subaccounts from which they could transfer to a broad array of multilateral initiatives they wish to sponsor, including those that are expected to be financed from the new trust funds. The authority to transfer upon specified terms will simplify the financing flows for multilateral initiatives consistent with individual donor priorities.
- **Support the Fund's strengthened country contributions policy for Fund-financed TA.** Under its current terms, the FAA cannot effectively be used by the Fund to administer country contribution charges received from TA-recipients for Fund-financed TA. The SFA will provide the flexibility and mechanisms necessary to administer both charges voluntarily paid in advance by a TA recipient and those advance charges required of countries that have previously accumulated arrears on TA charges under the provisions of the country contributions policy.
- **Ensure greater transparency for TA costing.** The FAA artificially distinguishes between costs associated with the "provision of TA" and "costs for the administration of TA." With respect to the former, the FAA establishes a "presumption" that costs will be calculated on the basis of the Fund's "standard" costs. With respect to the latter, the Fund's administrative costs are calculated as a percentage of its costs for the provision of TA. Two problems with this approach need to be addressed. First, donors have expressed a preference for the use of actual (as opposed to standard) costs as a matter of course. Second, they have questioned the relatively high "administrative" fee charged by the Fund (13 percent of costs for the provision of TA), which is out of line with international best practices. This fee is intended to defray a portion of the Fund's expenses for backstopping, project management and trust fund management, but recoups only about half of the Fund's costs. To address these concerns, the SFA Instrument will provide for costing based

on the Fund's new modalities that seek to ensure that TA costing is more comprehensive and transparent.¹¹ As a result, the new TA costing in the SFA will allow the Fund to replace its administrative fee for the SFA Framework Account with a lower trust fund management fee, in line with international best practices. The SFA Instrument will provide for the same accounting, auditing and financial reporting features as the FAA.

- **Enhance reporting.** Reporting under the SFA Instrument will explicitly enable the Fund to directly report on donor-financed TA to non-donor third-parties upon the request of the donors. The expectation is that this direct reporting by the Fund will enhance accountability of the actual deployment of donor-contributed resources and foster a higher level of comfort of the Fund's TA operations with donors and the international community.

¹¹ See SM/08/97. Direct project-related costs under the SFA Instrument will include the costs of HQ staff time spent on TA delivery, including project management, backstopping (i.e., quality control of experts), as well as the costs of experts and staff in the field. In addition, the SFA would allow for indirect costs, i.e., proportional allocation of facilities and utilities costs in the future when such costs are able to be adequately allocated at the project level and should donors agree to cover such costs.

PROPOSED DECISION

In light of the above, the following decision, which may be taken by a majority of votes cast, is proposed for adoption by the Executive Board:

1. Pursuant to Article V, Section 2(b), the Fund adopts the Instrument to establish an account for the administration by the Fund of resources to be contributed by donors, in accordance with the terms and conditions of the Instrument set forth in the Annex to EBS/09/27.
2. The provisions of the Instrument may only be amended by a decision of the Fund, and with the concurrence of the contributors that are financing activities through the account at the time of such decision. Such concurrence may be presumed if contributors do not object within thirty days after the issuance of the proposed amendment to contributors.

Annex. Instrument for a Framework Administered Account for Selected Fund Activities

To help fulfill its purposes, the International Monetary Fund (the “Fund”) has adopted this Instrument to establish a framework administered account for Selected Fund Activities, which shall be governed by, and administered in accordance with, the provisions of this Instrument.

1. The Fund hereby establishes an account, the “Framework Administered Account for Selected Fund Activities,” (the “SFA Framework Account”) for the purpose of the administration of resources to be contributed by (i) donors and (ii) recipients of technical services in relation to the application of the Fund’s policies on charging for technical assistance (individually referred to as a “Contributor”, collectively referred to as “Contributors”), in order to finance Selected Fund Activities.
2. For purposes of the SFA Framework Account, “Selected Fund Activities” include:
 - (a) technical and financial services provided by the Fund consistent with Article V, Section 2(b) of the Fund’s Articles, including:
 - (i) the provision of technical services in the form of technical assistance and training of officials, and
 - (ii) activities in support of the provision of technical services including, but not limited to research, high-level conferences and international standard setting initiatives, secondments, assignments, and staff exchanges; and
 - (b) such other activities or services for which the Fund may accept external financing under its policies, consistent with the purposes of the Fund.
3. The resources provided by Contributors to the SFA Framework Account shall consist of (i) grants, (ii) proceeds of grants or loans that have been received by a Contributor from entities other than the Fund, or (iii) amounts paid in connection with the Fund’s policies on country contributions for technical assistance. The resources may be used by the Fund only in accordance with the procedures specified in paragraph 4 of this Instrument.
4. The financing of Selected Fund Activities shall be implemented through the establishment by the Fund of subaccounts within the SFA Framework Account.
 - (a) The establishment of a subaccount shall be subject to prior approval by the Fund, upon the recommendation of the Managing Director, with or without a request from a

Contributor. When proposing the establishment of a subaccount, the Managing Director shall specify (i) the essential terms and conditions of the subaccount with respect to the nature, design and implementation of the Selected Fund Activities to be financed from the subaccount in question and (ii) the method by which the costs of the activities will be financed from resources contributed to the subaccount.

(b) A subaccount may be used to administer resources from one or more Contributors. The essential terms and conditions of the subaccount may provide for additional Contributors to be added to the subaccount following its establishment, with the consent of the Managing Director and the concurrence of existing Contributors. Each Contributor to a subaccount shall consent to the essential terms and conditions of the subaccount before the Managing Director may accept that the Contributor's resources flow into the subaccount.

(c) Following the establishment of a subaccount, the Managing Director shall be authorized to use the resources in the subaccount in accordance with essential terms and conditions of the subaccount.

5. Costs incurred by the Fund in the performance of Selected Fund Activities and charged to the subaccount shall be based on the prevailing cost system that the Fund employs at the time that relevant activities are financed under the subaccount, unless otherwise agreed between the Fund and the Contributor(s). Each subaccount shall also be charged an amount equivalent to a percentage of costs charged to the subaccount for Selected Fund Activities so as to help cover the expenses incurred by the Fund in the administration of the subaccount in question.

6. Resources held in a subaccount may be used to make disbursements to the Fund's General Resources Account as required to reimburse the Fund for expenditures incurred by the Fund on account of any Selected Fund Activity financed by resources from such subaccount.

7. All transactions and operations of the SFA Framework Account shall be denominated in U.S. dollars.

8. Resources held in a subaccount 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 subaccount and shall be available for the purposes of the subaccount.

9. Subject to the requirement of Fund approval specified in paragraph 4, the Managing Director is authorized (i) to make all arrangements, including establishment of accounts in

the name of the Fund, as he deems necessary to carry out the operations of the SFA Framework Account; and (ii) to take all other measures he deems necessary to implement the provisions of this Instrument.

10. Assets held in the SFA Framework Account shall be accounted for separately from the assets and property of 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 any liabilities, obligations, or losses of the Fund incurred in the administration of the SFA Framework Account nor shall the assets of the SFA Framework Account be used to discharge or meet any liabilities, obligations, or losses incurred by the Fund in the administration of such other accounts. Unless otherwise specified in the essential terms and conditions of the subaccount, the assets and property held in each subaccount of the SFA Framework Account shall not be used to discharge or meet any liabilities, obligations, or losses of the Fund incurred in the administration of any other subaccount of the SFA Framework Account. The essential terms and conditions of the subaccount may authorize the Fund to transfer amounts directly to and from the subaccount to other subaccounts under the SFA Framework Account.

11. (a) The Fund shall maintain separate financial records and prepare separate financial statements for the SFA Framework Account. Such records and statements, which shall include a breakdown with respect to each subaccount, will be maintained in accordance with International Financial Reporting Standards. The financial statements for the SFA Framework Account shall be expressed in U.S. dollars. For each subaccount, a report on the subaccount's expenditures and a review of the activities financed by it shall be prepared by the Fund and furnished to the subaccount's Contributor(s) annually, or more often if agreed between the Contributor(s) and the Managing Director. The essential terms and conditions of the subaccount may provide for direct reporting on subaccount expenditures by the Fund to specified third parties.

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

(c) The Fund shall report on the position of the SFA Framework Account, including a breakdown with respect to each subaccount, in the Annual Report of the Executive Board to the Board of Governors and shall include in that Annual Report the report of the External Audit Firm on the SFA Framework Account.

12. Subject to the provisions of this Instrument, the Fund, in administering the SFA Framework Account, shall apply, *mutatis mutandis*, the same rules and procedures as apply to the operation of the General Resources Account of the Fund.

13. A Contributor may cease its participation in the subaccount or withdraw from the subaccount at any time without causing the termination of the subaccount. A Contributor's withdrawal shall become effective on the date that the Fund receives notice of withdrawal, or such later date, if any, as may be specified in the notice of withdrawal.

14. The SFA Framework Account may be terminated by the Fund at any time, upon request of the Managing Director; the termination of the SFA Framework Account shall terminate each subaccount thereof. A subaccount may be terminated by the Fund upon the request of the Managing Director with the concurrence of all Contributors participating in the subaccount at the time of termination. A subaccount may be terminated by the Fund upon the request of a Contributor with the concurrence of the Managing Director and all other Contributors participating in the subaccount at the time of termination.

15. The essential terms and conditions of each subaccount shall specify terms for the disposition upon termination of the subaccount of any balances, net of the amounts of continuing liabilities and commitments under the activities financed, that may remain in the subaccount at the time of termination. The essential terms and conditions of a subaccount shall also specify the terms of distribution of a contribution of a Contributor, net of the amounts of continuing liabilities and commitments under the activities financed, upon the withdrawal by the Contributor from the subaccount. Unless otherwise provided in the essential terms and conditions of a subaccount, any net contribution held in that subaccount shall be retransferred to a Contributor only upon the Contributor's withdrawal from the subaccount or upon termination of the subaccount.