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INTERNATIONAL MONETARY FUND

Minutes of Executive Board Meeting 09/31-3

12:05 p.m., March 27, 2009

3. Establishment of a New Framework Administered Account for Selected Fund Activities

Documents: EBS/09/27

Staff: Kammer, OTM; Leckow, LEG; Hicks, FIN

Length: 1 hour, 18 minutes

Executive Board Attendance

M. Portugal, Acting Chair

Executive Directors	Alternate Executive Directors
S. Itam (AE)	M. Majoro (AE)
	D. Sembene (AF), Temporary
	O. Hendrick (AG), Temporary
H-S. Lee (AU)	
	I. Ábel (BE), Temporary
	M. Agudelo (BR)
	J. He (CC)
	A. Guerra (CE)
	E. Valle (CE), Temporary
	S. Ladd (CO), Temporary
	J. Poulain (FF), Temporary
	S. von Stenglin (GR)
	N. Choudhary (IN), Temporary
	F. Spadafora (IT), Temporary
	N. Imamura (JA), Temporary
	M. Daïri (MD)
	W. Abdelati (MI), Temporary
	W. Schilperoort (NE), Temporary
	M. Leemets (NO), Temporary
A. Mozhin (RU)	
A. Alazzaz (SA)	A. Al Nassar (SA)
P. Warjiyo (ST)	
T. Moser (SZ)	
	M. Kaplan (UA), Temporary
	J. Thornton (UK), Temporary

B. Esdar, Acting Secretary
T. Orav, Assistant

Also Present
African Department: T. Tsikata. Asia and Pacific Department: D. Cowen. Fiscal Affairs Department: B. Christensen. Finance Department: J. DiMaina, E. Goirand, D. Hicks, P. Trites, A. Tweedie. Legal Department: K. Kwak, R. Leckow, J. Myers, M. SenGupta. Middle East and Central Asian Department: D. Guillaume. Office of Budget and Planning: A. Kim. Office of the Managing Director: J. Rosales. Office of Technical Assistance Management: P. Barrand, A. Kammer, H. Mendis, A. Op de Beke, A. Warburton. Secretary's Department: O. Vongthieres. Western Hemisphere Department: P. Druck, J. Prat. Senior Advisors to Executive Directors: S. Rouai (MD), M. Sidi Bouna (AF), R. Weber (SZ). Advisors to Executive Directors: S. Alnefaee (SA), L. Lephoto (AE), Y. Liu (CC), M. Maia (BR), R. Moveni (AU).

3. ESTABLISHMENT OF A NEW FRAMEWORK ADMINISTERED ACCOUNT FOR SELECTED FUND ACTIVITIES

Mr. Warjiyo and Mr. Raman submitted the following statement:

Having moved to the new contributions policy for capacity building, we welcome the efforts being undertaken to simplify donor-financed assistance, including the introduction of a more flexible instrument. Our concerns on the new policy remain. There is a risk that the charging regime could impair provision of assistance, and without adequate donor resources to defray these costs for developing countries, particularly low-income countries, the potential for a greater fall off in demand cannot be ruled out. Therefore, any effort to sustain and strengthen donor support is welcome.

We agree that the broad aims of the proposed decision are reasonable. That being said, we would appreciate some clarification on the proposal:

Staff note that the new SFA instrument could be used to finance a wider range of Fund activities, including participation at research conferences and meetings of standard setting bodies. We certainly agree that the instrument should not be unduly restrictive but we would appreciate some clarification on why staff would recommend recourse to external financing in funding these activities. Our concern here is two-fold. First, that some of these activities might be undertaken as a part of the Fund's normal work, and such a shift might not be appropriate. Second, given the limited donor-financed resources, we would not be in favor of diverting resources away from capacity-building projects, a concern donors most likely share.

We note that the eventual aim of the SFA instrument is to replace the old FAA. Have staff gauged donor sentiment towards this change? Do donors face legislative hurdles in making such a change?

We would appreciate some clarification on how long staff expect the two instruments to operate in parallel. What would the additional administrative costs be during this transition?

We note that one of the benefits of the new instrument would be to enlarge the pool of donors to include non-governmental donors. Do staff envision the need for further safeguards in relation to this group to ensure that Fund TA is driven by the Fund's mandates and medium-term strategies? Would there need to be some qualifying criteria in deciding which donors the Fund should or should not work with?

On other aspects of the proposal, we can go along with the flexibility provisions being envisioned, including the capacity to set up sub-accounts ahead of full agreements being reached with donors; capacity to accept the transfer of funds between sub-accounts at donors' request; and the flexibility to receive advance country contributions ahead of Fund TA being provided. We also expect that the adoption of such a mechanism could facilitate a fuller adoption of activity-based costing. We also agree that making costs more transparent will make it easier for official donors to continue to support the Fund in this area.

Finally, we would appreciate some updates on fund-raising efforts for capacity building.

With these comments and queries, we can go along with the proposed decision.

Mr. Itam submitted the following statement:

We support the establishment of a New Framework Administered (NFA) account to administer externally raised resources for selected Fund activities and technical assistance (TA). This will allow for transparent management and accountability to the donors as well as to members who are recipient of the services.

Reference is made to other activities in first paragraph and these activities are further elaborated in third paragraph (fourth bullet point). We are uncomfortable with the Fund raising donor support to undertake research, policy development, conferences and seminars, and staff exchanges even if this diverse range of activities were related to TA. We view these activities as the normal activities that any institution ought to undertake from its own resources.

In a similar vein, we have difficulty in supporting the use of external financing to support such activities. We are unsure if the Fund has a mandate to raise resources for these types of activities from external sources. We believe that the Fund may only raise support from donors to support and/or lend to member countries, including low income countries at concessional rates, and for activities that directly benefit member countries. The use of donor resources to develop the capacity of Fund staff and then later charging countries for the dissemination of this capacity also raises some ethical questions.

We are also concerned that a staff paper that is dealing with purely administrative matters raises other non-administrative matters and are unsure if this may be construed as developing policy by stealth.

Mr. Lee and Mr. Moveni submitted the following statement:

We note that external financing has now become a critical source of sustaining the Fund's TA program, and that this trend is likely to remain so in the coming years, given the decline in internally funded TA. Despite the growing importance of this financing source and the increase in demand for the Fund's TA program, the Fund has neither owned nor followed any structured approaches to attracting external financing. In this connection, we welcome the proposed features of the new Framework Administered Account for Selected Fund Activities (SFA) outlined in the paper. In particular, we see the recommendation to expand the pool of donors and modalities to attract external financing, particularly in a more vigorous and systematic manner, and over an extended period, as a step in the right direction. Against this background, we are prepared to support the proposed decisions.

Finally, as indicated by Messrs. Warjiyo and Raman, we would also like to urge donors to collectively throw their support behind this proposed SFA framework. In our view, such collective support is necessary to sustain the Fund's TA program going forward and, in that context, build the institutional capacity of low and middle income countries to formulate and implement sound macroeconomic policies. On the issue of fundraising, we would appreciate an update from staff in the context of the increased demand for the Fund's TA program in recent years.

The Acting Chair noted that Messrs. Mozhin and Ge had asked for the item to be placed on the Board's agenda and invited both to take the floor.

Mr. Mozhin made the following statement:

Together with the Chinese chair, we have requested this meeting because we believe that the proposed decision implies a significant policy change, as it would allow private sector donors to contribute toward Fund technical assistance. I see this as a policy change, so I felt it would be inappropriate to approve the proposal on a lapse of time basis because any policy change should be discussed in the Board.

As far as the substance of the proposal is concerned, I do not have firm views, although I want to understand better what our expectations are with respect to attracting private sector donors to support the Fund's technical assistance activities. In particular, one question concerns the kind of private sector donors we expect to engage, and whether this is an open-ended, unrestricted engagement, or whether we may want to specify what type of private sector donor should be targeted. Second, I wonder what might be the motivation for these private sector donors. Normally when private sector entities contribute any donor resources they have a very specific agenda in mind, and certainly would expect to benefit from their involvement. One of the possible questions that arises is whether these private sector donors will be allowed to have targeted contributions to the effect that: 'We are prepared to give this money to this specific country for technical assistance.' If that is the case, the motivation would become much more transparent, but they would also expect to obtain some benefit. These are the types of questions I would be interested in hearing comments on from the staff.

I very much agree with Mr. Itam on the question of seeking donor contributions for such regular Fund activities as research projects, conferences, and the like. I think it is true that much smaller institutions than the IMF have their own resources for conducting such activities, but it strikes me as a little bit odd for a place like the Fund to seek external contributions for such activities.

Mr. He made the following statement:

I share some of the concerns expressed by Mr. Mozhin.

First off, I appreciate management and staff efforts to strengthen Fund activities in capacity building in many countries. Like Mr. Mozhin and the Directors that have issued preliminary statements, we have a number of concerns arising from the proposal. As the staff paper involves policy changes in a number of aspects, it does not seem fit for lapse of time approval without highlighting such changes and adequately explaining potential implications. Staff have given us some useful explanations bilaterally, but these concerns could have also been addressed in the paper.

The first policy change concerns the permitted forms of external financing. Paragraph 7 says that under current policies our framework does not allow contributions from non-governmental donors, and the suggested change would remove that prohibition. Why has this not been allowed previously? Also, we would have appreciated some comparison with our peers at other international financial institutions in this regard. Other questions could include: Who will be the targeted or preferred contributors? Will additional safeguards be needed to ensure that private financing will not inappropriately influence the focus and outcome of Fund activities?

The second policy change concerns allowing external financing of activities that are currently covered by the Fund budget, such as research, high-level conferences, international standard-setting initiatives, and Fund staff capacity building. Like Mr. Itam, I am uncomfortable with donor support in this area, particularly private support for research, policy development, conferences, seminars, and staff exchange, even if this diverse range of activities is related to technical assistance. I share his view that these are the normal activities that any institution ought to undertake using its own resources. Could the Fund's priorities be affected if we change this policy?

Another set of questions relates to the implication of such a policy change for other Fund policies. For example, how would it affect the Fund's charging policy vis-à-vis technical assistance? Would technical assistance be cost free if some contributions are earmarked and correspond to TA we are providing? As Mr. Itam pointed out, using donor resources for Fund capacity building while charging countries for the dissemination of this capacity also raises some ethical questions. Would this imply making public goods private and private goods public? If part of the cost currently covered under departmental budgets were to be covered by external contributions, how would the savings be allocated? Who would allocate contributions among departments and how? What safeguards have been envisaged for controlling inappropriate incentives or competing for outside financing among the departments? It would give us greater comfort if these issues are more adequately addressed. I want to point out that we have no intention to oppose the proposal, but it would give us some comfort if these are addressed.

Mr. Sembene shared the concerns expressed by Mr. Itam, and like Messrs. Mozhin and He believed that any activities related to policy development should be undertaken using the Fund's own resources.

Mr. Daïri made the following statement:

Technical assistance is very closely linked to Fund surveillance and even to program negotiation and implementation. Furthermore, the activities mentioned by Mr. Itam in terms of outreach, conferences, and research may also have implications for the Fund's work and its interactions with member countries. As such, we are not convinced that permitting private sources of financing would be in the interest of a public institution like the IMF, which traditionally relies on public financing given its character as a provider of

> global public goods. Private donors, even non-government organizations, could pursue specific objectives—social, religious, or political—that are not relevant to Fund mandate and the Fund should not be put in a situation where a private organization could attempt to influence its agenda. If existing guidelines as agreed by the Board allow such financing, it might be the time to reopen the debate and see if there is a need to make adjustments. We should try to ensure that the work carried out by the Fund is truly done in an evenhanded and independent manner with no influence from lobbyists.

Mr. Alazzaz thanked staff for a concise and well-written paper that clearly laid out the advantages of establishing a new framework administered account for selected Fund activities. As noted in the report, the Selected Fund Activities Instrument would help facilitate a more systematic approach to external financing, not only for technical assistance, but also for a limited range of activities that go beyond technical assistance. Accordingly he could support the proposed decision.

Mr. Schilperoort thanked Messrs. Mozhin and He for asking to meet on this important issue. He supported the proposed decision. His chair had long advocated a more flexible approach on technical assistance, as it could help bring in additional donor resources and provide more flexibility to Fund staff, particularly by allowing resources to be shifted between different topical trust funds. These proposals would bring Fund practices more in line with those of other international financial institutions, including by allowing private financing. He encouraged looking at the experiences of other institutions on working with donors; e.g., the proliferation of topical trust funds at the World Bank was not something to emulate. Finally, he agreed that a fuller adoption of activity-based costing would support the success of the technical assistance framework.

Mr. Hendrick also supported the new framework, which would help to address constraints posed by reduced human and financial resources for technical assistance. He shared other Directors' concerns on private sector involvement, but he stressed that the safeguards build in the new framework should be enough to take care of these concerns. He added that such financing should be relevant to the Fund's activities and that it will not undermine the focus on the Fund core interests.

Mr. von Stenglin welcomed the establishment of the new framework and supported the proposed decision. He stressed the importance of insuring that the agenda is not donor driven. Given that the Fund already has experience in working with public sector donors, he felt reassured that the new framework would continue to ensure the Fund's independence. In the interest of full transparency, he wondered if it would be possible to list these donors and the requisite projects on the intranet.

Mr. Moser supported the proposed decision, which would modernized the Fund's approach to external financing. He noted that Messrs. Mozhin and Mr. He raised important concerns on the need to avoid any conflicts of interest, but like Mr. von Stenglin, he did not feel that engaging private sector donors posed a problem, since public sector donors also tended to have their own agendas. Although it appeared that the necessary safeguards were in place, he noted that it would be necessary to have an overview of the subaccounts. He also welcomed the broadening of the range of activities, and did not feel that externally-financed research project would pose a major change, but staff's clarification on the questions raised in this regard would be welcome.

Mr. Ladd agreed with Mr. Moser and supported staff's proposal. He understood the concerns raised by Messrs. Mozhin and He, though it seemed as if similar issues were raised on bilateral official donors in the spring of last year when the new framework was being discussed. While an organization hosting a conference or research program could offer to defray expenses to entice the Fund to participate, the topic would still need to be a priority for the Fund to justify the effort of participation. Given that the contemplated measures were largely technical and clerical, he was happy with the proposal going forward.

Ms. Valle could support the proposed framework, which addressed the shortcomings of the previous framework in terms of flexibility and transparency. On the issue of private donors, she shared the views expressed by Mr. Ladd.

Ms. Agudelo supported the proposed decision in view of the increased importance that external financing had achieved in the past few years in terms. Given that the proposal was more in line with the practice at other international institutions, she wondered how those bodies had addressed the concerns raised by Messrs. Mozhin, He, and Itam.

Ms. Abdelati could also support the establishment of the new instrument. With respect to expanding the pool of donors, she was reassured that the current safeguards, as described in the report, would ensure that external financing would not undermine the Fund's control over its work program or the substance of its advice to members. While there was scope to further clarify the staff report in response to the concerns expressed by Messrs. Mozhin and He, she saw no problem in broadening the range of activities to include externally-financed training conferences and standard setting. She also saw some merit in eliminating the 13 percent administrative fee charged by the Fund for backstopping and project management expansion, to be replaced with new costing modalities.

Mr. Lee said he had no serious objection to the staff's proposal; however, in the interest of clarity, he shared Mr. Warjiyo's concern that donor sentiment could drive the Fund's agenda.

Mr. Daïri remarked that the issue of diversifying resources for financing technical assistance was an outgrowth of the earlier decisions on downsizing and budget reduction. The Board might reconsider whether the budgetary situation still required the same course of action, particularly given the need to safeguard the perception of an independent Fund unhindered by non-governmental private actors. It was essential that the availability of external financing should not drive the Fund's TA agenda, and thus the implications of the proposal were a concern.

The Acting Chair (Mr. Portugal) made the following statement:

> Before handing over to the staff, allow me to make a few observations.
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> First, what we are proposing here is an overall framework. Each subaccount, prior to its establishment, must be presented to the Board for approval. We already have two subaccounts that we would like to establish with this system: one is for a topical trust fund, which we are going to talk about later, and then one for regional technical assistance centers. There will be a paper on each of these two proposals, which will presented to the Board. Today, we are only establishing the overall framework.
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> The concern that external finances could drive our priorities and our agenda is legitimate, but we are taking a lot of care to avoid that possibility. Currently 60 percent of field delivery of technical assistance is already financed through external financing, so this is not a new development. There are systems in place to establish priorities that are independent from the financing, and this is a very elaborate system. We have regional technical assistance strategy notes that are prepared based on the technical assistance requests by members, and then there is a capacity-building committee internally in the Fund that actually decides on priorities and allocation of resources. There are a lot of safeguards in place to prevent donors from driving the agenda.
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> The new framework proposes two innovations. First, it will permit private sector contributions. I do not expect that in the medium term the private sector will become a major contributor to our technical assistance. However, this is an emerging trend at other international institutions, so we would like to have this possibility at our disposal. With respect to some of the new activities, sometimes we have seminars and conferences, including during the annual meetings, and we could allow the private sector to defray part of the cost of these events. In the same manner, we could also undertake joint research projects with universities that are not in the public sector. My

impression is this is not as big a change as some of you might think, but I would now like to give the floor to staff to address all these concerns.

The Director of the Office of Technical Assistance (Mr. Kammer), in response to questions and comments by Executive Directors, made the following statement:

The proposed external financing instrument is a direct outgrowth of the technical assistance reform effort that we have been undertaking for the last two years, and it was one of the elements of the three reforms that we have been discussing since last May in this Boardroom.

Let me step back a bit and give a bit of background on our proposal. When we implemented the technical assistance (TA) reforms and looked at the external financing structure, one consideration that became apparent was that the financing instrument that we were using for capacity building was dated. It did not meet donor requirements that have evolved over the years, and it no longer met staff requirements. We had two choices at that point: we could have revised this instrument, which would have required the agreement of all of the contributors; or we could have crafted a new instrument. We decided that it would be most transparent and ensure a timely process to design and propose this new instrument.

How did we go about the design of this instrument? It was driven by the needs of the institution, but as Messrs. Lee and Warjiyo wondered, this was also discussed with donors and reflected their needs. We wanted a more up to date framework—to adopt the best international practices in terms of setting ourselves up to become a better partner for those institutions and those agencies that are sponsoring us already.

The new instrument is designed to last. The FAA was approved by the Executive Board in 1995, and we also expect this instrument to last for quite some time. While some of these features reflect best international practices, some of them strategically will not be of immediate importance. We looked at what other international financial institutions were doing on the private sector issue, and all of the other multilateral development banks are open to accepting non-government contributions, and for us this was one element that we wanted to take into account.

What are talking about in terms of the private sector? These would be private foundations first and foremost. Why did MDBs open up to these foundations? Private foundations in their work with low income countries have became more important stakeholders over the last decade, and the idea of these partnership agreements is to involve the relevant stakeholders in order to create an impact for the beneficiary countries. This was also the idea behind the Fund adopting a more open attitude toward such financing arrangements.

What is happening on the ground? The experience of the multilateral development banks (MDBs) at this stage is that private sector financing is a relatively small source, and this is something they believe they need to develop over the medium term. In terms of technical assistance, it is particularly small for the MDBs at this stage, and we would not expect in terms of our strategy for this to become a major financing source for us. Why? We work with a large number of existing donors: we know them; they know us; and that is the first step for us towards expanding our financing envelope.

Second, we are trying to bring in non-traditional, newly emerging donors as partners with the Fund. These are countries that have only recently initiated their official development assistance. In terms of private institutions, we would see this as a medium term endeavor. This is our broad strategy in terms of the engagement.

With regard to the safeguards on a more strategic point, I will make a few points of what we have in place and then I would hand over to Mr. Leckow with the permission of the Chairman. We have a very clear prioritization framework established in the Fund for all of our externally-funded operations. The Fund is not a service provider, and we are not being driven and we do avoid being driven by donor priorities. We are seeking partners to support Fund priorities, so whatever we obtain in terms of financing needs to be consistent with the core mandate of the Fund and it needs to reflect Executive Board and management priorities.

There is one further element here. We need to have a comparative advantage in delivering that technical assistance. This is very different from some of the other development partners that are open to donors and moving ideas forward that are brought to them by donors. We have a very strict prioritization process. As discussed last year, this involves Regional Strategy Notes and our Resource Allocation Plan. The committee making these research allocation decisions is being chaired by Deputy Managing Director Portugal.

Having said all of that, we are also very picky in terms of choosing our donors, and that also includes government donors. Why? Because we are looking for partners; we are not just looking for financing. When we will be discussing Central American Regional Technical Assistance Center, Directors will see that the donors participating in this initiative are those donors who actually are very active with development programs in this region. What these donors are seeking when they partner with us is to support their own programs in the region, and we seek out those donors in hopes of improving coordination in line with the Paris declaration on aid effectiveness. I should also say that we have rejected contributions that have been proposed by some government entities, mostly because they would have skewed our priorities. As such, we are very cognizant of donor financing and we are careful that it should not drive our priorities. We have also a number of institutional safeguards, and Mr. Leckow will outline those.

The staff representative from the Legal Department (Mr. Leckow), in response to questions and comments by Executive Directors, made the following statement:

With respect to the legal implications of accepting donors from private parties, let me make a few points to outline some of the safeguards in this area.

As a starting point, it is important for me to note that it is legally possible for the Fund to accept contributions from private parties. The constraints in this area are policy related, and they concern a need to: (i) avoid accepting contributions from donors who the Fund may view as inappropriate: and (ii) the need to avoid private parties asserting any form of undue influence upon the work of staff.

The instrument sets out several safeguards that are designed to address these concerns. First of all, with respect to the source of the funding, to the extent that a subaccount is to be established for the specific purpose of accepting a contribution from a particular donor, the Executive Board will have the responsibility for oversight and will have the opportunity to decide whether or not that contribution should be accepted. To the extent that the Executive Board disagrees, the subaccount would not be opened as a decision of the Board is necessary for that purpose.

I should also point out that there may be a circumstance where, after a subaccount has been established, a private donor may approach the Fund with an offer to make a contribution to that subaccount. It is true that, in these circumstances, an Executive Board decision would not be necessary, but there are important safeguards in this area. The instrument provides that, to the extent a subaccount is to be established that allows for new donors to make contributions after it is established, the consent of management and existing contributors is required. Thus, management would play an oversight role in scrutinizing the source of the funds and satisfying itself that that source was appropriate.

With respect to the possibility of undue influence being exerted upon the work of staff, the safeguards that exist are the same safeguards that exist on the acceptance of funding from public sources. There is already in place an elaborate framework of rules that governs any work done by Fund employees, either staff or contractual employees. In particular, they are subject to rules respecting their duty of loyalty and disclosure of confidential information as laid out, in particular, in the Articles themselves and in the Fund's Rules and Regulations, and in the letters of appointment for contractual employees. All these safeguards together are effective in addressing the concerns that may arise.

Let me also respond to the question raised by several Directors respecting the legal implications of using external financing to support activities other than technical assistance and capacity building. First, I can confirm that it is legally possible for the Fund to use external financing in this fashion. Secondly, it is important to note that the Fund, albeit to a very limited extent, is already doing this in areas related to research conferences and staff exchanges.

The purpose of the Instrument is to strengthen transparency and accountability in the Fund's use of external financing for purposes unrelated to capacity building. The existing Framework Instrument does not actually allow for a subaccount to be opened to accept financing to support an activity that is unrelated to capacity building. To the extent that the staff already uses external financing in this fashion, it is done with no Executive Board oversight, primarily through reimbursement agreements that are negotiated by staff and management with particular donors that the Board does not see.

Under the new Framework Instrument, this system would be replaced by a framework in which there would be real Executive Board oversight, and, to the extent that a subaccount is to be established to finance an activity that was unrelated to capacity building, Board approval would be necessary. The Board would thus have the opportunity to scrutinize the nature of the activity. While it would still be legally possible for staff to make use of other mechanisms to use external financing, the intention of staff would be to encourage donors to make use of the new subaccount mechanism.

Secondly, as I think Mr. Kammer would agree, the nature or the range of activities that are at issue here is extremely limited. We are essentially talking about research conferences and a limited number of staff exchanges.

Finally, any concern that Executive Directors may have over the possibility of undue influence or conflict of interest should be addressed by the system of rules that is already in place and that governs the conduct of staff and contractual employees. .

The Director of the Office of Technical Assistance (Mr. Kammer), in response to additional questions and comments by Executive Directors, made the following further statement:

Before going to the question of where we are on the external fundraising drives, I would like to take on the other questions that were raised by Directors on the roll-out of the instrument, on how we manage the instrument with respect to the framework account, how it relates to the charging regime, and what we are doing with regard to trust fund proliferation.

The design of the instrument was based on our experience with donors. We consulted donors to identify their needs, so we are not expecting any problems on the donors' side or legislative hurdles. Quite the contrary, it should make it easier for donors to interact with us.

With regard to the two instruments, the existing and the new one, indeed they will coexist for some time. We have balances in our framework account of about $50 million that we still need to spend on ongoing projects, and we would expect to work those down. Our strategy going forward is to establish new subaccounts, trust funds, RTACs, and bilateral subaccounts exclusively under the new instrument. This is beneficial for the Fund because it will be subject to the new technical assistance costing model. It will also be beneficial to the donors who can take advantage of the flexibility provided by the new system. We will also engage existing donors to move their bilateral relationships into the new SFA, and when it comes to renewal of funding cycles for our regional technical assistance centers, all the new funding cycles will be started under the new instrument.

In terms of cost, we do not expect a big impact in running this framework concurrently with the old one. Auditors will need to audit the two accounts, but apart from that we do not have much of a choice of operating them concurrently.

In terms of how external financing and charging will work together, externally-financed projects are excluded from charging. The aim is to increase our technical assistance output mainly through the external financing strategy.

With regard to trust Fund proliferation, I can assure Mr. Schilperoort that we will not see a proliferation. We aim to consolidate more and we are trying to make these initiatives bigger than before. The World Bank has about a thousand trust funds, and currently we have 25. If you look at our external financing strategy, we are expecting to roll out eight topical trust funds, and we would like to open up four new regional technical assistance centers, so we are very conservative in our trust fund approach. This is a bit different from the World Bank's approach. Just let me reemphasize. This is all driven by our priorities, and the new instrument should provide such assurances to the Executive Board. In the past, we approached donors to explore their needs and relay our needs, and we then opened a subaccount. The new model is quite different. We have established our institutional priorities, what are we seeking, and why we are seeking external funding. We then prepare programs. We then try to identify where we have matching interests with donors, and then we go out and undertake the fundraising. In this way, the program is already well established by a broad framework before we approach donors. As such, this should not lead to a proliferation of trust funds.

Mr. Lee and Mr. Warjiyo wanted to have an update on our fundraising strategy. Let me first explain what in our fundraising strategy we are trying to undertake. This may sound unusual, but the first leg of our fundraising strategy was technical assistance reform. We thought that if we wanted to go out and attract more donor financing we needed to revise aspects of our technical assistance and bring it in line with international best practices. Our TA is very effective, but certainly there were areas where we could see room for improvement, and that was the first priority in terms of gaining credibility with donors. The prioritization process, as the Chair outlined, and the resource allocation process are now firmly in place.

The second leg of our TA reform involves a results-based management approach, which has been implemented over the last year. TA costing will become fully on line May 1st, 2009. What is TA costing doing? We design all technical assistance intervention as projects. We include all costs accruing to projects transparently mentioned as part of those units, e.g. travel costs, incremental staff Fund time, and that will be costed on a close to actual cost basis.

Finally, the third leg of our TA reform is adjusting and strengthening our external financing framework. One of the elements was to establish the new framework administered account, but more importantly we wanted to develop a new product line, and those were the topical trust funds. The idea of a topical trust fund is if you want to have a sustained capacity building you need to have a longer term plan, and so these programs we are rolling out have five-year underlying programs and work plans, which also ensures more sustainable financing. These product lines have been developed. We are rolling out the AML/CFT Trust Fund soon. We are establishing the new Central America Technical Assistance Center within the new model. We will have other projects forthcoming. Shortly we will be setting up a Central Asia Technical Assistance Center and a new technical assistance center in southern Africa. There's also a second technical assistance center in the pipeline for West Africa. We are sending out to donors and starting out the fundraising drive for all three centers over the next few weeks and, and depending on our success in fundraising, we expect to open these centers starting next year.

With regard to the topical trust funds, we have made huge progress in developing these programs. Directors had a chance to see what we are planning on the debt strategy trust fund in the Executive Board meeting last Wednesday. We will have one new one that reflects us learning from the crisis, and there will be a trust fund on strengthening financial systems in member countries, particularly to provide policymakers early warning on developing problems. At this stage, the total number of trust funds we envisage is eight.

In terms of funds raised, we expect this year to receive the highest level of cash contributions ever from donors, and we will also make the greatest use of external financing since we started using these resources for technical assistance. This is just the first step, because when you are seeing what we are rolling out, the usage of external financing and TA output will be further increased over the medium term. This is reflected in the medium term budget, but there is one qualification in this regard. While we are expecting to use this year more external financing than ever before, we will not quite achieve the very ambitious goal we had set at the beginning of the year. The budget paper explains why this is the case. Clearly, it reflects the impact of the crisis and the refocusing exercise. I should also say that it reflects the old model we have been operating under. The old model did not allow us to scale up Fund support, which is required for external financing. Backstopping and project management are essential parts of the product that we are providing, and we ran into a serious bottleneck that was compounded by the downsizing.

The new model will provide funding for these activities so that we can scale them up in tandem with the external financing we are obtaining.

Mr. Mozhin shared Mr. Daïri's concerns insofar as the Fund appeared to be cutting spending on the basis of arbitrary numerical targets leaving it with no money for core activities and forcing it to seek external financing. He appreciated staff's clarifications on the implications behind the new framework, which his Chair could support. He also welcomed the opportunity to hold a Board meeting on the subject, which would allow for a summing up that covered staff's explanations and Directors' concerns.

The Acting Chair (Mr. Portugal) responded that in lieu of a summing up the minute of the meeting would fully reflect Directors' concerns and staff's views.

Mr. Dairi thanked staff for its clarifications. He asked if the beneficiary of technical assistance would be consulted in cases where private donor financing was under consideration. If not, would the beneficiary country be informed in all cases where private financing is involved, so as to alert the member country to potential conflicts of interest?

Mr. He felt that the discussion had been very helpful, and said he was now more comfortable with proposed framework. He shared the last points made by Messrs. Daïri and Mozhin, and asked staff to consider those and other concerns raised by Directors in the course of implementing the new instrument. He noted staff's statement that technical assistance based on external financing would not be charged, and wondered what arrangements might be used in instances where external sources only partially covered costs.

Mr. Kaplan asked to be recorded as supporting the decision.

The Director of the Office of Technical Assistance (Mr. Kammer), in response to further questions and comments by Executive Directors, made the following additional statement:

> To start with Mr. He's last question, what we have on externally financed technical assistance is fully funded by donors. Other arrangements would be administratively very cumbersome. We have some mixed financed projects when it comes to conferences, but again they are not part of the charging regime because, first, all partially financed, externally-financed technical assistance is excluded and broader regional efforts and conferences are also excluded under the charging regime.
>
> Just to emphasize what the chairman said before, 60 percent of our technical assistance field delivery is already externally financed, so it is a large part that is being excluded from the charging regime. As noted when we

discussed charging earlier, the impact on low income countries is projected to be relatively limited, and the technical assistance delivery that actually falls under charges is about 10 percent of total technical assistance delivered, based on FY2007 data.

With regard to the issue raised by Mr. Daïri, the terms of reference are never discussed with donors. We may be willing to share those with donors, but the Fund is fully in charge of all externally-financed projects. What we are doing is rolling out Fund technical assistance. It is our product, and therefore it must meet our quality standards. Certainly, we have a dialogue with donors on the structure of a project because they are financing this effort, but we are responsible for delivering the product, and therefore it must meet our internal requirements. We do not want any project micromanaged by the donor, and that is irrespective of whether a donor be public or private.

Just to emphasize your second point on the topical trust funds, if we would have a private foundation it would be one of many donors supporting that trust fund. Again, it would start with a program that the Fund is proposing, so donors are buying into that program. Certainly, all of our beneficiary countries know who is financing the technical assistance. In the case of the Regional Technical Assistance Centers, all the donors are known, as is the case when it comes to bilateral projects. The donors like to gain visibility. They would like to be seen by the authorities as supporting the technical assistance, so we do not see an issue there that a country may be surprised that something is financed by a particular donor.

The Acting Chair (Mr. Portugal) thanked Directors for their comments and concluded that the decision had been approved.

The Executive Board took the following decision:

Establishment of a New Framework Administered Account for Selected Fund Activities

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. (EBS/09/27, 3/6/09)

Decision No. 14294-(09/31), adopted
March 27, 2009

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.

APPROVAL: August 3, 2009

G. RUSSELL KINCAID
Acting Secretary