

**LAPSE OF
TIME**

SM/15/141

June 16, 2015

To: Members of the Executive Board

From: The Secretary

Subject: **Liquidation of the MDRI-II Trust**

Board Action: Executive Directors' **consideration** on a lapse of time basis

Deadline to Request a Board Meeting, after which Proposed Decision Deemed Approved: **Tuesday, June 23, 2015
12:00 (noon)**

Proposed Decision: Pages 4 and 5

Publication: Proposed, after Tuesday, June 30, 2015

Questions: Mr. Unterberdoerster, FIN (ext. 35448)
Mr. Steinki, LEG (ext. 38222)



June 16, 2015

LIQUIDATION OF THE MDRI-II TRUST

EXECUTIVE SUMMARY

With all debt eligible for MDRI debt relief having now been repaid, staff recommends that the Executive Board liquidate the MDRI-II Trust. In accordance with the amended liquidation provisions of the MDRI-II Trust, which took effect on May 27, 2015, a decision is proposed to transfer the balance of the Trust to the General Account of the Catastrophe Containment and Relief Trust on August 1, except that contributors may by July 27 request that their pro-rata share in the remaining resources be: (i) transferred to the General Subsidy Account of the Poverty Reduction and Growth Trust, (ii) returned to them, or (iii) transferred to an interim administered account pending a final decision on the disposition of their contributions. The Board is also requested to approve the establishment of an interim administered account into which countries could place their shares if needed pending a final decision on their disposition.

Approved By
Messrs. Hagan and
Tweedie

Prepared by the Finance and Legal Departments in consultation with
the Strategy, Policy, and Review Department

The Multilateral Debt Relief Initiative (MDRI) was launched in 2005 to further reduce the debts of eligible low-income developing members and help them achieve the Millennium Development Goals. Under the MDRI, which is financed through two trusts (MDRI-I and MDRI-II), SDR 2.3 billion in debt relief was provided to 30 countries, and the last of the MDRI-eligible debt was repaid in FY2014. The MDRI Trust Instruments stipulate that the Fund, as trustee, can decide to wind up the operations of the Trusts. Accordingly, in October 2014, staff informed the Executive Board that they were preparing for the liquidation of both the MDRI-I and MDRI-II Trusts¹.

The process of liquidating the MDRI Trusts became part of the financing strategy for the Catastrophe Containment and Relief (CCR) Trust that was established on February 4, 2015. The CCR Trust expanded the Fund's existing Post-Catastrophe Debt Relief (PCDR) Trust to provide grants for debt relief to eligible low-income countries experiencing a qualifying public health disaster. As part of a strategy to ensure the adequate financing of the CCR Trust, the Board approved the liquidation of the MDRI-I Trust, effective February 4, 2015, and transferred its remaining balance (SDR 13.2 million) to the CCR Trust.² The Board also approved an amendment to the liquidation provision of the MDRI-II Trust Instrument to allow for the transfer of any remaining balances in the MDRI-II Trust to the General Account of CCR Trust as the "default" destination, except where a contributor requests that its pro-rata share of the resources be transferred to the PRGT for subsidy operations or be distributed to the contributor.³ This amendment required the consent of all 37 bilateral contributors to the MDRI-II Trust.

As the amendment to the MDRI-II Trust Instrument became effective following the receipt of consents from all MDRI-II contributors on May 27, it is therefore now proposed that the Fund, as Trustee, liquidate the MDRI-II Trust with effect on August 1. The remaining balance on that date (SDR 38.9 million as of end-April 2015) will be transferred to the General Account of the CCR Trust, except for those amounts which correspond to the contributions of members that by July 27 have indicated to staff that they wish their contributions: i) to be transferred to the General Subsidy Account of the PRGT, ii) returned to them, or iii) transferred to an interim administered account pending a final decision on the disposition of their contributions. The authorities of two contributors have already requested the establishment of such an interim administered account to allow time for the completion of domestic approval processes. The attached decisions, each of which is subject to approval by a majority of the votes cast, provide for the liquidation of the

¹ See Update on the Financing of the Fund's Concessional Assistance and Debt Relief to Low-Income Countries (SM/14/282, October 3, 2014), paragraph 30.

² Decision No. 15708-(15/12), Part II, adopted February 4, 2015.

³ Prior to this amendment, the liquidation provision of the Trust stipulated that the default destination for remaining contributions was the PRGT Subsidy Account.

MDRI-II Trust and the associated transfers as described above (Decision A), and the establishment of an interim administered account (Decision B)⁴.

The transfer of remaining balances in the MDRI-II Trust would make an important contribution to the financing of the CCR Trust. The balance of the CCR Trust on February 4, 2015 when the PCDR Trust was transformed into the CCR Trust, stood at SDR 115.2 million, consisting of the amounts remaining in the PCDR and MDRI-I Trusts.⁵ Since that date, SDR 68 million in debt relief was disbursed from the CCR Trust in February and March to Guinea, Liberia, and Sierra Leone, and the remaining balance of the CCR Trust stood at SDR 47.2 million at end-April 2015. Transfer of the full remaining balance of the MDRI-II Trust, plus receipt of the new bilateral resources of SDR 62.5 million (equivalent to about US\$87.9 million) recently pledged, would raise the balance in the CCR Trust to about SDR 149 million. However, pledges of new bilateral resources remain well below the US\$150 million estimated by staff to be necessary to allow the CCR Trust to meet potential future demand. Staff are thus continuing to seek additional bilateral resources in order to achieve adequate financing for the Trust.

⁴ Consistent with the arrangements for similar administered accounts, the proposed decision authorizes the use of SDRs by the SDR department participants or prescribed holders in respect of the account, which is intended to facilitate contributions and transfers to and from this account, that involve SDRs (Art. XVII, Section 3 of the Articles).

⁵ See Decision 15708-(15/12).

Proposed Decisions

The following decisions, which may be adopted by a majority of votes cast, are proposed for adoption by the Executive Board:

Decision A. Liquidation of the MDRI-II Trust and Transfer of the Remaining Balances

1. Pursuant to Section V, Paragraph 3 of the Instrument to Establish the Multilateral Debt Relief Initiative-II Trust (the “MDRI-II Trust”), set forth in Attachment II to Decision No. 13588-(05/99), adopted November 23, 2005, as amended by Decision No. 15708-(15/12), adopted February 4, 2015, the Fund, as Trustee of the MDRI-II Trust, decides to liquidate the MDRI-II Trust.
2. The contributor resources in the Trust, after discharge of all liabilities of the Trust, shall be transferred to the General Account of the Catastrophe Containment and Relief Trust established pursuant to Decision No. 14649-(10/64), as amended, except for those amounts which correspond to the contributions of members that by July 27 have indicated to the Fund that they wish their contributions i) to be transferred to the General Subsidy Account of the PRGT, ii) returned to them, or iii) transferred to an interim administered account, established pursuant to Decision No. XXXX-(XX/XX), adopted June 23, 2015, pending a final decision on the disposition of their contributions.
3. This decision shall become effective on August 1, 2015.

Decision B. Establishment of a Post-MDRI-II Trust Interim Administered Account

4. Pursuant to Article V, Section 2(b) of the Articles, the Fund adopts the Instrument to Establish the Post-MDRI-II Interim Administered Account (the "Account") that is annexed to this decision.

5. In accordance with Article XVII, Section 3 of the Articles, the Fund prescribes that 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 this Account; and operations pursuant to this prescription shall be recorded in accordance with Rule P-9.

Annex I. Instrument to Establish the Post-MDRI-II Interim Administered Account

To help fulfill its purposes, the International Monetary Fund (the “Fund”), at the request of two contributors, has adopted this Instrument to establish the Post-MDRI-II Interim Administered Account (the “Account”) in accordance with Article V, Section 2(b) of the Fund’s Articles of Agreement, which shall be governed and administered by the Fund in accordance with the terms and conditions of this Instrument.

1. The purpose of the Account is to serve as an interim vehicle for the temporary holding and administration of resources transferred to the Account by a member in the context of the liquidation of the Multilateral Debt Relief Initiative-II Trust (the “MDRI-II Trust”), set forth in Attachment II to Decision No. 13588-(05/99), adopted November 23, 2005, as amended by Decision No. 15708-(15/12), adopted February 4, 2015, pending any decision by such member (“Contributor”) as to the final disposition of those resources.
2. The SDR shall be the unit of account. Resources provided to the Account shall be in SDRs or any currency. Transfers may be made in or exchanged for SDRs in accordance with such arrangements as may be made by the Fund for holding and use of SDRs.
3. Upon the instruction of a contributing member, the Fund shall transfer all or part of the resources received from a member, together with the member’s pro rata share of the investment returns, to the Catastrophe Containment and Relief Trust established pursuant to Decision No. 15708-(15/12), adopted February 4, 2015, the Poverty Reduction and Growth Trust for use in any current or future subsidy operations authorized for that Trust, or to the account of the contributing member.
4. The resources held in the Account and not immediately needed for operations of the Account shall be invested at the discretion of the Managing Director. Investments pursuant to this paragraph may be made in any of the following: (i) marketable obligations issued by international financial organizations and denominated in SDRs or in the currency of a member of the Fund; (ii) marketable obligations issued by a member or by a national official financial institution of a member and denominated in SDRs or in the currency of that member; or (iii) deposits with a commercial bank, a national official financial institution of a member, or an international financial institution, that are denominated in SDRs or in the currency of a member.
5. The 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 any liabilities, obligations or losses 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 in connection with any such other accounts of, or administered by, the Fund.

6. The Fund shall maintain separate financial records and prepare financial statements for the Account. The financial statements for the Account shall be expressed in SDRs and prepared in accordance with International Financial Reporting Standards.
7. The external audit firm selected under Section 20 of the Fund's By-Laws shall audit the operations and transactions of the Account. The audit shall relate to the financial year of the Fund.
8. The Fund shall report on the assets and property and on the operations and transactions 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.
9. Subject to the provisions of this Instrument, the Fund, in administering the Account, shall apply, *mutatis mutandis*, the same rules and procedures as apply to operations of the General Resources Account of the Fund.
10. The Managing Director is authorized (a) to make all arrangements, including the establishment of accounts in the name of the Fund, with such depositories as he or she deems necessary to carry out the operations of the Account; and (b) to take all other measures he or she deems necessary to implement the provisions of this Instrument.
11. No charge shall be levied in respect of the services rendered by the Fund in the administration, operation, and termination of the Account. All investment costs, including but not limited to costs associated with the exchange of currencies, purchase of securities, and hiring of external asset managers and custodian banks, shall be borne by, and deducted from, the Account.
12. The Account shall be terminated (a) three years from the effective date of the decision adopting this Instrument, unless the Fund decides to maintain the Account for a longer period of time; or (b) as promptly as practicable following the receipt of instructions from every Contributor regarding the distribution of its resources in the Account, whichever is earlier. In the event of termination under (a) above, the Fund shall distribute to each Contributor with resources remaining in the Account at the time of termination the full amount of such resources, including its share in any retained investment earnings.
13. The provisions of this Instrument may be amended by a decision of the Fund and with the concurrence of each Contributor with resources in the Account at the time of such decision, provided that the extension of the Account period in accordance with paragraph 12 shall not be considered an amendment to this Instrument.
14. Any questions arising under this Instrument between a Contributor and the Fund shall be settled by mutual agreement between the Contributor and the Fund.