

## INTERNATIONAL MONETARY FUND

### **Establishment of an Administered Account for Interim Holdings of Voluntary Contributions for Fund Activities and Establishment of a Framework Administered Account for Selected Fund Activities: Subaccount for the Administration of Selected Smaller-Scale Capacity Building Activities**

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Management

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1. This paper proposes that the Fund establish an administered account and a subaccount under the Framework Instrument for Selected Fund Activities (the “SFA”), to enhance the new external financing architecture for capacity building and related Fund activities. The specific accounts proposed to be established are: (1) an administered account for interim holdings of voluntary contributions for Fund activities, that would primarily accommodate contributions from donors for Fund activities that are planned but not yet fully developed (“The Interim Holding Administered Account,” hereinafter, the “Holding Account”); and (2) a Subaccount for the administration of selected smaller-scale capacity building and related activities (the “Catch-All Subaccount”) under the SFA Instrument, which would facilitate the administration of external funds for smaller, one-off projects. The paper sets out draft decisions.

#### **I. HOLDING ACCOUNT**

2. The Holding Account would allow the Fund to receive and hold contributed resources for an interim period prior to deploying such resources towards the financing or discharge of specified activities of the Fund that are eligible for external financing. The resources deposited into the Holding Account would ultimately fund activities for which understandings or modalities to use those resources are not yet finalized, but for which the contributors need to disburse under their own budgetary cycles and internal processes.

Normally, resources may not be accepted into the General Resources Account to reimburse the Fund for a specified activity until such relevant expenses have been incurred.<sup>1</sup>

3. Resources deposited into the Holding Account would subsequently be transferred into another account to finance specified activities or would be used to reimburse the GRA. It is expected that most of the resources deposited into the Holding Account would subsequently be transferred to finance activities under SFA<sup>2</sup> subaccounts.<sup>3</sup> Resources deposited in the Holding Account may be returned to the contributor, without investment returns,<sup>4</sup> upon the donor's instruction at any time.

4. As resources are only to be deposited in the Holding Account on an interim basis, it is proposed to limit the period during which resources may remain in the Holding Account to 12 months. If understandings are not reached within that period between the contributor and the Managing Director on the transfer of the contribution, the contribution, without investment returns, will be returned to the contributor. Under exceptional circumstances, and upon understandings being reached between the donor and the Managing Director, the contributions may remain in the Account for one additional 12 month period pending agreement on the activity to be financed.

5. Resources contributed by donors into the Account will be deposited pursuant to specified Letters of Understanding (LOUs) between the contributors and the Managing Director. The resources relating to each LOU will be accounted for separately and will not be commingled within the Account.

6. Article V, Section 2(b) authorizes the Fund, upon request, to perform financial and technical services, including the administration of resources contributed by donors, that are consistent with the purposes of the Fund. The Holding Account would be established as a separate account under Article V, Section 2(b) and the Fund has established similar accounts in the past. The draft Instrument for the account includes routine administrative provisions that are similar to those governing other accounts established by the Fund.

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<sup>1</sup> The making of advance deposits directly into the GRA could affect the Fund's holdings of a particular member's currency and, thus, the composition of the Fund's available resources. Accepting advance deposits into the Holding Account would not affect this composition because resources in administered accounts do not form part of GRA resources.

<sup>2</sup> *Establishment of a New Framework Administered Account for Selected Fund Activities*, see <http://www.imf.org/external/np/pp/eng/2009/030409.pdf>.

<sup>3</sup> Other accounts include other administered accounts or trusts administered by the Fund for purposes other than capacity building or related activities.

<sup>4</sup> The investment returns would defray the Fund's costs in administering the Holding Account.

7. The establishment of the Holding Account is consistent with the purposes of the Fund, and therefore, it is proposed that the Executive Board approve the establishment of the Account.

## II. CATCH-ALL SUBACCOUNT

8. In March 2009, the Fund established a new Framework Administered Account to administer external financial resources for selected Fund Activities (the “SFA Instrument”).<sup>5</sup> The financing of activities under the terms of the SFA Instrument is implemented through the establishment and operation of subaccounts within the SFA.

9. Certain discrete, one-off and smaller-scale Fund initiatives to finance capacity building and related activities<sup>6</sup> are currently administered through reimbursement agreements. This is because the amounts involved do not warrant the establishment of separate bilateral subaccounts with donors for such activities. Under these reimbursement agreements, the Fund bears the financial risk in implementing the associated projects, because payment is received ex post.

10. To minimize the financial risk to the Fund from administering such discrete, one-off and smaller scale initiatives while limiting administrative costs,<sup>7</sup> the Managing Director has established the essential terms and conditions of the Catch-All Subaccount, with respect to the nature, design, and implementation of the activities to be financed and the method by which the costs of the activities will be financed from the Subaccount. These terms and conditions include the following:

- a. The resources of the Subaccount shall consist of amounts contributed to the Subaccount by the Contributors to the Subaccount and earnings that accrue as a result of the investment of these amounts (net of any costs associated with such investments). The resources of the Subaccount will be used to finance projects that seek to enhance the capacity of Fund members to formulate and implement policies in the macroeconomic, fiscal, monetary, financial, and related statistical fields, including training programs and projects that strengthen the legal and administrative framework in these core areas, and related activities.

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<sup>5</sup> *Establishment of a New Framework Administered Account for Selected Fund Activities* (see <http://www.imf.org/external/np/pp/eng/2009/030409.pdf>).

<sup>6</sup> Donors that consider larger contributions or contributions over a longer period of time will be encouraged to establish bilateral SFA subaccounts.

<sup>7</sup> The Fund may still on occasion use reimbursement agreements for very small financing arrangements that do not warrant channeling resources through the catch-all subaccount.

b. The Contributors and the Fund shall reach understandings on the operational features related to the activities to be financed from the Subaccount, consistent with the Instrument governing the SFA and the essential terms and conditions of the Subaccount.

c. Resources will be placed in the Subaccount by the Contributors on the basis of Letters of Understandings (LOUs) signed between the Contributors and the Fund relating to specific activities to be undertaken. Resources relating to individual LOUs will be accounted for separately and will not be commingled within the Subaccount. The Subaccount will permit the Contributors to transfer resources from the Subaccount to any subaccount under the SFA.

d. To help defray the expenses incurred by the Fund in the management of the Subaccount, reimbursement equal to 7 percent of the expenses financed by the Subaccount will be paid to the Fund from the Subaccount.

11. The essential terms and conditions of the Catch-All Subaccount are consistent with the terms and conditions of the SFA Instrument, and the activities to be financed from the Subaccount are consistent with the purposes of the Fund. Therefore, it is proposed that the Executive Board approve the establishment of the Subaccount.

**Attachment 1****Instrument to Establish an Administered Account for Interim Holdings of Voluntary Contributions to IMF Activities**

To help fulfill its purposes, the International Monetary Fund (the “Fund”), has adopted this Instrument to establish the Administered Account for Interim Holdings of Voluntary Contributions for IMF Activities (the “Account”) in accordance with Article V, Section 2(b) of the Fund’s Articles of Agreement, which shall be governed by the following terms and conditions:

1. The purpose of the Account is to allow the Fund to receive and hold contributed resources for an interim period prior to deploying such resources towards the financing or discharge of specified activities by the Fund. Resources placed in the Account will normally be transferred to another administered account, or trust administered by the Fund, or used to reimburse the General Resources Account, after final understandings have been reached between the Fund, acting through the Managing Director and the relevant contributor on the use of the contribution.
2. The resources shall normally be held in the Account for no more than 12 months. If not transferred to another administered account or trust administered by the Fund, or used to reimburse the General Resources Account within that period, contributions shall be returned to the contributor. In exceptional circumstances, the contribution may be held for up to an additional 12 month period upon new understandings being reached between the Managing Director and the contributor on the maintenance of these resources in the Account.
3. All transactions and operations in the account shall be denominated in US Dollars.
4. The resources held in the Account shall be invested at the discretion of the Managing Director. Any earnings from investments shall not accrue to the contributor, but shall be used to reimburse the Fund for the cost of administering the Account.
5. 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 connection with 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. Contributions from each contributor shall be accounted for separately within the Account. A contributor may request the return of uncommitted resources held in the Account at any time.

7. The Fund shall maintain separate financial records and prepare financial statements for the Account. The financial statements for the Account shall be expressed in US dollars and prepared in accordance with International Financial Reporting Standards.

8. 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.

9. The Fund shall report on the assets and liabilities, 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.

10. 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.

11. 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 deems necessary, to carry out the operations of the Account, and (b) to take all other measures he deems necessary to implement the provisions of this Instrument.

12. The provisions of this Instrument may be amended by a decision of the Fund with the concurrence of each contributor with resources in the Account at the time of the decision is adopted.

13. The Fund, upon the request of the Managing Director, may terminate the Account at any time. Uncommitted resources in the Account at the time of termination shall be returned to the contributors.

**Attachment 2**

List of Subaccounts established under the Framework Administered Account for Selected Fund Activities:

1. “Central America, Panama, and the Dominican Republic Technical Assistance Center (CAPTAC-DR) Subaccount” (<http://www.imf.org/external/np/pp/eng/2009/032709a.pdf>).
2. “Anti-Money Laundering and Combating the Financing of Terrorism (AML/CFT) Subaccount” (<http://www.imf.org/external/np/pp/eng/2009/032709.pdf>).
3. “East Africa Regional Technical Assistance Center (AFRITAC East) Subaccount” (<http://www.imf.org/external/np/pp/eng/2009/091509A.pdf>).
4. “West Africa Regional Technical Assistance Center (AFRITAC West) Subaccount” (<http://www.imf.org/external/np/pp/eng/2009/091509b.pdf>).
5. “Switzerland Subaccount for Selected Fund Activities” (<http://www.imf.org/external/pp/longres.aspx?id=4392>).
6. “Germany Subaccount for Selected Fund Activities” (<http://www.imf.org/external/pp/longres.aspx?id=4393>).
7. “European Investment Bank Subaccount for Selected Fund Activities” (<http://www.imf.org/external/pp/longres.aspx?id=4394>).
8. “The Socialist People’s Libyan Arab Jamahiriya Subaccount for Selected Fund Activities” (<http://www.imf.org/external/pp/longres.aspx?id=4395>).
9. “European Commission Subaccount for Selected Fund Activities” (<http://www.imf.org/external/pp/longres.aspx?id=4396>).
10. “Kingdom of the Netherlands—Netherlands Subaccount for Selected Fund Activities” (<http://www.imf.org/external/np/pp/eng/2009/112009.pdf>).
11. “Middle East Regional Technical Assistance Center (METAC) Subaccount” (<http://www.imf.org/external/np/pp/eng/2009/121509a.pdf>).
12. “Norway Subaccount for Selected Fund Activities” (<http://www.imf.org/external/np/pp/eng/2010/010810a.pdf>).
13. “United Kingdom Department for International Development Subaccount for Selected Fund Activities” (<http://www.imf.org/external/np/pp/eng/2010/032210.pdf>).
14. “Japan Subaccount for Selected Fund Activities” (<http://www.imf.org/external/np/pp/eng/2010/040510.pdf>).