Mr. Luc Frieden  
Minister of Finance  
Ministry of Finance  
3, rue de la Congrégation  
L-2931 Luxembourg

Trust Fund Administration Agreement between the Grand Duchy of Luxembourg and the International Bank for Reconstruction and Development and the International Development Association concerning the Multi-Donor Trust Fund for Middle-Income Countries for the Financial Sector Reform and Strengthening Initiative (TF No. 070723)

Dear Mr. Frieden:

1. We are pleased to acknowledge on behalf of the International Bank for Reconstruction and Development (“IBRD”) and the International Development Association (“IDA”, and together with IBRD, the “Bank”) that the Grand Duchy of Luxembourg (the “Donor”) shall make available as a grant the sum of one million and ninety-three thousand Euros (€1,093,000) (the “Contribution”) for the Multi-Donor Trust Fund for Middle-Income Countries for the Financial Sector Reform and Strengthening Initiative (the “Trust Fund”) in accordance with the terms of this Agreement. Other donors are also expected to contribute to the Trust Fund on the terms and conditions specified in the Annexes to this Agreement.

2. The Contribution shall be used to finance the activities and the categories of expenditure set forth in the “Description of Activities and Expenditures Under FIRST’s Middle-Income MDTF” attached hereto as Annex 1, and shall be administered by the Bank on behalf of the Donor in accordance with the terms of this Agreement including: (i) the “Standard Provisions Applicable to FIRST’s Middle-Income MDTF” (the “Standard Provisions”) attached hereto as Annex 2; (ii) the “Governance Terms Applicable to FIRST’s Middle-Income MDTF” (the “Governance Terms”) attached hereto as Annex 3; and (iii) the “Forms to Transfer Funds from FIRST’s Middle-Income MDTF to the IMF” (the “IMF Transfer Forms”) attached hereto as Annex 4.

3. The Donor shall deposit the Contribution into such bank account designated by the Bank in installments in accordance with the following schedule:

   (a) promptly following countersignature of this Agreement by the Donor and following submission of a payment request by the Bank, six hundred and seventy-four thousand Euros ((€674,000);

   (b) on or before December 31, 2012, two hundred and nine thousand, five hundred Euros (€209,500) and following submission of a payment request by the Bank; and
(c) provided that all donors agree to duly extend the end-disbursement date of the Trust Fund, then on or before December 31, 2013, two hundred and nine thousand, five hundred Euros (€209,500) and following submission of a payment request by the Bank.

4. When making each such deposit, the Donor shall instruct its bank to include in its payment details information (remittance advice) field of its SWIFT payment message, information indicating: the amount paid, that the payment is made by the Donor for TF No. 070723 (the Multi-Donor Trust Fund for Middle-Income Countries for the Financial Sector Reform and Strengthening Initiative), and the date of the deposit (the “Deposit Instruction”). In addition, the Donor shall provide a copy of the Donor’s Deposit Instruction to the Bank’s Accounting Trust Funds Division by e-mail sent to tfremitadvice@worldbank.org or by fax sent to (202) 614-1315.

5. The Bank shall convert the Contribution funds into the holding currency of the Trust Fund, namely United States dollars, promptly upon receipt of the Contribution funds and the Deposit Instruction containing the information specified in paragraph 4 at the exchange rate obtained by the Bank on the date of the conversion. Where the Contribution proves to be insufficient to complete the activities as a result of an exchange rate fluctuation, neither the Bank nor the Donor shall bear any responsibility for providing any additional financing.

6. Except as provided for in paragraph 4 above, any notice, request or other communication to be given or made under this Agreement shall be in writing and delivered by mail, facsimile or e-mail to the respective party’s address specified below or at such other address as such party notifies in writing to the other party from time to time:

For the Bank:

Program Manager of FIRST’s Program Management Unit
Finance and Private Sector Development Vice Presidency, FIRST Unit (FPDFT)
The World Bank
1818 H Street, NW
Washington, DC  20433
U.S.A.

Tel: +1-202-473-6709
Fax: +1-202-522-0277
E-mail:jpatino2@worldbank.org

For the Donor:

The Director of the Treasury
Ministry of Finance
3, rue de la Congrégation
L2931 Luxembourg

Tel:+352 2478 2715 / 2709
     +33 1 4555 1337
Fax: +352 466212
E-mail:miguel.marques@fi.etat.lu
     cc: arsene.jacoby@fi.etat.lu
7. All annexes hereto constitute an integral part of this Agreement. This Agreement may be amended only in writing between the Bank and the Donor; provided, however, that each of the annexes to this Agreement may only be amended either: (i) with the agreement of all donors contributing to the Trust Fund; or (ii) by FIRST’s Governing Council in accordance with the then-current Governance Terms for FIRST.

8. Please confirm your agreement with the foregoing, on behalf of the Donor, by signing, dating, and returning to us the enclosed copy of this Agreement. Upon receipt by the Bank of the copy of this Agreement countersigned by you, this Agreement will become effective as of the date of the countersignature.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

Sincerely,

/s/ Janamitra Devan

AGREED:

GRAND DUCHY OF LUXEMBOURG acting through the Ministry of Finance

By: /s/ Luc Frieden

Date: December 16, 2011

Mr. Luc Frieden

Minister of Finance
ANNEX 1

Description of Activities and Expenditures under FIRST’s Middle-Income MDTF

I. Description of Activities

FIRST’s Middle-Income MDTF (TF No.070723) will finance only activities of FIRST approved in accordance with FIRST’s then-current project selection procedures (“Project Selection Procedures”) and charter (the “Charter”). The Middle-Income MDTF will support a country-specific and multi-country technical assistance program in middle-income countries, which are those countries defined by the Bank as eligible to receive low or no interest loans and grants from the International Development Association (IDA) (“Middle-Income Countries”). The Middle-Income MDTF may finance the following activities, all of which may be either executed by the Bank or IMF:

(i) Funding technical assistance in the areas of financial sector regulation, supervision and development in response to country demands.

(ii) Providing support to countries to strengthen their financial systems or implement standards and codes in advance of Financial Sector Assessment Programs (“FSAPs”) or Reports on Standards and Codes (“ROSCs”), and to facilitate systematic follow-up of related recommendations.

(iii) Assisting recipients to prepare prioritized action plans addressing financial sector development and the sequencing of reforms, for example as a follow-up to FSAPs, and advising clients in the implementation of financial sector development programs.

(iv) Promoting better coordination in the delivery of technical assistance and capacity building, drawing particularly on consultants in the private sector.

(v) Supporting research on and dissemination of best practices and useful tools related to financial sector reform and development in Middle-Income Countries.

(vi) Working with international standard-setting bodies and other relevant partners to broaden the base of providers supporting countries’ efforts to implement standards and codes in accordance with FSAP/ROSC recommendations and strengthen their financial systems.

(vii) Working on the completion of technical assistance projects funded by FIRST under prior trust funds that have been started but not completed prior to effectiveness of the Arrangement.

(viii) Crisis preparedness technical assistance activities, including, but not limited to, developing or strengthening contingency plans, strengthening laws, policies and procedures for dealing with distressed banks and other financial institutions in distress, organizing simulation exercises to test plans in practice, and delivering workshops.
II. Categories of Expenditure

For Bank-executed activities, Contribution funds will be used to finance the following categories of expenditure: associated overheads, short-term consultant fees, contractual services, extended term consultants, temporary staff costs, staff costs with indirects, field benefits media and workshop costs, equipment costs, grants (to cover Phase 1 costs), and travel expenses.

For IMF-executed activities financed by funds transferred to the IMF by the Bank, expenditures may be made in accordance with the IMF’s normal policies, practices, and procedures.
Annex 2

Standard Provisions Applicable to FIRST’s Middle-Income MDTF

The following provisions (hereinafter referred to as the “Standard Provisions”) will be applicable to and form an integral part of all arrangements entered into between the International Bank for Reconstruction and Development (“IBRD”) and the International Development Association (“IDA”) (collectively, the “Bank”) and donor countries and/or organizations (hereinafter referred to as the “Donors”) that provide grants (whether new funds or remaining Phase I funds for FIRST, hereinafter referred to as the “Contributions”) to be administered by the Bank for the Multi-Donor Trust Fund for Middle-Income Countries (the “Middle-Income MDTF”) for the Financial Sector Reform and Strengthening Initiative (“FIRST”).

1. Administration of the Contributions

1.1 The Bank will be responsible only for performing those functions specifically set forth in this Arrangement and will not be subject to any other duties or responsibilities to the Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in this Arrangement will be considered a waiver of any privileges or immunities of the IBRD and IDA under their Articles of Arrangement or any applicable law, all of which are expressly reserved.

1.2 After receipt of a Donor Contribution by the Bank, fifteen percent of such Contribution, net of any Bank cost recovery fee, (the “IMF Funds”) will be disbursed to the International Monetary Fund (the “IMF”) in accordance with the understandings set forth in documents to be agreed between the Bank and the IMF and approved by the Donors; provided that no such disbursements will be made to the IMF until such agreement and approvals are in place; and provided further that if no such agreement and approvals are in place by the end of nine months after effectiveness of this Arrangement, such IMF Funds will be returned in respect of each Donor Contribution to the respective Donor. Any investment income earned on the IMF Funds pending their disbursement to the IMF or refund to the Donors will be credited to the Middle-Income MDTF to be used for the same purposes as the other Contributions.

1.3 With respect to the IMF Funds, the Donors acknowledge and accept that the Bank’s willingness to “administer” the Middle-Income MDTF will be fully met by performance of the following functions, all in accordance with this Arrangement:

- Receiving Contributions; and
- Upon receipt of a Contribution, disbursing the IMF Funds to the IMF in accordance with paragraph 1.2 above.

Thereafter, the Donors expect and accept that all financial management, financial reporting and auditing by the IMF with respect to the IMF Funds will be carried out in accordance with the IMF’s policies, practices, and procedures. The Donors and the Bank acknowledge that Sections 4 and 6 of this Annex 2 will not apply to the IMF Funds.

1.4 The Donors acknowledge and accept that any activities carried out by the Bank, including through FIRST’s Program Management Unit (“PMU”), in connection with the IMF Funds that
are not specifically required under this Arrangement, such as support in obtaining regular progress reports and project completion reports from the IMF for Donors, are facilitating activities, rather than additional obligations of the Bank under this Arrangement. The Donors specifically acknowledge and accept that the Bank has no responsibility, under this Arrangement or otherwise, for (i) confirming use of the IMF Funds; (ii) implementing, monitoring, supervising, evaluating, or providing quality assurance for activities financed by the IMF Funds; (iii) providing Donors with reports on the progress of activities financed by the IMF Funds; (iv) any misuse or misprocurement with respect to the IMF Funds; or (v) pursuing any Donor interests or IMF undertakings with respect to the IMF Funds. The Donors acknowledge and accept that any financial statements with respect to the use of the IMF funds are the responsibility of the IMF. The Donors further acknowledge and accept that the Bank will pass on the IMF Funds under the IMF Forms on behalf of the Donors, with any pursuit of Donor interests or any other Donor remedy arising directly between each Donor and the IMF, without involvement of the Bank.

2. **Commingling, Exchange and Investment of the Contributions**

2.1. The Contribution funds will be accounted for as a single trust fund and will be kept separate and apart from the funds of the Bank. The Contribution funds may be commingled with other trust fund assets maintained by the Bank.

2.2. The Contribution funds may be freely exchanged by the Bank into other currencies as may facilitate their disbursement.

2.3 The Bank will invest and reinvest the Contribution funds pending their disbursement in accordance with the Bank’s policies and procedures for the investment of trust funds administered by the Bank. The Bank will credit all income from such investment to the Middle-Income MDTF to be used for the same purposes as the Contribution funds.

3. **Administrative Cost Recovery**

In order to assist in the defrayment of the costs of administration and other expenses incurred by the Bank under this Arrangement, the Bank may, following deposit of Contribution funds, deduct from such funds and retain for the Bank’s own account an amount equal to five percent (5%) of the Contributions.

4. **Employment of Consultants and Procurement of Goods**

The employment and supervision of consultants and the procurement of goods financed by the Contributions (excluding the IMF Funds) will be the responsibility solely of the Bank and will be carried out in accordance with its applicable policies and procedures.

5. **Accounting and Financial Reporting**

5.1. The Bank will maintain separate records and ledger accounts in respect of the Contributions deposited in the trust fund account and disbursements made therefrom.
5.2. Within ninety (90) days of each March 31, June 30, September 30 and December 31, the Bank will furnish to the Donors an unaudited cash-based statement of receipts, disbursements and fund balance in United States dollars with respect to the Contributions. Within six (6) months of the final disbursement date specified in paragraph 7.1, the Bank will furnish to the Donors a final unaudited cash-based statement of receipts, disbursements and fund balance in United States dollars with respect to the Contribution funds.

5.3. The Bank will provide to the Donors, within six (6) months following the end of each Bank fiscal year, a management assertion together with an attestation from the Bank’s external auditors concerning the adequacy of internal control over cash-based financial reporting for trust funds as a whole. The cost of such attestations will be borne by the Bank.

5.4. If a Donor wishes to request, on an exceptional basis, a financial statement audit by the Bank’s external auditors of the Middle-Income MDTF, the Donor and the Bank will first consult as to whether such an external audit is necessary. The Bank and the Donor will decide on the most appropriate scope and terms of reference of such audit. If consensus is reached on the scope and terms of reference, the Bank will arrange for such external audit. The costs of any such audit, including the internal costs of the Bank with respect to such audit, will be paid by the Donor.

6. Coordination and Project Reporting

6.1. The Bank will provide the Donors with an annual report on the progress of activities financed by the Contributions (excluding the IMF Funds). Within six (6) months of the final disbursement date specified in paragraph 7.1, the Bank will furnish to the Donors a final report on the activities financed by the Contributions (excluding the IMF Funds).

7. Disbursement Deadline; Cancellation; Refund

7.1. It is expected that the Contribution funds will be fully disbursed by the Bank in accordance with the provisions of this Arrangement by the final disbursement date of April 30, 2013. The Bank will only disburse Contribution funds for the purposes of this Arrangement after such date with the written approval of the Donors.

7.2. Any Donor or the Bank may, upon three (3) months’ prior written notice, cancel all or part of the Donor’s pro rata share of any remaining balance of the Contribution funds that is not committed pursuant to any arrangements entered into between the Bank and any consultants and/or other third parties for the purposes of this Arrangement prior to the receipt of such notice.

7.3. After the final disbursement date specified in paragraph 7.1, the Bank will return any remaining balance of the Contribution funds to the Donors on a pro rata basis. In the event of a cancellation of an individual Donor’s pro rata share of uncommitted Contribution funds in accordance with paragraph 7.2, the Bank will return such cancelled balance to the Donor.

8. Indemnification; Non-Liability
8.1 The Bank, in its dual capacity as Administrator and Manager of FIRST (as described in the Governance Terms), and any person who is, or has been, an officer, employee or agent of the Bank (each an “Indemnified Party”) will be indemnified out of Contribution funds against any loss, liability, cost, claim, action, demand or expense (including, but not limited to, all reasonable costs, charges and expenses incurred in disputing or defending any of the foregoing) that any Indemnified Party may incur or that may be made against them arising out of or in connection with the activities of Emerging Market Economics Limited (EME) during the period it was Manager of FIRST (assuming that reasonable efforts have been made to minimize indemnification needed).

8.2 The Donors will not be responsible for the activities of any person or third party engaged by the Bank as a result of this Arrangement, nor will the Donors be liable for any costs incurred by the Bank in terminating the engagement of any such person.

9. Disclosure

The Bank may disclose this Arrangement and information on the Middle-Income MDTF in accordance with the Bank’s policy on disclosure of information.
ANNEX 3

Governance Terms Applicable to FIRST’s Middle-Income MDTF

FINANCIAL SECTOR REFORM AND STRENGTHENING INITIATIVE

Charter

As Adopted July 6, 2007 and amended on September 10, 2009
FINANCIAL SECTOR REFORM AND STRENGTHENING INITIATIVE

CHARTER

1. Introduction

1.1 The International Bank for Reconstruction and Development (“IBRD”) and the International Development Association (“IDA”) (collectively, the “Bank”), the International Monetary Fund (“IMF”) and all donors (“Donors”) to one or more trust funds (collectively, the “Trust Fund”) for the Financial Sector Reform and Strengthening Initiative (“FIRST”) constitute the partners of FIRST (“Partners”) and have adopted the present charter (the “Charter”).

1.2 Launched in 2002, FIRST is a collaborative arrangement among Partners providing for a technical assistance (“TA”) facility designed to support growth and poverty reduction in low- and middle-income countries by promoting stable, deep and diverse financial sectors. The Charter sets out the structure and management of the second phase of FIRST (“Phase II”) following replenishment by its Donors after the first phase of FIRST (“Phase I”) in accordance with the general arrangements approved at the Governing Council meeting on October 5, 2006.

2. Basic Principles

2.1 Following are basic principles that will guide FIRST (the “Basic Principles”):

2.1.1 A demand-driven approach with open access.

FIRST aims to be demand-driven and open in its approach, as a strong advocate of financial sector development, and seeks to identify effective new ideas and modalities in the delivery of TA. To this end, FIRST accepts requests to finance TA directly from a wide range of applicants in client countries. Applicants may be assisted by Bank, IMF, and other multilateral and bilateral agency staff in preparing proposals.

2.1.2 Additionality.

FIRST seeks to ensure that it funds activities that are complementary to those being funded from other sources and that its funding does not substitute for or displace more suitable or appropriate assistance available from other sources, such as loans or grants from other private or public programs, including ongoing programs of the Bank, IMF and other donors. FIRST seeks to excel in efforts to promote learning and knowledge dissemination in the area of financial sector TA. Priority will also be given to projects that leverage funds from other sources.

2.1.3 Harmonization, transparency, and accountability.

FIRST promotes a model of partnership in line with all five partnership commitments of the Paris Declaration on Aid Effectiveness, namely: ownership, alignment, harmonization, managing for results and mutual accountability. For FIRST, this involves introducing clear accountabilities in program management, setting targets, assessing effectiveness, and monitoring results. At the
country level, FIRST encourages donors and partners to make best use of local mechanisms to achieve their goals.

3. Objectives

3.1 FIRST’s overall objective is to help strengthen financial systems in low- and middle-income countries so that they make a strong and positive contribution to economic growth and help reduce poverty and income inequality. While FIRST’s activities are currently only those financed by the Trust Fund, this Charter may be amended to include other activities, such as those that may be provided under fee for service arrangements, consistent with this objective.

3.2 FIRST’s specific objectives for the Trust Fund (the “Objectives”) are to:

(i) Fund TA in the areas of financial sector regulation, supervision and development in response to country demands, provide support to countries to strengthen their financial systems or implement standards and codes in advance of Financial Sector Assessment Programs (“FSAPs”) or Reports on Standards and Codes (“ROSCs”), and facilitate systematic follow-up of related recommendations. Target areas will include, but not be limited to:

- Access to finance
- Accounting and auditing
- Banking; payment, clearing and settlement and credit information systems
- Capital markets and corporate governance
- Financial sector strategy and policy
- Financial sector legal, regulatory and supervisory frameworks
- Housing finance
- Insolvency regimes
- Insurance and other non-bank financial institutions
- Market integrity and financial crime
- Pension funds and collective investment vehicles.

(ii) Assist recipients in preparing prioritized action plans addressing financial sector development and the sequencing of reforms (for example as a follow-up to FSAPs), and advise clients, especially in low-income countries, on the implementation of financial sector development programs.

(iii) Promote coordination in the delivery of financial sector TA and capacity building, drawing particularly on private sector expertise.

(iv) Support research on and the dissemination of best practices and useful tools related to financial sector reform and development in low- and middle-income countries.

(v) Work with international standard-setting bodies and other relevant partners to broaden the base of providers supporting countries’ efforts to implement standards
and codes in accordance with FSAP and ROSC recommendations and strengthen their financial systems.

4. Eligibility Criteria

4.1 To qualify for FIRST Trust Fund support, project proposals must meet the following requirements, which will be assessed by the Program Management Unit (“PMU”) as part of its review of project proposals:

(i) Project proposals must be submitted directly to the PMU by eligible applicants. Eligible applicants must be public policy makers, regulatory bodies, government agencies, international financial institutions, and, under limited circumstances, quasi-public institutions (such as self-regulatory organizations and industry associations), or the Bank or IMF in cases where there is no specific beneficiary entity or country (such as for global, regional, or multi-country projects). Eligible applicants may be assisted by Bank, IMF, and other official multilateral and bilateral agency staff in preparing project proposals.

(ii) Beneficiaries of all FIRST assistance must be from either low- or middle-income countries at the time project proposals receive final approval. “Low-income countries” are those defined by the Bank as eligible to receive low or no interest loans and grants from IDA. “Middle-income countries” are those defined by the Bank as eligible to receive IBRD loans.

(iii) Projects must meet the project selection criteria adopted by the Governing Council (the “Project Selection Criteria”).

5. Governance Structure

5.1 Overview

5.1.1 FIRST has a two-tier decision-making structure: (i) a governing council (“Governing Council”), which provides strategic guidance to FIRST, sets overall policies and priorities, and (ii) the PMU, which manages day-to-day activities of FIRST, as further described in this Charter.

5.2 The Governing Council

5.2.1 FIRST is guided by a Governing Council comprising one representative of each of FIRST’s Main Donors (as defined below), a representative from the Bank and a representative from the IMF (the Main Donors, Bank and IMF together being the “Council Members,” and each a “Council Member”). “Main Donors” are defined as Donors who have committed at least US$ 2,000,000 (two million United States dollars) to FIRST over any three year period (including during Phase I of FIRST). Membership of the Governing Council is reviewed on an annual basis.

5.2.2 The Governing Council is chaired by a Chair and a Vice-Chair selected from among the Council Members. The Chair and Vice-Chair serve for two years coterminously, with a new
Chair and Vice-Chair selected by the Governing Council at the same time. The Chair and Vice-Chair positions are each filled by the respective Council Member’s representative, whoever that may be at any point in time.

5.2.3 The Governing Council meets annually and may meet more often in special meetings. The PMU provides each Council Member with written notice of a Governing Council meeting not less than sixty (60) days before the date of the meeting unless such notice has been waived by the intended recipient. Such notice states the date, place and time of the meeting and, in the case of a special meeting, the purpose(s) for which the meeting is being called.

5.2.4 The Governing Council may make decisions by email, telephone or video conferences between in-person meetings. Decision-making is done by consensus of all representatives physically present at an in-person meeting or in attendance for video or telephone conferences, and by no objection by all representatives after a reasonable specified period of review for email decisions. The Bank and the IMF and any other official agency that is a Council Member must abstain from voting on any project proposal before the Governing Council with respect to which they are identified as the proposed TA provider.

5.2.5 The Governing Council is responsible for:

(i) Approving FIRST strategies, priorities, policies.

(ii) Selecting the Governing Council Chair and Vice-Chair.

(iii) Approving FIRST’s annual work program and financial plan and monitoring its achievement and implementation.

(iv) Approving fundraising strategies for FIRST and participating in resource mobilization for FIRST.

(v) Approving quality standards, adopting monitoring and evaluation systems, and reviewing and evaluating FIRST’s overall performance, including commissioning independent evaluations as desirable.

(vi) Approving procedures for management of FIRST activities, including adopting project approval procedures (“Project Approval Procedures”) and Project Selection Criteria.

(vii) Giving final approval for project proposals to be funded by Donor contributions to the Trust Fund, except as may be delegated under the Project Approval Procedures.

(viii) Approving the terms of reference for the head of the PMU position (the “Program Manager”), appointing one representative of the Main Donors to the Bank’s selection committee and ratifying the Bank’s final selection.

(ix) Defining criteria for joining FIRST and making decisions on the composition of FIRST and its governing bodies.
Nominating representatives to participate in meetings of the FIRST Financial Sector Network Forum (see below).

Approving and amending this Charter.

5.3 Program Management Unit

5.3.1 The Bank manages FIRST’s work program on behalf of Donors through the PMU as described in this Charter. The PMU carries out the FIRST mandate, as specified in the Basic Principles and Objectives set forth in this Charter, and handles FIRST’s day-to-day operations in accordance with this Charter and the Bank’s standard operational and administrative policies and practices. The Bank and the IMF execute their respective portions of FIRST’s work program.

5.3.2 The PMU is located in Washington, DC and housed in the Bank’s headquarters. The PMU consists of staff hired directly by the Bank under trust fund arrangements, as well as secondees from partner agencies (including the IMF) who are paid from partner agency payrolls. The Bank has responsibility for administrative and managerial oversight of all FIRST staff hired by the Bank, including the Program Manager, who are all subject to Bank rules.

5.3.3 The PMU is led by the Program Manager, who is recruited internationally and hired by the Bank. The Program Manager is responsible for delivering FIRST's work program. The Program Manager reports to the Bank, but is accountable to the Governing Council for carrying out activities in accordance with this Charter and any further guidance provided by the Governing Council. The Program Manager has direct supervisory responsibility for all PMU staff hired by the Bank.

5.3.4 The PMU convenes and coordinates a committee comprised of the Program Manager and one representative each from the Bank and the IMF appointed by their respective institutions (the “Project Approval Committee”), which reviews each project proposal in accordance with the Project Approval Procedures.

5.3.5 Each project has a technical leader (“Technical Leader”), who is responsible for overall project design, substantive delivery of policy advice, and leadership of the project team. The Technical Leader can be (i) a non-PMU World Bank Group staff member, (ii) an IMF staff member, (iii) a PMU Bank staff member, or (iv) an outside expert. In all cases, the Technical Leader must have expertise in the area of focus of the project and must ensure that all deliverables promote reforms that are in line with sound or generally-accepted good practices.

5.3.6 Projects are administered by one of the following depending on the needs of the project: (i) non-PMU World Bank Group staff for projects directly funded by the Trust Fund (as defined below); (ii) PMU Bank staff for projects directly funded by the Trust Fund; and (iii) IMF staff for projects funded by the FIRST Technical Assistance Subaccount at the IMF (the “IMF Subaccount”).
5.3.7 The key responsibilities of the PMU include:

(i) Carrying out FIRST’s mandate as specified in the Basic Principles and Objectives set forth in this Charter.

(ii) Handling FIRST’s day-to-day operations, including coordinating among Partners, maintaining records of Governing Council business, including meeting minutes, decisions and Charter amendments, supporting the Project Approval Committee, and serving as “Manager” with respect to ongoing TA contracts entered into during Phase I.

(iii) Arranging Governing Council meetings and handling Governing Council correspondence, including for objection / no objection decision-making.

(iv) Identifying opportunities for FIRST assistance by working with key stakeholders and beneficiary country authorities.

(v) Recommending strategies, policies, policy changes, priorities, and monitoring and evaluations systems to the Governing Council.

(vi) Facilitating preparation of project proposals by prospective applicants for FIRST funding.

(vii) Reviewing and recommending project proposals for approval by the Project Approval Committee, in accordance with this Charter, the Project Selection Criteria, the Project Approval Procedures, and any other policies or processes decided by the Governing Council.

(viii) For FIRST activities executed by the Bank (not the IMF), (a) engaging the private sector to deliver the bulk of TA services, while taking advantage of existing technical and managerial expertise in the Bank, (b) appointing Technical Leaders for management of specific FIRST projects, (c) conducting effective financial management and oversight, (d) managing the delivery of FIRST projects directly or delegating project management in the Bank, and (e) monitoring and evaluating project outcomes.

(ix) For FIRST activities executed by the IMF (not the Bank), (a) appointing Technical Leaders for management of specific FIRST projects, and (b) delegating project management to the IMF.

(x) Proposing FIRST’s annual work plans and budgets for approval by the Governing Council.

(xi) Providing annual reports to the Governing Council on the status of the FIRST portfolio of projects.

(xii) Arranging FIRST Financial Sector Network Forum meetings among donors, partners and stakeholders in the financial sector every two years to discuss the broad financial
sector development agenda and strategies, cross country and regional issues, and raise awareness of the role of the financial sector in growth, stability and poverty reduction.

(xiii) Identifying and promoting best practices in financial sector reform and the delivery of financial sector TA.

(xiv) Managing the FIRST website.

6. The Trust Fund

6.1 The Bank acts as an administrator (“Administrator”) of one or more trust funds (the Trust Fund) established by the Bank in support of FIRST’s activities. Donor contributions are made to the Trust Fund under Administration Arrangements (“Administration Arrangements”) entered into by the Bank and each of the Donors.

6.2 As Administrator of the Trust Fund, the Bank is responsible for performing those functions specifically set forth in the Administration Arrangements. In its capacity as Administrator, the Bank is not subject to any other duties or responsibilities to the Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law.

6.3 The Trust Fund provides resources to pay for the following:

(i) Experts for FIRST projects

Experts (individuals and firms) engaged by the Bank to prepare or carry out TA projects in Middle- and middle-income countries. Individuals may be retained through short-term or extended term consultancy contracts or coterminous staff appointments (not to extend beyond the life of the trust fund), depending on the length of the assignments and subject to applicable human resource, procurement, and other rules of the Bank.

(ii) Bank costs associated with the implementation and management of FIRST projects

Bank costs associated with participation in and implementation and management of FIRST projects, as incurred (a) through the PMU and (b) as Administrator, in both cases including time and travel costs of Bank expert staff in and outside the PMU engaged for identifying, preparing, vetting, peer reviewing, supervising, and delivering FIRST assignments, such costs to be determined in accordance with guidelines prepared by the Bank and approved by the Governing Council. Overall Bank costs associated with the implementation and management of FIRST projects, including non-PMU staff costs and the Trust Fund administrative fees, are not to exceed 35 percent of FIRST’s overall budget (i.e., Donor contributions to date). At the outset of Phase II, PMU costs and Bank administrative fees are anticipated to represent roughly 25 percent of FIRST’s overall budget, with a goal to reduce that amount to 20 percent, although it is accepted that achieving such a reduction will take time and depend on the level of Donor funding. Costs of non-PMU Bank staff are anticipated to represent 10 percent at the outset of Phase II, potentially rising to a maximum of 15 percent over time. The PMU will conduct a review of these costs as part of its annual reporting to the Governing
Council. The 35 % percent limit on the implementation and management of FIRST projects shall not apply to the crisis preparedness technical assistance activities.

(iii) IMF costs associated with the implementation and management of FIRST projects

FIRST funds are received by the Bank for the Trust Fund and fifteen percent of each such contribution (net of the Bank’s fee) is disbursed to the IMF Subaccount. Resources in the IMF Subaccount will be used by the IMF to cover the costs of TA delivered by the IMF, including the cost of hiring experts and staff travel costs related to FIRST projects, in accordance with the IMF’s standard policies, practice and procedures. To help defray the expenses incurred by the IMF in the administration of the IMF Subaccount and the TA activities financed under the IMF Subaccount, 13 percent of the expenses financed from the IMF Subaccount will be reimbursed to the IMF from the IMF Subaccount.

Middle-

6.4 For Bank-executed activities, FIRST applies the Bank’s financial management infrastructure to the Bank work program. The use of these systems helps ensure Bank oversight and the effective financial management of the Bank-executed program. The Bank’s financial management responsibilities, carried out by the PMU, include managing Donor contributions, commitments, and disbursements (including those for and to the IMF), assuring Bank-executed projects and the PMU are managed within budget, and liaising with the Bank’s Trust Fund, Legal, Treasury, Controller’s and Internal Audit Departments.

6.5 For IMF-executed activities, the Bank receives Donor contributions and disburses the designated portion to the IMF Subaccount, after which the Bank has no further responsibility for the funds, including no responsibility to monitor or address fund use, or provide financial, progress, results or impact reporting. FIRST applies the IMF’s financial management infrastructure to the IMF work program. The use of these systems helps ensure IMF oversight and the effective financial management of the IMF-executed program. The IMF’s financial management responsibilities include managing and supervising project implementation, seeking to assure projects are managed within the budgets, procuring consultants to deliver TA services, monitoring project outputs, reporting on project results, and liaising with the IMF’s functional departments.

7. Bank, IMF, and Donor Coordination

7.1 To enhance Donor coordination with the Bank and the IMF and to promote closer alignment between FIRST and the FSAP program, all Council Members will be invited to participate in semi-annual meetings of the joint Bank/IMF Financial Sector Liaison Committee (FSLC). The attendance by Council Members allows FIRST to be apprised of the overall progress on the FSAP and ROSC programs and their linkages to FIRST. FIRST participants in the FSLC meetings have no managerial, administrative or reporting responsibilities for FIRST in this capacity. Additional coordination will be promoted through (i) secondment of IMF staff to the PMU when possible and (ii) exchange of internal documents (such as back-to-office reports) between the Bank and the IMF at the staff level to the extent allowed by internal policies and procedures. The Bank and IMF will coordinate project proposal reviews, and no project proposal will be implemented without the explicit acceptance by the Bank for Bank-executed or by the IMF for IMF-executed projects.
8. **Project Cycle**

8.1 FIRST’s project cycle is as follows:

(i) Submission of project application by applicant.

(ii) Screening, peer review and due diligence on projects.

(iii) Project approval in accordance with Project Approval Procedures.

(iv) Project implementation.

(v) Project supervision.

(vi) Monitoring and evaluation.

9. **Monitoring and Evaluation**

9.1 At the program level, the PMU is responsible for developing a monitoring and evaluation system to assess the impact of FIRST activities on an ongoing basis. The PMU proposes to the Governing Council appropriate evaluation benchmarks and methodologies. In addition, the Governing Council may at any time request an independent evaluation or review of FIRST’s operations, cost structure, and strategy. The Governing Council will decide, at the time of requesting any such review, funding and timing of the review.

9.2 At the project level, monitoring and evaluation will be carried out by the Technical Leader for every project under the overall supervision of activities by the Bank (for Bank-executed projects) or the IMF (for IMF-executed projects). At the end of each project, the Technical Leader will complete a Project Completion Report that assesses project impact in accordance with a format provided by the PMU.

10. **Term**

10.1 FIRST (Phase II) will continue through December 31, 2012. During 2012, the Governing Council will decide whether FIRST should continue. If so, the Bank will decide whether to continue to act as Administrator and house the PMU of FIRST.

11. **Privileges and Immunities**

11.1 It is understood that nothing herein, nor any of the undertakings to be performed by the Bank or the IMF or any of their respective officers or employees, will be contrary to or inconsistent with the Bank’s or IMF’s respective Articles of Agreement. Each Partner shall be solely responsible for ensuring that any projects that it is tasked to carry out under this Charter are consistent with its respective legal instruments. Moreover, it is understood that this Charter does not impair or limit any of the rights, immunities, privileges or exemptions conferred upon the Bank or IMF or any of their respective officers or employees by their respective Articles of Agreement.
Agreement. Nothing in this Charter shall be considered a waiver of any privileges or immunities of the IBRD, IDA or the IMF under their respective Articles of Agreement or any applicable law, all of which are expressly reserved.

12. Amendments

12.1 This Charter amends and supersedes FIRST’s original (Phase I) Charter which will have no effect following adoption of this Charter by the Governing Council.

12.2 This Charter may be amended by the Governing Council only by affirmative acceptance on the part of all Council Members; provided that approval by mere lapse of a no objection period is not sufficient, whereas approval by all Council Members that are present at a Governing Council meeting is sufficient. The PMU will maintain and distribute clear records of any such amendments.

12.3 Any relevant amendments of this Charter will become applicable to the Administration Arrangements for the Trust Fund and the IMF Subaccount as such amendments take effect without further need to amend the relevant Administration Arrangements or IMF Subaccount documents.
ANNEX 4

Forms To Transfer Funds from FIRST’s Middle-Income MDTF to the IMF

1. Letter of Request

[Bank Letterhead]

To: The Managing Director
   International Monetary Fund
   Washington, DC, 20431

[DATE]

Subject: FIRST Technical Assistance Subaccount

I am pleased to confirm the International Bank for Reconstruction and Development’s and the International Development Association’s (collectively, the “Bank”) understandings with you regarding the financial support to be provided by the Bank, as administrator of the Multi-Donor Trust Fund for Low-Income Countries and the Multi-Donor Trust Fund for Middle-Income Countries for the Financial Sector Reform and Strengthening Initiative (“FIRST”), acting on behalf of the Donors to FIRST (the “Donors”), in connection with the International Monetary Fund’s (the “Fund”) technical assistance activities under FIRST. As has been discussed, this financial support will be provided in the form of amounts contributed by the Bank, acting on behalf of the Donors, through a Subaccount to be established within the Fund’s Framework Administered Account for Technical Assistance Activities (the “Framework Account”). Our specific understandings regarding the operation of the Subaccount are as follows:

1. The name of the Subaccount will be the “FIRST Technical Assistance Subaccount” (the “Subaccount”). The resources of the Subaccount shall consist of amounts contributed to the Subaccount by the Bank, acting on behalf of the Donors, 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 technical assistance projects that seek to enhance the capacity of Fund members that are low-income or middle-income countries (as those
terms are defined in the charter of FIRST) 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.

2. The Bank, acting on behalf of the Donors, will reach understandings with you on operational features related to technical assistance activities agreed to be financed from the Subaccount. These features, which shall be consistent with this letter and the Instrument governing the Framework Account, shall include the design of the technical assistance to be undertaken, the types and amounts of expenses that may be financed from the Subaccount, and the procedures to be followed for purposes of financing expenses from the Subaccount. Conditions governing and methods used for the disposition of any net contributions shall also be agreed in accordance with the Instrument governing the Framework Account.

3. To help defray the expenses incurred by the Fund in the administration of the Subaccount and the technical assistance activities that it will finance, reimbursement equal to 13 percent of the expenses financed from the Subaccount will be paid to the Fund from the Subaccount.

4. Resources will be placed in the Subaccount by the Bank, acting on behalf of the Donors, after signature of one or more Letters of Understanding between the Bank, acting on behalf of the Donors and the Fund, represented by management in accordance with the Instrument governing the Framework Account, relating to agreed technical assistance activities, and before further commitments are made by the Fund to finance any technical assistance activities from the Subaccount.

5. The investment, accounting, reporting, and auditing procedures will be consistent with provisions set forth in the Instrument governing the Framework Account.

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

[Name and title of official]

cc: Mr. Alfred Kammer
Director, Office of Technical Assistance Management
International Monetary Fund
Washington, D.C. 20431
2. Letter of Understanding

Mr. Portugal
Deputy Managing Director
International Monetary Fund
Washington, D.C., 20431
U.S.A.

[date]

FIRST Technical Assistance Subaccount

Re: Middle-Income Countries

Letter of Understanding

1. The International Bank for Reconstruction and Development and the International Development Association (collectively, the “Bank”), as administrator of the Multi-Donor Trust Fund for Middle-Income Countries for the Financial Sector Reform and Strengthening Initiative (the “Trust Fund”), acting on behalf of the donors to the Financial Sector Reform and Strengthening Initiative (“FIRST”) that have signed administration agreements for the Trust Fund with the Bank (the “Administration Agreements”, or each an “Administration Agreement”) (the “Donors”), who are willing to finance technical assistance projects to support middle-income countries in strengthening their financial systems, particularly, in financial sector regulation, supervision, and development, including preparation for Financial Sector Assessment Programs (“FSAPs”) and Reports on Standards and Codes (“ROSCs”) and related follow-up, as well as research and training, pursuant to the charter of FIRST, is a contributor to the FIRST Technical Assistance Subaccount (the “Subaccount”) established by the International Monetary Fund (the “IMF”) at the request of the Bank (acting on behalf of the Donors) on [date], 2007, under the Instrument for a Framework Administered Account for Technical Assistance Activities (the “Framework Instrument”, attached hereto as Annex I, which forms an integral part of this Letter of Understanding).

2. The Bank, acting on behalf of the Donors, and the IMF hereby acknowledge that:

(a) the operation of the Subaccount shall be governed by the Annex on the Terms and Conditions for the Administration of the FIRST Technical Assistance Subaccount, which is attached as Annex II and forms an integral part of this Letter of Understanding; and

(b) the contributions will be designated for middle-income countries as further specified in paragraph (a)(ii) of Annex II.
3. (a) To that end, the Bank, acting on behalf of the Donors, will contribute to the Subaccount a grant in the amount of USD [number] (United States dollars [in words]) (the “Contribution”) to finance technical assistance projects under FIRST.

(b) The Contribution will be deposited within 90 days after this Letter of Understanding has become effective.

(c) As soon as the Bank, acting on behalf of the Donors, and the IMF have reached understandings on any additional contribution, the Bank, acting on behalf of the Donors, and the IMF will sign an addendum to this Letter of Understanding (the form of which is attached hereto as Annex III, which forms an integral part of this Letter of Understanding).

4. This Letter of Understanding will become effective on the first business day following the date it is duly dated and signed by an authorized representative of the latter of the parties.

5. The following addresses are specified for the purpose of this Letter of Understanding and the Subaccount. Upon the IMF’s request, the Bank, through FIRST’s Program Management Unit, will provide the IMF with financial information relating to the contributions.

For the Bank:

Program Manager of FIRST’s Program Management Unit
Financial and Private Sector Vice Presidency, FIRST Unit (FPDFT)
The World Bank
1818 H Street, NW
Washington, DC 20433
U.S.A.
Tel.: +1 (202) 473-1397
Fax: +1 (202) 522-3687

For the IMF:

Director
Office of Technical Assistance Management
Office of the Managing Director
International Monetary Fund
700 19th Street NW
Washington, D.C. 20431
U.S.A.
Tel.: +1 (202) 623-8768
Fax: +1 (202) 623-7106

6. The Bank will be responsible only for performing those functions specifically set forth in this Letter of Understanding and will not be subject to any other duties or responsibilities to the IMF or the Donors. Nothing in this Letter of Understanding or the attached Annexes will be considered a waiver of the International Bank for Reconstruction and Development’s and the
International Development Association’s privileges or immunities under their respective Articles of Agreement.

7. Please confirm that the arrangements set out above are acceptable by signing and dating the two original copies of this Letter of Understanding and returning it to us.

Executed in two original documents in English.

For the International Bank for Reconstruction and Development
International Development Association
acting as administrator of the Trust Fund
on [date]

____________________________________
Michael Klein
Vice President Financial and Private Sector Development

For the International Monetary Fund on [date]

_____________________________
Murilo Portugal
Deputy Managing Director
ANNEX TO EBS/01/202

Instrument for a Framework Administered Account for Technical Assistance Activities

To help fulfill its purposes, the International Monetary Fund (the “Fund”) has adopted this Instrument to establish an account in accordance with Article V, Section 2(b) which shall be governed by, and administered in accordance with, the provisions of this Instrument.

1. The Fund hereby establishes an account (the “Framework Account”) for the purpose of the administration of resources to be contributed by: (i) governments or other official agencies of countries and (ii) intergovernmental organizations (individually referred to as a “Contributor,” collectively referred to as “Contributors”), in order to finance technical assistance activities of the Fund.

2. The resources provided by Contributors to the Framework Account shall be: (i) grants, or (ii) proceeds of grants or loans that have been received by the Contributor from entities other than the Fund for the purpose of financing technical assistance to the Contributor. The resources may be used by the Fund only for technical assistance activities consistent with its purposes, in accordance with the procedures specified in paragraph 3 of this Instrument.

3. (a) The financing of technical assistance activities shall be implemented through the establishment and operation of subaccounts within the Framework Account. A subaccount may be established with resources from one or more Contributors, with the agreement of the Managing Director and after consultation with the Contributors of such a subaccount, a Contributor may be added to the subaccount following the subaccount’s establishment.

(b) The establishment of a subaccount shall be subject to prior approval by the Fund, upon the recommendation of the Managing Director. When recommending approval of the establishment of a subaccount, the Managing Director shall specify the essential terms of the understandings that have been reached between the Contributor(s) and the Managing Director regarding (i) the nature, design and im-
plementation of the technical assistance activities to be financed from the subaccount in question and (ii) the method by which the costs of the technical assistance activities will be financed from resources contributed to the subaccount by the Contributor(s). Further understandings between the Managing Director and the Contributor(s) shall determine the conditions governing and methods used for the disposition of any net contributions for purposes of paragraph 13. Following the establishment of a subaccount, the Fund shall be authorized to use the resources in the subaccount in accordance with the understandings reached between the Contributor(s) and the Managing Director.

4. Costs charged to a subaccount of the Framework Account as a result of costs incurred by the Fund in the performance of technical assistance activities shall be based on standard costs as determined by the Fund, unless otherwise agreed between the Fund and the Contributor(s). A subaccount shall also be charged an amount equivalent to a percentage of such costs so as to help cover the expenses incurred by the Fund in the administration of the technical assistance activities financed from the subaccount in question.

5. Resources 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 technical assistance activity financed by resources from such subaccount.

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

7. Resource held in a subaccount of the Framework Account pending disbursement shall be invested at the discretion of the Managing Director. Earnings net of any costs associated with such investments shall accrue to the subaccount and shall be available for the purposes of the subaccount.

8. Subject to the requirement of Fund approval specified in paragraph 3, 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 Framework Account; and (ii) to take all other measures he deems necessary to implement the provisions of this Instrument.

9. Assets held in the 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 Framework Account nor shall the assets of the Framework Account be used to discharge or meet any liabilities, obligations, or losses incurred by the Fund in the administration of such other accounts. The assets and property held in each subaccount of the 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 Framework Account.

10. (a) The Fund shall maintain separate financial records and prepare separate financial statements for the Framework Account. Such records and statements, which shall include a breakdown with respect to each subaccount, will be maintained in accordance with generally accepted accounting principles. The financial statements for the 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.

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

(c) The Fund shall report on the position of the 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 Framework Account.
SELECTED DECISIONS AND SELECTED DOCUMENTS

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

12. The Framework Account or any subaccount thereof may be terminated by the Fund at any time; the termination of the Framework Account shall terminate each subaccount thereof. A subaccount may also be terminated by the Contributor of the resources to the subaccount or, in the case of a subaccount comprising resources from more than one Contributor, by all the Contributors participating in the subaccount at the time of termination, provided that a Contributor to such a subaccount may cease its own participation in the subaccount at any time without termination of the subaccount. Termination shall be effective on the date that the Fund or the Contributor(s), as the case may be, receives notice of termination, or such later date, if any, as may be specified in the notice of termination.

13. The Managing Director and the Contributor(s) shall reach understandings under paragraph 3(b) of this Instrument on 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 with respect to the Contributor or, in the case of a subaccount comprising resources from more than one Contributor, the Contributors participating in the subaccount at the time of termination. The Managing Director and the Contributor(s) may also reach understandings with respect to retransfer to the Contributor of its contribution, net of the amounts of continuing liabilities and commitments under the activities financed, prior to termination of the subaccount; absent such understandings, any net contribution shall be retransferred to the Contributor only upon termination of the subaccount.
ANNEX ON THE TERMS AND CONDITIONS FOR THE ADMINISTRATION OF THE
FIRST TECHNICAL ASSISTANCE SUBACCOUNT

The FIRST Technical Assistance Subaccount (the “Subaccount”) has been established under the Instrument for a Framework Administered Account for Technical Assistance Activities (the “Framework Instrument”) by the International Monetary Fund (the “IMF”). The International Bank for Reconstruction and Development (“IBRD”) and the International Development Association (“IDA”) (collectively, the “Bank”), as administrator of the Multi-Donor Trust Fund for Low-Income Countries for the Financial Sector Reform and Strengthening Initiative (FIRST) and the Multi-Donor Trust Fund for Middle-Income Countries for FIRST (collectively, the “Trust Funds” and each a “Trust Fund”), acting on behalf of the Governments of Canada, The Netherlands, Sweden, Switzerland, the United Kingdom, and any other government or official agency of a country, or any intergovernmental organization or other entity that may subsequently join FIRST and sign an administration agreement for the Trust Funds with the Bank (collectively, the “Donors” and individually, the “Donor”), provides contributions to the Subaccount (the “Contributions”). The Contributions will finance projects under FIRST either for low-income or for middle-income countries as specified in the Letter of Understanding (or addendum thereto) between the Bank, acting on behalf of the Donors, and the IMF for the respective Contribution. This Annex sets out the terms and conditions for the administration of the Subaccount that applies to all Contributions to the Subaccount.

(a) General Conditions and Use of Funds

(i) The administration by the IMF of the Contributions will be consistent with the provisions set forth in the Instrument for a Framework Administered Account for Technical Assistance Activities (the “Framework Instrument”), which governs the Subaccount.

(ii) The countries benefiting from the projects to be financed under the Subaccount will either be low-income countries (those countries defined by the Bank as eligible to receive low or no interest loans and grants from IDA) or middle-income countries (those countries defined by the Bank as eligible to receive IBRD loans). The IMF will identify the projects to be financed under the Subaccount within the context of the overall Project Approval Procedures as adopted by the Governing Council of FIRST (“Projects” and each a “Project”). The Projects will be delivered and the funds will be administered in accordance with the charter of FIRST (the “Charter”), provided that in the event of a conflict between the Framework Instrument and the Charter, the Framework Instrument shall prevail. Any subsequent changes to approved Projects will be made in accordance with FIRST’s operational procedures.

(iii) Goods and services financed under the activities of the Subaccount shall be procured in accordance with the IMF’s guidelines and procedures.
(iv) The IMF will identify and employ the experts for the projects under the Subaccount. The experts will be supervised by and provided technical backstopping from the IMF.

(v) IMF staff travel costs in connection with the projects financed under the Subaccount may be charged to the Subaccount.

(b) **Supervision and Evaluation of the Activities of the Subaccount**

(i) The IMF will keep the Donors and the Bank regularly and in a timely manner informed on the progress of the Projects by submitting a progress report every six months describing the activities, status of deliverables (pending and received), outputs reached, difficulties encountered and remedial measures for all ongoing Projects, as well as statements on project accounts and suggested revisions to Project budgets, if needed.

(ii) Within three months of the completion of each Project, the IMF will furnish to the Donors, with a copy to FIRST’s Program Management Unit (the “PMU”), a project completion report.

(iii) Any Donor (including through the Governing Council of FIRST) may undertake an independent ex-post evaluation of the Projects. The IMF may participate at its option in such an evaluation. The cost of any such evaluation will be borne by the Donor or the Donors, respectively.

(c) **Administration of Funds**

(i) The resources in the Subaccount will be used to finance FIRST technical assistance projects in accordance with the terms of this Annex and as further specified in the respective Letters of Understanding.

(ii) While pending the disbursement of the funds deposited by the Bank (acting on behalf of the Donors) in the Subaccount, such funds will be invested by the IMF in accordance with paragraph 7 of the Framework Instrument.

(d) **Accounting, Reporting and Auditing**

In addition to the reporting requirements set forth in the Framework Instrument, the IMF will, within 90 days of the end of the IMF’s financial year, provide the Donors, with a copy to the Bank, with an unaudited financial statement, which should include information on all expenses incurred or committed under the Subaccount.

(e) **Contribution to Administrative Costs**
To help defray the expenses incurred by the IMF in the administration of the Subaccount and the technical assistance activities financed under the Subaccount, 13 (thirteen) percent of the expenses financed from the Subaccount will be reimbursed to the IMF from the Subaccount.

(f) **Responsibilities of the IMF**

In discharging its responsibilities with respect to the Subaccount, the IMF will apply its normal procedures and will exercise the same care as it exercises with respect to the administration and management of its own affairs, but will be under no further obligation to the Bank or the Donors in respect thereof.

(g) **Consultations**

(i) The Donors (including through the Governing Council of FIRST) and the IMF will consult each other from time to time, as necessary, on all matters relating to the Subaccount. The Bank will join these consultations with regard to issues related to its functions under this Annex and the Letters of Understanding with respect to the Contributions.

(ii) Without limitations to the foregoing, the IMF, the PMU and the Donors will promptly inform each other and, to the extent reasonably practicable, consult with each other regarding proposed major amendments to the Projects, proposed suspension or termination of Contributions, or any event which would interfere or threaten to interfere with the successful implementation of the Projects.

(iii) The Letters of Understanding and this Annex have no bearing on any other arrangement(s) the Bank, the Donors, or the IMF might have with the countries benefiting from the Projects.

(h) **Termination**

(i) Pursuant to the understandings with the Bank, acting on behalf of the Donors, any transfers of Contributions pursuant to (ii) and (iii) below will be made directly to Donors. Corresponding requests will be made by the Donors.

(ii) Upon the IMF receiving a six-month prior written notice from one of the Donors indicating that, from the Donor’s perspective, the purposes of the Subaccount, this Annex or the Letters of Understanding can no longer be effectively carried out, the Donor’s pro rata share of any balances remaining in the Subaccount (calculated separately for low-income and middle-income countries), excluding investment income, and net of amounts of continuing liabilities and commitments under the Projects, will be transferred by the IMF directly to the Donor. In such event, the IMF will calculate the Donor’s pro rata share (calculated separately for low-income and middle-income countries) based on the Donor’s pro rata share (in the corresponding Trust Fund) as determined by the Bank.
Upon request from the IMF to the PMU, the Donor’s pro rata share (in the corresponding Trust Fund) will be calculated by the Bank within 90 days based on the proportion that its paid-in contribution (excluding investment income) to the respective Trust Fund as converted into the Trust Fund’s holding currency bears to the total of the paid-in contributions (excluding investment income) in such Trust Fund. Following any such transfer to a Donor, the Donor will have no further claims with respect to the Subaccount.

(iii) Upon termination of the Subaccount, any balances remaining in the Subaccount (calculated separately for low-income and middle-income countries), net of the amounts of continuing liabilities and commitments under the Projects, will be transferred by the IMF directly to the Donors participating in the Subaccount at the time of termination. In such event, the IMF will calculate each Donor’s pro rata share (calculated separately for low-income and middle-income countries) based on each Donor’s pro rata share (in the corresponding Trust Fund) as determined by the Bank. Upon request from the IMF to the PMU, each Donor’s pro rata share (in the corresponding Trust Fund) will be calculated by the Bank within 90 days based on the proportion that its paid-in contribution (excluding investment income) to the respective Trust Fund as converted into the Trust Fund’s holding currency bears to the total of the paid-in contributions (excluding investment income) in such Trust Fund.
[Name and title of official]
International Monetary Fund
Washington, D.C., 20431
U.S.A.

[date]

FIRST Technical Assistance Subaccount

Re: Middle-Income Countries

Addendum [X] to the Letter of Understanding

1. Further to the Letter of Understanding between the International Bank for Reconstruction and Development and the International Development Association (collectively, the “Bank”), as administrator of the Multi-Donor Trust Fund for Middle-Income Countries for the Financial Sector Reform and Strengthening Initiative (the “Trust Fund”), acting on behalf of the donors to the Financial Sector Reform and Strengthening Initiative (“FIRST”) that have signed administration agreements for the Trust Fund with the Bank (the “Administration Agreements”, or each an “Administration Agreement”) (the “Donors”), and the International Monetary Fund (“IMF”) (the “Letter of Understanding”), dated [date], the Bank, acting on behalf of the Donors, will contribute to the FIRST Technical Assistance Subaccount (the “Subaccount”) an additional grant in the amount of USD [amount] (United States dollars [in words]) (the “Contribution”) to finance FIRST’s technical assistance projects to support middle-income countries.

2. The Contribution will be deposited within 90 days after this Addendum to the Letter of Understanding has become effective.

3. The Contribution will be subject to the provisions of the above referenced Letter of Understanding.

4. This Addendum to the Letter of Understanding will become effective on the first business day following the date it is duly dated and signed by an authorized representative of the latter of the parties.

5. Please confirm that the arrangements set out above are acceptable by signing and dating the two original copies of this Addendum and returning it to us.

Executed in two original documents in English.

For the International Bank for Reconstruction and Development
International Development Association
acting as administrator of the Trust Fund
on [date]

______________________
[Name and title of official]

For the International Monetary Fund on [date]

_____________________________
[Name and title of official]