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Fonds: Records of the Office of the President

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THE WORLD BANK

Washington, D.C.

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The World Bank

1818 H Street NW

Washington DC 20433

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McNamara Papers

International
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International Fund for Agricultural Development - Correspondence 01

A1995-256
4

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ROUTING SLIP

Date
August 25, 1976

OFFICE OF THE PRESIDENT

Name	Room No.
1. Mr. Cargill	F1212
2. Mrs. Boskey	E823
3. Mr. McNamara o/r	

To Handle	Note and File
Appropriate Disposition	Note and Return
Approval	Prepare Reply
Comment	Per Our Conversation
Full Report	Recommendation
<input checked="" type="checkbox"/> Information	Signature
Initial	Send On

Remarks

Mr. Williams seems adept
at arguing with himself!
SB

From

SB
Sven Burmester

814/615

OCDE

ORGANISATION DE COOPÉRATION
ET DE DÉVELOPPEMENT ÉCONOMIQUES

OECD

ORGANISATION FOR ECONOMIC
CO-OPERATION AND DEVELOPMENT

Téléphone : 524 90-70

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2, rue André-Pascal, PARIS-XVI^e

Comité d'Aide au Développement
Le Président

Development Assistance Committee
The Chairman

16 August 1976

The Honorable
Robert S. McNamara
President
IBRD
1818 H Street, N.W.
Washington, D.C. 20433



Dear Bob,

Thank you for lunch and the Bank report on Project Performance and on Population. They are quite good. I enjoyed our discussion on outstanding development problems. It's the sort of exchange I miss in the OECD.

I continue to be concerned with the impasse on completing the funding of IFAD and its possible relation to IDA. The U.S. boxed itself somewhat in promising the U.S. Senate a 50-50 matching with OPEC countries. As you know, OPEC is holding at 60-40.

Here is some \$940 million pledged in "IDA-type" money which is to be channelled through established international development institutions, including IDA. It would be better for the IDA replenishment to have IFAD funding finished and out of the way. You are right not to put IDA money in IFAD. My earlier thought was that a suggestion to consider doing so might have stirred funding action by others and helped to link IFAD closer to the World Bank as its principal agent for carrying out agricultural projects. You, of course, are the best judge of when to engage your personal influence.

Ideally IFAD should not come into being at all and we should focus all our energies on supporting IDA V. It was the possibility of gaining increased funds from OPEC countries and of engaging them in a

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AUG 16 1976

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Development Assistance Committee
The Chairman

Comité d'Aide au Développement
Le Président

16 August 1976



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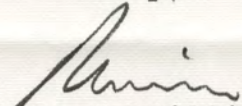
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common endeavor which brought IFAD this far. Now it doesn't look like the wrangling over a \$50-\$60 million shortfall will do much for better cooperation. Probably, we should let IFAD struggle forward but it would be tempting to fold these IFAD pledges into interim IDA funding. My conclusion is that this would be too complex to bring off and, in any case, might mean reduced funding for IDA V.

Best regards,

Sincerely,


Maurice J. Williams
Chairman



united nations
 nations unies
 naciones unidas

112 To Mr. Hannah
 8/14/6/4 John, I am sorry
 world food council
 conseil mondial de l'alimentation
 consejo mundial de la alimentacion

WBG

HEADQUARTERS
 Via delle Terme di Caracalla
 00100 ROME
 Cable: FOODAGRI ROME
 Telex: 61181 FOODAGRI
 Telephone: 5797

NEW YORK LIAISON OFFICE
 U.N. Headquarters
 NEW YORK, N.Y. 10017
 Telephone: (212) 754 - 1234

PERSONAL

New York, 8 January 1976

*missed each other.
 I'll be happy to see
 you when you are
 back in February.
 Best wishes,
 Bob*

Dear Bob,

I tried to reach you by telephone to arrange an opportunity for me to give you an updated report on the International Fund for Agricultural Development, the World Food Council and related matters.

Much water has passed over the dams and under the bridges since our last visit. Much of what has happened is too complicated to try to cover adequately in a letter.

The third and hopefully the last meeting of the "Interested Countries" on the establishment of IFAD will convene in Rome beginning on January 26. We have moved from the beginning position, when we were very uncertain of our ability to secure the 50% funding required from the western developed countries and felt that the OPEC half would be relatively simple, to an exact reverse of that situation. The funding from the western developed countries is now in sight. Many of the big OPEC countries continue to voice the appropriate words, but there is little evidence that OPEC as an organization has as yet actually faced up to how their 500 million SDRs are to be divided among the OPEC countries.

There are two continuing unresolved issues of substance, the U.S. insistence on weighted voting in the Executive Council and the Indian insistence that the Fund be authorized to lend to national institutions. The solutions to these issues will be expedited by an assurance that the total capital of the Fund is in sight.

Mr. Robert S. McNamara
 President
 International Bank for Reconstruction and Development
 1818 H Street, N.W.
 Washington, D.C. 20433

The assumption of his office by the new Director General of FAO adds some new uncertainties.

However, I am much more optimistic about the future of the World Food Council than I have been at some times in the past.

The date of the next meeting of the World Food Council is now firm for the week of June 14 in Rome.

It is of first importance that we now assemble the competence required to get on with our work expeditiously and effectively.

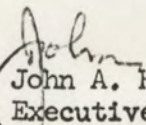
Several months ago, you agreed with some reluctance to fund, from World Bank resources, a second professional staff member for calendar year 1976, at least through the second meeting of the Council. I would like to move on this one in the near future and this is one of the items I particularly wanted to discuss with you today or at your early convenience.

Harry Walters is proving to be a most valuable addition to our staff. We would be in bad trouble without him.

Is there any possibility that you will be passing through Europe or near Rome in the near future? If so, I would welcome an opportunity to meet you at a time and place convenient to you. If this is not in the cards, I expect to be back in New York in mid February and will be grateful if you will put me on your calendar then.

With kind regards,

Sincerely,


John A. Hannah
Executive Director

P.S. I am returning to Rome tomorrow evening (9th)
J.A.H.

ROUTING SLIP

Date

Oct. 13, 1975

OFFICE OF THE PRESIDENT

Name

Room No.

Mr. McNamara

To Handle

Note and File

Appropriate Disposition

Note and Return

Approval

Prepare Reply

Comment

Per Our Conversation

Full Report

Recommendation

Information

Signature

Initial

Send On

Remarks

I have reviewed the attached statement with Mr. Yudelman and recommend your approval. He will be leaving for the Paris meeting tomorrow night.

*OK 10/14 revision attached
Copies to Mr. Knapp +
Mr. Yudelman*

From

J. Burke Knapp

814/613



Bank Policy on IFAD

1. The World Bank welcomes the creation of the IFAD. We have consistently supported moves to increase the supply of resources to developing countries, especially resources on highly concessionary terms.
2. The World Bank believes that the interested governments should determine the most appropriate framework in which this fund should operate. Once the governments have established such a framework the Bank stands ready to cooperate both in helping to set up the fund and thereafter to help ensure that its resources are used effectively.
3. The Bank^{1/} has had a considerable amount of experience in lending for agricultural development and food production. Bank lending for these purposes has risen from around \$450 million a year in FY71-72 to around \$950 million a year in FY73-74, and we committed \$1.8 billion for agricultural development in FY75. Bank policy has been to focus on aiding the lowest income countries and to the extent possible helping the lower income groups in the rural areas of these countries to become more productive. This invariably involves helping the small farmers to increase their output. In so far as food production is concerned we estimate that Bank investment in India alone should lead to an increase in food grain output of at least 2.5 million tons a year once Bank financed projects are completed. This should be adequate to provide a basic diet for at least 10 million people a year.
4. The expansion of the Bank's program has involved a steady build-up of our agricultural staff. Starting in 1968 when we anticipated an increase in lending for agriculture our staff has grown from 58 professionals to more than 250 in 1975. In addition we have developed a special Cooperative Program with FAO which has grown from 47 staff members in 1968 to 70 in 1975. We estimate that taking into account Bank staff, FAO Cooperative Program staff and consultants, the Bank utilized over 400 man-years of agricultural experts in FY75. This figure takes no account of the substantial amount of other Bank personnel engaged in agricultural lending operations - loan officers, legal and procurement staff and staff working on country economic studies and the analysis of commodity markets.
5. Based on the above, it is clear that any new organization seeking by itself to mount and execute a \$1 billion lending program for agriculture would have to build up a very substantial staff if it desired to maintain sound lending standards. The staffing requirements would be rendered even larger by the fact that many of the poorest food deficit countries will need very substantial help in preparing programs and projects for increasing food production. It should further be stressed that there is a worldwide shortage of agricultural technicians and experienced agriculturalists, and it would be extremely difficult to build up a new cadre of professionally competent staff over any reasonable period of time.

1/ Including IDA

6. The Bank is ready to provide its services to IFAD. We believe that the best basis for moving forward is to have an umbrella agreement between the two agencies; such an agreement would establish the broad policies governing the use of these funds. Thereafter the managements of the two agencies could negotiate the most appropriate modus operandi for investing IFAD resources in food production.

7. We are very conscious that resources are scarce and needs are great, so that available resources must be used as effectively as possible. Consequently the Bank would desire to be satisfied that any arrangements it entered into for the administration of IFAD funds would enable it to be assured that the operations were technically and economically sound, fiscally prudent, and would indeed contribute to increased food production and economic and social development in the countries concerned.

October 13, 1975

Statement of Mr. Yudelman to OECD re IFAD

1. Once the interested governments have determined the framework in which IFAD is to operate, the Bank stands ready to cooperate fully, both in helping to set up the fund and thereafter to help insure that its resources are used effectively.
2. Basically, the fund has two options; it can either limit itself to broad policy decisions and assign the operating responsibility for individual investment projects to existing international organizations, or it can develop its own operating capability. The Bank ^{1/} has had considerable experience in lending for agricultural development and food production. Bank lending for these purposes amounted to \$1.8 billion in FY75. Bank policy has been to focus on aiding the lowest income countries and to the extent possible helping the lower income groups in the rural areas of these countries to become more productive. This invariably involves helping the small farmers to increase their output. Insofar as food production is concerned we estimate that Bank investment in India alone should lead to an increase in foodgrain output of at least 2.5 million tons a year once Bank financed projects are completed.
3. The expansion of the Bank's program has involved a steady build-up of our agricultural staff which now includes 250 professionals. In addition, we have developed a special Cooperative Program with FAO with 70 staff members. We estimate that taking into account Bank staff, FAO Cooperative Program staff and consultants, the Bank utilized over 400 man-years of agricultural experts in FY75. This figure takes no account of the substantial amount of other Bank personnel engaged in agricultural lending operations -- loan officers, legal and procurement staff and staff working on country economic studies and the analysis of commodity markets.
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^{1/} Including IDA

October 14, 1975

OFFICE MEMORANDUM

814 / 6/2

TO: Mr. Warren C. Baum

DATE: October 1, 1975

FROM: Messrs. M. Yudelman and P. Sella *my* *ju*SUBJECT: IFAD - Geneva Meeting of IFAD ad hoc Working Group

1. This meeting was intended to complete a draft of the Articles of Agreement establishing an International Fund for Agricultural Development of some \$1 billion. While agreement was reached by consensus on many points, some fundamental disagreements about the nature purposes, and modus operandi of IFAD - particularly its relationship to the international financial institutions - remain so that final agreement on the articles was not reached.

2. A meeting of all interested countries will be held in Rome in the week starting October 27 to resolve the outstanding issues on the draft Articles of Agreement and to seek pledges from prospective contributors.

3. It is important that the Bank develop a "position" before the next meeting and advise member governments of its views on the relationship between the Bank and IFAD in the most appropriate manner.

4. The meeting on the ad hoc Working Group was held in Geneva from September 21 through September 27 and was attended by 25 countries as members of the Group. There were 10 representatives from OECD countries, 6 from OPEC countries, and 9 from other LDCs. A notable addition was West Germany; a notable absence was Kuwait reportedly because of a conflict with Ramadan. In addition to the World Bank, the Asian and African and Inter-American Banks, as well as FAO and UNDP, were present as observers. A few other countries also sent observers, some of whom actively participated in the debate.

5. From the meeting draft Articles of Agreement (not fully complete) emerged whose main features are as follows:

(a) A Fund with a target of SDR 1 billion in contributions by donor countries would be established to provide additional resources for food production in developing countries; a minimum of SDR 750 million was tentatively agreed for the commencement of operations.

(b) Recipient countries are expected to be the poorest developing countries as well as those developing countries in which food production could be readily expanded. Due regard is to be given to a fair regional distribution (on the insistence of Latin American representatives).

(c) The Fund is to be a Special Agency of the U.N., with broad autonomy in policy and operations (similar to the Bank's autonomy).

(d) The Fund will have its own governing council on which all donor and recipient countries will be represented and a smaller Executive Board.

(e) The Executive Board will consist of governments from each of the three groups, OECD, OPEC, and recipient countries, with each group electing an equal number of representatives (6 at this time) on the Board. Each Group will have an equal number of votes both in the Governing Council and in the Executive Board. The question of weighted voting in the OECD countries group is still outstanding - the other two Groups having accepted one-man one-vote system within their respective groups. The OECD Group appears to be divided on the question of weighted voting - Sweden, Norway, and the Netherlands leading the fight against it and the U.S. being a major supporter of it.

(f) The question of whether a simple majority or a qualified majority (two-thirds of total voting power, as urged by the U.S.) for major decisions would be required was left open.

(g) The Fund would be able to make grants (up to 12.5% of its commitments) and loans on highly concessional terms; however, provisions will be made so that loans can be made on terms corresponding to the economic circumstances of the recipient countries concerned.

(h) The executive head of the Fund would be a Managing Director, assisted by a Deputy Managing Director, both elected for a fixed term by the Governing Council. Agreement was reached on a large number of other minor issues - location of the Fund (provisionally Rome), draw-down of initial contributions etc.

6. There was no real agreement on the modus operandi of the Fund - whether the Fund would undertake operations on its own account or whether all or most of its resources should be channeled through existing international and regional financing institutions. The LDCs want the Fund to be a new type of financial institution which will be more responsive to the needs and wishes of the recipient countries and, by engaging in direct operations, could avoid the constraints and delays inherent in the present system of financing as operated by the existing development banks. In time they believe that IFAD could become a major conduit of OPEC funds managed by the LDCs. The developed countries on the other hand want the Fund to operate through the existing financial institutions, partly to avoid the creation of a new bureaucracy and partly because they have more confidence in existing institutions.

7. There was no consensus on this substantive issue - even the Swedish, Dutch and Norwegian delegates joined their OECD colleagues in supporting the notion that the bulk of the funds should go through existing agencies. All the LDC delegation (including OPEC) on the other hand want to give as much leeway as possible for the Fund. As a last minute compromise the draft article dealing with this matter was tentatively redrafted and accepted as follows (the clause with square brackets represents a LDC suggestion which has not yet been accepted by the OECD countries):

" Decisions with regard to the selection and approval of projects and programmes shall be made by the Executive Board (of IFAD) on the basis of broad policies and criteria and regulations established by the Government Council. The projects and programmes shall be implemented through existing international regional and sub-regional institutions, initially selected and periodically reviewed by the Executive Board, in accordance with agreements made between the Fund and such institutions consistent with the Fund's policies, with due regard for efficiency and economy and, in each particular case, in consultation with recipient countries. [Notwithstanding the foregoing and subject to the approval of the Executive Board, project and programme planning and implementation may be carried out directly between the Fund and a recipient].

The Fund shall, where appropriate, conclude general agreements with international institutions or agencies of a worldwide, regional or sub-regional character in order to establish the general conditions that will apply to agreements negotiated under (the above) paragraph."

8. As mentioned above, there will be a meeting in Rome at the end of October of all the interested countries. The Secretariat expects that the first few days will be devoted to negotiations at the technical level to resolve the outstanding issues and that a pledging session will fill the last day or two.

9. It is important that the Bank, in consultation with the Inter-American and the Asian Bank, determine as soon as possible what position it wishes to take. At the meeting we stated the Bank's position to be that the formation and structure of the Fund was the responsibility of the governments concerned and that once the Fund was established its Managing Director and its Executive Board could negotiate with the Bank on the most appropriate forms of cooperation. However, in the light of the discussions at the Geneva meeting and in view of the hardening of the position of the LDCs, we can assume that the Executive Board and the management of IFAD will want to play a major role in the selection, formulation and approval of individual projects to be financed by IFAD.

October 1, 1975

Given this fact, the Bank must consider as soon as possible in what way its operations can dovetail with IFAD's operations so as to retain a substantial say in these matters. A common position with the regional banks would be extremely desirable. Moreover, the Bank's position should be conveyed, before the October meeting, to our member governments who will attend that meeting, preferably through their representatives who normally deal with the Bank.

cc: Messrs. McNamara (2) ✓

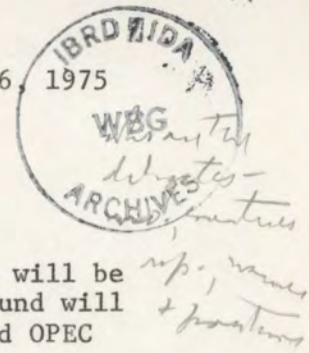
✓
Knapp
Broches
Cargill
Goodman
Hoffman

814/6/1

OFFICE MEMORANDUM

TO: Mr. Warren C. Baum

DATE: September 16, 1975

FROM: Montague Yudelman *myf*SUBJECT: Bank Position on IFAD

1. There is now more than a 50-50 probability that there will be an International Fund for Agricultural Development (IFAD). The Fund will probably start with around \$1 billion provided equally by OECD and OPEC countries.

2. Recent meetings in Geneva and Rome have proceeded on IFAD's 'profile'; there will be further refinement of this profile at a meeting to be held in Geneva September 22-26. The emerging profile is as follows:

(a) The Fund will have a Board of Governors and Directors including OPEC, OECD and LDC participation; LDC members would have one-third of votes, but in conjunction with OPEC could constitute a majority.

(b) The Fund would be directed to food production, but there is still some dispute as to whether it should confine its activities to the poorest countries or to the LDC's in general.

(c) Funds would be made available as grants or on highly concessional terms.

(d) The Fund will be headed by a Managing director, and a deputy, supported by a small staff (20 to 30 staff members).

(e) The funds are to be used for "program" and "project" lending as well as to finance technical assistance. There is some doubt as to whether these terms have the same meaning as they do in the Bank.

(f) Finally, the OECD countries and some OPEC countries feel very strongly that funds should be channelled through existing multi-lateral organizations; other government envisage establishment of a new Bank. In any event, there is a feeling on the part of some LDC members, with some OPEC support, that the Fund should not be as strict as the Bank in terms of standards and criteria in making loans or grants.

The Bank Approach

3. One of the major issues to be resolved is whether the proposed funds should be channelled through existing agencies or be handled by a new mechanism to be established by the Fund. This issue has come to the fore

because the wording of Article XIII of the World Food Conference Resolution stated that the funds should be 'disbursed' through existing agencies. Some LDC's and OPEC members are interpreting 'disbursement' in a literal sense and suggesting that a new institution or entirely new institutional arrangements be created for identification, preparation, appraisal and supervision of projects.

4. It is in the interests of the developing world and the international development community at large that these funds be used effectively. Consequently, the Bank should be prepared to do what it can--consistent with its own standards and integrity--to assist IFAD.

5. There are a number of mechanisms that can be used to assist the Fund. These include:

(i) By being a fiscal agent for the Fund along the line suggested by some LDC's. This implies that the Bank will be passive and simply make certain financial arrangements for the Fund. Presumably this narrow role is unacceptable to the Bank; Mr. Cargill has advised me that this activity can be carried out by any large commercial bank.

*D.K. if they
want but
iii preferable*
(ii) By co-financing through associating our own resources with those of IFAD. Co-financing would be the most desirable method of cooperation; however, this implies a more operational role by the Fund than some donors (OECD) now envisage.

*Should we not
suggest 4th? D.K.
why this - if
they suggest iii we
would prefer
avoid such
detail now*
(iii) By acting as executing agency for IFAD or manager of a Trust Fund in the identification preparation and appraisal of projects suitable for IFAD financing. This appears to be the most likely approach to be adopted.

6. The merits of these latter two approaches have been analyzed in connection with the proposals of the Venezuelan government to utilize the Bank as a channel for recycling OPEC funds. Relevant sections of this document have been modified and are attached as Annex I as a basis for discussion. These sections are (i) What would be the Bank Control and Timing of IFAD Trust Fund? (ii) What would be the Trust Fund's Position on Local Currency Financing? (iii) What would be the Administration and Control of the Trust Fund?

7. The purposes of IFAD would be more specific than those of the proposed OPEC Trust Fund; nonetheless, many of the basic issues are similar. There is one major issue, however, which would need further clarification.

This refers to the fact that the IFAD will have its own Managing Director and Board. If the IFAD Board and Managing Director see their role as one which is to provide broad guidelines for policy then there should be little difficulty. As suggested in the Annex, projects submitted for IFAD financing would be recommended by the President and approved by the Bank's Board of directors. However, if the Board of IFAD and the staff want to play a role similar to the Bank's management and directors, then there will be potential for conflict: Bank approved projects may not be approved by IFAD or IFAD may request changes which are not acceptable to the Bank. Means for averting the potential for conflict still have to be evolved.

Recommendations

8. The Bank should press for acceptance of the notion that the bulk of IFAD's funds should be channelled through existing agencies. IFAD may wish to reserve some funds for disbursement by its own small staff for special projects. We need to impress on those concerned, though, the magnitude of the organizational and operational task involved in investing \$1 billion in food production in the poorest countries in the world. This is also the view of the IDB and ADB.

9. We should establish the principle that we are prepared to undertake activities on behalf of, or in conjunction with, IFAD, [provided these operations are consistent with Bank policies.] A preferred situation would be for IFAD + ~~IBR~~ to establish broad guidelines and criteria which the Bank will follow. [Failing this, we will have to evolve an acceptable system which will meet the requirements of the Bank and IFAD. In all cases, though, these projects would be subject to the same scrutiny as Bank projects, and would require the approval of the President of the Bank and the Board.] Finally, we should also establish the principle of having costs reimbursed.

10. The Bank should also assist in the organization and establishment of the Fund and in helping to secure competent staff to manage the Fund. Once management is in place, we should arrange for discussions with the management of the Fund as to how we could cooperate with the Fund and how there can be appropriate Bank action on IBRD/IFAD projects.

Attach.

MYudelman:sj

*Yudelman notes
good a program
as IFAD Bd -
avoid
details*

JX

Points for Discussion on IFADI What would be the Project Content and Timing of IFAD Trust Fund Loans?

1. In very general terms, there are four ways in which IFAD Trust Fund loans could be applied: (a) to presently projected IBRD operations, ^{1/} as a means of increasing the share of project financing supplied from external resources, (b) to presently projected operations in substitution for project financing by the IBRD, (c) to new projects which would be additional to presently projected Bank Group operations, and (d) to program or sector loans (presently planned IBRD operations or entirely new ones). As a practical matter it may be convenient to use some combination of all four types of lending, so the real question is how they might vary.

2. The simplest and most direct way for the Trust Fund to begin making loans is through co-financing of already planned IBRD projects for food production where there is a need for additional finance from external resources. Even in the short term, there is considerable scope for supporting projects of this type. This could be accomplished by the Trust Fund lending either for uncovered foreign exchange requirements or for local expenditure financing.

3. The second alternative would be for the Trust Fund to assume all or part of already planned IBRD lending in particular projects for food production. In many projects, it would not be desirable for additional foreign financing to be added to that which the Bank would normally finance, as for example, in the case of a loan where the non-IBRD financing is to be provided from internally generated funds. Trust Fund lending in such projects would therefore be in substitution for IBRD lending, requiring that the IBRD develop additional projects to support its planned lending level and thereby ensure that Trust Fund resources are in fact supplemental to the IBRD's own resources.

4. The Fund could also be used for financing additional projects. However, a long lead time is required to identify, prepare and appraise sound development projects. A decision taken today to add to the pipeline of projects would only result in additional commitments on a substantial scale two or three years hence. Disbursements for such projects would then take place in subsequent years, the bulk being concentrated in the period 3 to 5 years after loan approval. Thus disbursements for entirely new projects could not be expected for several years.

5. The fourth alternative for applying Trust Fund finance is to engage in program or sector lending. Such lending disburses very rapidly and can be handled with a minimum of extra staff. There is obviously a close relationship between loans of this sort and the balance of payments financing customarily supplied by the IMF. The main differences would arise in regard to the policy

1/ This could also include IDA operations if the Trust Fund is given the authority to engage in highly concessional lending.

parameters likely to be emphasized by the two institutions: the IMF is naturally more concerned with monetary and fiscal equilibrium, whereas the Bank is more likely to focus on institutional or pricing issues which have a bearing on the pattern and efficiency of investment. In practice, these various issues tend to be closely interrelated, so it would be misleading to over-emphasize the differences in approach. Nevertheless, the operation of the Fund will have to consider how the "program" type of lending via the Trust Fund should relate to IMF activities (e.g. Should the Trust Fund expect countries to utilize various credit facilities in the IMF before being serviced by the Trust Fund?)

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6. These four basic alternatives for use of the Trust Fund resources would permit various combinations of project and program lending to be financed by IFAD. The advantages and disadvantages of the various forms of co-financing and lending is a technical subject which may best be left for discussion after there is agreement that existing institutions should be used for disbursing IFAD funds. New loan commitments for projects will of course only give rise to disbursements after a lag.

II What should be the Trust Fund's position on local currency financing?

7. The Bank's Articles of Agreement restrict its own financing of local currency expenditures to "exceptional circumstances", but this restriction should not apply to a Trust Fund managed by the Bank. The choice between financing local currency and foreign exchange expenditures is important to the industrialized countries that provide resources to the Bank in view of their interest in competing for supply contracts on Bank-financed projects. From the point of view of IFAD, the more important consideration may be the way in which different forms of Trust Fund financing affect the borrowing country's ability to mobilize foreign exchange from other sources. In some countries the readily identifiable foreign exchange component of projects will be too small to permit all official assistance to be used for foreign exchange financing. Hence the Trust Fund could give the borrowing countries added flexibility in their dealings with other sources of finance by taking a liberal attitude toward the financing of local currency expenditures. Such an attitude would also facilitate co-financing operations with the Bank.

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III Administration and Control of the Trust Fund

8. If the proposal is that the World Bank would serve as manager of a Trust Fund to be established by IFAD, then such an arrangement would presumably be based on a management agreement approved by the Bank's Executive Directors. While the Trust Fund would naturally operate within a policy framework established by the IFAD Board, certain legal and policy constraints would need to be observed in order for the Bank to take on the proposed management function.

Yes

How would Policy Guidance be Provided?

9. The principles governing Bank acceptance of an administrator's role can in the final analysis only be determined by the Executive Directors. However, the management of the Bank could only recommend acceptance of such a

role if the policies adopted by the IFAD were consistent with the Bank's objectives, its international character and its responsibility to make decisions only on the basis of economic criteria. It is assumed that loans would be made by the Trust Fund only upon recommendation of the President of the Bank.

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10. Criteria for country eligibility and the standards governing procurement would also have to be considered in light of these broad principles. There is no legal impediment to restricting access of existing IBRD members on economic grounds. For example, use of a per capita income limitation or creditworthiness or performance criteria would be perfectly in order. Other economic factors of special concern to IFAD -- such as a country's dependence on imports of food -- could also be taken into account.

11. To ensure that the interest of developing countries are best served by Trust Fund loans, procurement should be on the widest possible basis. In fact, the procurement practices of the Trust Fund could permit bidding by countries not presently members of the Bank, if the IFAD so desired.

avoid this

12. It is assumed that the Bank, acting as agent, for the Trust Fund would negotiate with the borrower the conditions relative to the loan and the execution of the project, [applying its usual standards and criteria.]

13. To provide regular guidance on major policy issues for the Trust Fund -- especially on the allocation of Trust Fund resources to different sectors and geographic areas -- some arrangement will be required for consultation between the Bank management and the Board of IFAD. This could be done either informally or perhaps through a formal policy-making body, if necessary and appropriate.

What would be the arrangements for project-by-project review?

14. The countries participating in the IFAD and the Board of IFAD will also have to determine what kind of project review arrangements they wish to establish to control the Trust Fund's lending operations. Especially, they will need to decide how loans made from the Trust Fund should be reviewed and approved; for example, it may be desirable to have a two stage review process whereby projects are approved by the Bank and by IFAD, or by some form of joint Bank-IFAD meeting on, say, a quarterly basis. Alternatively, IFAD may establish broad guidelines on project criteria for receiving IFAD funds, and those loans approved by the Bank can be reviewed by the IFAD Board to ensure they conform to the guidelines. Some such arrangement will have to be negotiated.

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Other Technical Issues

15. There are several technical matters which would have to be considered if the proposal were to be pursued further in light of the response of IFAD. The conditions for effectiveness of the Trust Fund would have to be established, as would arrangements for withdrawal from membership, termination of the Trust Fund, and privileges and immunities. In addition, the burden of exchange risks and the currency of denomination for Trust Fund would need to be determined. It is assumed that none of these points would create major difficulties if the other points of principle cited in earlier sections of this note can be settled in a satisfactory manner.