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Contacts with member countries: International Fund for Agricultural Development (IFAD)
Correspondence 01

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LEAD

INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT

1. 2/7/77 Ambassador Sudeary - Saudi national. Chairman of the
 Preparatory Commission on IFAD
 Philip Birnbaum - US national. Assistant Coordinator for AID.
 Dr. Sartaj Aziz - Secretary of Interim Commission (IFAD).

1.

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara

DATE: February 3, 1977

FROM: J. Burke Knapp *JBK*SUBJECT: Bank/IFAD Relations

1. Attached are two papers that have been prepared for your use in connection with your meeting next Monday with Ambassador Sudeary, the Chairman of the Preparatory Commission of IFAD. The first paper is a briefing-cum-position paper drafted by a Working Party consisting of Messrs. Dosik (Chairman) and Hornstein of my office, Mr. Yudelman, Mr. Sella and Mrs. Boskey. I have discussed this paper with the Regional Vice Presidents and Mr. Baum, among whom there was a general consensus in support of the analysis and recommendations. The second paper is a memorandum from Mr. Yudelman providing background on Dr. Sudeary and his colleagues.
2. IFAD is expected to become a reality in the near future and Ambassador Sudeary's purpose in calling on you at this time is principally to explore the Bank's views on cooperation with IFAD and to begin the process of developing a working relationship between our institutions. IFAD's principal concern as it seeks to become operational will undoubtedly be with the availability of projects. As the Briefing Paper points out, the Bank can assist in meeting IFAD's project needs (1) through co-financing; and (2) by appraising projects and administering loans for IFAD on a "contractual" basis. Ambassador Sudeary is likely to be mainly interested in exploring the Bank's views on the latter form of relationship, since IFAD is expected to attach great importance to having its own projects.
3. Co-financing offers great advantages to both the Bank and IFAD, especially in getting off to a fast start, and would seem to pose no special operational problems in view of the flexibility allowed by the well-tested techniques at our disposal. Ambassador Sudeary and his colleagues can be expected to recognize the attraction of doing a substantial amount of co-financing with the Bank, especially at the outset, although they may require a good deal of education on the Bank's approach to co-financing. A particular concern of theirs may be with "additionality". There should be no difficulty in demonstrating that IFAD co-financing would be an addition to our country lending programs. Demonstrating that IFAD co-financing would be additional to the Bank Group's agricultural lending will be more difficult, although we can point to the general role of co-financing in filling gaps in project financing plans and the particular importance of the availability of local currency financing from IFAD in this connection.

4. While co-financing with IFAD appears an easy and attractive proposition, the opposite is likely to be true of a contractual relationship in which the Bank would undertake project work on IFAD's behalf. The problems of maintaining Bank policies and standards which appear to be inherent in this type of relationship are discussed in the briefing paper and I agree fully that we can only consider entering into such a relationship on the clear understanding that IFAD projects would be handled by the Bank on the same basis as its own and that we would normally want to be associated with IFAD projects only on a package basis encompassing the full project cycle. More specifically, appraisals for IFAD should be formulated in the usual manner, with specific recommendations on essential loan terms and conditions, and processed like all others through the Loan Committee (although they would not, of course, go to the Board). Ideally, the Bank would want to be responsible for negotiations as well as appraisal and supervision, but this would appear to be too much to expect in view of the responsibilities assigned to IFAD's management by its Articles. While we expect difficulties in the split in the project cycle under which IFAD would be responsible for the final determination and negotiation of loan terms and conditions, it would help if we could get IFAD's agreement to (1) consult with the Bank should it wish to modify the recommendations of Bank appraisals; and (2) have the Bank represented at negotiations. In addition, we will have the option of refusing to supervise Bank-appraised projects which might be significantly compromised in the negotiating process.

5. It is important to recognize that any judgments made today about IFAD and its relations with the Bank are necessarily highly tentative and, indeed, speculative. The assumptions made in the briefing paper about IFAD's lending policies, volume of operations, and general modus operandi could prove wide of the mark. While agreeing that we should indicate to Ambassador Sudeary our willingness to explore a contractual relationship under which the Bank would provide project services to IFAD, as well as a co-financing relationship, I think it should be made clear from the outset that we would have to regard such a relationship as an experimental one that could be undertaken only on a limited scale. We should also emphasize that such a relationship would have to be acceptable to our Executive Directors who would have to approve any agreement for Bank/IFAD cooperation.

cc: Messrs. Baum
Yudelman
Sella
Boskey
Dosik
Hornstein

OFFICE MEMORANDUM

TO: Mr. Robert S. McNamara through Mr. Baum

DATE: January 31, 1977

FROM: Montague Yudelman

SUBJECT: IFAD

1. There will be three visitors concerned with IFAD:

a) Ambassador Sudeary: Saudi Arabian Ambassador to FAO, a prince who has a personal interest in agriculture and who was very active at the World Food Conference in lining up support (from OPEC) for IFAD. Ambassador Sudeary is the Chairman of the Preparatory Commission on IFAD and he expects to become the first President of IFAD. He may well be the President. (His government is pushing his candidacy on the grounds that Saudi Arabia is an important donor and should be adequately represented at higher levels of aid management).

Sudeary has been a bit wary of the Bank; apparently while still an official in Saudi Arabia he wanted IBRD technical assistance for agricultural development, and was disappointed when the Bank opted to confine its technical assistance support in Saudi Arabia to industry; also he was a bit concerned about the Bank's view that we would prefer to deal with the management of IFAD rather than the Preparatory Commission. Since then, though, he has been most appreciative for the modest help we have given the Commission. He looks to the Bank for support to IFAD. He has played the role of a conciliatory chairman bringing together the diverse views of the members of the Commission. He does not pretend to know much about aid administration; he assumes he will have staff who can handle that and that his role will be confined to being more of a high level "political expediter". In this connection Sudeary seemed to get on well with Dr. Saouma but I'm not sure whether he is strong enough to stand up to him.

b) Philip Birnbaum: Assistant Coordinator for AID. Mr. Birnbaum has been the senior U.S. representative at many of the meetings concerned with establishing IFAD. Birnbaum has worked his way up through AID; has had experience as a program advisor; and AID director (primarily in North Africa) and as an administrator. He is capable and hard-working but knows very little about financial institutions, or about agricultural development. He expects to be the Vice President of IFAD and believes that Sudeary will select him for this position. The Ford administration seemed to be supporting his candidature; no-one is quite sure about the attitude of the Carter administration on this. Birnbaum believes very firmly that IFAD's future depends very much on the kind of support it receives from the Bank, but he has an exaggerated notion of the significance of IFAD to the Bank.

c) Dr. Sartaj Aziz: Secretary of the interim Commission. A very ambitious Pakistani who has worked very hard to set up IFAD. He is the No. 2 man in the World Food Council. He clearly hoped to be either President or Vice President of IFAD but will probably end up with some lesser position. Is very anxious that IFAD "break new ground" in its approach to lending for rural development. Is totally unfamiliar with problems of financing development but seems unwilling to listen to those who are. He sees IFAD in the context of the "new international economic order" as an instrument for shifting power and the transfer of control of resources away from the developed countries to the developing countries. He is pushing the notion that IFAD should increasingly undertake its own operations.

2. Ambassador Sudeary sees this mission as a "reconnaissance" to determine the attitude of the financial institutions towards cooperating with IFAD. He is not expected to enter substantive discussions. However, it will be very useful to him, and ourselves, if we give him a broad idea of the scope of our possible cooperation with IFAD; suggestions are made in another document. I believe it is very important that this group be advised that lending for agricultural development is time consuming and complex, that we do not have an overflowing pipeline and that it takes time to develop new projects.

3. The group may also be interested in more assistance in the start-up phase. Thus far we have provided help from this department and from Mr. Knapp's office; there has also been some assistance from the Treasurer's Department and we have arranged to provide the services of a former Bank employee to help set up the financial side of things.

4. The next step in the process of establishing IFAD will be the meeting of "experts" to discuss the objectives of IFAD and its lending criteria. Mr. Islam, alternate Executive Director for Bangladesh is one member of this Commission. We will brief him on our views.

MYudelman:lkt

Bank/IFAD Relations

I. Introduction

1. With \$1.0 billion in contributions finally pledged and the Articles of Agreement open for signature, the long and arduous process of establishing IFAD now seems likely to be concluded in the next few months. Created for the purpose of promoting food production in developing countries, with particular emphasis on the "poorest food deficit" countries and the welfare of the poorest segment of the population, and endowed with substantial resources, IFAD must be considered an important new figure on the development scene. While present at the creation only as an observer, the Bank has taken a more active role in recent months as IFAD has moved closer to reality; in response to the Preparatory Commission's request, we have since November been providing a substantial amount of advisory assistance in the key areas of lending policy formulation and financial management by making experienced staff available on short-term assignment and by providing consultant services. Now, with the planned visit of Ambassador Sudeary and his colleagues, we seem about to enter a new and critical period in which the basis for an effective Bank/IFAD working relationship must be established.

2. The importance of such a relationship to both the Bank and IFAD stems not only from the fact that the IFAD will be bringing substantial additional resources to bear in a vital sector, but also from IFAD's unique, hybrid character as an institution that will be much more than a "fund" yet far from a self-contained lending agency. Although IFAD will have its own management responsible for approving loans in accordance with the Fund's own policies, its Articles require that it employ the services of outside agencies for project appraisal and loan administration. The Bank could help to provide IFAD with these services in two ways: (1) through co-financing; and (2) by undertaking to appraise projects and administer loans exclusively for IFAD. Co-financing is undoubtedly the means by which the Bank can respond to IFAD's project needs most promptly and efficiently and, in view of the many advantages of co-financing to both institutions, it is to be hoped that the bulk of the Bank/IFAD relationship will take this form. However, there appears to be no question but that IFAD will wish to establish its own institutional personality by financing projects prepared especially for its purposes and that it will attach great importance to obtaining Bank assistance in this area. This paper seeks to explore the basic considerations affecting both forms of relationship and to suggest the positions the Bank should take in the forthcoming discussions with IFAD.

II. Co-Financing

A. Advantages and Scope

3. As intimated above, co-financing would, from all points of view, be the preferred method of cooperation with IFAD, particularly in the early years. From IFAD's point of view, co-financing with the Bank affords an easy and quick way to begin lending once it becomes operational. IFAD will undoubtedly wish to quickly demonstrate its ability to make substantial loan commitments in support of sound projects; its major operational goal is likely to be to commit the funds provided for its initial three years of operation sufficiently rapidly (i.e. at a rate equivalent to at least to some \$300 million p.a.) in order to make a convincing case for replenishment at a higher level. This would only seem possible through major recourse to co-financing with the Bank. The Bank has projects available in every stage of the long preparation, appraisal and negotiation pipeline. A co-lender can come in at a late stage and still be confident that it is participating in the financing of a well studied, high priority project with a good return. Through co-financing, IFAD can be in a position to present projects to its Board within a short time of starting operations; it can use the association with the Bank as a means of acquainting staff with all phases of the lending process; and it can build on the Bank's relations with the borrower and its agencies to develop its own dialogue. Needless to say, the fact that the Bank's project services have been provided free of cost to co-financiers is another advantage that should prove appealing to IFAD.

4. From the Bank's viewpoint, the availability of substantial additional co-financing will enable it to maintain and even expand its planned lending programs in agriculture and rural development, while it is to be hoped that IFAD will be able to finance local currency costs without restriction (the Articles are silent on this point), thus making it an ideal co-lender in these sectors where projects normally have a low foreign exchange component. Taking into account that IFAD's interest in rapid commitment will probably be balanced by a desire to avoid over-identification with a single outside agency, and by its interest in having its own projects, it seems reasonable to assume for the present purposes that the Fund will not wish to channel more than half of its loan funds through the Bank and that it would not want co-financing to account for more than about two-thirds of this amount -- i.e. \$100 million p.a. Even at this level, IFAD would be likely to become the Bank's most important single co-financing partner. However, since the Bank/IDA plan to finance annually during FY78-80 an average of about 80 agriculture projects having a total cost of some \$4.0 billion, it should be possible to readily absorb IFAD's assumed co-financing contribution. It must be noted, however, that IFAD's likely emphasis on rural development projects in the poorest food deficit countries may pose absorptive capacity problems

in the smaller countries where suitable projects are few and of limited size. If IFAD is willing to have a good portion of its funds employed in the major (e.g. Asian) countries, large amounts of co-financing can be readily arranged.

B. Techniques

5. IFAD is unlikely to be interested in co-financing on other than a project-by-project basis since any "trust fund" or similar type of arrangement would in all probability be considered incompatible with the purposes and objectives for which IFAD was formed and with the provisions of its Articles. However, there does not at present appear to be any reason to believe that IFAD's interest cannot be readily met through co-financing in the framework of the Bank's existing joint and parallel financing techniques, which have proved sufficiently flexible to meet the varying requirements of a large number of co-financiers. Joint financing is to be preferred for its greater efficiency of administration and because it is often particularly difficult in rural development schemes to divide a project into separate packages for procurement. However, IFAD may well prefer parallel financing because of the advantages of this technique in enabling the Fund to have its contribution identified with particular parts of a project for public relations purposes. In addition, joint financing may not prove feasible if IFAD's procurement requirements should differ from those of the Bank. Although the Articles assert the principle of international competitive bidding, they also provide for the extension of "appropriate preference" in the procurement of goods and services to "developing countries" as a group. Moreover, there is a possibility that IFAD may wish to permit procurement from sources other than those eligible to supply Bank-financed projects (the Articles do not restrict procurement to member states). Differing requirements of this sort should not, however, affect the Bank's willingness to administer procurement under parallel loans.

C. Issues

6. Assuming that initial discussion bears out the foregoing assumptions about IFAD's interest in co-financing with the Bank, agreement will have to be reached on a number of matters which have sometimes proved sensitive in the development of our relations with co-financiers and which will have to be carefully approached with IFAD. These include the following:

- (a) the choice of co-financing techniques (joint or parallel) to be employed;
- (b) the manner in which projects are selected and borrowers approached;
- (c) the extent of the Bank's authority in administering joint or parallel loans; and

- (d) the possible participation of IFAD staff in Bank missions and the role they might play.

7. These and related matters affecting the co-financing relationship can be dealt with as part of any "umbrella" or "frame" agreement that may be reached on Bank/IFAD cooperation. However, it would be advisable in such an agreement to address these matters only in terms of broad principles, leaving detailed procedures to be worked out in the course of actual operations. While this may pose certain risks for the first few co-financing efforts, it will avoid debate over issues that may prove theoretical and allow practical project problems to be dealt with in an operational context.

III. Provision of Services for IFAD Projects

A. Role of Outside Agencies in IFAD Operations

8. As already noted, it is clearly intended that IFAD will rely on outside agencies to provide the basic technical services necessary for the conduct of its lending operations. IFAD's Articles provide that it should "as a general rule" use the services of international institutions for project appraisal and that, in all cases, loan administration (disbursement and project supervision) should be entrusted to these institutions. The borrower must approve the choice of appraising and administering agencies for each project. But, while the bulk of IFAD's operational tasks are to be carried on by third parties, the Articles also specify that they shall be directly responsible to the Fund in performing appraisals, that all decisions on the selection and approval of projects must be made by IFAD's Executive Board and that such decisions must be based on the broad policies, loan criteria and regulations adopted by its Governing Council. Thus, the overall picture that emerges is of a project cycle in which IFAD management and staff, although not operational in project appraisal and loan administration, would be responsible for project selection, for commissioning and reviewing appraisals, for loan negotiation and approval and for arranging to have loans administered by an agency acceptable to all parties.

9. This arrangement appears cumbersome but workable. It reflects a compromise between the desire of many Third World countries for the creation of a new and independent institution and the concern of the OECD countries with insuring that the Fund's resources are devoted to soundly conceived and executed projects and with avoiding the creation of yet another international aid bureaucracy. While in having IFAD look to outside agencies to perform the major operational functions the OECD countries undoubtedly had the Bank and the regional development banks chiefly in mind, the Articles as finally agreed contain an important concession to FAO in that IFAD's choice of operating agencies is not restricted to "financial" institutions. The regional banks have, with varying degrees of enthusiasm, indicated their willingness in principle to accept the role assigned to outside agencies. FAO has, of course, been IFAD's most ardent suitor, pressing its case for a major, if not exclusive, role in servicing IFAD at every opportunity and seeking to demonstrate its ability to provide the full range of services required by strengthening its investment center. However, IFAD is unlikely to opt for monogamy; it may rather be expected to seek in practice to use the services of the Bank, the regional lenders and FAO in a balanced fashion so as to avoid undue dependence on or identification with any single institution 1/.

1/ The use of national agencies for appraisal seems to be another option available to IFAD since, at the insistence of India, language was included in the Articles permitting the use of "other competent agencies specialized in the field" as well as international institutions.

B. Implications for the Bank

10. Providing the services required by IFAD would involve the Bank in a new and potentially difficult type of relationship but one which it appears incumbent on us to accept as serving the best interests of international development as well as those of the Bank itself. Although the Bank has evolved cooperative arrangements of many kinds with numerous international organizations, provides advisory assistance to other development lenders and administers loans on behalf of co-financiers, there is no precedent for the type of relationship required by IFAD. Here, for the first time, the Bank would be undertaking to perform the basic appraisal function on behalf of another lending agency and to administer loans for projects in which it has no financial stake. Whether the Bank should enter into such a relationship with IFAD should be determined, however, not by precedents but rather by what we can hope to accomplish thereby. By agreeing to service IFAD's operations, the Bank would be in a position to not only contribute directly to channelling a portion of the Fund's resources to sound projects but also, through its presence, hopefully to exercise a positive overall influence on IFAD's operations. This would be in keeping with the Bank's broad responsibility for contributing to the productive investment of development resources wherever it can and with the role envisioned for the Bank by its principal shareholders in establishing IFAD. In addition to serving these broad development purposes, an active Bank role in IFAD operations would also support the Bank's own interest in IFAD as an important source of co-financing since the Fund's willingness to provide financing for Bank projects can be expected to be responsive to the extent of Bank support for its own operations. Furthermore, a close Bank working relationship with IFAD should help to minimize possible project competition and other sources of friction that may arise between our operations and those of the Fund.

11. While there is, thus, a strong case for the Bank agreeing to help provide the project services IFAD will require, it should do so only in full recognition of the potential difficulties posed by this type of relationship. These difficulties stem essentially from the split responsibility for the project cycle that seems inherent in IFAD's presumed modus operandi. Bank appraisals would be subject to review by IFAD's staff and management, which may not accept all of the mission's recommendations, and/or may permit significant changes in recommended loan terms and conditions to emerge in the course of negotiations with the borrower, a critical stage in the project cycle over which the Bank can expect at best to have only limited influence. The project which ultimately emerges for IFAD financing may, therefore, differ in significant respects from that envisioned in the Bank's appraisal. In such circumstances, the Bank might be faced with the unpalatable alternatives of being responsible for the administration of a loan for a project in which it no longer has confidence, or of seeing responsibility for implementation of a "Bank project" entrusted to another agency. The Bank might find itself in a similarly awkward position if requested by IFAD to administer a loan for a project which it had not appraised and with which it was consequently not thoroughly familiar and,

perhaps, not in complete agreement. More generally, the fact that final decision-making authority in the project cycle would rest with IFAD inevitably raises questions about the maintenance of Bank standards, while Bank staff engaged in IFAD work would find themselves in the never comfortable position of trying to serve two masters.

C. Guiding Principles

12. While the potential difficulties of the Bank/IFAD project relationship are a clear cause for concern, speculation at this early stage of the game about the nature and severity of the problems that may arise could easily prove wide of the mark. Much will depend on the manner in which the relationship evolves from this point on and, in particular, on our ability to develop arrangements which could significantly minimize the problem areas. An important first step in this direction would be to make IFAD aware of the Bank's view that a productive and harmonious relationship requires recognition of two key principles:

- That IFAD projects would be approached in the same manner as the Bank's own and, in particular, would be subject to the same tests of development priority and investment merit, the same project and sector lending policies and the same basic quality standards; and
- That the Bank's services would normally be provided as a package in which the Bank would maintain an appropriate association with the project throughout the relevant phases of the project cycle.

13. It would be a disservice to IFAD, as well as contrary to the principles of sound investment for which the Bank stands, to fail to insist that IFAD projects be subject to careful selection in the light of national development prospects and priorities, to full preparation and thorough appraisal according to normal Bank standards and to the Bank's basic policies relating to such matters as adequate economic return, cost recovery and replicability. In addition, seeking to have Bank staff apply different standards to IFAD projects could create numerous practical difficulties and might even pose a threat to the quality of Bank work. As already noted, IFAD must adopt its own lending policies and project criteria. While it is still too early to discuss the content of IFAD's policies with any degree of specificity or confidence, the policy thrust that has emerged in the course of preparatory work to date is fully consistent with the Bank's own concern for the poorest countries and its interest in projects which directly address the problem of rural poverty. However, there is perhaps some danger that the enthusiasm displayed for specifying project criteria in excessive detail could result in policy statements that might hamper Bank work on IFAD projects. Continued assistance by Bank staff in the formulation of IFAD's lending policies and the Bank's presence as observer at the meetings of the Preparatory Commission can play an important role in guarding against such an eventuality.

14. The importance of the principle of continuing Bank involvement through the project cycle with projects for which it agrees to accept responsibility reflects the fact that the maintenance of quality rests heavily on the integration of the preparation, appraisal, negotiation and implementation phases. However, as already noted, the extent to which this principle can be implemented in practice appears highly problematic in view of the split responsibility for IFAD operations. It is, nevertheless, clear that the Bank should insist that it administer loans for projects that it has appraised while indicating that it would not want to accept responsibility for the implementation of projects which it had not appraised, except perhaps where they deal with activities and institutions with which we have become closely involved through our own projects. The Bank's right to supervise projects it has appraised should probably be expressed as a right of first refusal in order to guard against the possibility that we might wish to sever our association with Bank-appraised projects that had been significantly modified by IFAD and/or weakened in the negotiating process. While this would be an essential safeguard, it would be no substitute for arrangements that would afford the Bank an effective voice in IFAD's review of appraisals and in loan negotiations, but it is difficult to be sanguine about what can be agreed in this regard in view of the evident sensitivity of the subject. Nevertheless, the Bank should seek assurances that (1) IFAD will consult with it before making modifications in Bank-appraised projects or in the terms and conditions recommended for loan negotiation; and (2) that a Bank representative can be present at loan negotiations. While we can probably expect to exert only limited influence through such arrangements, the fact that the Articles require IFAD to obtain the agreement of a supervising agency to the project prior to loan approval should provide some leverage.

15. Turning to a different but no less essential type of principle, IFAD should be made aware from the outset of discussions that such extensive operational services as are contemplated can only be provided by the Bank on a fully reimbursable basis. IFAD does not seem likely to question the principle of reimbursement and should have ample ability to pay, but before discussing this point in any detail we will need to carefully define our position since international practice with regard to reimbursement, and the Bank's own experience, varies considerably.

D. Specific Tasks

16. Implementation and Preparation. Although the IFAD Articles make no reference to the role of outside agencies in the earlier stages of the project cycle, the Bank can expect to be asked to assist IFAD in these activities as well. The Bank's economic, agriculture sector and other relevant reports should provide a valuable input to IFAD project identification and the Bank should offer to make them available on a regular basis as we do to other international agencies and development lenders. In addition, IFAD's particular project interests could be reflected in the terms of reference of economic, sector and project reconnaissance-type missions. IFAD should also be invited to attend Consultative Group meetings

which, in many cases, can provide the best occasion for it to learn of project opportunities and to coordinate its interests with those of other donors. Since UNDP and FAO may be expected to serve as the principle sources of assistance to borrowers in preparing projects for IFAD financing, only a limited demand for the use of Bank resources in this connection seems likely. However, the Bank should make clear its particular interest in being associated with the preparation of projects for which Bank appraisal is contemplated by, for example, serving as executing agent for UNDP-financed project studies as well as any that IFAD may wish to commission for its own account.

17. Appraisal. The manner in which the Bank approaches the task of appraising projects for IFAD is likely to depend to an important extent on the volume of work in prospect. At the present time it seems reasonable, in keeping with the assumptions already noted in connection with co-financing, to think in terms of IFAD wishing to commit an average of \$50 million annually on Bank-appraised projects in its initial three years of operations. Further assuming that IFAD projects will require loans equivalent in size to the average IDA credit of some \$15 million, a workload of 3-4 projects per year seems indicated. This would be equivalent to less than 5% of the number of projects in the Bank's own agricultural lending program for FY78-80. An incremental effort of this magnitude would be managed by the regions and CPS in the same way as their normal Bank business although they would, of course, need additional resources 1/. Special administrative arrangements for IFAD projects might become desirable if they are concentrated in one or two regions (e.g. South Asia) and since this would, in any case, facilitate the scheduling, staffing and management of IFAD work, consideration should be given to exploring IFAD's interest in such an arrangement. IFAD should be made aware from the outset of the time it will take for the Bank to build up a pipeline of projects for it and of the importance of early project selection and agreement on a mutually satisfactory work program in expediting the process.

18. Loan Administration. In accordance with the principles already suggested, the Bank would normally be willing to accept loan administration responsibility only for projects which it had appraised and which had been negotiated on terms and conditions satisfactory to the Bank. Procurement, disbursement and project execution would as a general rule be conducted in accordance with standard Bank policies and procedures. IFAD's wish to extend preference in procurement to all developing countries, and possibly to permit procurement from sources not eligible to supply Bank-financed projects, should not pose an obstacle to Bank loan administration as long as such

1/ The average annual workload implied in appraising projects for IFAD on the assumptions made would be equivalent to at least 9 manyears, without allowing for overheads in the form of the considerable amount of effort that would undoubtedly have to be devoted to preparatory activities and to liason.

requirements are not inconsistent with the principle of international competitive bidding. A potentially more serious question may arise concerning the extent of the Bank's mandate in loan administration and, in particular, whether this would run to suspending disbursements (and perhaps invoking other remedies) on its own authority should circumstances arise in which it appears that a loan is no longer serving the purposes for which it was made. Such authority would be consistent with the intent of the Articles in entrusting the disbursement function to international institutions and would undoubtedly strengthen the Bank's hand in loan administration generally. Nevertheless, it would appear unwise for the Bank to attempt to insist on it since IFAD is likely to prove most reluctant to delegate such a basic management prerogative. In any case, those instances in which the Bank itself would be prepared to suspend disbursements are likely to prove exceedingly rare and, should they arise, a Bank recommendation to this effect to IFAD's management could be expected to bear great weight.

IV. Concluding Considerations

19. The development of an effective working relationship with IFAD will involve the Bank in discussion of issues which are sensitive and difficult but for which we should seek mutually satisfactory solutions along the lines suggested above. A positive foundation for these discussions exists as a result of the Bank's current activities in providing the Preparatory Commission with technical assistance in critical areas. This foundation can be strengthened by clear confirmation at this time of the Bank's willingness to assist IFAD with what will undoubtedly be its primary concern as it seeks to become operational — the availability of projects. While the leading role the Bank expects co-financing to have in meeting this need should be stressed, the Bank's readiness to assist IFAD in developing its own projects should be made clear along with the basic principles that will have to govern this form of cooperation. Emphasis should also be placed on the fact that the Bank looks forward to cooperating with IFAD in support of agricultural development in areas other than lending particularly through IFAD membership in CGIAR.

20. While it would appear premature to discuss formal institutional links in any detail until IFAD is legally established, its permanent management in place and lending policies adopted, the Preparatory Commission is apparently anxious to initiate consideration of interagency agreements. The Bank should indicate its willingness in principle to enter into a frame-type of agreement which would define the broad areas of Bank/IFAD cooperation, set out the basic principles governing the relationship and provide for the regular exchange of views and close consultation in the programming of operations which will be essential to effective collaboration.