

ADF IV : ELIGIBILITY OF BENEFICIARY COUNTRIES
AND CRITERIA FOR RESOURCE ALLOCATION

1. Introduction

1.1 During the negotiations for the Fourth Replenishment of the Fund's Resources, the Management was requested to submit a note on criteria for the allocation of ADF IV resources to the regional member countries.

1.2 It should be stressed that the final classification of beneficiary countries of ADF IV resources and the criteria for allocating these resources cannot be laid down until the total amount of resources which will be available for the Fourth General Replenishment is known and until the Board of Directors has decided on the criteria.

1.3 However, on the basis of the experience acquired during the implementation of ADF III and the situation of regional member countries, it is possible to establish final classification criteria for countries likely to benefit from ADF IV resources.

2. Criteria applied under ADF III

2.1 During the period of the Third General Replenishment of ADF resources, two types of criteria were used for allocation of resources to beneficiary countries. These are :

- a) eligibility criteria by which member countries which can benefit from ADF III resources are determined;
- b) allocation criteria which indicate how to share ADF III resources among the eligible member countries.

2.2 Eligibility Criterion

2.2 The only eligibility criterion used is the GNP per capita. On the basis of the amount of their GNP per capita, the regional member countries are grouped into three broad categories : A, B and C as follows :

- a) Category A : regional member countries with GNP per capita of US \$ 400 or less.
- b) Category B : regional member countries with GNP per capital of between US \$ 401 and \$ 780.
- c) Category C : regional member countries with GNP per capita of over US \$ 780 or which have decided not to take ADF loans.

2.3 The application of the GNP per capital criterion gives the following results :

- a) Category A countries are given absolute priority for they benefit from resources earmarked for the technical assistance account for projects or programmes preparation and at the same time 85% of the balance of the resources for the financing of projects or programmes are also allocated to them.
- b) Category B countries are entitled to ADF III credits but to a lesser degree as they share only 15% of the resources earmarked for projects or programmes financing, and they are also entitled to the technical assistance account.
- c) Category C countries are not eligible for ADF III resources.

Resource Allocation Criteria

2.4 Allocation of resources within each category of member countries is made on the following criteria :

- a) the presence of the Fund in each country of the eligible category (15%);
- b) GNP per capita, the poorer countries receive a more substantial portion (37.5%);
- c) population size : the most populated countries receive more (37.5%);
- d) geographical position : landlocked countries and island countries share 10% between them.

2.5 Experience over the first two years shows that the classification of member countries adopted for ADF III based mainly on socio-economic indicators in 1979 is in principle satisfactory. However, it needs to be updated in the light of developments since 1979 and in the light of experience acquired by the Fund these last years.

3. Proposals for ADF IV

3.1 During the first two years of ADF III, it was noted that because of their small volume, the resources of the Fund allocated to member countries could not meet all loan requests regarded as priority and expressed during this period. Several member countries had even exhausted their allocations during the first year of ADF III. Projects submitted for financing by other member countries, although accorded priority by these countries, could often not be considered as they did not fall under the area of activities covered by ADF loans.

- 3.2 It is important to note that most of the countries affected by the above situation are among the poorest. Therefore, taking into account the limited resources of the Fund, it would be necessary under ADF IV to adopt criteria enabling the situation under ADF III to be corrected so as to ensure that the Fund's resources are channelled to the countries which need them most. The proposals below could meet this concern.

Eligibility of Member Countries

- 3.3 During the Fourth General Replenishment of the Fund's Resources the following criteria underlying eligibility could be adopted :

- a) GNP per capita : this criterion enables a distinction to be made between categories of eligible and non-eligible member countries. It also enables the order of priority among the eligible countries to be made. However, this GNP per capita criterion could not be used in a rather restrictive nor absolute manner, especially when the order of priority is to be made within each category of eligible member countries by separating the most needy from the relatively needy ones. Therefore, in addition to GNP per capita, it would be necessary to consider other criteria including especially :
- b) The capacity of the country to borrow from the financial markets or to have other private lenders. It is difficult to quantify this capacity but it can be based on considerations such as the total economic magnitude of the country, the structure of its external debt and its capacity to repay non-concessional loans.

- 3.4 During the Fourth General Replenishment of the Fund, the ceilings of GNP per capita to be used for grouping the member countries into categories will vary between US\$510 and US\$990. These amounts are

obtained by updating to 1982, the GNP per capita levels used for ADF III and which vary between 400 and 780 US dollars considering the lowest inflation adopted by the World Bank.

3.5 On the basis of the GNP per capita and the capacity to borrow, the regional member countries can be grouped into three main categories, A, B and C.

a) Category A : regional member countries with GNP per capita of US\$510 or less. Given the disparity between the countries with GNP per capita of US\$ 510 or less, category A will be subdivided into two sub-categories :

i) Sub-category A.1 : will comprise regional member countries with GNP per capita of US\$350 or less and whose capacity to borrow from the financial markets or to have other private lenders is structurally low. These are in particular countries with modest economies and a low capacity for repaying non-concessional loans.

ii) Sub-category A.2 : will comprise regional member countries with GNP per capita between US\$351 and US\$510 and whose capacity to borrow from the financial markets or to have other private lenders is relatively satisfactory.

b) Category B : regional member countries with GNP per capita of between US\$511 and US\$990.

c) Category C : regional member countries with GNP per capita of over US\$990.

3.6 Countries in sub-category A.1 will be eligible for ADF IV resources and will also be given absolute priority. During ADF IV, it is also proposed that, with regard to these countries, the Fund should

broaden the sectors of operation and diversify within these sectors the nature of projects likely to benefit from its sources of financing.

3.7 Sub-category A.2 countries will have access to ADF IV resources for the financing of projects solely in the sectors which were given priority during the Third General Replenishment of Resources. They could moreover resort to non-concessional loans.

3.8 Category B countries will be potentially eligible for ADF IV but to a lesser extent because they can at the same time resort to non-concessional loans. However, depending on available resources, the Board of Directors could lay down some order of priority among these countries on the basis, among other things, of its foreign exchange revenues or other qualitative criteria to be defined.

3.9 Category C countries will not benefit from the resources of ADF IV except in case of multinational projects involving at least one country of category A or B.

Allocation of Resources

3.10 Most of the categories A and B countries face difficulties in the preparation of projects and programmes. Under ADF IV, 5% of total resources, will be earmarked for technical assistance in connection with the preparation of projects or programmes concerning category A or B countries or, in the case of multinational projects, a group of countries one of which, at least, belongs to category A or B.

3.11 90% of the remaining resources will be allocated for the financing of projects and programmes for category A member countries and 10% will be allocated to the financing of projects and programmes in category B countries. The priority which has always been given to the poorest countries is further stressed and the poorest countries of sub-category A.1 which cannot afford high-interest rate loans will be granted more ADF loans.

3.12 The allocation of resources in each category of eligible member countries will be made on the basis of the following criteria and weighting to be determined by the Board of Directors:

- a) the presence of the Fund in each eligible country by at least one project (15%);
- b) the GNP per capita (35%);
- c) the size of the population (35%);
- d) geographical position (10%);
- e) a corrective factor to take account of the fact that some countries might not have received their entire allocation under ADF III (5%).

4. Conclusion

4.1 Using the GNP per capita criterion given as annex to this Paper it is noted that during the Fourth General Replenishment period the number of eligible countries in category A will increase. This is a reflection of the deterioration in the general economic situation in Africa and hence an increase in the need for soft-term loans. This situation would require a substantial increase in ADF resources.

4.2 Although the GNP per capita criterion has proved practical in many cases, it does not reflect exactly either the country's economic strength, the magnitude of its external debt nor its capacity to repay non-soft terms loans. The qualitative criterion namely, the capacity to borrow from the financial markets or to have other private lenders, makes it possible to remedy the situation in part, and is reflected in the changes made as against the classification adopted for ADF III.

4.3 The creation of sub-category A.1 countries should contribute to improving the situation in the poorest countries and also enable ADF to take into account, in its lending policy, of the need to extend its operations to all ADB Group priority sectors.

4TH ADF REPLENISHMENT
GNP and GNP per capita of African countries
(1982 Data - World Bank)

<u>Country</u>	<u>GNP per capita (US \$)</u>	<u>Estimated GNP</u> <u>(million US \$)</u>
Libya	8 450	26 732
Gabon	3 810	2 614
Algeria	2 220	44 670
Seychelles	1 800 (a)	113
Tunisia	1 370	9 197
Mauritius	1 240	1 231
Congo	1 180	2 005
Ivory Coast	1 140	9 923
Zimbabwe	940	6 933
Swaziland	930	602
Botswana	910	868
Cameroon	850	7 554
Morocco	820	17 553
Nigeria	820	73 587
Egypt	690	30 196
Zambia	580	3 458
Lesotho	530	744
Angola	520 *	1 086
Liberia	510	1 015
Mauritania	470	744
Sudan	460	9 169
Senegal	440	2 654
Djibouti	310	119
Kenya	390	6 929
Gambia	360	219
Cape Verde	350	106
Ghana	350	5 175
Togo	350	954
Comores	340	120
Sierra Leone	330	1 205
Madagascar	320	2 952
R.C.A.	310	765
Niger	310	1 820
Sao Tome & Principe	310	84
Guinea	300	1 701
Benin	300	1 095
Somalia	290	1 316
Mozambique	280	1 746
Tanzania	280	5 391
Rwanda	260	1 428
Burundi	240	1 059
Uganda	240	3 232
Malawi	210	1 345
Upper Volta	210	1 336
Zaire	190	146
Guinea Bissau	180	1 301
Mali	180	4 643
Ethiopia	140	365
Chad	80	365
Equatorial Guinea	80 (a)	64

(a) Data not available for 1983 - data of 1981 used.

(*) Data not available at World Bank - ADB data.

M E M O R A N D U M

SUBJECT: MULTINATIONAL PROJECTS

1. INTRODUCTION

1.1 During the first two consultative meetings on the Fourth Replenishment of the ADF Resources, a consensus emerged on the need for the Fund to continue pursuing an active policy in financing multinational projects. However, judging from the Fund's past performance, in this field, and because of the inadequacy of resources it was also agreed that multinational projects should be funded from individual country allocations i.e. no amount should be specifically earmarked for this purpose during the Fourth Replenishment period.

1.2 The purpose of this document is to demonstrate that there is sufficient identified and potential demand in member countries to justify the Fund's continued involvement in multinational projects.

2. THE SECOND AND THIRD REPLENISHMENT PROGRAMMES

2.1 For the Second and Third Replenishment periods (1979/81 and 1982/84), the Fund had a number of multinational projects in its lending programme six of which for a total of FUA 54.27million have already been financed as shows in Annex I.

2.2 The rest of the projects listed under 1984 (Annex I) are also very advanced, in terms of preparation, and they are all scheduled for Board presentation during the year. It will be noted, from the same Annex, that the FUA 14.42 million approved for multinational projects during 1979/81 represented 2% of the available resources under the Second Replenishment programme and that the identified demand for a total FUA 101.85 million for 1982/84 is 9.2% of the available resources under the Third Replenishment programme.

3. THE FOURTH REPLENISHMENT PROGRAMME

3.1 Most of the multinational projects so far financed or being processed are located in western Africa. This is mainly due to the existence, in that sub-region, of a number of multinational organizations which facilitated the involvement of the Fund in some of their activities. With the creation of sub-regional organizations

in Central and Southern Africa as well as the current dialogue for closer co-operation among the former East African Community members, it is expected that during the Fourth Replenishment period the Fund will be able to diversify its intervention in multinational projects throughout most of the continent. For 1985/87, for example, multinational projects (see Annex II) for a total of US\$378.1 million from the SADCC countries alone have been retained in the Bank Group pipeline. These plus others which are likely to come from other sub-regions should constitute a substantial part of the Fund's activities during its Fourth Replenishment period.

Attachment:

AFRICAN DEVELOPMENT FUND
MULTINATIONAL PROJECTS FINANCED
SINCE 1979

<u>PROJECT</u>	<u>BENEFICIARY</u>	<u>DATE APPROVED</u>	<u>AMOUNT</u> (FUA m.)	<u>REMARKS</u>
1. Diama Dam	OMVS (Mali, Mauritania, Senegal)	22/03/79	12.00	Delayed signature but now proceeding well. 36% disbursed.
2. Dori/Tera/Niamey Road Study	Niger, Upper Volta	19/06/80	1.20	Final report just received and being reviewed by the Fund. 72% disbursed.
3. Mono River Development Study	Benin, Togo	03/12/81	1.22	Currently under implementation but no disbursements.
Total for 1979/81			14.42	
4. Manantali Dam	OMVS (Mali, Mauritania, Senegal)	10/06/82	8.60	Under implementation. 5% disbursed.
5. CRES (Research Centre for Solar Energy)	CEAO/Ivory Coast, Mali, Mauritania, Niger, Senegal, Upper Volta	Nov.'83	11.25	Recent Approval
6. Freetown/Monrovia Road	Liberia, Sierra Leone	March'84	20.00	Recent Approval
7. CEAO Water Supply	CEAO (Ivory Coast, Mali, Mauritania, Niger, Senegal, Upper Volta)	-	6.00	Being processed
8. CEAO Mining School	CEAO (Ivory Coast, Mali, Mauritania, Niger, Senegal, Upper Volta)	-	12.00	Being processed
9. LIPTAKO/GOURMA Water Supply	LIPTAKO/GOURMA (Mali, Niger, Upper Volta)	-	12.00	Being processed

...../ii

<u>PROJECT</u>	<u>BENEFICIARY</u>	<u>DATE APPROVED</u>	<u>AMOUNT</u>	<u>REMARKS</u>
10. Brazzaville Railway School	Regional*	-	25.00	Being processed
11. Rugombo/Bugarama Road	Burundi, Rwanda	-	7.00	Being processed
Total for 1982/84			<u>101.85</u>	

* (Benin, Cameroon, Congo, Djibouti, Ethiopia, Ivory Coast, Mali, Niger, Gabon, Madagascar, Senegal, Togo, Upper Volta and Zaire)

MULTINATIONAL PROJECTS IN SOUTHERN AFRICA

1. Mozambique/Tanzania: Access road to the Unity Bridge over the Ruvuma River. The Governments of Tanzania and Mozambique have agreed upon the construction and financing of the Unity Bridge across the River Ruvuma at Ngonane. Domestic financing does not cover construction of access roads in Mozambique and Tanzania. The access road on the Mozambique side is estimated to cost US\$52 million with 75% in foreign currency.
2. Tanzania/Mozambique: Access road to Unity Bridge on the Tanzania side is estimated at US\$15.5 million with 75% in foreign currency.
3. Zambia/Malawi: Rehabilitation of the road Lusaka-Chipata. This road connects Zambia with Malawi. Estimated cost US\$32 million with 75% in foreign currency.
4. Zimbabwe: Upgrading of the road Harare-Mutare-Mozambique border. The aim of the project is to create conditions in the Mutare area of a standard feasible for increased heavy traffic with special regard to growing exports and imports through the port of Beira. Estimated cost US\$28 million with 50% in foreign currency.
5. Botswana: Trans-Kalahari Railway Study: Detailed feasibility study of a route westward from the Kgaswe area to a coal export terminal located at a west coast port. Estimated cost US\$5 million with 90% in foreign currency.
6. Mozambique/Malawi: Rehabilitation of the Beira-Malawi Railway/ Dondo-Malawi Border. The Project involves the rehabilitation of the Dondo-Dona Ana-Malawi Border line (331 Km.). Secured financing is \$14.5 million. Total project cost is US\$44.0 million with 70% in foreign currency.
7. Tanzania/Zambia: Rehabilitation works on TAZARA Railway. Total estimate cost is US\$44.0 million with 70% in foreign currency.
8. Mozambique: National Telecommunication Development Project with connection to neighbouring countries. The project consists of a TLC network covering transmission and switching systems capable

of meeting national requirements as well as providing cross-border connections to Malawi, Zambia, Zimbabwe and Tanzania. Estimated cost is US\$152.0 million with 90% in foreign currency. Secured financing: US\$ 70.0 million.

9. Zambia: Expansion of the Earth Station Mwembesi (Lusaka). This will improve connection with Zimbabwe and with Botswana and Tanzania. Total estimated cost is US\$5.6 million with 95% in foreign currency.

NON-PROJECT LENDING

1.1 Non-project lending covers lending operations where the loan is used to support a programme of action covering one or several sectors of an economy. In general, these operations are not linked to the creation of some specific physical or institutional capacity. The proceeds of the loan are used for a variety of procurements that are essential for the more efficient use of existing facilities. As a result, non-project loans would tend to disburse rather fast since the rate of disbursement is not linked to the execution of some physical works. In addition, because of the broader coverage of non-project loans they provide an appropriate vehicle for policy reforms that may not be conveniently attached to project loans. It is these features of non-project lending, viz: impact on utilization of existing capacity, quick disbursement and policy reforms, that make it an attractive type of operation. In some cases, in fact, it may be the only type of operation that can be carried out in order to create the right environment for project lending.

1.2 The ADB Group has felt for sometime now that the time had come to supplement the project operations with non-project type operations. This feeling arose out of the close examination of operations in some member countries, the initiatives being taken by other lending institutions in this direction, and the demands of member countries for this type of operation.

1.3 Management formalized its thinking on this and other new policy initiatives in a paper to the 16th Annual Board of Governors' meeting in 1980. The Governors were generally supportive of the initiative but advised that caution should be exercised as the Bank Group had limited experience, and indeed, even the experience of other multilateral lending institutions was still limited.

1.4 In preparing the programme of Action for 1982-86, it was felt that this programming cycle would be appropriate for moving cautiously into non-project lending. - A small allocation, 5% was made for this type of lending. Major lenders in the region, like the World Bank Group were undertaking significant non-project operations in the region and this would assist the Bank Group in acquiring the necessary experience by joining hands wherever possible with the IBRD/IDA at least in these initial phases. In addition,

a number of member countries in the region were going through major economic problems that made the traditional project lending rather difficult. Lack of spare parts, inputs, and other facilities was adversely affecting project implementation. This was the case with such countries as Ghana, Uganda and Sudan, to name only a few.

1.5 In view of the limited experience within the Bank Group to handle this new form of lending operation, management made contacts with World Bank to discuss the modalities of non-project lending and possible areas of cooperation between the two institutions. These consultations culminated in a seminar that was organised in mid-1983.

1.6 The seminar was to inform both management and staff about the rationale for non-project lending, the various types of this mode of operation, and the experience of the IBRD/IDA in Africa and other regions with this type of lending.

1.7 In early 1983, the Fund had received a request from the Ghana Government to participate in their recovery programme. The programme had been established after extensive consultations with the IMF and the World Bank. It was very clear that following the extended period of decline in Ghana, the only type of meaningful assistance would have to be of the non-project type. The Bank Group itself had been experiencing problems with the implementation of projects in Ghana, because a number of essential inputs and services whose existence was assumed at the time of appraisal were no longer available; and new projects would not have had any more chance of success.

1.8 Before presenting the Ghana request to the Board, however, it was felt that a policy paper setting out the broad objectives and strategies of the Fund in getting into this new-type of lending should be presented to the Board.

1.9 The paper was presented to the Board in late 1983, and is currently still under consideration by the Operations Committee of the Board. It was nevertheless used as a basis for the presentation of the Ghana Rehabilitation loan.

2. The paper's principal recommendation was that in view of the complexity of certain types of non-project lending like Structural Adjustment Loans involving extensive studies and conditionality, the Fund should restrict itself to the simpler types of non-project lending such as rehabilitation and sector loans. Rehabilitation loans are generally considered when there is a generalized breakdown of institutions and facilities. They may be used to finance the importation of crucial inputs, essential spare parts and raw materials. Such financing of necessary imports can have a considerable economic impact as it can increase an economy's production on a given capital base with little or no additional fixed investment. Sector lending is a mode of lending where an investment programme for a sector of activity becomes the "Project" which the Fund may finance in totality or partly after undertaking a thorough and detailed review of the sector. The programme usually concerns an aggregate of several elements that may include a few specific projects as well as institution building and management improvement for project generation, implementation and improvement of policies in the sector. The broad delegation of authority to the borrower and executing agencies possible under sector lending is the main feature that distinguishes it from the traditional project lending. It was further suggested that in the initial phase while Fund is building up experience, the Fund should operate in conjunction with the World Bank since it was also interested in the very same countries. The Ghana loan was well within these guidelines.

2.1 As of to-day, only 1 non-project loan, the Ghana Rehabilitation loan (FUA 30.5 million) has been approved. In the context of the 1982/83 lending targets, this represents about 4.5%. As was noted earlier, a major attraction of non-project lending is that it allows for quick disbursement. In the experience of the World Bank in Africa, such loans disburse within 24 months of approval. Although this would normally entail certain implications for liquidity management, it is felt that the small percentage of resources envisaged for non-project lending would not have any major impact on the Fund's liquidity policies.

CONCLUSION:

2.2 In view of the current economic situation in regional member countries, non-project lending and other innovative modes of lending are bound to assume increased importance. The Fund, as an important lending institution in these

1. INTRODUCTION

1.1 Technical assistance, as a means for the Bank Group in general and the ADF in particular to help the ADB regional member countries in overcoming some of their weaknesses in project or programme preparation and implementation, featured very prominently in the first two consultative meetings on the Fourth Replenishment of the ADF resources. More specifically, representatives of ADF State Participants sought further clarification in respect of the following:

- (i) the definition of technical assistance as established by the ADF/ADB Boards of Directors;
- (ii) the scope of activities to be financed by the Technical Assistance Account (TAA) as opposed to the proposed Technical Assistance Fund (TAF); and
- iii) the role of bilateral aid programmes in the field of technical assistance as defined by the Boards of Directors.

1.2 The purpose of this document is to respond to the above requests.

2. DEFINITION

2.1 Technical assistance has been defined as the provision of experts and/or equipments for the purpose of carrying out the following four broad categories of activities for the benefit of the ADB regional member countries:

- 2.1.1 Project or Programme Preparation: This covers the preparation of pre-feasibility studies, feasibility studies, detailed engineering design and preparation of bid documents.
- 2.1.2 Project or Programme Implementation: This includes construction supervision, project operation and management, and training related to specific projects.
- 2.1.3 Institution Building: This covers the provision of experts for strengthening institutions engaged in areas of development policies, plans, and strategies and includes training intended to enhance the capabilities of these institutions in the said areas.
- 2.1.4 Support to Regional and Sub-Regional Institutions: This covers support to regional or sub-regional institutions engaged in research and training activities to improve crop yields and eradicate human and animal diseases.

- 2.2 The above-mentioned activities can be provided through individual consultants, consulting firms, a team of outside experts, universities, research institutions, or Bank Group sponsored seminars and study tours. They include the provision of equipments required to achieve the purposes of these activities.

3. THE TECHNICAL ASSISTANCE ACCOUNT (TAA)

- 3.1 The TAA, which became operational in October, 1983, provides a useful means for "Project or Programme Preparation" (as defined in 2.1.1 above) under more favourable terms and conditions than in the past. Nine (9) technical assistance activities, in this category, for a total of FUA 8.73 million, have since benefited from the TAA resources.
- 3.2 "Project or Programme Implementation" as defined in 2.1.2 above has been excluded from the TAA scope of activities. This, the Board decided, should continue to be funded as part of project or programme loans.
- 3.3 "Institution Building" activities as defined in 2.1.3 also fall under the scope of the TAA. However, for some countries borrowing even from the TAA for these purposes is likely to be difficult for reasons explained under section 4.
- 3.4 Finally, there is no provision for financial "Support to Regional and Sub-Regional Institutions", as defined in 2.1.4 above, from the TAA.

4. THE NEED TO ESTABLISH A TECHNICAL ASSISTANCE FUND (TAF)

- 4.1 It is clear from section 3 above that the TAA cannot cover the entire range of technical assistance activities as defined in section 2 above. Moreover, because of the gravity of their economic situations, some of the poorer regional member countries have had difficulty, in the past, in repayment of loans even under ADF terms. The financing terms of the TAA, except for the service charge, are essentially the same as those of ADF loans.
- 4.2 Furthermore, lack of manpower and technical capabilities in these same countries further aggravates the situation as far as their relationship with the Bank Group is concerned. First, because they are unable to even draft requests for assistance to prepare projects, let alone to actually prepare projects, they are unable to fully utilize the development assistance which is put at their disposal. Secondly, because of their inability to follow-up the implementation of projects, the burden of additional costs due to delay in timely execution of projects usually falls on them. They,

therefore, require special assistance to be able to absorb development financing of which they are in dire need.

- 4.3 The assistance which these countries require can be carried out by assigning one or two individual experts in key ministries and/or through consultants who are specialized in the new concept of "project control". For this type of assistance, Management feels that loans even from the TAA would be inappropriate. Outright grant would be the only solution to this problem. The proposed TAF is intended to serve for this purpose.
- 4.4 Similarly, Subsaharan Africa is the only region in the world where per capita food production has declined over the past 20 years. It is the duty of the Bank Group to assist in overcoming this situation. Institutions such as the Consultative Group on International Agricultural Research, which is represented in the region through WARDA and ILCA, should be financially supported. Support should also go to projects such as the Onchocerciasis Fund which is intended to eradicate a major human disease and thus increase manpower output and make more land available for food production. The TAF would be appropriate source for these types of activities.
- 4.5 The creation/funding of the TAF is being considered under the Bank's policy on accumulated net income. In addition to what is proposed under the said policy, possible contributions from the net income of the ADF and other voluntary contributions will be sought by Management.

5. BILATERAL* TECHNICAL ASSISTANCE GRANTS

- 5.1 Bilateral grants which are mobilized and administered by the Bank Group have played a substantial role in the financing of technical assistance activities. They are generally used in the initial stages of "Project or Programme Preparation" i.e. pre-feasibility and feasibility studies, in the poorer member states. They are also used for acquiring the services of short term consultants during the preparation of projects or sector studies. Bank Group sponsored seminars and study tours have also been financed from this source.
- 5.2 The limitations of this source are that most of the funding is tied and that certain donors have restrictions both in terms of sectors and beneficiary countries. Furthermore, contractual arrangement for the use of these funds usually takes an unduly long time.

5.3 The view of Management, on this source, is that it would serve its purpose more efficiently if it were untied. The source is also limited in amount and in the scope of activities for which it can be used.

* This does not include technical assistance personnel which are made available to supplement the Bank Group Staff.

March 13, 1984

SOURCES OF FINANCE FOR TECHNICAL ASSISTANCE
ACTIVITIES

	ADB Country Allocation	ADF Country Allocation	TAA	TAF	Bilateral Grants
1. Project Preparation	A, B, C	A, B	A, B	-	A, B, C
2. Project Implementa- tion	A, B, C	A, B	-	A	-
3. Institution Build- ing	A, B, C	A, B	A, B	A	A, B, C
4. Regional Support	-	-	-	A,B,C	

NOTE:

A, B, and C stand for categories of beneficiary countries as defined in the ADF III Lending Policy.

TRIGGER OPTIONS FOR THE FOURTH
GENERAL REPLENISHMENT

1. INTRODUCTION

1.1 During the second consultative meeting of Deputies held at Brussels from the 20th to the 2nd of February, 1984, the Deputies considered inter alia a variety of trigger mechanisms for incorporation into the resolution that would be ultimately adopted as the legal framework of the Fourth General Replenishment.

1.2 The basis of discussion was a series of alternatives contained in the paper entitled "The Legal Framework" (Document ADF IV/CM2/84/10) and the draft resolution attached thereto. The draft resolution contained a set of four¹ alternative proposals from which the delegates were invited to make a choice which would form the trigger-mechanism for the entry into effect of the replenishment and the subsequent commitment of resources during the replenishment period.

-
1. It has been questioned whether there are really four alternatives, or really only three. Alternative I and 2, it is said, would be to retain one or other of the formulas adopted for the 2nd & 3rd General Replenishments. Alternative II would be to retain one of these, but with the shift of the period from 1st January to 1st November, and Alternative III would be to adopt one or other variant of the suspensive-condition triggers used at the IDA VII or recent FSO(IADB) replenishments. The point of acknowledging four, not three options is that one still has to choose between the 2nd and 3rd General Replenishment triggers, if one talks of three options at this stage.

1.3 After a preliminary discussion of these alternatives the Deputies requested that one of these alternatives should be described in further detail to show how it might be expected to work in practice. In particular certain questions were raised to which it was felt that the answers given at the meeting needed elaboration before the Deputies would be able to decide upon the comparable advantages and disadvantages of this alternative. For ease of reference, this alternative was labelled "OPTION II". It is proposed to retain that label in this Paper.

1.4 In this Paper, the opportunity will be taken, at the end, briefly to review the comparable merits of the options available. This is, admittedly, a rather subjective exercise as the criterion of merit is exclusively what the Management of the Fund considers advantageous to the Fund as an institution, and to its borrowers.

2. THE BACKGROUND TO OPTION II

2.1 As was pointed out in the Legal Framework Paper, OPTION II was developed as a model theoretical solution to a set of problems that had proved difficult or impossible to solve by means of the traditionally-used trigger mechanisms.

2.2 These problems, the Paper pointed out, were created by the following factors:

- (i) the fact that at least one participant could only make qualified subscriptions;
- (ii) the desire of several participants who usually make unqualified subscriptions to ensure that the rhythm of instalment payments by all participants was regular and as closely-related as possible;
- (iii) the fact that the first operative fiscal year of one participant that usually makes a qualified subscription - the United States - usually commences in the year next after a replenishment has taken effect with the inevitable result that it is always late in the first and second years of a 3-year replenishment cycle;
- (iv) the adoption of conditions of effectiveness or of commitment authorisation trigger-mechanisms whose satisfaction was beyond the reach of any administrative measures that could be taken by the participant which makes a qualified subscription;

- (v) the consequence that the effect of these conditions was to penalise two unintended parties - namely the Fund and borrowers from it - by imposing costly delays of unpredictable duration on the availability of commitment authorisation, due to the fact that launchings of otherwise approved projects are frequently delayed, causing sometimes intolerable cost overruns; and
- (vi) the general recognition that, as a means of securing timely subscriptions, the traditional trigger mechanisms had proved ineffective and, as far as one could see, it was useless to develop even more elaborate devices with the same objective in view.

2.3 These factors were elaborated in a detailed evaluation of the trigger provisions contained in the resolutions of the current replenishment (ADF III) and the previous one (ADF II) and it was demonstrated that, in both cases, the application of the sanctions accompanying the triggers had constituted more of an impediment to the Fund's smooth attainment of its objectives than an effective preventive against late de-qualification and timely payment of instalments due under qualified subscriptions.

2.4 In particular, in the case of the current replenishment, it was noted that the trigger mechanisms of the resolution were specifically designed with the aim of:

- (a) enabling the replenishment to become effective without reference to qualified subscriptions (this succeeded)³ and
- (b) preventing the long delay that occurred in the second year in respect of the availability of commitment authorisation.

As was recalled in the Paper, the second objective has not been obtained; in addition to the ten-month delay in securing the

-
- 2. The weaknesses of the traditional approach were freely acknowledged at the second consultative meeting. At the same time, it was pointed out that to abandon the use of the triggers altogether would be to rob the multilateral replenishments of their mutual character and turn them into unregulated voluntary contributions.
 - 3. So far, this has been the only concession made to the fact that it is inevitable that a donor whose fiscal year commences on 1st November will always be late for a replenishment beginning on 1st January of the year following his pledge if, as in the case of the US, the administrations budgetary proposals for any fiscal year must be completed in the January next before the year begins.

effectiveness of the replenishment during its first year, the second year has always been characterised by an average delay of 11.5 months, and there is always a legal possibility that this delay will be automatically repeated in this, the third and final year. Thus the operation of the current triggers could result in a total period of 33 months out of 36 during the replenishment period during which the Fund will have had no commitment authorisation.

2.5 Out of these 33 months of delay, only 5 are directly attributable to a cause other than the operation of the trigger; namely, the fact that the consultative talks were not concluded until late into the first year of the replenishment; and only another 5 are directly attributable to the lack of sufficient funds (before the 45% effectiveness trigger was attained). The rest of the period 23 out of 36 months of lack of commitment authorisation could end as a period during which the Fund disposed of sufficient resources for commitment for most of the delay period, but during which the impact of the trigger mechanism prevented commitment. This period could be shorter in one of two eventualities:

- (a) if the third U.S. instalment is paid ahead of its due date (which is very unlikely); or
- (b) if a number of participants waive the application of the trigger sanction to their instalments.

2.6 There is no predictability about either of these eventualities, and it is in the nature of the operation of the triggers in any of their forms that with none of them can one estimate reliably the delays they are likely to arise.

2.7 Considerations like these led to a search for other solutions, apart from the re-design of the old triggers or the invention of new ones. It is generally agreed that:

- (i) the triggers in one form or other have become an inevitable feature of multilateral-donor exercises;
- (ii) that their operation is unreliable and ineffective against the difficulties they were primarily intended to resolve; and that:
- (iii) because of (ii) above, it is very probably futile to expend ingenuity on the search for new versions.

It seems that the time has come to ask the basic question: whatever use they may have as devices for assuring the mutuality of donor obligations, are they not really immaterial for the purpose of ensuring timely payments by contributors making qualified pledges?

3. POSSIBLE SOLUTIONS

3.1 Only four solutions appear logical:

- (i) the abandonment of the trigger-device altogether;
- (ii) the retention of the trigger-device in some form, coupled with the choice of a start-up period which will give qualified subscribers the maximum opportunity to comply with the agreed calendar of subscriptions (and thus reduce to the minimum possible extent the chance of the trigger taking effect) or
- (iii) the retention of the trigger device in some form, subject to its conditional application only if, when the basic conditions of its application arise, participant donors insist that it should be applied or
- (iv) a combination of (ii) and (iii).

3.2 At the conclusion of discussions on both the IDA VII and the most recent of the FSO Replenishments, participants agreed to try solution (iii) for the first time. The classic statement of this solution may be found in paragraph 14(b) of the IDA VII Resolution. It states that:

"A subscription and contribution notified under a Qualified Instrument of Commitment shall become available for commitment as and to the extent that it has become unqualified. In the event the amount notified under a Qualified Instrument of Commitment of a member whose subscription and contribution to the Replenishment represents more than 20% of the total amount of the Replenishment should not have become unqualified to the extent of 66% and 100% of the total amount by, respectively, October 31, 1985 and October 31, 1986, the Association shall inform the other contributors ... of such shortfall. In such case.... each such contributor may advise the Association that the amount of the second or third tranche, whichever is applicable, of its subscription and contribution available for commitment purposes shall be reduced in such manner that the aggregate amount of its subscription and contribution available for commitment shall as a percentage of its total subscription and contribution be equivalent to the percentage of the amount that is committed without qualification under the said Qualified Instrument of Commitment to the total subscription and contribution of the member which deposited

4. This is the principle of the IDA VII formula. Whatever merit it has as a solution, brevity of statement is not one of them.

said Qualified Instrument of Commitment."

3.3 This provision is, in fact, no more than the key elements of the trigger in paragraph 6 of the ADF III Resolution, with the addition that if the trigger levels are not obtained because of the delay by the participant cited:

- (a) the Association should report the fact, and thereupon:
- (b) other donors may withhold pro-rata commitment authorisation of their tranches otherwise available for commitment, but if no such withholding request is made;
- (c) commitment authorisation remains.

3.4 As noted in paragraph 3.2, this is a new solution, developed chiefly as a compromise to get away from the rigours of the "Kleber Formula". It has yet to be tested by experience.

3.5 It is for this reason that, although the same principle is offered for consideration as an alternative trigger in paragraph 6 of the Draft Resolution (see Document ADF IV/CM2/84/10 at page 9 of the Draft Resolution), it was considered necessary to propose yet another alternative, namely, alternative (ii) of paragraph 3.1, known for the purposes of this Paper as OPTION II.

4. A DESCRIPTIVE ANALYSIS OF OPTION II

4.1.1 (a) General feature and objective In his introductory speech at the Brussels consultative meeting the Vice President described Option II in the following terms:

"(it) proposes that the pace of commitment should be more formally aligned with the pace of receipts of instalments than has been the case up to now - in the hope that in this way, the impact of the trigger mechanism will be significantly minimised in relation to those countries which will, for one reason or another, be unable to make unqualified subscriptions."

4.1.2 The description is accurate in terms of the main objective; namely, to re-arrange the timing but not the duration of the Replenishment period in such a way that the one country whose lateness in subscription or payment usually activates the stoppage sanction of the triggers is given a more reasonable opportunity than has been possible so far to fall more closely in step with other participants in respect of the timing of their payments.

A linear model of this proposal is attached as Annex 1 to this Paper. It seeks to provide a time-flow solution instead of a cash-flow solution to the problem under consideration.

4.2.1 (b) Impact on the length of the replenishment period and Operations

The question has been posed whether commencing the replenishment period on November 1, 1985 (instead of January 1 1985) and ending it on October 31, 1988 (instead of 31 December, 1987) does not mean, in fact, the covert adoption of a 4-year replenishment period.

4.2.2 By way of a supplement to this, it has also been suggested that if indeed this change will in fact produce a 4-year replenishment, there will be in fact a reduction in the annual flow of resources to the Fund for this replenishment period; i.e. the total amount contributed will be for commitment over a 4-year period rather than a 3-year period.

4.2.3 This is not the intention of the proposal. It is possible to go further and to state that it is not even an unintended result.

1. The question of lengthening or otherwise can only be realistically discussed, not in terms of monthly or annual flow of resources to the Fund, but in terms of the successful commitment of such resources. Thus, to retain a 3-year replenishment period under this proposal, what needs to be done is to plan to commit whatever resources are available over a 3-year period. To achieve this result, the proposal provides for a suspension of a commitment of ADF IV resources in the ten-month period between January and October 1985. Other consequences of this suspension are discussed below.

2. It is not realistic to think in terms of a monthly or annual flow of resources in this context, because even with replenishment periods strictly limited to the beginning and ending of the calendar years.

- (a) the flow of resources has not followed a smooth periodic pattern (see Annex IV to Document ADF IV/CM.2/10), and

- (b) commitment has not followed such a pattern either. In the case of the current replenishment, for example, commitment authorisation has been available for only a total of 4 months out of 26; and, because the USA is not obliged to pay its third instalment until mid-December 1984, it is realistic to expect that commitment authorisation will go beyond the formal end of the 3-year period ending 31 December, 1984. and yet, correctly, one does not conclude that ADF III would be for a duration of 3 years.

4.2.4 The operative principle for identifying the length of the period appears to be the programming of operations over the specified period and the agreement to commit specified resources for funding such operations within the agreed period.

4.2.5 The comparative rates of the commitment of resources may be presented as follows, if one assumes a regular equal monthly flow of commitments, as distinct from Board approval of projects (assuming a replenishment level of FUA 1.5 billion):

OPTION I	TOTAL FOR 12 MO	OPTION II	TOTAL FOR 12 MONTHS
JAN 85 - DEC 85	500	JAN 85 - OCT 85	(416.67)*
JAN 86 - DEC 86	500	NOV 85 - DEC 85	83.33
JAN 87 - DEC 87	500	JAN 86 - OCT 86	416.67
		NOV 86 - DEC 86	83.33
		JAN 87 - OCT 87	416.67
		NOV 87 - DEC 87	83.33
		JAN 88 - OCT 88	416.67

* i.e. $10/12 \times 500$

From this notional presentation of Option II, two things are apparent. One is that over the 36-month period from November 1985 to October 1988, it is possible to produce the same pattern of commitments as under the traditionally accepted period which would begin in January 1986 and end in December 1987. The second thing is that if one looks at fiscal year 1985 and compares it to the "operational year" commencing in November 1985, it is noticeable that, assuming a mean commitment rate of FUA 41.67 million per month, a gap of FUA 416.67 appears for the period January 1985 - October 1985.

- 4.2.6 This 'gap' has been identified as representing a loss of commitment potential consequent on the shift proposed in the operational period of the replenishment and, as such, a loss of resources for the Fund. It has formed the chief basis for one of the most serious and persistently-held reservations against the adoption of this alternative.
- 4.2.7 The easiest answer to this objection would be to compensate for this by spreading this 'gap' over the subsequent 36 months at the rate of FUA 138.89 million per annum. This would represent a replenishment level of FUA 1.92 billion for 3 years, which is not very far in excess of the original proposal made by the Management of the Fund.
- 4.2.8 It may be accepted for the purposes of discussion, however, that the present state of the emerging consensus on the level of the replenishment, this solution is not the most realistic one. It can also be recognised, for the purposes of this Study, that the aim is not to re-open discussion on the size of the replenishment, but to find a practical solution to the smooth and uninterrupted commitment of the volume of resources that will ultimately be agreed upon.
- 4.2.9 Once this is accepted other considerations lead to the conclusion that, in the context of this discussion, this figure represents only a notional loss, not a real one, become accepted. The first is that the postponement of the 3-year period by ten months could permanently reduce the troubling stoppages for much longer periods in the flow of resources to borrowers from the Fund, and thus, in the long term, help significantly to eliminate the cost overruns caused by such stoppages which, in their cumulative effect, could offset the notional loss of resources represented by this figure.
- 4.2.10 The second is that this figure is only valid if one assumes - what the Fund's experience has shown to be unrealistic - that it is possible to predicate, in each replenishment period, a minimum monthly commitment of the Fund's resources; in this case, of FUA 41.67 million. This is not the case; if it were, the cost of the 33 months of lack of commitment authorisation estimated for the current replenishment period would be unrealistically high, given the total volume of resources made available.
- 4.2.11 The third consideration is related to the question of whether one is dealing, in this context, with a 3 - or 4-year replenishment. The answer to this question is clear: the intention is not to extend the duration of the 3-year replenishment period. That accepted, the real question is what volume of resources are to be committed over the 36-month period; whenever it begins or ends.

4.2.12 The suggestion has been made that, exceptionally for this particular period, the commitment authorisation period could begin on 1st November 1985 but end, in keeping with the established tradition, on 31st December 1987. Alternatively, it has been suggested that this Option can only work if a 4-year period commencing January 1985 is accepted.

4.2.13 Both alternatives are inconsistent with the basis of this proposal; the first because the advantages of the proposal would be lost in the context of the Fifth replenishment. In 1986, the USA would be obliged to seek payment authorisation for the third instalment of the Fourth Replenishment and the first instalment of the Fifth Replenishment, and a delay would produce twice the impact it produces now. The second alternative - of a 4-year replenishment - is equally unacceptable because it would defeat the very purpose of the proposal: the US would be late for the first year commencing January 1984 and the delay would produce the same effect in the second and third years that this option is supposed to help eliminate in the second and third years of a 3-year replenishment.

4.3.1 (c) What is to be done during the waiting period

Operationally, this has been one of the chief concerns expressed in connection with this proposal.

4.3.2 The problem is not only an operational one; some analysts have pointed out that a legal hiatus will occur between the Third and Fourth Replenishment periods, during which the legal basis of the Fund's activities will be in doubt.

4.3.3 It was pointed out in the earlier paper that the proposed waiting period need not constitute an impediment to any of the operational activities of the Fund's Management, nor the activities of the Board in considering and approving loan proposals subject to the maturation of commitment authority.

4.3.4 At the commencement of each replenishment period there is a period of several months during which the project-preparation cycle proceeds without interruption, and the Board approves loan proposals in anticipation of the replenishment becoming effective. The present proposal envisages that this will be the case under this proposal as well. The difference is that, while the past this period has been an integral part of the replenishment period under the present proposal this period is taken outside the replenishment period, and precedes it.

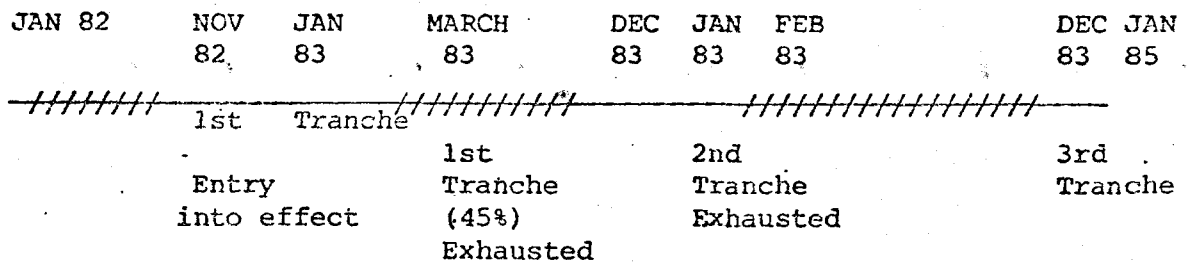
- 4.3.5 In fact, as has been pointed out earlier, it may realistically be envisaged that that, at least during the early part of this period, the Fund could still have commitment authorisation in respect of un-committed resources carried over from the current replenishment period (ADF III). This, together with operational preparations referred to earlier, should keep the Fund positively occupied during this period.
- 4.3.6 The legal question that was posed in this connection relates to the basis of the Fund's authority to perform any operational acts - such as project preparation or provisional Board approval - while there is no replenishment period actually in effect.
- 4.3.7 The short legal answer to this question is that the Fund's legal capacity to perform these functions exists by virtue of the provisions of its Charter, not the effectiveness of any replenishment in force at the time such functions are performed. It follows that the administrative budget approved for Fiscal Year 1985 can be executed in the whole of that year - but especially in this context, in the period January to October 1984 - for preparing projects due to be funded in the first year of the replenishment; even if this begins in October; and by the end of December 1987, it should be possible to have completed work under the operational programme using the budgets for fiscal years 1985, 1986 and 1987, even if commitment authorisation will continue to exist until 1988. It should, equally, be really immaterial for this purpose if part of the administrative budget for 1988 is used for work up to October 1988. From this one can also conclude that no significant problems will arise in establishing two different periods for the Replenishment Year and the Fiscal Year.

5. The effect and likely effectiveness of OPTION II

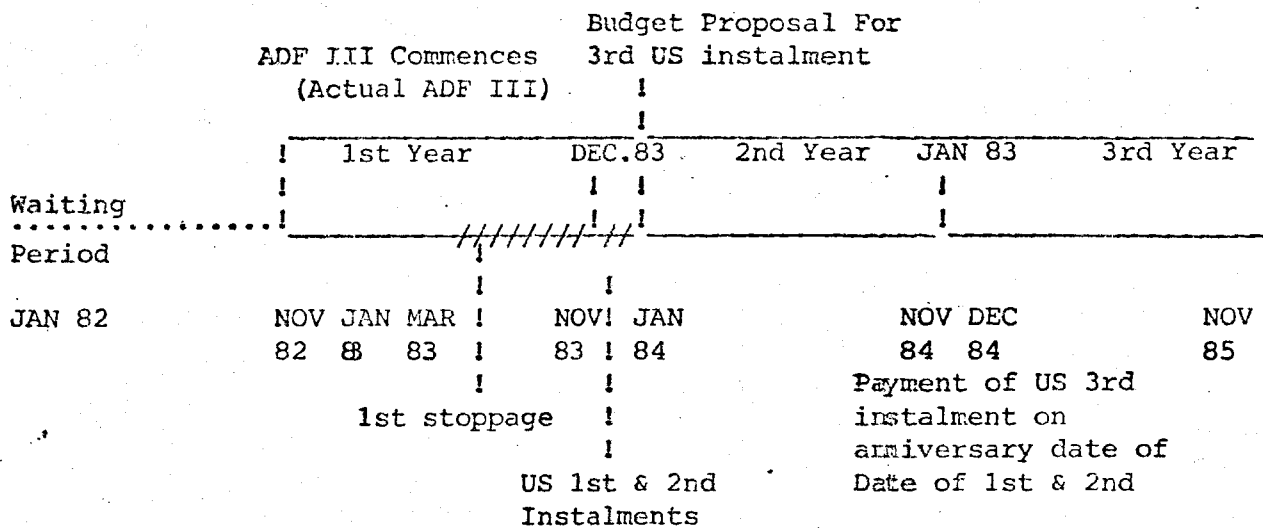
- 5.1.1 The effect of the proposed shift on the delays that accompany the trigger mechanism may be best appreciated if it is recalled that
- (a) If, for any replenishment that begins on 1st January, the consultative meetings are concluded in the year immediately preceding that January, the United States is automatically precluded from working a first instalment payment earlier than October of the first year, and if it is in fact unable to make this payment within the remaining 2-month slot of that year, its second instalment will always be caught by the second-year trigger; and

- (b) To avoid this, consultations should ideally end for any 3-year replenishment period commencing January in the second year of the preceding replenishment period, but this is impractical since preparations would have to begin in the first year of the preceding period; and at that stage there is no sufficient data from the current replenishment on which projections for the next one can be made; and that:
- (c) It is to avoid this dilemma that the replenishments have traditionally provided that their effectiveness triggers may exclude the U.S. first instalment. But that approach only solves half the problem since, as a trade-off, commitment of second and third tranches, the first-and-second and third instalments respectively should have been paid. It takes only a few months delay on the first US instalment to generate an accumulation of stoppages in the second and third years.

5.1.2 The purpose of the proposal is not to eliminate the U.S. delay (that is impossible) but to reduce the likelihood of its incidence as much as possible and to ensure that if it does occur and activates any trigger that may have been adapted, the resultant delay is kept to the minimum. To illustrate this, the following diagram shows the events that occurred in ADF III:



and the next diagram shows what the position would be in the case of a shift, using the same events that occurred in the course of the current replenishment:



It is apparent from this model that even with the present pattern that has been experienced in respect of US payments, only one real corresponding to that of March to December would have been experienced, despite the rigour of the triggers in the "Kleber Formula" the waiting period from January 1982 to November 82 is common to both models, so its impact can be discounted in this comparison.

- 5.1.3 The chief condition of effectiveness of this model is, as in the case of the traditional model, payment conduct of the United States. But tested against the same facts, it is clear that the model of Option II - with the Kleber Formula triggers - creates much less of an impediment for the Fund.
- 5.1.4 The question that arises is how to justify expectations as to the timing of US payments. The answer is that it is not really necessary to do this much in order to demonstrate that the Option II model could be more effective. The payment experience of the US under ADF III presents one of the worst-case scenarios that could be devised for testing this model; and even that predicates a much better continuity of commitment authorisation than is the case otherwise.
- 5.1.5 But as a matter of probability-estimation, it is not even necessary to go this far. All that is needed is to demonstrate the working of a model based on a certainty; namely, the earliest time the US may be able, in each year, to pay the relevant instalment. No guesswork is needed here; it is always November of the tranche-year. It is for this reason that the well-founded caution of the US Government that it cannot give an undertaking as to the behaviour of its legislature is still

relevant. The essential thing is that this caution, though still important, is of much less significant impact under this model than under others; and this is the case no matter what trigger mechanism one adopts.

- 5.1.6 These conclusions serve to reinforce the thesis that the real problem that has plagued successive replenishments is not the nature or relative "harshness" of the triggers, but the timing of their incidence on the capacity of the US to conform to the agreed calendar of payments. If the real principle behind the triggers is the ensuring of mutuality of obligation among the participants in the replenishment, there is a good case for considering an adjustment of timing of payments that would give the US as better chance to comply than it has hitherto been given.

6. Other Effects

6.1 On the programming of participants' Contributions

- 6.1.1 One of the principal objectives of this arrangement ought to be to disturb the budgetary programmes of participants other than the United States as little as possible. It would be against the principle of mutuality if one of the effects of this arrangement were to create disturbances in the budgetary planning of other participants in an endeavour to accommodate a single participant, however large the size of its potential contribution.
- 6.1.2 This arrangement, in fact, need not have this effect. Once individual pledges are known at the conclusion of the contributions, there is nothing in the draft resolution which indicates that individual participants may not pursue their original budgetary plans in much the same way as they were conceived in anticipation of a traditional 3-year replenishment.
- 6.1.3 All the replenishment resolutions have always sought to reserve a large measure of sovereign-state flexibility in this respect, even when deadlines for first instalments and last instalments have been prescribed. This feature can be preserved under a resolution that adopts this Option as its basis. At the Brussels meeting, one participant expressed explicit reservations about having to make a 3-year budgetary plan to cope with what was, in effect, practically a 4-year replenishment. It may be pointed out that a 3-year budgetary programme, no matter in what month the fiscal year begins, is perfectly compatible with this plan, even allowing for the application of a rule of fiscal year limitation.

5.1.4 Thus if one takes the case of a country whose fiscal year beginning on, say, January 1, the appropriations made this year for expenditure after January 1985, and, mutatis mutandis, in 1986 and 1987. Unless there is a rule that budgetary allocations must not only be made available to the Fund, but actually expended by the Fund before the expiry of the relevant fiscal year, there seems to be no reason of principle why the resources once they reach the Fund in the fiscal year in question may not be committed in a subsequent fiscal year. Thus for any participant which has, even at this early stage, programmed its 1987 instalment for appropriation in that year, the part of the replenishment that will fall in January to November 1988 may safely be ignored. Payment can reach the Fund in 1987 for commitment in 1988.

6.1.5 On the other hand, there are certain participants which may find the extended period created by the 10-month wait actually beneficial to their budgetary programmes. These are the participants who may secure appropriations for the whole three-year period in one year, but make administrative funding arrangements for various instalments subsequently. For these, there would be the possibility of arranging funding to take full advantage of the additional ten months that this shift of timing would provide. If this presents such participants with the possibility of contributing a little more than a thirty-six-month funding period would provide, the windfall advantage to the Fund would be most welcome.

7. CONCLUSION ON OPTION II

7.1 In concluding this elaboration and explanation of some of the apparently more disquieting features of Option II, the following considerations may be stated briefly:

1. This proposal is not an alternative to the adoption of a trigger mechanism for ADF IV. Indeed, it would be superfluous if the Fund were to succeed in abandoning the use of the trigger-device altogether.
2. The proposal is compatible with - and probably advisable for - any trigger mechanism that participants may consider most suitable for ADF IV in the present circumstances, and accordingly,
3. Two basic questions, rather than one, fall to be decided: first, what trigger to adopt and, secondly, whether, in view of the choice made, this Option is worth considering as a supplement to and not in substitution for it.

- 7.2 This concludes, essentially, the study requested by the Deputies at the Brussels meeting. In elaborating this proposal, however, comparisons with certain features of the other alternatives has proved inevitable.
- 7.3 In view of this, the Management of the Fund decided that it would be useful to make, in Part II of this Paper, a brief comparative study of the other Options available to the Deputies.

PART II

COMPARATIVE EVALUATION OF THE VARIOUS TRIGGER OPTIONS

8.1 The ADF II and ADF III Triggers

- 8.1.1 These have been the subject of much analytical writing by the Management of the Fund, and only references to the sources are required.

(a) ADF II

- 8.1.2 The evaluation of the convenience and effectiveness of the ADF II arrangement is contained in Annex II of the current document on the Legal Framework in the Paper entitled "Trigger Mechanisms and the re-design of the Replenishment Resolutions," and need not be repeated here. Paragraphs 2.2 to 3.1 contain as definitive a statement of its weaknesses as may be required to conclude that, compared to the "Kleber Formula" used in ADF III, it is the much less satisfactory device for resolving this complex issue. Indeed, the ADF III formula was developed precisely to eliminate some of the problems created by this formulation of the trigger.

(b) ADF III

- 8.1.3 This is a much more sophisticated formulation, compared to the ADF II formulation, and, in addition, as stated in paragraph 4.1 of the Legal Framework paper, it has, at least, the merit of clarity.
- 8.1.4 It turned out to be more restraining on the Fund's freedom to commit because in fact more of the adverse factual conditions that could create restraint materialised:

- (i) the replenishment consultations were concluded late;

- (ii) the US payments of 1st and 2nd instalments - crucial to a tolerable functioning of the second year trigger - arrived much too late and in insufficient amount to prevent near-total paralysis of commitment authority, in the third year of the replenishment; and
- (iii) the palliatives - the permission of advance commitment and the waiver of sanctions in response of individual tranches - were not significantly deployed.
- (iv) when the US second instalment was paid, it did not push the US cumulative contribution as of that date by any margin beyond two-thirds of the total, with the result that the third tranches of other subscriptions remained frozen until the third US instalment could be paid.

8.1.5 This coincidental conjunction of adverse conditions has created a feeling that it might be given another try; in the expectation that less favourable conditions might enable it to be operated more equitably.

8.1.6 In addition, it has been suggested that the modification of some of its provisions might, while preserving its general framework, help its more constructive operation than was possible.

8.1.7 Chief among the changes suggested are:

1. The scaling-down by negotiation of the percentage amounts in the triggers; and
2. The slight re-wording of the second trigger's application to the third tranche by eliminating the proportionality based on the extent to which the 1st and second US instalments exceed two-thirds of the total US subscription.

Both these changes will be required if the mischief potential of this formulation is to be contained. The fact that, in implementing the resolution, participants passed the percentage figures in the first and second triggers without difficulty and yet the triggers remained fully effective shows that they were not the chief sources of mischief; and negotiations to reduce them are thus not likely to make very much real difference, even if they succeed. Regarding the possibility of eliminating the second condition by re-wording paragraph 6(a)(iii) of the Resolution, this seems very doubtful in view of the retention of this same principle in the IDA VII Resolution.

- 8.2.1 The problem of choice between the ADF II and ADF III formulations is thus partially unreal if the objective is to avoid as far as possible interruptions of commitment authorisation.
- (c) The relevance of Option II
- 8.2.2 This is the chief reason indicating that, if a choice has to be made between the two formulations, it would be useful if the possibility of coupling either with the Option II principle of a shift were seriously considered.
- (b) The IDA VII formulation
- 8.2.3 The IDA VII formulation has been referred to already. As noted, the conditional trigger adopted in its paragraph 14(a) appears attractive, in the sense that it does not impose an automatic stoppage on operations. What it does is to permit operations to proceed, subject to any participant indicating that its tranche should not be used for commitment.
- 8.2.4 This, however, does nothing to tackle the problem to which Option II addresses itself, namely the frequency of activation of the trigger itself. All it does is to supply a palliative that this time the trigger has to be individually activated by each participant in respect of its own tranche. The arrangement is merely the converse variant of the provision presently operative in the ADF IV resolution; namely that individual participants may waive the operation of the trigger in respect of their individual tranches.
- 8.2.5 The arrangement is too novel for the benefit of experience of its practical working to be available. It is clear however, that once the conditions of its application arise, the management of the Fund will be exposed to serious uncertainty as to the amount that, at any time, be identified as unconditionally available for commitment. Planning becomes hazardous in such circumstances.
- 8.2.6 Countries, like individuals, tend to be influenced by positions taken by others; and in an exercise in which mutuality is of the essence, this is especially so. The risk that one indication from a key contributor may trigger off an avalanche cannot be easily discounted. If there is a significant number of such indications, the result will not be very different from that of the Kleber Formula trigger.
- 8.2.7 What has been said above applies equally to the FSO variant of this formulation.

9. CONCLUSION

9.1 The analysis of the expected impact of Option II made in this paper is in specific response to the questions and observations made by Deputies at the Brussels meeting. It is not presented with a view to proffering this arrangement as the preference of the Management of the Fund, but merely to show that it is a feasible proposal.

9.2 As has been emphasised, it is equally applicable with any trigger mechanism that may be ultimately adopted since it is not a trigger, but a device for controlling the effect of any trigger.

OPTION I

1st year ADF IV

2nd year ADF IV

3rd year ADF IV

jan 84

jan x 85

jan x 86

jan x 87

jan 88

jan 89

oct 84

oct 85

oct 86

oct 87

oct 88

10-month waiting

Period

1st year ADF IV

2nd year ADF IV

3rd year ADF IV

OPTION II

US first
instalment
expected
as from this date

* Presentation
of US appropriation
proposals to legislators