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# **Proposed Termination of the Interim Trust Fund**

**International Development Association  
February 2001**

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### **Introduction**

The Interim Trust Fund (the “ITF”) was established by IDA’s Board of Governors in 1996 as part of the Eleventh Replenishment (Establishment of the Interim Trust Fund, Resolution No. 184, June 26, 1996 (the “ITF Resolution”). In the light of the inability of the United States to contribute in the first year of that replenishment, FY97, the other contributing members agreed to contribute approximately \$2.8 billion to a separate trust fund administered by IDA to supplement resources available for lending in that year.

### **History of the ITF**

Credits financed by the ITF were made on the same terms and conditions as those of IDA credits with two exceptions. First, eligibility for procurement under ITF credits extended only to nationals of countries that either contributed to the ITF or were eligible to borrow from the IBRD or IDA. Second, ITF credits were approved by IDA’s President after consultation with a committee of IDA’s Executive Directors representing the donors and eligible borrowers.

In the fall of 1997, the United States passed legislation that provided for clearance of its arrears to the Tenth Replenishment and full payment of the first tranche of the United States’ pledge to the Eleventh Replenishment. In consequence, consistent with an agreement among Deputies, IDA’s Executive Directors lifted procurement restrictions from SDR 700 million in uncommitted ITF contributions effective December 31, 1997.

IDA, as Administrator of the ITF, set up a process to ensure that the ITF procurement restrictions would be applied neutrally to FY97 credits, which were divided between ITF credits and regular IDA credits. Credits to be financed by the ITF were selected randomly out of the FY97 project pipeline. Once designated an ITF credit, the terms and conditions and approval process for the credit remained those of an ITF credit whether or not there were changes or delays.

### **Current Status**

A total of \$2.64 billion equivalent (SDR 2.04 billion) has been committed in approved ITF credits. Of this amount, \$911 million equivalent has been disbursed. The final ITF credit was approved in accordance with ITF procedures in December 2000.

The Investment Management Department of the World Bank manages the investment of ITF funds. They are held in four accounts in the four component currencies of the SDR. Because the amounts are required to be kept separate and apart from IDA’s own funds but are invested using a consistent strategy, there are inevitably certain inefficiencies associated with the similar investment and management of relatively small amounts in separate accounts.

Separate financial statements are produced for the ITF, with associated internal and external accounting costs.

### **Termination**

The ITF Report anticipated that the ITF would be terminated when ITF credits have been substantially disbursed. Upon termination, there will be no change to the terms and conditions or administration of ITF credits by IDA. ITF resources will become part of IDA's general resources, and IDA will act for itself rather than as Administrator.

All ITF credits have been approved and a significant portion of ITF funds have been disbursed. Although the current level of disbursements (significant rather than "substantial") does not yet meet the stated expectation in the ITF Report, the Report language was indicative rather than binding. Under the ITF Resolution, the decision to terminate is up to the ITF donors and IDA's Executive Directors. Because it would be more efficient and save costs from systems, accounting and investment management perspectives, and because there would be no change in the actual administration or terms of ITF credits, Management believes that it would be appropriate to move forward now to terminate the ITF.

According to the ITF Resolution, termination requires first the agreement of a majority of all ITF contributors representing a majority of the aggregate ITF contributions, and subsequently a decision by IDA's Executive Directors to liquidate the ITF. Upon termination, ITF credits will become part of IDA's regular lending portfolio, and the ITF surplus (about \$200 million) will become part of IDA's general resources.

The Board of Governors, in the ITF Resolution, authorized the allocation of voting rights in IDA to ITF contributors on account of their contributions upon termination. The ITF Resolution provides that voting rights are to be calculated "on the basis of the then-current voting rights system." Accordingly, upon a final decision to terminate the ITF, voting rights, including preemptive rights under Article III, Section 1(c) of IDA's Articles of Agreement, would be calculated and handled in accordance with the same model and procedures as are used in regular replenishments.

Contributors to the ITF are therefore asked to agree to terminate the ITF. If such agreement is obtained, approval of the Executive Directors will be sought.