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IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Eighty-eighth Session
Rome, 13-14 September 2006

LETTER AGREEMENT BETWEEN IFAD AND
THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
FOR THE TRANSFER OF THE GRANTS FACILITY FOR INDIGENOUS PEOPLES

For: Approval

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session.

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RECOMMENDATION FOR APPROVAL

It is recommended that the Executive Board approve the contribution from the International Bank for Reconstruction and Development and its governance as set forth in paragraphs 6-12 of Annex I and in the attached letter agreement (Annex II).

**LETTER AGREEMENT BETWEEN IFAD AND
THE INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT ON
THE TRANSFER OF THE GRANTS FACILITY FOR INDIGENOUS PEOPLES**

1. The Executive Board is invited to note that IFAD entered into an agreement with the International Bank for Reconstruction and Development on 22 June 2006 to support the transfer of the World Bank's Grants Facility for Indigenous Peoples to IFAD for the purpose of making small grants to indigenous peoples organizations for development projects. It is intended that these projects will be for activities consistent with IFAD's Strategic Framework and, as such, the initial contribution, as well as the related outflows, will be recorded as supplementary funds in IFAD's books of account.
2. The Board is requested to approve the contribution from the International Bank for Reconstruction and Development and its governance as set forth in paragraphs 6-12 of Annex I and in the attached letter agreement (Annex II).
3. Relevant background information and the letter agreement are attached.

I. CONTEXT AND BACKGROUND

1. Since the establishment of the United Nations Permanent Forum for Indigenous Issues (UNPFII) in 2000, there has been a very strong and consistent demand from indigenous leaders for IFAD and other international financial institutions (IFIs) to provide resources in support of projects **by and for** indigenous peoples. In this regard, significant potential exists for more effective and development-oriented dialogue between IFIs, UNPFII and indigenous peoples' communities and organizations with a view to enhanced partnership and cooperation. In an effort to implement a proactive approach to establishing a direct partnership with indigenous peoples, the World Bank in 2003 established the Grants Facility for Indigenous Peoples (GFIP). The objective was to assist indigenous peoples in designing, approving and implementing sustainable development projects based on their own perspective of self-determined development. The World Bank allocated US\$2 million from its Development Grant Facility for a period of three years. The principal innovations of the GFIP are: (a) the provision of grants directly to indigenous peoples' organizations for the empowerment and inclusion of indigenous peoples in decision-making processes; (b) the governance structure, inasmuch as the Facility is managed by a board comprised of indigenous people with a voting majority; and (c) the sustainability commitment to establish the Facility in separate institutions and disseminate the experience learned from indigenous, demand-driven development initiatives.

2. Against this backdrop, a series of meetings were held between IFAD, the World Bank and UNPFII in the first half of 2006 to discuss the handover of the GFIP to IFAD in pursuit of the World Bank objective of establishing the Facility in a separate institution. As a result, in June 2006 the World Bank and IFAD signed a letter agreement to make available to IFAD a contribution in the amount of US\$415,000 to transfer the Facility to IFAD, where it would take on the name of Indigenous Peoples Assistance Facility. The World Bank agreed to assist IFAD during the transitional period of housing the Facility at IFAD by assigning World Bank personnel to provide staff time to support and train IFAD staff and by transferring to IFAD a contribution of US\$500,000 equivalent to be provided by the Kingdom of Norway and earmarked for this purpose.

II. RATIONALE AND RELEVANCE TO IFAD

3. Recognizing that IFAD has gained considerable experience, knowledge and wide recognition on indigenous issues and after extensive consultation with the Chair and members of UNPFII, the World Bank officially requested IFAD to take over the GFIP and continue its mandate to support indigenous peoples. The recently concluded fifth session of UNPFII also recommended that IFAD should house the Facility. The transfer of the GFIP to IFAD would provide the Fund with an important instrument for implementing the Programme of Action of the Second International Decade of the World's Indigenous People.¹ It would also effectively implement one of the main recommendations of the IFAD-UNPFII Brainstorming Workshop on Indigenous and Tribal Peoples' Perspectives on selected IFAD-funded projects held in November 2005.²

¹ The five objectives of the Programme of Action for the Second International Decade are the following: (i) inclusion of indigenous peoples in the design, implementation and evaluation of international, regional and national processes regarding laws, policies, resources, programmes and projects; (ii) promoting full participation of indigenous peoples in decisions that directly or indirectly affect them through the principle of free, prior and informed consent; (iii) supporting development policies with a strong focus on identity and respect for the cultural and linguistic diversity of indigenous peoples; (iv) adopting targeted policies, programmes, projects and budgets for the development of indigenous peoples with particular emphasis on indigenous women, children and youth; and (v) development of strong monitoring mechanisms. General Assembly Resolution A/RES/59/174, 22 December 2004.

² IFAD should proactively provide resources and skills directly to communities to enable them to articulate and pursue their visions of development and to assist them in negotiating mainstream challenges and creating employability. Brainstorming Workshop on Indigenous and Tribal Peoples' Perspectives on Selected IFAD-funded Projects, Workshop report, IFAD, November 2005.

4. IFAD has been very effective in its work with indigenous peoples from its early years, thanks to its targeted approach to rural development. Moreover, it has channelled a significant part of its loan and grant funds to support indigenous peoples in various regions of the world. Based on this experience, IFAD has observed that capacity-building, self-determined development and ownership can be considerably enhanced by entrusting indigenous communities and their institutions with the direct management of resources and funds. Through such a facility, IFAD will enhance its effectiveness in enabling indigenous peoples, as part of its target group, to overcome their poverty and in integrating their perspectives in its development initiatives for reaching the Millennium Development Goals. Such a facility will also create opportunities for indigenous communities to find their own solutions. Building on a proven mechanism that has been piloted for three years and has worked well at the World Bank, IFAD has a comparative advantage to manage such a facility.

III. THE INDIGENOUS PEOPLES ASSISTANCE FACILITY PROGRAMME

Purpose

5. The President of IFAD signed a letter agreement with the International Bank for Reconstruction and Development on 22 June 2006 to receive a contribution in the amount of US\$415,000 for making small grants to indigenous peoples' organizations for development initiatives. With this contribution, IFAD will set up a time-bound Indigenous Peoples Assistance Facility Programme with the objectives of: (a) supporting the transfer to IFAD of the Grants Facility for Indigenous Peoples managed within the World Bank not later than 31 December 2006, and (b) providing small grants ranging from US\$10,000 to US\$30,000 to indigenous peoples' organizations and communities to support culturally appropriate development projects, including but not limited to the following priority areas: (i) planning and preparation of development projects implemented by indigenous organizations and communities; (ii) increasing the capacity of indigenous peoples' organizations and communities for self-determined development; (iii) development partnerships and alliances between indigenous peoples' organizations and other stakeholders; (iv) innovative pilot projects that build on indigenous culture, identity, knowledge, natural resources, intellectual property rights, human rights and/or institutions; and (v) critical issues identified in the mandate of UNPFII. Eligibility to apply for a grant is open to indigenous peoples' community organizations and indigenous peoples' not-for-profit organizations or NGOs legally registered in the country of grant implementation. The organization must be fully functioning and its application must contain, at a minimum, its by-laws, its certificate of registration and evidence of its legal capacity to receive donor funds under applicable law.

Governance

6. IFAD will provide its no objection for the programme to continue to be managed by the Board of the existing Grants Facility for Indigenous Peoples, which is composed of a majority of indigenous people. The Board will review and approve grant proposals to be financed by the proceeds of the contribution, and will provide general oversight for the programme, whose day-to-day activities will be carried out by IFAD staff and facilities. IFAD will be represented on the Board by a staff member responsible for indigenous issues and by legal counsel as a non-voting resource person. The Board will work closely with assigned IFAD staff, who will be responsible for the administrative, technical and financial aspects of the Facility, including the logistics of meetings and information dissemination.

7. All proposals received in response to a call for proposals from the Indigenous Peoples Assistance Facility will be reviewed through a rigorous and competitive process according to the criteria of project effectiveness, project feasibility, institutional capacity and institutional credibility.

Balance within the grant portfolio will be ensured in terms of geographical distribution, gender and sectors. The Board will review and make the final recommendation on grant awards.

Implementation and Financial Sustainability

8. The programme will be managed by IFAD as a time-bound facility that will expire once all the available funds received are disbursed. If the Facility receives strong support from indigenous peoples' organizations and from UNPFII and if there is a strong willingness on the part of donors and others for it to continue, IFAD would likely be willing to maintain the Facility and make appropriate adjustments to its framework, scope and governance, subject to the availability of adequate resources. The World Bank will support IFAD's initiatives to raise funds from other donors.

9. In addition to its fiduciary responsibilities, IFAD will also have certain operational responsibilities: (a) through its participation on the Facility's Board, IFAD will be part of the small-grants approval process and will further hold veto power over any proposal that it deems would result in any risk for IFAD; and (b) IFAD will oversee the use of small grants in a reasonable manner by undertaking a desk review of the grants awarded by the Facility and conducting an assessment of a small sample of representative activities in countries where IFAD has operations under way.

10. IFAD will sign an agreement with each small-grant recipient requiring inter alia that they submit a report to IFAD on activities (progress and financial) within the three months following completion of the activities supported by the grant. IFAD will be responsible for monitoring receipt of such completion reports. A summary of the reports received and overdue will be included as part of the six-monthly reports IFAD will send to the World Bank.

11. During an initial transitional period of six months as from the date of approval by the IFAD Executive Board, the World Bank will assist IFAD in setting up the Facility at IFAD by:

- assigning World Bank personnel to support the establishment of the Facility at IFAD, including training of the respective IFAD staff;
- transferring to IFAD the contribution to be provided by the Kingdom of Norway for the Facility; and
- supporting IFAD initiatives to raise funds from other donors.

12. The Facility is currently expected to be financially sustainable. In accordance with the letter agreement signed by the World Bank and IFAD in handing the Facility over to IFAD, the World Bank agreed to the following provisions:

- The World Bank will arrange to have the contribution funds paid to IFAD only after it receives confirmation from IFAD that the IFAD Executive Board has approved the content of the letter agreement.
- An amount of 5% overhead – that IFAD will use to defray the costs of administering the Facility – will be charged to the contribution.
- Up to US\$40,000 to cover the cost of the Facility Board's meetings (travel and per diem allowances) will be charged to the contribution.
- Interest earned on investing the World Bank's contribution will be used by IFAD to defray the Facility's administrative costs.

- The amount of US\$30,000 equivalent of World Bank staff time – to assist IFAD with the establishment of the Facility and to train staff in administering it – will be charged to the contribution.

ANNEX II

The World Bank
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT
INTERNATIONAL DEVELOPMENT ASSOCIATION

1818 H Street N.W.
Washington, D.C. 20433
U.S.A.

(202) 473-1000
Cable Address: INTBAFRAD
Cable Address: INDEVAS

June 22, 2006

Mr. Lennart Bage
President,
International Fund for Agricultural Development (IFAD)
107 Via del Serafico
00142 Rome, Italy

Dear Mr. Bage,

**FY2006 Development Grant Facility Window 2
Grants Facility for Indigenous Peoples**

DGF File: 103406-04

I am writing on behalf of the International Bank for Reconstruction and Development (the Bank) to indicate the Bank's agreement to make available to the International Fund for Agricultural Development (the Fund) a grant in the amount of four hundred fifteen thousands United States dollars (US\$415,000) (the Contribution).

The Contribution is made from the Bank's FY2006 Development Grant Facility (DGF) Window 2, following the discussion between the Bank and the Fund regarding the transfer by the Bank to the Fund of the Indigenous Peoples Grants Facility (the Facility), and for the purposes and on the terms and conditions set forth in this Letter Agreement. Without limiting the generality of the foregoing, these terms and conditions include those of that certain Financial Management Framework Agreement between the World Bank, and the United Nations, dated March 10, 2006 (Financial Management Framework Agreement), which are incorporated in this Letter Agreement to form a part hereof as if they were recited at length herein. The Fund, by countersigning this Letter Agreement, acknowledges that it has received a copy of the Financial Management Framework Agreement and if the Fund was not an original signatory thereof, agrees that it is bound by the terms of the Financial Management Framework Agreement as if the Fund had been an original party thereto. The Fund represents, by confirming its agreement below, that (i) it is authorized to contract and withdraw the Contribution for the said purposes and on the said terms and conditions, and (ii) the references in paragraphs 3.1 and 3.4 of this Letter Agreement to the Fund's financial regulations and rules are complete and accurate, and the Fund makes this representation knowing that the Bank shall rely on it for purposes of deciding to make the Contribution.

I. Purpose of the Contribution

1.1 The purpose of the Contribution is to support transfer of the World Bank's Indigenous Peoples Grants Facility to the Fund for the purpose of making small grants to

Indigenous Peoples Organizations for development projects (the Program). The Contribution will only finance expenditures in respect of the reasonable cost of goods and services required for the Program and to be financed from the proceeds of the Contribution. Contribution funds will only be used for commitments incurred after the transfer of funds to IFAD by the Bank through June 15, 2007 (the Contribution Period).

1.2 The agreed objectives of the Program (the Objectives) and implementation arrangements are set forth in the Annex to this Letter Agreement.

2. Use of Funds

2.1 The Bank shall arrange to have the Contribution funds paid to the Fund in accordance with the provisions of this Letter Agreement to the following account:

Beneficiary Bank:	Bank for International Settlements, Basle, Switzerland
BIC Code:	BISBCHBB
Beneficiary Name:	International Fund for Agricultural Development- IFAD
BIC Code:	IFADITRR
Beneficiary Account Number*:	USD 2D TETRA
Correspondent Bank (for USD):	Federal Reserve Bank of New York
BIC Code:	FRNYUS33
ABA:	021085732

2.2 The Fund shall exercise the same care in the administration of the Contribution as it exercises in the administration of its own funds, having due regard to economy and efficiency and the need to uphold the highest standards of integrity in the administration of public funds including the prevention of fraud and corruption. The Fund agrees to use the funds only for their intended purposes as described in the Objectives.

2.3 The Fund shall not make any disbursement for the purpose of any payment to persons or entities, or for any import of goods, if such payment or import, to the Fund's knowledge, is prohibited by a decision of the United Nations Security Council taken under Chapter VII of the Charter of the United Nations

2.4 The Fund understands that all funds must be used or committed by June 15, 2007 and expended by September, 15, 2007. Any funds that are not expended by September 15, 2007 shall be returned to the Bank, unless otherwise approved by the DGF Secretariat and agreed in writing by the Bank.

2.5 The Bank shall arrange to have the Contribution funds paid to the Fund only after the Bank receives confirmation from the Fund that its Executive Board has approved the Contribution and its governance as set forth in this Letter Agreement.

3. Status, Accounts and Audit

3.1. The Fund shall maintain or cause to be maintained a financial management system, including records and accounts, adequate to reflect the transactions related to the Activities, in accordance with the Financial Regulations of the Fund (hereinafter referred to as the Financial Regulations)

3.2. The Fund shall maintain in a separate account in its records (the Contribution Control Account) a complete, true and faithful record of all the advances from the proceeds of the Contribution and of all the expenditures paid from such advances.

3.3. The Fund shall prepare, on a six month basis, interim unaudited financial reports, in accordance with accounting standards established pursuant to the Financial Regulations and in the format agreed with the Bank, adequate to reflect the operations, resources and expenditures related to the Activities. The first said interim unaudited financial reports shall be furnished to the Bank no later than 60 days after the end of the first six months after the effectiveness of this Letter Agreement, and shall cover the period from the incurrence of the first expenditure under the Contribution through the end of such first six months; thereafter, each interim unaudited financial report shall be furnished to the Bank not later than 60 days after each subsequent six months, and shall cover such six months.

3.4. The Fund shall ensure that the audit of the Activities is governed by: (i) Regulations XII of the Financial Regulations and (ii) the Financial Management Framework Agreement.

3.5. The Fund shall retain until at least one year after the Bank has received the final interim unaudited financial report referred to in paragraph 3.3 of this Letter Agreement covering the six months in which the last use of the Contribution proceeds was made, all records (contracts, orders, invoices, bills, receipts and other documents) evidencing all expenditures financed from Contribution proceeds.

4. Reports

4.1 Not later than October 15, 2007, four months after the end of the Contribution Period, the Fund shall submit to the Bank a report summarizing the Activities financed by the Contribution.

5. General

5.1 Your contact in the Bank regarding the Contribution will be Mr. Navin Rai, Lead Social Development Specialist.

5.2 It is the Bank's policy to make publicly available this Letter Agreement and any information related thereto after this Letter Agreement has become effective. By confirming its agreement below, the Fund consents to such disclosure.

ANNEX II


5.3 By confirming its agreement below, the Fund represents that it is authorized to enter into this Letter Agreement and to withdraw Contribution proceeds for the intended purposes and in accordance with the terms stated above.

5.4 The Bank may suspend, in whole or in part, and/or terminate the rights of the Fund under the Financial Management Framework Agreement (a) if, by notice sent jointly to the United Nations and the Fund pursuant to paragraph (iv) of Section 9 of the Financial Management Framework Agreement, the Bank confirms that it reasonably believes the actions taken previously in accordance with said Section 9 have not been sufficient to fulfill its obligation to ensure that the proceeds of the Contribution were used for eligible expenditures; or (b) if, by notice sent jointly to the United Nations and the Fund pursuant to sub-paragraph (a) of paragraph (iii) of Section 10 of the Financial Management Framework Agreement, the Bank confirms that alternative financial management arrangements mutually acceptable to the Bank and the relevant UN Organization were not reached within the period stipulated therein; or (c) if the Bank determines at any time that a reference in paragraphs 3.1 or 3.4 of this Letter Agreement to the Fund's financial regulations and rules is incomplete or inaccurate in any material respect.

Please confirm your agreement to the foregoing on behalf of the Fund by signing, dating and returning to us the enclosed copy of this Letter Agreement. Upon (i) receipt by the Bank of the copy of this Letter Agreement countersigned by you, and (ii) agreement reached between the Bank and the Fund as to the format of the interim unaudited financial reports referred to in Section 3 of this Letter Agreement, this Letter Agreement will become effective as of the date of the countersignature.

Sincerely,

INTERNATIONAL BANK
FOR RECONSTRUCTION AND DEVELOPMENT



Steen Lau Jorgensen
Acting Vice President

Environmentally and Socially Sustainable Development Network

AGREED:
International Fund for Agricultural Development

By: Lennart Bage
Title: President

Date: 

ANNEX

PROGRAM OBJECTIVES AND IMPLEMENTATION ARRANGEMENTS

1. The Objectives of the Program are to (a) support the transfer of the Grants Facility for Indigenous Peoples managed within the Bank to the Fund, not later than December 31, 2006, and (b) provide small grants ranging between \$10,000 to \$30,000 to Indigenous Peoples organizations and communities to support culturally appropriate development projects, including but not limited to the following priority areas: (i) planning and preparation of development projects implemented by Indigenous Peoples organizations and communities; (ii) increasing capacity of Indigenous Peoples organizations and communities for self-development; (iii) development of partnerships and alliances between indigenous Peoples organizations and other stakeholders; (iv) innovative pilot projects that build on indigenous culture, identity, knowledge, natural resources, intellectual property, human rights, and/or institutions; and (v) critical issues identified in the mandate of the UN Permanent Forum on Indigenous Issues.

2. The Program shall be administered by the Fund as a time bound facility which shall expire once all the available funds are disbursed. The Program shall continue to be managed by the Indigenous Peoples Grants Facility Board, composed of majority of Indigenous Peoples, for which the Fund would have provided no objection. The Board shall review and approve the grant proposals to be financed from the proceeds of the Contribution, and provide an overall oversight over the Program, whose day to day activities shall be carried out by the Fund staff and facilities. The Fund shall be represented in the Board with a staff member in charge of indigenous issues, and a legal counsel as a non-member resource person. The Bank agrees that the Fund may use up to \$40,000 from the Contribution proceeds to cover the cost of the meeting of the Indigenous Peoples Grants Facility Board (travel and per diem).

3. The Fund, in addition to its fiduciary responsibilities, shall also have certain operational responsibilities, in that: (a) the Fund, through its participation in the Board, shall be part of the small grants approval process, and can further have a veto power over any proposal that the Fund may conclude would result in any risks for the Fund, and (b) the Fund shall oversee the use of the small grants in a reasonable manner by undertaking a desk review of the grants awarded by the Facility, as well as an assessment of a small sample of representative activities in countries where the Fund has its operations.

4. The Fund shall sign an agreement with each small grant recipient which *inter alia* requires a report to be submitted to the Fund on activities (progress and financial) within three months of completion of the activities supported under the small grant, and shall be responsible for monitoring the receipt of the activity completion reports. A summary status on the reports received and overdue shall be included as part of the six monthly reports referred to in Paragraph 3.3 of this Letter Agreement.

5. The Bank shall assist the Fund during an initial transitional period which may not exceed six months from the date of the approval of the Indigenous People Grant Facility by the Fund's Executive Board, with setting the Facility within the Fund by:

ANNEX II

- a) assigning Bank personnel to provide staff time of equivalent value of thirty thousand United States Dollars (\$30,000) during Fiscal Year 2007 (July 2006 – June 2007) to support the transition of the Facility to the Fund, including the training of concerned Fund staff in administering the small grants to Indigenous Peoples organizations;
- b) transferring to the Fund the Contribution to be provided by the Kingdom of Norway for the Facility once an agreement is concluded among Norway, the Fund and the Bank, and
- c) Supporting the Fund's initiatives to raise funds from other donors

6. The Environmentally and Socially Sustainable Development Network of the Bank shall offer its best efforts to assist the Fund in seeking additional funding from the DGF.

7. In order to assist in the defrayment of the costs of administration and other expenses incurred by the Fund under this Agreement, the Fund may, following transfer of the Contribution (i) deduct from the Contribution and retain for the Fund's own account an amount equal to five percent (5 %) of the Contribution, and (ii) retain the interest income earned on the Contribution before its disbursement.

