Review of Post-Crisis Multi-Donor Trust Funds

Country Study Annexes, February 2007

Prepared by Scanteam/Norway

Commissioned by
the World Bank, Norwegian Ministry of Foreign Affairs and
Norwegian Agency for Development Cooperation (Norad)

in cooperation with
Canadian International Development Agency (CIDA),
Netherlands Ministry of Foreign Affairs and
UK Department for International Development

This Review has been commissioned and guided by a Steering Committee (see list of Steering Committee members below) from different institutions. However, these institutions do not necessarily agree with or endorse all the findings and recommendations in the Report.

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Contents

Acronyms and Abbreviations

ADB	Asian Development Bank
ADRP	Angola Demobilization and Reintegration project
AIAF	Afghan Interim Authority Fund (Afghanistan)
AHLC	Ad Hoc Liaison Committee (Palestinian Territories)
ARTF	Afghanistan Reconstruction Trust Fund
BCG	Baghdad Coordination Group, Iraq
BRR	Rehabilitation and Reconstruction Agency for Aceh and Nias
CAR	Central African Republic
CBO	Community Based Organization
CBTF	Capacity Building Trust Fund (Sudan)
CFET	Consolidated Fund for Timor-Leste
CG	Consultative Group
COFS	Combatants on Foreign Soil
CPA	Comprehensive Peace Agreement (Sudan)
CSO	Civil Society Organization
CSP	Consolidated Support Program (Timor-Leste)
DDR	Disarmament, Demobilization and Reintegration
DFID	Department for International Development (UK)
DLA	Damage and Loss Assessment (Indonesia)
DRC	Democratic Republic of Congo
DSRSG	Deputy Special Representative of the Secretary-General
EAP	Emergency Assistance Program for the Occupied Territories (Palestine)
EC	European Commission
EXC	Ex-combatant
EUR	Euros
FCC	Facility Coordination Committee (Iraq)
FY	Fiscal Year
GAM	Gerakan Aceh Merdeka (Free Aceh Movement)
GIRA	Government of the Islamic Republic of Afghanistan
GOI	Government of Iraq/Government of Indonesia
GoNU	Sudan Government of National Unity (former Government of Sudan)
GOS	Government of Sudan
GOSL	Government of Sierra Leone
GoSS	Government of Southern Sudan
HQ	Headquarters

IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDP	Internally Displaced Person
IOC	Interim Oversight Committee (Sudan)
IRFFI	International Reconstruction Fund Facility for Iraq
IRFO	Iraq Reconstruction Forum
ISRB	Iraqi Strategic Review Board
ITF	Iraq Trust Fund
JAM	Joint Assessment Mission
JSM	Joint Supervision Mission
LAC	Local Ad-hoc Committee (Great Lakes MDRP)
LDP	Letter of Disarmament, Demobilization and Reintegration Policy
MDRP	Multi-country Demobilization and Reintegration Program
DRP	Demobilization and Reintegration Program
MDF	Multi Donor Fund
MDTF	Multi-donor Trust Fund
MDTF-N	Multi-Donor Trust Fund – National, Sudan
MDTF-SS	Multi-Donor Trust Fund – South Sudan
MISFA	Microfinance Investment Support Facility for Afghanistan
MOF	Ministry of Finance
MONUC	UN Observer Mission to the Democratic Republic of Congo
MOU	Memorandum of Understanding
MTR	Midterm Review
M&E	Monitoring and Evaluation
NCDDR	National Committee on Disarmament, Demobilization and Reintegration (several countries)
NDF	National Development Framework (Afghanistan)
NDS	National Development Strategy (Iraq)
NGO	Non-Governmental Organization
OED	Operations Evaluation Department (World Bank)
ONUB	UN Office in Burundi
OP	Operational Policy (World Bank)
O&M	Operations and Maintenance
PA	Palestine Authority, West Bank and Gaza
PAD	Program Appraisal Document (World Bank)
PAREM (program)	Public Administration Reform and Economic Management
PCN	Project Concept Note (World Bank)
PCNA	Post-Conflict Needs Assessment

PECDAR	The Palestinian Council for Development and Reconstruction
PFM	Public Finance Management
PLO	Palestine Liberation Organization
PMT/U	Project Management Team/Unit
PPF	Project Preparation Facility (World Bank)
PRSP	Poverty Reduction Strategy Paper
RAP	Recovery Assistance Policy (Indonesia)
ROC	Republic of Congo
RDRC	Rwanda Demobilization and Reintegration Commission
RRM	Rapid Response Mechanism (UNDP/DRC)
SC	Steering Committee
SPLM	Sudan People's Liberation Movement
SWGs	Sector Working Groups
SY	Solar Year
TCG	Technical Coordination Group (MDRP)
TF	Trust Fund
TFET	Trust Fund for East Timor
TSP	Transitional Support Program (Timor-Leste)
UN	United Nations
UNAMA	United Nations Assistance Mission to Afghanistan
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNTAET	United Nations Transitional Administration in East Timor
USD	United States Dollar
WB	World Bank
WB&G	West Bank and Gaza

Case Studies - Overview

This second volume of the Review of Post-Crisis Multi-Donor Trust Funds contains the case studies which has been reviewed as part of this study.

The first six studies (Annexes D through I) are based on document reviews, interviews and field visits, while the last three are based largely on document reviews supplemented by a few informant interviews.

In the case of the Iraq trust funds (Annex D), the field work consisted of a visit to Amman, where the conversations with government and some other informants who were inside Iraq were done by telephone.

In the cases of Sudan (Annex F) and Timor Leste (Annex I), these visits were largely restricted to the capital and with no project visits.

The visits to Indonesia (Annex E) and the Greater Great Lakes DDR trust funds (Annex G) included some project visits, but not to the extent that the teams could make any informed judgments about project performance. The visits were more to meet local beneficiary groups, get an impression of the kinds of activities that were taking place, and see how the trust fund portfolio was evolving.

The Afghanistan review (Annex H) builds to a large extent on field work done previously by Scanteam, when it carried out the Mid-term Review of the ARTF. This study thus has the strongest field visit dimension, also because Scanteam has later been involved in a joint review of one of the largest community development projects. This field work was done towards the end of 2004 and early 2005, however, and thus somewhat out of date.

The case studies for Iraq, Sudan, Indonesia, Greater Great Lakes and Timor Leste were sent out for comments. A considerable number of informants sent their observations back to the team, for which we are very grateful. The Afghanistan Mid-term Review report, which forms the core of Annex H, went through an even broader consultative process in 2005. The core annexes have hence been through a fairly careful review process.

Almost without exception the comments made were done in a very professional manner, were constructive, factual, even where providing facts that clearly were uncomfortable. The team would like to thank all who took the time to comment and contribute, which has enabled the team to correct mistakes, misunderstandings and misinterpretations.

While care has been taken to try to incorporate the views and information received, there will undoubtedly be factual errors and disagreements in interpretation that remain. For this we assume full responsibility, and apologize for any offense caused.

ANNEX D: The Iraq Trust Funds

1. The Iraq War during March-April 2003 compounded the effects of previous military conflicts, as well as a decade of United Nations sponsored sanctions and isolation from the international community. Iraq suffered a severe degradation of its physical infrastructure, public services and general indicators of human development during this period.
2. The *International Reconstruction Fund Facility for Iraq* (IRFFI) was established early in 2004 to support the reconstruction of Iraq. The facility is comprised of the World Bank Iraq Trust Fund (WB ITF) and the United Nations Development Group Iraq Trust Fund (UNDG ITF), administered by the United Nations Development Programme (UNDP). The two trust funds are administered independently of each other. However, they share a common governance structure in which a Donor's Committee provides strategic guidance and oversight.
3. The IRFFI represents the first time that the UN system and the World Bank have managed trust funds simultaneously and within a single mechanism. The "two window" option has subsequently been proposed as a model for other post-conflict situations. A key objective of the IRFFI was to strengthen the overall portfolio through coordination and building on the respective competencies of the UN and the World Bank.
4. Fund operations reveal important lessons learned about the complimentary roles that the World Bank and the United Nations system can bring to post-conflict situations. While there are good examples of collaboration, this complementarity has not been developed in a systematic manner. The foundation documents do not identify a specific division of labor, or the comparative advantages that the UN and World Bank bring to the IRFFI. As well, the governance structure has not played a pro-active role in ensuring coordination between the funds.
5. This study is based on:
   - Document review covering the Trust Funds themselves, project documents, GOI documents, independent reviews and reports (see Annex C);
   - Informant interviews, covering donor, government, UN and World Bank officials, carried out in Amman, New York and Washington (see Annex B);
   - A visit was carried out to Amman during the period 27 August-02 September 2006, during which time interviews were carried out with resident UN and World Bank staff, donor representatives working on the Iraqi programs, and telephone interviews with informants based inside Iraq.

D.1 Trust Fund Overview

6. The objectives of the IRFFI, as paraphrased from its website and foundation documents, are to:
   - Ensure swift, flexible, and coordinated donor financing for priority investments in Iraq.

- Help donors coordinate and channel their support for reconstruction and development efforts, focusing on both short term and medium term priorities.
- Support national development priorities, as outlined in the UN and World Bank *Joint Iraqi Needs Assessment* (2003) and the subsequent Iraqi *National Development Strategy; 2005- 2007* (2005).
- Complement other forms of bilateral and multilateral assistance, including by providing a forum for broader coordination and information sharing.
- Rationalize and coordinate the contributions of the United Nations system and the World Bank, to ensure gaps are filled and that there is consistency and coherence between Facility-financed activities.

7. Interpretation of the IRFFI's objectives was consistent across the four informant groups: World Bank, UN, Government of Iraq (GOI), and donors. At the same time, most informants stated that their agency or government had secondary objective that influence their behavior towards the fund.

8. The Government of Iraqi focused on the IRFFI as a mechanism for reducing transaction costs, coordinating donor activity in line with government priorities, gaining access to information on those activities and managing tensions as they arise. The government also viewed the IRFFI as a mechanism for accessing knowledge and technical support on best practices in the various IRFFI sectors.

9. The secondary objectives noted by donors included:
   - Create a common capacity for donors to deliver their assistance programs. The security situation limits donors' capacity inside Iraq. In this context, the IRFFI is a mechanism for donors to deliver their own programs.
   - Create a forum for coordination with the United States, given its importance as the largest bilateral donor and in consideration of its political, military and donor roles.
   - Allow smaller donors to become involved where they might not otherwise have the capacity. They were able to become "players" in the larger process, with a voice and access to information.
   - Provide an opportunity for donors who opposed the US-lead military action to show political support for the reconstruction effort. The IRFFI created a forum for dialogue on post-invasion political and development priorities.
   - Focus policy dialogue between donors and Iraqi officials in a single mechanism, enhancing the access and leverage of donors in those discussions.
   - Support multilateralism and the larger political role for the United Nations, after the divisive process leading up to the Iraq war.

10. The Bank's last loan to Iraq closed in 1979, and no Bank missions visited the country between 1979 and 2003. Iraq had been in non-accrual status since 1990, but cleared the arrears with the Bank in December 2004. After 25 years of isolation, mutual understanding and knowledge was low. In this context, Bank informants noted that serving as an IRFFI administrator provided:

- Early entry into Iraq, prior to normalization of relations and the clearing of Iraq's arrears. The Bank would not have otherwise been involved as there was no *de facto* government in Iraq.
- An opportunity to introduce IDA credits and grants, Analytical and Advisory Activities (AAA) and other Bank services. The *Second Interim Strategy* (2005) includes a framework for up to USD 500 million in IDA loans.
- A platform for mutual learning between the Bank and the Iraqi Government, after a long period of isolation.
- Access to dialogue on economic and sectoral policies, with Government and donors.
- Early contribution to the design of state institutions and their procedures based on international good practice, particularly in the areas of public finance management and procurement.

11. The UN maintained a presence in Iraq after the first Gulf War. It came to the IRFFI with an established network inside Iraq, with experienced national staff and country knowledge. UN Security Council (UNSC) Resolutions 1546 (2004) and 1637 (2005), among others, direct UN agencies to maintain core political, electoral and constitutional activities in Iraq, along with its roles in reconstruction, development, humanitarian assistance and the protection and promotion of human rights.

12. From this basis, UN informants stated the organization worked through the IRFFI to:
    - Fulfill the UN's mandate in Iraq, consistent with UNSC resolutions.
    - Enhanced existing resources available to UN agencies, as well as strengthen their presence and networks in Iraq.
    - Test the "two window" fund model joint managed with the World Bank, looking towards other post-conflict situations.
    - Test and strengthen the "cluster system" as a mechanism to bring better coordination and strategic focus to the Iraq country program, and to apply lessons learned from this in other countries.[1]

13. The formal end-disbursement date for the IRFFI is 31 December 2007, though it is now expected that both the Bank and UNDG fund will only close December 2010.

14. The United Nations and the World Bank are currently involved in discussions with the Government on an *International Compact for Iraq*. The Compact is an initiative of the Government of Iraq for a new partnership with the international community. Its purpose is to achieve "a National Vision for Iraq which aims to consolidate peace and pursue political, economic and social development over

[1] Iraq is the first country where UN agencies have adopted the Cluster approach, a joint planning, funding, coordinated implementation and reporting arrangement for large scale operations.

the next five years."[2] A Preparatory Group was set up in 2005, co-chaired by the United Nations and the Government of Iraq with support from the Bank and UNDP. There was no clarity on the relationship between the IRFFI mechanism and the Compact process, although the latter's objectives include a process for managing existing pledges as well as channeling new resources. Informants placed an emphasis on the Compact as a forum for coordinating technical support, capacity development and policy dialogue rather.

Defining the Reconstruction Needs

15. The creation of the IRFFI was preceded by a comprehensive international process, in which the UN system played important political, convening and technical roles. The Bank's role focused on convening and technical support. As specific steps:

- A meeting of the Group of Seven industrial countries on 12 April 2003 called for international assistance to rebuild Iraq, including with support from the IMF and the World Bank.
- The UN subsequently convened a meeting for Iraq on 24 June 2003, bringing together some 50 states that became the Liaison Group. The Liaison Group asked a small number of major donors, known as the Core Group, to organize a donors' conference. The UN, World Bank and IMF attended Core Group meetings as observers.
- The Liaison Group further asked the UN and the World Bank to assess Iraq's reconstruction needs, and to design a multi-donor trust fund that would channel international support for priority reconstruction needs.

16. A UN and World Bank *Joint Needs Assessment* was conducted between June and August 2003 by the World Bank and the UNDG with support from Iraqi officials and IMF. The assessment covered 14 areas and cross cutting themes, and identified Iraq's three development priorities as being a) strengthening institutions of sovereign, transparent and good governance, b) restoring critical infrastructure and core human services c) supporting an economic and social transition that provides both growth and social protection[3].

17. The assessment mission identified investment needs over the short (2004) and medium (2005-2007) terms to be USD 35.8 billion. This was for physical reconstruction, technical assistance, and training needs, plus additional operation and maintenance costs associated with new investments across the 14 sectors.

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[2] http://www.iraqcompact.org/

[3] The Needs Assessment sectors are: education; health; employment creation; water and sanitation; transport and communications; electricity; housing and land management; urban management; agriculture, water resources and food security; finance; state owned enterprises; investment climate; mine action; and government institutions. Cross-cutting themes cover macro-economics; economic management; human rights; gender; and the environment. Cultural heritage, drugs and crime were assessed with UN support outside of the joint assessment (UN and World Bank 2003).

Critical sectors outside the assessment's mandate, including the oil industry, were estimated to require an additional USD 20 billion.

18. A Donors Conference was held in Madrid on 23-24 October 2003. It was attended by representatives from 73 countries, 20 international organizations, 13 NGOs and members of the Iraqi Governing Council. The Joint Needs Assessment Report was endorsed by the conference, and 40 funding agencies announced pledges amounting to about USD 32 billion in grants and loans till the end of 2007. Of this, USD 18.5 billion was pledged by the US, USD 8 billion from other donors, and the remaining USD 5.5 billion by International Financial Institutions (IFI). By mid-2006, the World Bank estimates that actual donor commitments were about USD 25 billion.

Assumptions Underlying IRFFI Establishment and Operations

19. IRFFI was designed based on a series of assumptions: that the Government of Iraq would consolidate over time; there would be continuity in government policy and personnel between the transition phases; the security situation would normalize and; the Government of Iraq would generate own revenues through oil production to fund major development initiative.

20. None of these assumptions have materialized. At the same time, risks in the programme environment have increased significantly. The IRFFI is effectively being implemented in a conflict rather than a post-conflict situation. While the violence varies by location and over time, the tendency has been towards a steady worsening of the situation. Deteriorating security conditions have had an impact on all aspects of IRFFI operations.

21. The original intention was for IRFFI operations to be located Baghdad, with the UN and the World Bank both maintaining offices there. A decision was made to establish operations in Amman, Jordan after the UN's headquarters in Baghdad were destroyed in by a truck bomb on 19 August 2003. For security reasons, neither organization is able to carry out standard monitoring activities by own international staff, but must rely on local staff and consultants. The UN advised that it has over 500 such persons.4 The World Bank's network is smaller in proportion to its portfolio and its preference to work through the public service. The Bank uses a Monitoring Agent that employs about 25 persons.

Financial Overview

22. As of 31 August 2006, the two IRFFI funds administered USD 1.567 billion from 30 donors and multilateral agencies. Based on current estimates, the IRFFI funds represent approximately six percent of the total flow of assistance to Iraq.

23. Seventeen donors had deposited USD 454 million to the WB ITF by the end of 2005. Total funds available have not increased since August 2006. Donor

[4] The figure of 500 was provided as an estimate. The UN Cluster Coordinators believed the actual number of Iraqi national staff was higher, but could not provide an exact figure.

informants advised they did not expect to make further contributions to the WB ITF, as a result of low disbursal rates. With earned interest income, funds available as of 30 September 2006 were USD 477.1 million (table D.1).

24. The UNDG ITF has received over USD 1.1 billion from 25 donors as of 30 September 2006. Funds available to the UNDG ITF from the donor community have almost doubled since inception, from USD 628.8 million in 2004, USD 903.4 million in 2005 and their current levels in the third quarter of 2006.

Table D.1: Funding to the WB ITF by donor (USD millions)

Donors	Commitments	Deposited
Australia	16.1	16.1
Canada	22.3	22.3
EC	149.8	149.8
Finland	2.6	2.6
Iceland	1.0	1.0
India	5.0	5.0
Japan	130.0	130.0
Korea	4.0	4.0
Kuwait	5.0	5.0
Netherlands	6.2	6.2
Norway	6.7	6.7
Qatar	5.0	2.5
Spain	20.0	20.0
Sweden	5.8	5.8
Turkey	1.0	1.0
UK	71.4	71.4
US	5.0	5.0
Total ITF	456.9	**454.3**
Investment Income		**22.8**
Total Sources of Fund		**477.1**

Source: The World Bank ITF Newsletter, 30 September 2006

25. Donors noted that there was no particular formula governing the allocation of funds between the UNDG ITF and the WB ITF. Several explained the differential as resulting from low WB ITF disbursement level relative to the UNDG ITF. There was an informal recognition among donors that performance on disbursal rates should be “rewarded” with additional support. Some donor informants further assessed that the WB ITF could not absorb and disburse additional funds before the 31 December 2007 end date, given the nature of its portfolio.

26. The UNDG ITF’s agreement with donors permits earmarking and preferencing of funds, either by thematic Cluster or agency. IRFFI donors have shown a strong tendency to earmark. As of 30 September 2006, 89 percent of UNDG ITF funds were allocated in this manner. Some informants expressed concern that the practice of earmarking undermined the principle of a “trust fund” by reducing program flexibility and undermined the concept of national ownership. While favoring the principle of un-earmarked funds, the UNDG ITF Cluster Coordinators maintained that the practice has not distorted decision-making or undermined the national ownership. All projects (i) must be consistent with the Iraqi national development strategy; (ii) be approved by Iraqi officials and move

through the regular approval process; and (iii) are subject to discussion between the donors to avoid duplication.

27. WB ITF regulations do not permit earmarking. However, donors may express a sector preference. As of December 2005, 67 percent of deposits were made with a preference, and there have been no deposits since then. Bank staff stated that preferencing reduces the fund's flexibility. There was a particular concern that it undermined the concept of national ownership, by allocating resources according to donor objectives rather than the development objectives of the government. Staff indicated that donor contributions made without conditions were more effective.

Table D.2: Funding to the UNDG ITF by donor (USD millions)

Donor	Gross Deposit
EC/EC RRM	470.41
Japan	360.95
UK	55.54
Spain	47.51
Canada	46.40
Italy	29.78
Australia	20.07
Korea	11.00
Denmark	10.67
Sweden	10.62
Germany	10.00
Norway	7.01
Netherlands	6.70
Finland	6.23
India	5.00
Kuwait	5.00
Qatar	5.00
US	5.00
Greece	3.63
New Zealand	3.37
Luxembourg	2.32
Belgium	1.32
Ireland	1.23
Iceland	0.50
Turkey	0.20
Total	**1,125.45**

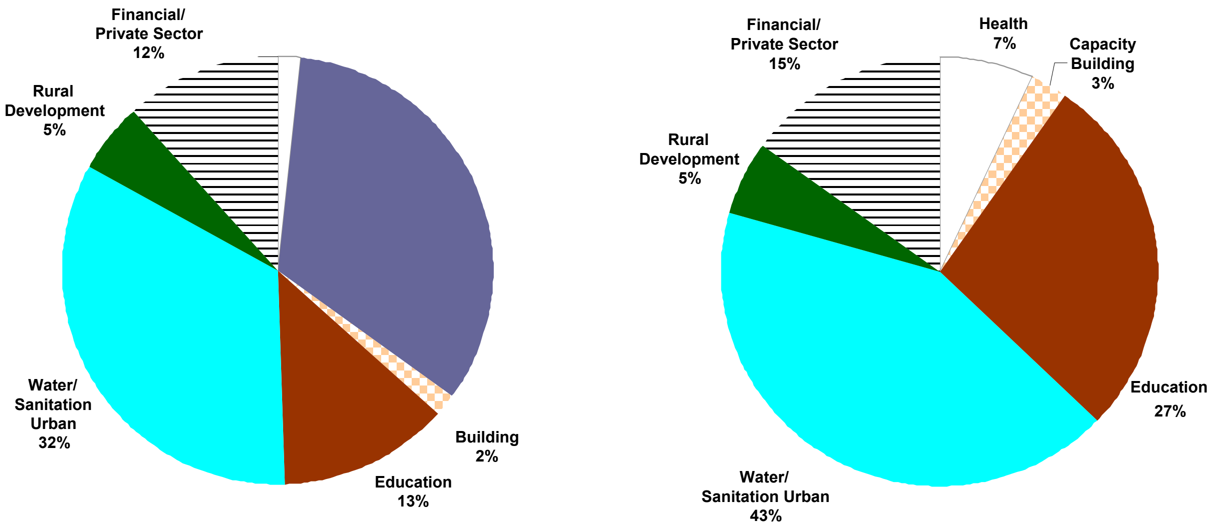
Source: UNDG ITF Newsletter, September 2006

- **Reviews and Evaluations**

28. The UNDG commissioned a UK consultancy, Development Initiatives, to review the Iraqi ITFs as part of a larger review of post crisis trust funds. A review of the Bank ITF was carried out by the Iraq Country Unit of the Middle East Department (Hadad-Zervos 2005). A World Bank Country Portfolio Performance Review was carried out late spring of 2006. A further review of the UNDG ITF Cluster system was conducted by PricewaterhouseCoopers in July 2006, but was not finalized until January 2007.

Figure D.1: Donor Preferences and Bank ITF Allocations, by Sector

Chart 1: Donors' Sectoral Preferences **Chart 2: Sectoral Distribution of Projects Fundec**



Source: World Bank ITF Report to Donors, 18-19 July 2005

29. *Development Initiatives*' main finding on the Iraq MDTFs are:

- Donors regard both ITFs as useful instruments for channeling contribution to Iraq and for mitigating risk due to the security situation.
- The UN has developed its own Iraq country strategy. Both the UN strategy the government's NDS have been regarded by members of the UNCT as too broad and vague to guide funds allocation (para 34).
- In Iraq, transition has not proceeded as expected. The line between emergency and recovery is vague and most donors have chosen not to define it. Interest income has been used to providing bridging funds for emergency-related activity (para 45).
- The government is not represented on the Steering Committee but has a say on project proposals at ISRB meetings. The government has never fully rejected a proposal at the ISRB and has a very weak role in coordinating bilateral aid more generally although it is reported to be using the ISRB to strength its ability to prioritize (para 48).
- Change in personnel is a challenge to capacity development, as key people in the ministries change with each new government. Trained staff also tend to move to the more lucrative private sector (para 55).
- The World Bank uses Project Management Teams (PMTs) for managing and administering project implementation. To avoid creating parallel structures, the Bank tries to ensure that PMTs use civil servants paid by the government and are located within government ministries (para 55).
- Government capacity building by UN agencies is more *ad hoc* and the strength of the partnership often varies according to ministry capacity. UN agencies

have also been working through local staff, national NGOs as well as private contractors so they have contributed to wider capacity building (though it is difficult to assess the extent of this due to the security situation in the country) (para 57).

- The continuous capacity building approach implemented by the Bank in Iraq may offer potential for greater ownership by the government. The UN needs to develop a genuine capacity building/national ownership strategy for its Trust Funds, which does not simply rely on individual agencies doing this through the design and implementation of projects (para 58).
- Despite the exceptional circumstances, the Bank has been reluctant to relax its standards due to the high level of corruption in the Iraq. This has slowed disbursement, however the Bank has addressed the issue by conducting a portfolio review recently to see whether it could move resources from stalled projects to sectors where it could make more rapid progress (para 59).
- The UNDG ITF has also faced delays in decision-making and bottlenecks due to: lack of clarity about the roles and responsibilities of different elements of the ITF structure; changes in, and absences of the Deputy Special Representative of the Secretary-General, who is chair of the SC; delay in preparing a strategic plan for 2006 to guide the prioritization of MDTF funding (page 54).
- In theory, line ministries take ownership of UN projects and defend them at ISRB meetings. In practice, the extent to which line ministries have real ownership of projects depends on their capacity (many are dependent on external advisers) and the willingness of UN agencies to engage with them (para 61).
- UN agencies have close working relationships with NGOs since they are implementing partners. NGOs were invited to Cluster meetings on an ad hoc basis, because they have a restricted presence on the ground (para 64);
- Earmarking is a factor influencing the decision by donors to channel a larger portion of their funds through the UNDG ITF than the WB ITF. Earmarking has the potential to undermine the decision-making process with the UNDG ITF, as it influences where resources are allocated (para 87). Yet the opportunity to earmark increases participation in the MDTF, the opportunity for dialogue about priorities and the benefits of harmonization and reduced transaction costs for the government (para 88);
- There is no evidence to suggest that the UNDG's rapid disbursement performance in Iraq has come at the expense of high fiduciary management. The disbursement rate is partly a function of how disbursement is defined, partly a trade-off between the extent to which cross cutting issues, capacity building etc are taken into account and is only good or bad in relation to the objectives of the Trust Fund (para 120);
- Implementation and funding modalities provide for transparency and accountability, facilitate efficient and prompt delivery, and support the progressive development of a unified budget and coherent public expenditures process. Although the UNDG ITF had been able to disburse more funds than

the World Bank ITF, the difficulty of monitoring results meant that it was difficult to assess whether this had resulted in more efficient delivery. Also, decision-making by the UNDG ITF involves serious conflicts of interest - non-UN actors are not involved in decision-making so approval of projects is restricted to the same agencies that are proposing projects (page 49);

- In Iraq, the IRFFI structure, incorporating both UN and World Bank ITFs has capitalized on the comparative advantages of both institutions. However, the opportunity for close collaboration has been missed since the two funds operate largely separately (page 56

30. The review of the UNDG ITF conducted by Price Waterhouse in July 2006 and released in January 2007 included the following findings:

- The UNDG ITF is making a substantial contribution to Iraq, despite the major challenges posed by the security situation. The performance as measured by the high disbursement rate in key development areas was described as "remarkable" (p. 7).
- "The Cluster system does not provide a mechanism that is free from potential conflict of interest due to the fact that members of the [UNDG ITF] Steering Committee are also heads of the agencies of the executing agencies and, in some cases, are also the Cluster Task Managers" (p. 7-8). An independent oversight function was proposed.
- There are substantial variations in the performance of the clusters due to the lack of institutionalized charters, codes of conduct, standardized operational/business processes and decision-making mechanisms (p. 8)
- Operational effectiveness shows that delivery capacity can vary substantially by cluster and by agency. Some clusters have not had the proper level of representation to make necessary decisions (p 8).
- Staff storages result in processing delays for some projects.
- The IRFFI web site is of high standard. The transparent manner in which both ITF's post their information is described as a best practice that should be used in similar initiatives (p 9).

31. Hadad-Zervos (2005) main findings regarding the Bank ITF are: (i) projects that focused on basics and kept project design simple have done better than more complex ones; (ii) projects have worked best when they linked reconstruction and policy development; (iii) well structured and sequenced training for recipient activity implementation has been critical; (iv) the IRFFI structure has shown that resource pooling is important for effective reconstruction while reducing costs for each donor; (v) there must be donor coordination also at sector level. This was most successful when the relevant Iraqi Ministry led early development of a sector strategy, and provided leadership to donors; (vi) expectations regarding the pace of disbursements should be realistic and defined early on; (vii) the costs of bypassing Iraqi institutions when executing projects become much higher than the short-term benefits; and (viii) the Iraqi authorities and donors should agree on a system to integrate aid into the budget.

32. The Portfolio Review found that overall, the approach to project activity has been appropriate in a situation where the Bank needs to be engaged but can not be present in the country and conduct normal due diligence procedures, such as visiting projects. It further concluded that (i) the portfolio represents an appropriate response by the Bank under very difficult circumstances; (ii) five of the eight projects approved at that time are likely to meet their development objectives; (iii) the stronger dimensions were generally the risk assessments, the approach to fiduciary management and the clarity and simplicity of project designs; and (iv) weaker aspects included implementation arrangements, environment and aspects of the Bank's inputs and processes.

Findings and Conclusions

33. The UN system played an important role initiating and legitimizing the international response to Iraqi reconstruction, including using its convening authority and UNSC resolutions. The IRFFI reinforces larger international objectives, as defined by those resolutions. These factors draw attention to the broad and unique political role that the UN system plays in conflict situations, which differentiates the UN from other organizations.

34. The UN and World Bank conducted a *Joint Needs Assessment* for the reconstruction of Iraq covering the period through 2007. The report was completed in a timely manner, with the support of the Government of Iraq and the IMF. The assessment provided cost estimates and a medium-term recovery framework, against which donors pledged a total of USD 32 billion at the 2003 Madrid Conference. The World Bank estimates USD 25 billion of the pledges are firm commitments.

35. The IRFFI is being implemented in a conflict rather than a post-conflict situation. The program environment places severe restrictions on the movement of international personnel. Deteriorating security conditions have left the WB ITF and the UNDG ITF to manage high and unanticipated forms of risk. Innovations to mitigate risk, such as managing from Amman, in themselves create new forms of risk. In particular, neither the UNDG nor the Bank is able to conduct oversight of program activities using their own international staff.

36. The IRFFI was established as a single facility comprised of two separate funds, one administered by UNDG and the other by the World Bank. Paid-in contributions as of September 2006 are USD 457 million to the Bank fund and USD 1,125 million to the UNDG fund. IRFFI resources represent approximately six percent of donor commitments. The IRFFI, therefore, channels only a small part of total aid flows to Iraq. The value added of using an MDTF mechanism was enhanced coordination (GOI, donors, administrators and other stakeholders), dialogue on national development objectives and serving as a point of encounter between the US and donors who opposed military action. Regarding the latter, the IRFFI served as a mechanism for collaboration after the contentious invasion of Iraq. It also served to re-establish a political role of the UN system, while was weakened by divisions within the Security Council.

37. Deposits into the UNDG ITF have almost doubled since the inception of the IRFFI while contributions to the WB ITF have not increased since the end of 2005. Donor informants attributed the difference in funding levels to the UNDG ITF's significantly higher disbursement rates. Also that the UNDG ITF mechanism permitted earmarking.

38. Stakeholders perceived important differences between the UN and the World Bank as ITF administrators. The UN has an established network in Iraq while the WB has been absent for 25 years; the UN has a larger political mandate related to peace and security in addition to its role as a development agency, while the Bank's mandate is more limited; the UN system can implement projects directly which gives it greater flexibility in choosing projects and implementation partners, while the Bank is tied to working through the public sector.

39. A dominant share of IRFFI deposits is subject to preferencing or earmarking by donors, which means donor priorities influence resource allocations. The UNDG ITF is more affected, as the WB ITF accepts preferencing but not earmarking. Both the UNDG ITF and the WB ITF indicated a preference to receive funding on a non-conditional basis, and that earmarking undermines the principles of a trust fund. Some informants, including from the Bank and the Development Initiatives report indicated that earmarking can distort the decision-making and resource allocation processes, undermining national ownership. The UN Cluster Coordinators maintain that earmarking has not significantly affected the UNDG ITF, as all projects must be approved by Iraqi authorities and fall within priority development areas.

D.2 Efficiency of the Trust Fund

Donor Contributions into IRFFI

40. Donors began depositing funds into the ITFs in March 2004, with over USD 630 million provided to the UNDG ITF by mid-May 2004. During about the same time, USD 370 were provided to the World Bank ITF, meaning that over 60% of the funds provided were in place within a couple of months. Donors, therefore, honored their IRFFI pledges in a timely manner. UNDG ITF and WB ITF managers noted that neither trust fund has suffered significant delays as a result of late deposits. For their part, donors stated that fast action on deposits was due to the political importance of showing support for the reconstruction of Iraq, and the aspiration to get a "peace dividend" in place as fast as possible.

Project Preparation and Processing

41. There are both similarities and differences in the project portfolios for the two funds.

    - The UNDG ITF currently manages approximately 86 projects in eight thematic Clusters, being implemented by 14 UN agencies and their counterparts. This compares to 12 projects being managed by the WB ITF. The UNDG ITF, therefore, has a larger portfolio and implementation capacity.

- There are some similarities between the two portfolios. The WB ITF has four infrastructure projects with a value of USD 235 million. Almost 30 percent of UNDG ITF expenditures are allocated to the Infrastructure Rehabilitation Cluster, with a value of USD 224 million.
- However, UNDG ITF projects are generally smaller and implemented at a local or regional level. Much implementation is done directly by UN agencies, although in collaboration with Iraqi institutions. Most WB ITF projects are large scale sector or infrastructure initiatives with a national focus. Implementation takes place through government institutions.

42. State capacity and sector policies often must be developed simultaneously for WB ITF projects, and several levels of government are typically involved. Furthermore, bilateral donors often link their own projects with Bank ITF initiatives, adding another coordination dimension. Using Bank project development, procurement and financial management procedures has required that implementation be accompanied by changes to Iraqi systems and capacity development for state officials. The effort and resources required have been greater than anticipated, leading to processing delays.

43. The UNDG ITF Secretariat has introduced a Fast Track Process for project proposals where members respond and decide on project proposals electronically. The process is used to address urgent needs or life-saving situations that can not wait for the regular UNDG ITF Steering Committee meeting.

Project Implementation: Administrator Challenges

44. The UNDG ITF is mandated to implement either through government systems or directly. In the current situation, the majority of projects are using the direct modality. Projects are developed in consultation with Iraqi officials. However, funds generally do not pass through state accounts. As a result, the UN is not dependent on the public sector and its financial management systems. UN agencies instead contract and disburse for services and materials directly with national and international firms, consultants and NGOs. Furthermore, UN agencies can use the networks they already have established during their long presence in-country in a context where the movement of international personnel is restricted.

45. The majority of UNDG ITF projects are implemented by Iraqi entities; different levels of government, NGOs and private sector. The Fourth Progress Report (2006) notes that, with USD 77 million for 666 contracts, Iraq is the largest supplier of goods and services to UNDG ITF projects.

46. WB ITF projects are implemented almost exclusively through the public sector. The exception is three capacity development projects being implemented directly by the Bank, which account USD 11.7 million or 2.5 percent of the fund's portfolio. With 97 percent of allocated resources flowing through the Iraqi government, the Bank depends on the systems and capacity of the Iraqi public sector. The approach is consistent with the World Bank's standard operating

procedures and focus on building government capacity. The Bank mitigates against the risks involved in working through weak government by:

- Continually training Iraqi officials on World Bank procedures, which it also considers international best practice. Iraqi ministries generally contract private firms using internationally accepted competitive procurement procedures;
- Retaining local consultants to provide program support, monitor implementation and play a liaison role with Bank staff in Amman. Consultants work either from home or the relevant ministry office. Their movements and scope of activity are limited by the security situation. Informants noted that consultants have been the target of threats and acts of violence resulting from actions taken in the course of their duties. Incidents varied from political violence to targeting by common and organized crime.
- Retaining a Monitoring Agent who became operational in 2006. The agent plays a more robust front line role than in other MDTFs and receives ongoing training and support. The agent employs 24 Iraqi consultants who make regular visits to project sites throughout Iraq. They are charged with monitoring the physical implementation of WB ITF-financed projects, procurement and financial management procedures and provide support to implementation staff. World Bank informants expressed a high level of confidence in the agent. The May 2006 Country Portfolio Performance Review further concluded "the agent provides a highly useful monitoring role" (World Bank 2006, para 8).

47. There are three capacity development projected in the WB ITF portfolio, which are being implemented directly by the Bank. Two projects have been completed. They provide training to Iraqi personnel consistent with the general requirements for project implementation (Bank procedures project development, procurement and financial management). There has also been some specialized training related to economic and public sector management and social sector policy. A third capacity development project was approved in 2006 to support an upcoming government-lead poverty survey, with a focus on survey methodology.

Project Implementation: Iraq Public Sector Challenges

48. There have been four changes in national authority leading to the 2006 election of an Iraqi Government. Each change has been accompanied by changes in political leadership, as well as senior and technical personnel in counterpart ministries. The problem has been compounded by high turn-over resulting from the violence, as qualified persons leave the country or seek lower risk employment. Constant personnel changes have affected the ministerial PMTs responsible for managing WB ITF projects. The Bank sought and received a commitment from the new Iraqi government to minimize turn-over after the recent election, a promise that informants said the government has largely respected.

49. The number of political changes and the high staff turn-over was not anticipated. This problem has been accentuated by over-estimating Iraq's human resource capacity. While there is a large group of well educated Iraqis, they have been

isolated by decades of war and sanctions. Many are competent in the systems and knowledge they have, but these may be outdated by several decades. Officials have had little access to new information, systems or technology. Also missing are planning fundamentals, such as data on poverty.

50. UNDG ITF informant and newsletters reported that high turn-over of key personnel in counterpart ministries or local government has also affected implementation and sustainability of projects. Training is a frequent component UNDG ITF-funded projects and, therefore, vulnerable to the same potential loss of investment.

51. Donors expressed strong concerns regarding corruption in Iraq, which was considered by informants to be endemic. Donors noted a low tolerance within their national systems for the misuse of funds, coming from the political level. There is pressure, therefore, from the donor community to maintain high fiduciary and safeguard standards. As institutions, the World Bank and the UN system both have their own internal pressure to minimize or reduce the inappropriate use of funds. Enforcing high fiduciary standards in a low state capacity situation has resulted in implementation delays for both funds.

WB ITF Disbursements

52. The WB ITF became operational in February 2004. By December 2004, nine projects had been approved. As of September 2006, four more projects had been added for a total portfolio of 13 projects:

- USD 400 million has been allocated to the approved projects for 84 percent of total funds available. USD 58.5 million remains uncommitted, and a portion of this money is set aside for projects in various stages of development. The number of projects in the portfolio, therefore, could expand.
- Ten of the 13 projects are being implemented as grants to the Government of Iraq. Their total value is USD 387.6 million, or 97 percent of approved funding. WB ITF projects largely finance civil work and goods, which account for 82 percent of the value of the total portfolio.
- The Bank is implementing directly two capacity development projects plus one that provides technical support to a household survey to gather poverty data. The total value of these three projects is USD 12 million, or three percent of WB ITF funds.
- Tenders of Requests for Proposal worth USD 264.6 million have been issued against eight projects. Contracts for USD 142.2 million have been signed and are pending disbursement, or have been disbursed.
- Actual disbursement on WB ITF funds was USD 73 million, or 15 percent of total funds. USD 65 million has been spent, largely as payments to contractors or vendors for goods, work or services. USD 60 million of this was for Iraqi implemented projects while the remaining USD 5 million was for the three World Bank capacity development projects.

Table D.3: WB ITF Projects, Budgets and Disbursements, 30 July 2006

Sources of Funds	Budgets, USD mill
Donor Deposits	454.3
Investment Income	22.8
Total Sources of Funds	**477.1**
Uses of Funds	
Approved Grants	
Emergency Textbook Provision	40.0
Emergency Education Rehabilitation	60.0
Emergency Health Rehabilitation	25.0
Emergency Water Supply, Sanitation & Urban Reconstruction	90.0
Emergency r Baghdad Water Supply	65.0
Emergency Private Sector Development	55.0
Emergency Community Infrastructure	20.0
Emergency Disabilities	19.5
Capacity Building I	3.6
Capacity Building II	7.0
Emergency Household Survey & Policies	1.5
Emergency Social Protection	8.0
Subtotal, Approved Grants	**394.6**
Project Pipeline	61.0
Cost Recovery, Project Processing, TF Administration and Fees	21.5
Total Use of Funds	**477.1**

Source: WB ITF Newsletter, July 2006

53. Table D.4 shows an increase in WB ITF tendering and contracting since 30 August 2005. Bank informants noted that the value of signed contracts more than doubled between January and August 2006. However, disbursements continue to lag, and are below original projections.

Table D.4: WB ITF Status of Contracts, 30 August 2006 (USD million)

ITF Project	Grant	Tenders	Contracts
Capacity Development I & II	**10.6**		
Household Survey & Policies Technical Assistance	**1.5**		
Total Bank-implemented projects	***12.1***	***0.0***	***0.0***
Textbooks	**40.0**	**38.8**	**38.5**
School Construction and Rehabilitation	**60.0**	**34.2**	**12.5**
Baghdad Water Supply and Sanitation	**65.0**	**25.0**	**7.7**
Health Rehabilitation	**25.0**	**19.8**	**4.8**
Private Sector Development	**55.0**	**49.3**	**38.1**
Water Supply, Sanitation, Urban Reconstruction	**90.0**	**27.4**	**25.5**
Community Infrastructure	**20.0**	**16.4**	**14.5**
Disabilities	**19.5**	**1.3**	**0.6**
Social Protection	**8.0**	**---**	**---**
Household Survey and Policies	**5.1**	**---**	**---**
Total Iraqi-Implemented projects	***399.7***	***212.2***	***142.2***

54. WB ITF disbursements can be made only once goods, services and works are satisfactorily completed, and invoices are submitted for payment. Several projects experienced delays between physical implementation and payments to local contractors and suppliers. The effectiveness of the banking system in Iraq remains a major impediment to the timely transfer of funds. World Bank informants noted that funds arrive quickly in Baghdad, but movement through the banking system and conversion to Iraqi *dinars* is often slow.

55. At the end of 2005, a World Bank team analyzed factors that might cause implementation delays. They were found to be (i) the time needed for Iraqi ministries to carry out competitive bidding procedures; (ii) systemic impediments stemming from, in part, Iraq's transitional situation; (iii) payment processing difficulties at various stages; and (iv) the degree of readiness of large emergency operations to disburse at the time of project approval. Bank teams have subsequently worked with partner banks to eliminate or reduce the delays experienced for payments in Iraqi *dinars*. Improving the payment cycle within Iraq is expected to have a positive impact beyond the scope of ITF-financed operations. However, Bank staff found that the most important implementation delays are related to procurement.

56. Donors expressed concern regarding what they perceive as slow disbursement rates. Some donors were unwilling to replenish funds, while the EC stated that its regulations would not allow replenishment until existing funds are disbursed. Donor informants also acknowledged that the existing WB ITF resources could be disbursed before the mandate of the IRFFI ends in December 2007, consistent with the World Bank's estimate. Resulting from the combination of slow disbursement and the approaching 31 December 2007 end date, donor informants did not anticipate making further contributions to the WB ITF.

57. The WB ITF disbursement rate is comparable to that of the bilateral donors. The World Bank estimates that by March 2006 the United States has contracted 90 percent (USD 15 billion) of its commitments and disbursed 46 percent (USD 10 billion). The 12 other reporting donors have contracted 46 percent (USD 800 million) of their assistance and disbursed 21 percent (USD 357 million). WB ITF disbursement rates lower than these figures, but comparable to disbursement levels being achieved by the bilateral donors.

58. Hadad-Zervos (2005) notes that projects moved quickest where Iraqi ministries received professional support for pre-feasibility studies at an early stage of preparation. Moreover, expectations on the pace of disbursements should be set early on. Iraqi authorities and donors wanted high disbursements in these first two years, so there was an initial push by donors to front-load aid flows. The security situation has obviously delayed most reconstruction.

59. However, WB ITF projects are not financing quick-disbursing recurrent budget expenditures or humanitarian aid, but rather medium-term reconstruction, which to a large extent are dependent on the government's own capacity to plan and implement. World Bank studies show that after a serious conflict, even with well-structured capacity development programs in place, absorptive capacity usually

begins increasing only after a number of years, and will typically require another five to six years to reach required levels. This is not affected by disbursement levels, but a function of the capacity development process itself, which simply requires time and careful planning to be sustainable and successful.

60. Studies refer to a lack of realism in the timeframes for project completion, which were overly influenced by IRFFI's end-date of December 2007. The Bank and the donors could have better managed the expectations regarding what could have reasonably be done over the 2007 timeframe, given security conditions, reliance on weak government systems and a project portfolio focused in infrastructure.

61. The UNDG ITF procedures have more possibility to use non-state capacities, including those held in civil society and the private sector. These may have more ability to absorb funds in the early post-conflict period, as reflected in the UNDG ITF's higher disbursement levels.

UNDG ITF Projects and Disbursements

62. The UNDG ITF shows stronger performance on project development and disbursement. 82 projects have been approved within the seven thematic clusters. The total value of these projects as of 30 September 2006 was USD 861.4 million for an allocation of 75 percent of available UNDG ITF funds. Of this amount, 84 percent of the funds have been transferred to the implementing agencies, and the disbursement rate is approximately 64 percent.

Table D.5: UNDG ITF, Cluster Commitments, Disbursements, August 2006

			2004-2005		2006		TOTAL	
	CLUSTER	APPROVED FUNDING	July 2004-End December 2005 ACTUALS		Jan 2006 - End August 2006 ACTUALS		July 2004 - End August 2006 ACTUALS	
			COM[A]	DISB[B]	COM[C]	DISB[D]	COM	DISB
A	Agriculture, Food Security, Environment and Natural Resource Management	121,311	67,001	37,718	18,499	16,573	85,500 70%	54,291 45%
B	Education and Culture	134,812	80,999	66,966	21,035	22,542	102,034 76%	89,508 66%
C	Governance and Human Development	53,916	21,514	20,342	6,242	6,046	27,756 51%	26,388 49%
D	Health and Nutrition	107,664	56,498	38,969	19,380	25,050	75,878 70%	64,019 59%
E	Infrastructure Rehabilitation	224,730	149,324	87,192	15,380	34,791	164,704 73%	121,983 54%
F	Refugees, IDPs and Durable Solutions	19,830	17,660	16,696	2,169	1,087	19,830 100%	17,783 90%
G	Support to Electoral Process	177,457	156,927	140,299	7,300	19,380	164,227 93%	159,679 90%
	Emergency Response Pilgrim Stampede Micro-Grant	300	214	192	77	77	291 97%	270 90%
	TOTAL	840,019	550,136	408,374	90,083	125,547	640,219 76%	533,920 64%

Source: UNDF ITF Newsletter (August 2006)

63. As noted, the UNDG ITF has attracted more than twice the donor contributions as its WB ITF counterpart. It has disbursed more than four times more resources over the same time period. Differences were attributed to the combination of country experience and implementation modalities, noting that the funds were not always comparable:

- Donors have "rewarded" UNDG ITF performance with additional funding. The fact that the UNDG ITF accepts earmarking was also a factor in the donor's decision.
- The UN system has greater country experience and contact network. It was able to commence operations more quickly, and has greater implementation capacity.
- The WB ITF project portfolio has a greater number of "hard" projects (infrastructure), which by their nature have longer development and implementation horizons.
- UNDG's use of implementing actors outside the public sector has had an impact on disbursement and on the number of projects it has been able to fund, and at a faster pace. The Bank's focus on longer-term capacity development, its mandate and its preference to work through the public sector constrains its choice of instruments for implementation and thus pace of disbursement.

Findings and Conclusions

64. Deposits from donors were quickly received by the two funds, enabling fund establishment and project development to begin without delays.

65. UNDG ITF has been able to processes projects more quickly than the WB ITF. The UNDG ITF projects tend to be smaller in scope. While consulting with Iraqi authorities, the UN system can implement directly and work with non-state implementers. It does not depend on the Iraqi public sector to the same extent as the WB ITF, but rather can use other capacities that have greater short term ability to absorb funds and implement. The UNDG also has stronger field networks and country knowledge.

66. WB ITF implementation would be expected to occur over a longer time horizon, given the composition of its portfolio. Delays have resulted from the worsening security, changes in national leadership and high Iraqi staff turn-over. These are all factors not fully anticipated in the original design. The WB ITF has been particularly affected since it implements through the public sector.

67. WB ITF projects experience delays due to procurement bottlenecks and systemic impediments resulting from Iraq's transitional situation. These include payment processing difficulties at early stages, and the lack of readiness of large emergency operations to disburse at the time of project approval.

68. The combination of extreme conditions in the project environment, slow start up and low Government capacity have resulted in the WB ITF having a low disbursement rate, estimated at 15 percent as of 30 August 2006. The value of

tendering and contracting has increased significantly since then, suggesting that disbursement will increase. However, lags between the steps of approval, tendering, contracting and disbursement remain.

69. The UNDG ITF has a significantly higher disbursement rate of 64 percent. Previous UN presence in the country and ability to implement projects directly has enabled the UN to disburse faster. However, differences in the project portfolio and implementation modalities also influence the variation in disbursement rates between the two funds.

70. The Bank and donors could have managed expectations regarding disbursement and project implementation better, and in particular noted the consequences of working through the Iraqi public administration systems.

71. Some donor expectations regarding what the IRFFI can deliver have not changed, despite the deteriorating conditions inside Iraq. While concerned about overall performance and assistance being rendered to beneficiaries, donors also noted slow WB ITF disbursement rates had technical and political consequences. Some had a legal requirement for their IRFFI contributions to be expended within a specific timeframe, while one was concerned about the lack of visibility. These were internally driven and not aligned with conditions in the program environment.

D.3 Institutional Procedures and Challenges

The World Bank ITF

72. All work carried out by the World Bank, be it through a trust fund or with IDA resources, is governed by a Bank Strategy for that country. In January 2004, the Bank's Board of Directors discussed and approved the First Interim Strategy, which covered programs financed by the IRFFI. That strategy is cross-sectoral, covering three Pillars:

- Build Iraqi Institutional Capacity to absorb external funding and implement policy reforms: capacity building for more than 600 civil servants responsible for implementation of donor-financed reconstruction, including procurement, financial management, and environmental and social safeguards;
- Emergency Operations: emergency reconstruction projects implemented by the recipient ministries;
- Lay the ground for medium-term reconstruction and development: policy advice and capacity building on a number of topics, including subsidy reforms, public finance, pensions and social safety nets, restructuring of state-owned-enterprises, the investment climate, trade policy, and telecommunications.

73. In June 2005, the Bank prepared a Second Interim Strategy for 2005–06, covering both IDA and trust fund resources. This Strategy, which is aligned with Iraq's National Development Strategy (NDS – see section D.6), focused on economic reform and transition; poverty, safety nets, and social development; and public sector reform and governance.

UNDG ITF

74. As a response to the high risk environment in Iraq, UN agencies implementing UNDG ITF projects have developed an integrated approach to their programs. This includes joint planning, sharing and pooling of resources, and coordinating technical and managerial backstopping. The experience and knowledge gained by the integrated approach was used to formulate the first UN Assistance Strategy for Iraq, which was endorsed by the ISRB and approved by the IRFFI Donor Committee in February 2004.

75. In March 2005, the UN Strategy was revised to incorporate political and security developments on the ground, lessons learned and to adapt to Iraq's NDS 2005-2007 of October 2004. The WB and UN jointly supported the GOI to develop the NDS, as a way also to ensure complementarity of their interventions. The 2005 UN-Iraqi Assistance Strategic Framework adopted a different approach to UN intervention in Iraq, adopting "a *modus operandi* that introduced rehabilitation and development activities alongside its humanitarian activities, under a program approach within the new cluster system" (UN-Iraqi Assistance Strategic Framework, p.11).

76. The key areas targeted by the new Strategy are social, economic and governance. In line with the UN's new approach to transition in Iraq, the Strategy focuses UNDG ITF funding on three main challenges: (i) promoting the right of access to and making available basic social services, (ii) ensuring a broad-based, diversified and environmentally sustainable economic growth, and (iii) strengthening institutional and governance capacities and human security within the country.

WB ITF Rules and Guidelines

77. The World Bank ITF was established under Bank Operational Policy (OP) 14.40, "Trust Funds". The Bank's policy on *Dealing with de Facto Governments* (OP 7.30) would preclude the Bank from providing grants from the ITF to the Governing Council and/or any of its ministries. This was because, during the establishment of the WB ITF, not all of the factors to be considered under Operational Policy 7.30 for making new grants existed. For the Governing Council and/or its ministries to be considered as recipients of ITF resources, a waiver of the application of the provisions of Operational Policy 7.30 was required. This waiver was requested and granted concurrently with the request for approval for the Bank to administer the ITF.

78. Supervision of recipient-executed operations is carried out through consultants and the Monitoring Agent, which play a more robust role in Iraq than the other MDTFs reviewed. The importance of the agent's role results from deteriorating security conditions in Iraq, and the travel restrictions it places on international personnel. Also, the Bank had anticipated that it would have a small country unit in Baghdad and that it needed additional support given its lack of recent experience in Iraq.

79. According to the WB ITF Memorandum to the Board, in the interest of expeditious assistance, procurement provisions are to be as flexible as possible with due consideration for economy and efficiency while still maintaining safeguard measures to ensure that funds are used only for the purposes specified in the respective grant agreements. Procurement of goods, works, and services are made in accordance with the Bank's standard and with UN policies. Both ITFs provide training to their counterparts on the use of these procedures.

80. Financial updates on commitments and disbursements are provided in newsletters. Financial Monitoring Reports are produced on a quarterly basis. The World Bank and the UNDG provide donors with a consolidated progress report for each of the two Trust Funds on a six-month period basis. Information is posted in the IRFFI web-site, which has been an important tool for communication and transparency.

81. A mid-term evaluation of the Bank ITF was not foreseen in the MOU. The Minutes from the Fourth Meeting of the IRFFI Donor Committee of 19 July 2005 mentions that the Donors Committee agreed to initiate a multi-donor stocktaking exercise. One year later donors have not acted on this decision: the stocktaking has not taken place, nor have effective plans for one been made. The value of such a process declines as the IRFFI moves towards its end date. A reason cited by the donors is that the IRFFI trust funds allows only for specific administrative costs, which do not include resources for ad hoc evaluations. Donor informants stated they had limited discretionary resources available to fund such activities.

Training and Knowledge

82. World Bank personnel in Amman appeared to be competent, with field experience from the West Bank and Gaza and with trust funds. They were, therefore, familiar both with operations in the field, the concept of a multi-donor trust fund and with the rules and procedures that govern them in a post-conflict situation. One staff person unfamiliar with IDA and OP 8.5 operations reported a lack of training and support, resulting in project development delays.

83. UNDG ITF appeared competent with significant post-conflict field experience, including inside of Iraq. UNDG reported having an extensive network of local staff/contractors in Iraq, many of whom have extensive experience with the UN.

UNDG ITF Rules and Guidelines

84. Within the UNDG ITF, all 16 UN agencies that participate can promote and implement projects. Each agency is free to apply its own rules and procedures for project implementation since the UN system has developed an internal agreement based on the recognition that each agency now is in line with overall UN system guidelines and standards. This means that the agencies, once funding is approved, can move ahead implementing the project as if this were a project funded by the agency's own core or donor funds. This reduces internal administrative costs, allows each agency to use its own systems for activities such as contracting, staff recruitment, procurement, accounting, audit and monitoring.

85. There is, however, a written agreement between the UNDP, as the administrator on behalf of the UNDG, and the UN agencies regarding the reporting that is to be carried out. Since UNDP is responsible to the donors and the Iraqi authorities for financial and performance tracking, harmonized formats from the agencies to UNDP have been agreed to, allowing for aggregation and unified reporting from all activities funded under the UNDG ITF (see next section for more on the UNDG ITF approval/decision making structure and process).

86. The UNDG ITF has a standard agreement with all the funders that stipulates the reporting that is to be provided. There is thus consistency on the one hand in the UN agencies being able to implement using own systems, and on the other the UNDG ITF reporting back according to contractual obligations to the donors.

Findings and Conclusions

87. The procedures for IRFFI are based on World Bank and UN system approaches, where flexibility is provided, in particular concerning procurement. Both agencies provide training to Iraqis on implementation rules and regulations.

88. Reporting is based on the work done by local contractors and the Bank's Monitoring Agent, since the UN and the World Bank have limitations on placing international staff in-country. Bank TTLs have close contact with the agents in Iraq, reported in some cases as being on a daily. Most UN agencies do maintain national staff and other contracted monitors and engineers to report on activities and ensure daily direct liaison with national authorities.

89. Within the UNDG ITF, each UN agency implements projects using own systems and procedures, but provides financial and performance back to the UNDP in an agreed standardized format, for unified reporting to external stakeholders.

90. The IRFFI Donors Committee in mid-2005 had agreed to a stocktaking exercise. This has not taken place, and the operational value appears to decline as the IRFFI 2007 deadline approaches. Such a review, with focus on the role and perceptions of the Iraqi stakeholders, could still be very valuable, particularly in light of the changing environment for ITF activities and what Iraqi actors believe could have been done differently (see section D.8).

D.4 Governance

91. The structure, governance, and modalities of the IRFFI were designed in close consultation with the Core Group and other donors, and Iraqi authorities, over the period August through December 2003 at meetings held in Washington, Brussels, New York, Dubai, Madrid, and Amman.

92. The IRFFI structure was designed as a "one stop" mechanism for the pooling of donor funds and coordination of international aid. The facility has a four- tiered governance structure, with the objective of ensuring coherence and common guidance between the UNDG ITF and the WB ITF: (i) the Iraqi Strategic Review Board, (ii) the Donors Committee, (iii) the Facility Coordination Committee, (iv) the Technical Secretariat. In addition the UNDG ITF has an internal Steering Committee consisting of the UN agencies, for project approvals (see Figure D.4).

93. There have been no formal *structural* changes resulting from the security situation or relocation of operations to Amman. However, the deteriorating situation has resulted in some *operational* changes.

94. **The Iraqi Strategic Review Board (ISRB**) provides strategic-level coordination, on behalf of the recipient government. There is consensus that the ISRB is improving and becoming more effective, taking into account the extreme conditions under which it operates. The ISRB was seen as making an important contribution to national ownership by articulating national development priorities in the form of the 2005 *National Development Strategy* (NDS), vetting projects and providing direction against those priorities, and coordinating donor activity.

95. At the same time, informants, including from the ISRB acknowledged that the ISRB has not been strong enough to fulfill its mandate:
    - The ISRB has weak technical capacity, and has been affected by large personnel turn- over.
    - The Government of Iraq has been slow to define development priorities, a political process that the ISRB is to support and then implement.
    - The ISRB has been slow to meet, resulting in subsequent delays with the donor meetings or project processing.
    - The scope of coordination is limited to IRFFI. Donors generally do not provide the ISRB with information on their bilateral activities.
    - The Board has not been strong enough to provide oversight to coordination of the UNDG ITF and the WB ITF.
    - The situation has improved with the new government, which is providing more continuity and resources.
    - Project processing can be delayed by disagreements, differing priorities or poor communication between line ministries and the ISRB.

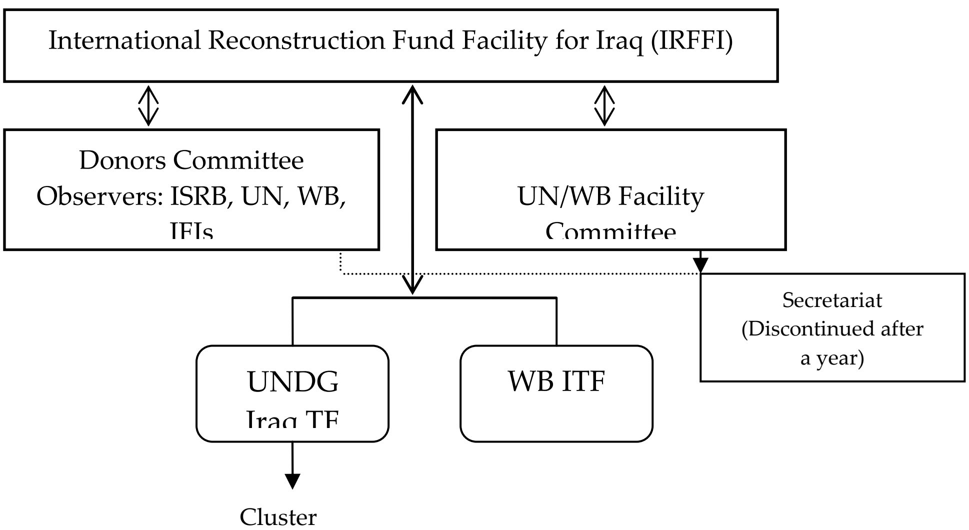


Figure D.2: Governance Structure of the IRFFI

96. Relations between the ISRB and the UNDG ITF and WB ITF were considered constructive. The ISRB expressed concern regarding the slow pace of WB ITF project approval and disbursement, and the Bank's heavy administrative burden. However, there was a clearly stated acceptance that Bank procedures reflect international standards to which Iraq must adapt, and acknowledgement that low government capacity plays a role in any delays. The Government has also acknowledged implementation through Iraqi agents has created local employment. Similar local employment benefits have resulted from UNDG ITF projects.

97. Since IRFFI encompasses both the Bank and the UNDG ITFs, close coordination and avoidance of duplication was to be achieved through a common trust fund governance structure, including a joint Donor Committee, a UN/World Bank Facility Coordination Committee, and a joint Secretariat.

98. **The Donor Committee** is comprised of donors whose paid-in contributions or binding commitments to either or both of the Trust Funds amounts to a minimum of USD 10 million. In addition, two seats are given to representatives of other contributing donors who do not meet this threshold. The Bank, UNDG, IMF, and the Iraqi authorities have observer status. At the end of 2005, the Committee welcomed the participation of the Iraqi government in an *ex officio* capacity.

99. The Donor Committee endorses overall priorities for and provides strategic guidance to the Facility's two Trust Funds. The Committee reviews progress of the IRFFI's operations, ensures reporting to all ITF donors, ensures coherence and collaboration between IRFFI and Iraq's NDS, maintaining close collaboration with Iraqi authorities to ensure flexible adaptation of the IRFFI to changes in the NDS. The committee does not approve individual projects.

100. The Donor Committee is mandated to hold two meetings a year. Three meetings took place in 2004: in Abu Dhabi/United Arab Emirates 28-29 February; in Doha/Qatar 25-26 May; and in Tokyo/Japan 13-14 October. A fourth meeting took place at the Dead Sea/Jordan on 18-19 July 2005. There have been no further meetings of the DC. Informants attributed delays to conditions inside Iraq, and the ISRB's limited capacity to participate. In lieu of a full meeting, the two Administrators presented a progress report to donors in May 2006. Discussion included a review of the current situation in Iraq.

101. Informants noted that the Donor Committee has accomplished the following:

- The Committee and the Administrators have played an important and catalytic role helping the Government of Iraq to define its priorities. Concerned about the lack of clarity after its second meeting, the Committee asked the Government to come to the third meeting with a development strategy and priorities defined. The result was the 2005 *National Development Strategy*, which followed on from the Joint Needs Assessment and now serves as a framework for the IRFFI.

- The Committee added value by facilitating broader coordination, between donors, the World Bank and the UN system and between projects at the sectoral level.
- It facilities the sharing of information and data, including through the website which is well designed and, maintained. The overall information sharing includes non-IRFFI programs, which has supported sectoral and project level collaboration.

102. Informants reported good relations between ITF managers and donors. Communication appeared particularly strong with some sector projects, where ITF projects work within sectors that have donor investment. Communications and a high level of transparency are supported by the IRFFI website.

103. However, informants expressed concern that the Donor Committee has not realized its potential as a strategic body. The Committee has not met on a six month basis as originally anticipated. Indeed, the committee has not formally met since 2005, although there the two ITF's provided a briefing in May 2006. It means that the Committee has not focused on guidance to IRFFI operations at a time when there has been a serious deterioration in the program environment, which has particular affected WB ITF disbursements. Donors have not conducted their own joint assessment of the situation. The burden of strategy and risk mitigating has been placed largely on the two Administrators.

104. The Committee has added little value in the area of UN and World Bank coordination. An important objective of the two-window model was to ensure strengthening of the IRFFI's overall portfolio by building on the relative strengthens and advantages of the UN and the World Bank as administrators. This has happened to some extent, simply through the process of the World Bank and the UN working through own mandates, procedures and institutional culture. However, the IRFFI does not outline specific roles or areas of specialization for the Administrators, nor does it identify a division of labor between the funds. The Donor Committee has not taken steps to define these areas since inception of the ITFs, or to otherwise direct the World Bank and the UN into their most efficient roles.

105. **UN/World Bank Facility Coordination Committee (FCC)**: The FCC includes management representatives from the Bank and UNDG. The IMF has observer status. The FCC was designed under the assumption that the Committee, the Administrators and the donors would be co-located in Baghdad and able to meet on a regular basis. Deteriorating security conditions forced the relocation of personnel and prevented more regular contact. The UNDG representative is now located in New York, and the World Bank representative in Washington.

106. Under the original design of the governance structure, the FCC had a wide range of administrative responsibilities involving the Facility's two trust funds. With members from the Bank and the UNDG (the IMF is an observer) it reviews and coordinates reconstruction work supported by both trust funds. The FCC further ensures that those projects are coordinated with those underwritten by the national budget and by bilateral donors. The committee, which usually meets

monthly also tries to make Iraqi priorities the trust funds' priorities. It encourages donors to fulfill their pledges. When asked to do so, it advises donors about the most appropriate allocation of their resources, based on the needs, priorities and absorptive capacities at the time. The FCC files detailed reports for Donor Committee meetings.

107. Distance between the FCC the two representatives and the FCC and field operations have undermined the effectiveness of its coordination function. Meetings occur with less frequency than intended. Minutes of the meetings were not available. However, the two representatives described them as occurring to manage technical issues and Donor Committee meetings. They did not appear to be contributing to strategic discussion, broader coordination based on an understood division of labor or actions to ensure the two funds were mutually reinforcing.

108. **Technical Secretariat**: The Secretariat was to serve as a single source of information and a joint mechanism to assist with logistical and support functions. It was, however, discontinued after a year following the decision to move operations from Baghdad to Amman. It was assumed that the FCC and Donor Committee had sufficient capacity to support the governance structure. Informants had mixed opinions on the impact of this decision. The Administrators and some donors maintained that it would not have been possible to maintain a Secretariat following the transfer of operations out of Iraq. Others noted that coordination and resource problems resulted from the lack of capacity to support them, or to conduct program related research and evaluation.

WB ITF Decision Making

109. Regarding the WB TF, project proposals are usually developed with the relevant line ministries. The fund W can underwrite eligible projects in all sectors and cross-cutting themes identified in the Needs Assessment.[5] ITF financed operations cover economic management, public sector management, social safety nets, education, health, water supply and sanitation, urban reconstruction, rural water and irrigation infrastructure, telecommunications, finance and private sector development. The fund can not pay for humanitarian relief missions, peace-keepers, or other security, military, or political interventions.

110. Within this framework eligible expenditures for ITF financing include:

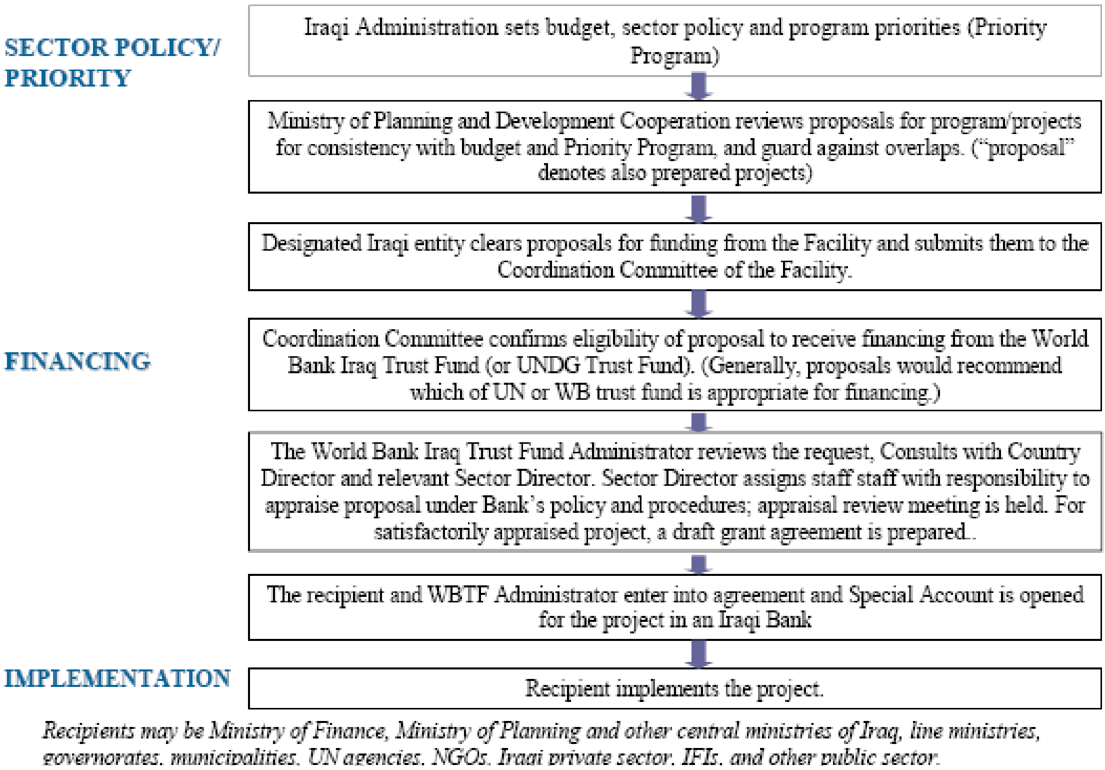
- Investment and capital expenditures, including pre-feasibility studies and incremental recurrent costs.
- Technical assistance and training.

111. Recipient entities responsible for implementing activities financed from the ITF can be inside or outside Iraq, and include: Iraqi ministries, governorates and

[5] Information on WB ITF decision-making procedures is paraphrased from the World Bank IRFFI website

municipalities, private entities, NGOs, UN agencies, or international financial institutions. In practice, the main counterparts have been state entities.

112. The ITF emphasizes Iraqi ownership and building Iraqi institutional capacity. In consultation with World Bank staff, potential recipients submit project proposals to the Iraqi Strategic Review Board, which determines whether proposals are consistent with priority needs.



Source: MOU, reproduced on IRFFI/Bank ITF web site.

Figure D.3: Financing Steps under WB ITF

113. Following ISRB approval, the WB ITF appraises the project. If projects are satisfactorily appraised, the Bank, as the ITF Administrator, and the recipient negotiate and sign a Grant Agreement which spells out the terms and conditions under which funds will be made available to the recipient entity. The Grant Agreement governs the actual use and disbursement of funds. It specifies measurable indicators to monitor implementation progress. It also contains detailed financial management, procurement, monitoring, and other fiduciary arrangements to ensure that funds are used for eligible expenditures.

114. WB ITF projects have been approved and processed within an average time frame of eight to ten months. One project for emergency provision of school text books was prepared in four months. From February to December 2004, the Bank and Iraqi authorities designed, approved, and signed Grant Agreements for nine projects amounting to USD 366 million, thereby obligating nearly all deposits in the WB ITF. WB ITF Guidelines for Project Processing is posted in the website.

UNDG ITF Decision Making

115. The UNDG ITF has its own decision making process for the approval of projects by the Steering Committee, leading to the release of funds to the participating UN Organization. The key criteria for funding include:

- Alignment with Iraqi-identified priorities.
- Projects can be implemented in 2005/6, taking into account the security situation and delivery capacity of participating UN organizations.
- Impact on employment creation, and
- Degree of inter-agency cooperation in planning and implementation (reflecting the cluster principle)[6].

116. These criteria were revised in March 2005 to take into account the demonstrated delivery capacity of the implementing UN agencies. An agency requesting additional resources from the UNDG ITF must demonstrate an achievement of a 50 percent contract commitment rate and a 25 percent disbursement rate on projects already funded from the UNDG ITF.

117. The steps in processing and approval are the following (see Figure D.5):

- Identification and formulation of the project by UN agency and the Iraqi line ministry. The endorsement of the project by the relevant Iraqi institution/ line ministries is required before the project moved to the next step.
- Project proposals are submitted by the UN Agency to the relevant UN Cluster for technical review.
- Once technical endorsement has been secured, proposals are submitted vetting by the UNDG ITF Steering Committee Support Office (SCSO) and the Cluster Group, consisting of task managers of all the Clusters and of the cross-cutting themes. The SCSO review focuses on project management issues in light of UNDG ITF project submission guidelines. The Cluster Group reviews the proposals for inter-Cluster coordination, best management and implementation practices and location-specific synergy.
- ISRB has the primary role in deciding on the individual projects that the UNDG ITF will consider for funding. After Cluster Group approval, proposals are submitted to the ISRB.
- Following ISRB approval the proposal is reviewed by the UNDG ITF Steering Committee for final approval, including allocation of funding.

[6] Information on the UNDG ITF project approval process is paraphrased from the UNDG Iraq Trust Fund Link on the IRFFI website, www. irffi.org

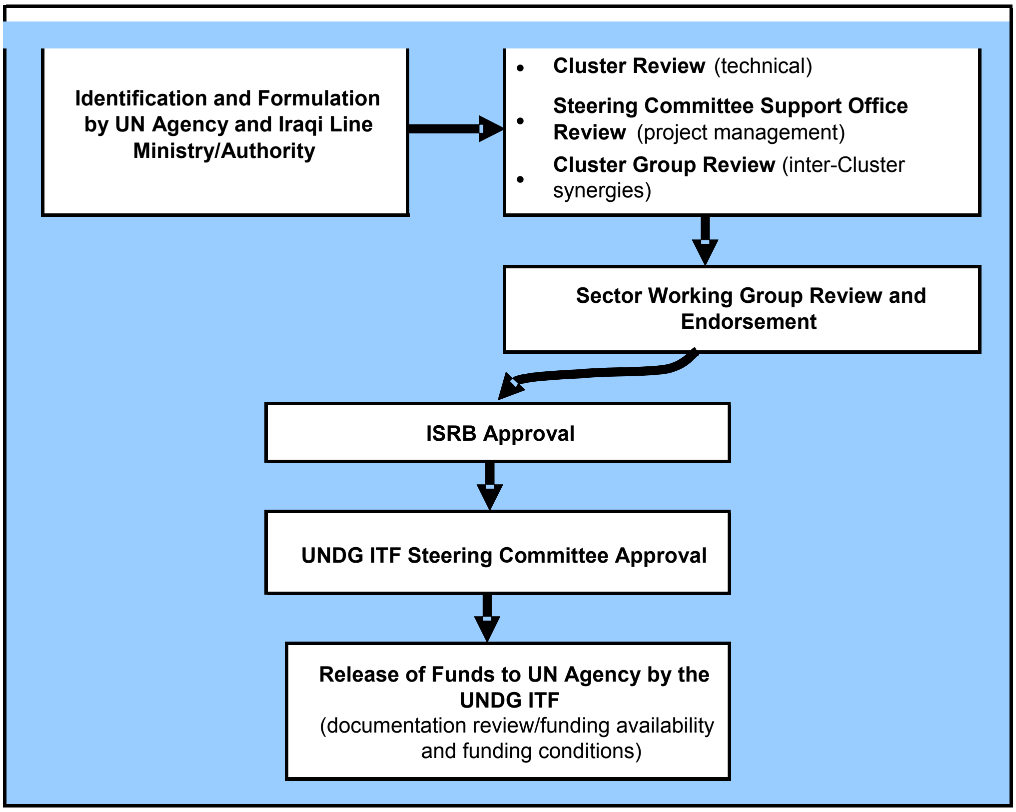


Figure D.5: Project/Program Identification, Review and Approval Process: UNDG-ITF funded activities

118. The UNDG ITF Steering Committee is chaired by the Deputy Special Representative of the Secretary General (DSRSG) for Iraq and comprised of the heads of UN organizations based in Amman, with the UNDG ITF Executive Coordinator participating as an ex officio member. The committee normally meets once per month and is the forum for the UN Country Team (Heads of UN Agencies) to discuss project proposals and take decisions on funding allocation accordingly. Extraordinary meetings have been held outside the normal schedule to accommodate projects addressing urgent priorities.

119. The first 17 projects were approved by the UNDG ITF Steering Committee at three meetings in May 16 2004. Between June and December 2004, 38 additional UNDG ITF project proposals were reviewed and approved. As observations of the efficiency of the process:

- The decision-making structure provides for national ownership at at least two levels; initial authorization for the project to enter the project development process and the requirement for IRSB approval before the project goes to the Steering Committee.
- The UNDG ITF Steering Committee makes the final decision. The Price Waterhouse evaluation notes the potential for conflict of interest and recommends an additional oversight function. However, UN informants advised that, in practice, no project has gone forward without the IRSB's agreement.

- UN Cluster Coordinators noted that delays can result from the weakness of Iraqi counterparts. Both the line ministries and and the IRSB have limited capacity, a problem that is compounded by the security situation. There are sometimes poor communications or disagreements between Iraqi institutions that must be managed.
- Implementation delays were experienced when ISRB was late in providing the required approvals.

Findings and Conclusions

120. The structure, governance, and modalities of the IRFFI were designed in close consultation with donors and Iraqi national authorities.

121. The governance structure consists of four tiers: (i) the ISRB ensures project proposals are in line with Government priorities, (ii) the Donor Committee provides strategic guidance to overall IRFFI operations (iii) the FCC coordinates the priorities and projects of the two funds, (iv) the two funds have their own management structures that review project proposals and their appraisals, so the decisions on final funding are made *within* each of the two ITF structures.

122. The effectiveness of the ISRB to provide leadership and national ownership has been undermined by security conditions in Iraq, and by the frequent staff changes and policy priorities that have accompanied the political transition process. Nonetheless, the ISRB appears to be strengthening its role and capacity over time.

123. The Donors Committee has functioned within its technical mandate. However, the committee has not met on a regular basis, despite the deteriorating conditions inside Iraq. Stakeholders have not used the governance structure to address problems caused by escalating violence or the effects it has on the IRFFI portfolio. In this regard, the committee appears to have shifted the burden for strategic management and risk mitigation to the Administrators.

124. The Donor Committee has missed opportunities to strengthen the coordination between the UNDG ITF and the WB ITF, and to ensure that the two organizations defined and built on their respective competencies. The Donor Committee, therefore, has not satisfied its mandate to provide guidance to the IRFFI. If the security situation changed, the committee should have adapted its own design and operating procedures accordingly.

125. The two elements of the governance structure that were to ensure coordination between the UNDG ITF and the WB ITF are not functioning as intended. The FCC is providing technical coordination between the UNDG ITF and the WB ITF. However, it has provided little value to coordination between the ITFs at the strategic level, clarifying the division of labor between the funds. The decision to disband the Technical Secretariat left the Donor Committee and the two ITFs without a dedicated capacity to manage information flows between stakeholders, as well as routine logistical matter.

126. The project development and decision-making process of both the WB ITF and the UNDG ITF place a high priority on national ownership. Both involve Iraqi institutions at critical steps in the design, approval and implementation processes. The risk involved is that the weakness within the Iraqi system can result in delays.

D.5 Harmonization and Coordination

127. In April 2003, the occupying coalition forces created the Office of Reconstruction and Humanitarian Assistance. This was superseded in May 2003 by the Coalition Provisional Authority. In July 2003, the Coalition Provisional Authority appointed a 25-member Iraq Interim Governing Council to serve as an interim body involved in major decisions. The Governing Council appointed interim ministers to lead Iraq's ministries. Early in 2003, attempts were also made to coordinate aid and the overall reconstruction effort in Iraq. Coalition Provisional Authority's regulation no. 7 of December 2003 set out a framework for donor coordination, including bilateral and multilateral aid, and established the ISRB.

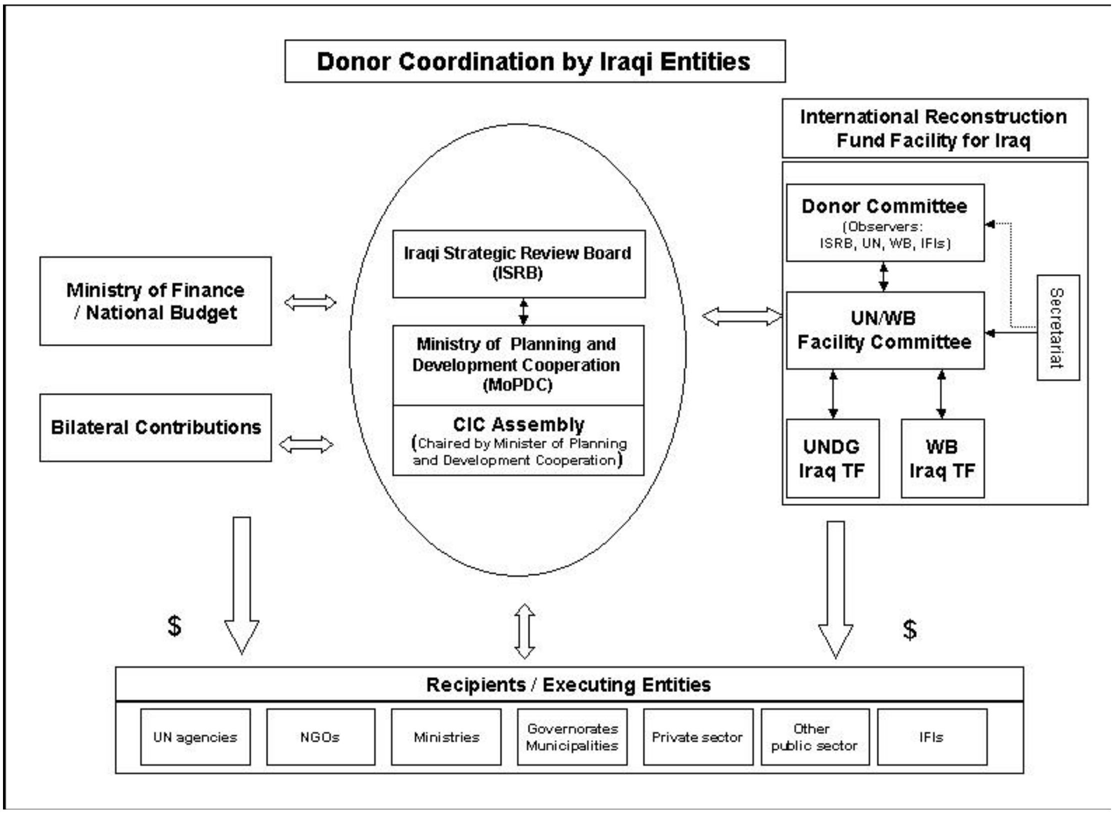


Figure D.6: Early Coordination Framework

128. The ISRB, a committee consisting of the Minister of Planning and Development Cooperation, the Minister of Finance, a representative of the Coalition Provisional Authority, and two Iraqi Strategic Review Board secretariat members, acted as a focal point for coordinating donor activities, including loans, grants, guarantees, and technical assistance. While the reconstruction programs

are to receive prior clearance from the ISRB to prevent duplication, the relevant sector ministries are charged with direct coordination in the implementation of these programs. The Council for International Coordination, chaired by the Ministry of Planning and Development Coordination, was set up to provide advice and support to the Minister on coordination issues. It includes donors and other key partners involved in the reconstruction of Iraq.

129. The Coalition Provisional Authority was succeeded by the Iraqi Interim Government, which took important steps in 2004 to strengthen ownership of the policy-setting process and to address institutional weaknesses. Inter-ministerial committees were created to tackle economic reform, oil policy, reconstruction, privatization, and reorganization of the Iraqi stock exchange, among others.

130. Following Iraq's elections in January 2005, a new cabinet was approved by the Iraqi Transitional National Assembly. A Cabinet Committee for Economic Development and Finance has been established, consisting of relevant ministers and the Central Bank. A Reconstruction Coordination Committee has also been established, incorporating the ministries of finance and planning, among others.

131. The Bank Portfolio Review and Hadad-Zervos (2005) concludes that donor coordination must also take place at the sector level. It was commonplace in the early period of the reconstruction program for donors to separately engage a ministry to develop different policies for a sector. Recently, the Iraqis and the donors began to set up donor coordination groups for each sector, and this sector level coordination is now becoming more operational.

132. Figure D.7 shows how sector coordination is foreseen in the 2005 NDS's new vision for Iraq-led coordination. As a first step, the NDS wants to move towards a larger and more inclusive "Consultative Group" type forum to supplement the more restrictive IRFFI Donor Committee meetings. This new group is to be called the Iraq Reconstruction Forum (IRFO) and will meet semi-annually, which were foreseen to be in conjunction with the semi-annual Donors Committee meetings. IRFO will be chaired by the Minister of Planning and Development Cooperation (MOPDC) with the World Bank as the supporting donor. Membership in IRFO will be open to all reconstruction programming and interested donors.

133. The primary role of IRFO will be to provide an opportunity for high-level representatives from donor capitals to evaluate progress towards mutually agreed goals, directly with their Iraqi counterparts. The forum will also establish strategic priorities and one of the meetings will fit into the Iraq budget cycle to enable donors to make pledges to cover any financing gaps.

134. Below the IRFO a new body, the Baghdad Coordination Group (BCG), was established to enable Baghdad-based heads of aid agencies to interact with each other and the MOPDC on a regular basis (the intention was that BCG meetings were to be linked to the donors in Amman via video-conference). This interaction should enable the BCG to quickly translate strategic/program goals into project deliverables, ensure consistency between sectoral and national priorities, and resolve delays in project implementation. The UN serves as the supporting

donor, and the Minister of MOPDC or his Deputy chairs the monthly meetings. The membership of the BCG is open to all donors.

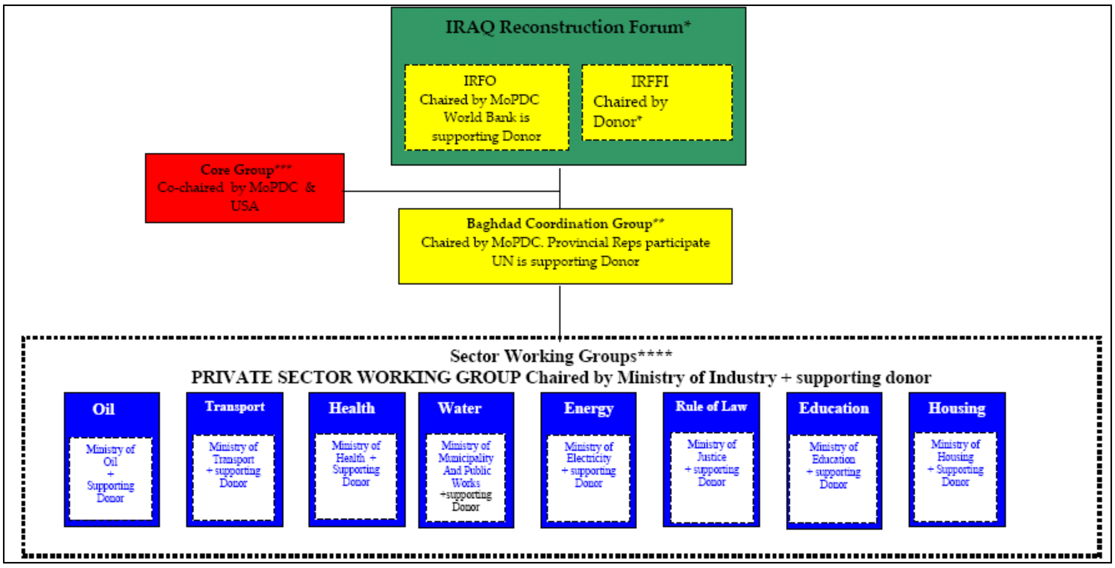


Figure D.7: Overall Structure for Managing Trust Fund

135. At the level below the BCG, there are Sector Working Groups (SWGs) composed of relevant line and cross-cutting ministries, and donors. Many SWGs are now active, starting up after the July 2005 Donor Committee meeting. The SWGs process facilitates sector discussions between donors and government. Supporting donors were to have a presence on the ground in Baghdad and be actively providing significant assistance in that sector. The overall objective of the SWGs is to increase the effectiveness and efficiency of aid coordination in support of the attainment of national development and reconstruction objectives through implementation of the national budget.

136. Because donor capacity in Baghdad remains very limited, it was not feasible to start all the sector groups at once. Therefore, several were to be set up in line with the Government's short-term priorities as defined in the *National Development Strategy* (2005). There are some cross-cutting areas/sectors in which better co-ordination is urgently needed between donors and ministries, in particular energy (including electricity and oil together), rule of law and housing.

137. Because of the deteriorating security situation inside Iraq, this model has not been fully implemented. Some donor informants stated that there nonetheless is progress, and that there is now an additional layer of coordination that is helpful.

138. Hadad-Zervos also observes that the IRFFI structure has shown that resource pooling is important for effective reconstruction. In Iraq as elsewhere, donor priorities often governed the bilateral assistance. These could be inconsistent with Iraqi priorities, or involved ministries with weak implementation capacity. Some ministries were the subject of excessive attention by donors, while others were ignored. Many Iraqi ministries complain of their own form of "donor fatigue", as

civil servants often have to repeat the same discussions with different donors at different times.

Coordination between the WB ITF and the UNDG ITF

139. The IRFFI is the first time that the UN and World Bank have administered a multi-donor reconstruction trust fund in a joint partnership. There was both an objective and expectation that the two funds would be coordinated. However, the documents do not define a division of labor between the World Bank and the UN System, or the synergies expected from combining their capacities.

140. Both the Bank and UNDG ITFs are eligible to finance operations in all sectors and cross-cutting themes identified in the *Joint Needs Assessment* (2003), with the exception that the Bank ITF, due to the Bank's mandate, cannot fund mine action, humanitarian relief, nor does it finance peacekeeping efforts or other security, military, or political interventions. Bank ITF resources should primarily fund activities implemented by Iraqi institutions, and training/technical assistance programs designed to increase public sector capacity.

141. Perceptions of the two organizations' comparative advantages can be paraphrased from the World Bank's 2004 Interim Strategy Note and the UN's 2004 Country Assistance Strategy, as well as from informant views. In random order, the Bank defines its comparative advantages in Iraq as:

- Building the capacity of Iraqi state institutions, by implementing directly through those institutions, emphasizing national ownership and sector-wide approaches;
- Ability to deliver international best practices, particularly in the fields of public finance management and policy advice;
- Economic and infrastructure development (transition from central to market economy);
- Taking a medium term perspective, while at the same time having the capacity for emergency activities.

142. Similarly, the UN believes its relative strengths in Iraq are:

- Country knowledge, networks and established program infrastructure inside Iraq, based on experience with the "Oil for Food" program and other activities during the sanctions period.
- Ability to work through Iraqi state institutions, or to deliver services directly.
- Capacity building of state and civil society institutions, focusing on political governance and processes.
- Ability to work with civil society, given their role in political dialogue.
- Delivery of humanitarian assistance and reconstruction services.
- Organizational capacity on cross-cutting themes of human rights and gender.
- Cluster-based programming that builds on synergies between various UN agencies and issues.
- Mechanisms for rapid deliver of services.

- The UN can play a role in infrastructure development, where 28 percent of the UNDG ITF is allocated through the Infrastructure Rehabilitation Cluster (Cluster E), as well as other clusters.

143. It was originally foreseen that the Bank and UNDP would use a standardized format in drafting their reports on the activities financed by their respective trust funds, and these are consolidated into one report. Some progress has been made in this regard. The Administrators have developed two consolidated tables in donor commitments and the use of funds, which are available on the website. Further standardization has been complicated by the UN and the World Bank using different indicators, definition and financial terms.

144. According to UN and Bank staff, the two ITFs have good relations, but there is not much coordination, though in general terms the Bank leads on the framework conditions for development while the UN leads humanitarian assistance and emergency operations. Inadequate coordination is a general problem regarding activities in Iraq resulting from security conditions. It is not, therefore, a problem specific to IRFFI but to international cooperation. Sector level coordination has been strengthened with the creation of Sector Working Groups.

145. There is no clear division of labor between the funds, based on a concept of comparative advantage, managing different aspects of the transition process or a division of labor. There was evidence of good collaboration at the sector level between the two ITFs, donors and the government on specific projects. However:

- There are no examples of joint programming between the WB ITF and the UNDG ITF. UN staff furthermore stated that there were few cases of joint programming among UN agencies, though this is now increasing.
- Both funds have projects in the other's proposed area of comparative advantage. UN agencies are delivering infrastructure and the World Bank is printing text books for the education system at the request of Government.
- In decision-making, there did not appear to a consideration of which Administrator's procedures would deliver the most appropriate secondary benefits, such as employment or strengthening capacity in specific areas.
- There was no evidence that the governance structure, the FCC, the DC, the ISRB or other mechanism was being used to ensure better coordination between the two funds. The IRSB should have a primary role, given its review of projects from both ITFs against government priorities. However, the Board does not currently have the capacity to play a more robust role.

146. According to UN staff, relations between the UNDG ITF and the 16 participating agencies have generally been satisfactory. UNDP has been able to maintain good rapport with implementing UN agencies even though there has been considerable competition among them for ITF resources. In order to encourage "good practices", UNDP has made budget and disbursement figures related to the absorption capacity of UN implementing agencies publicly available by posting them on the UNDG ITF reports. This practice has also made monitoring more transparent to donors. Donors have nonetheless continued

funding low-disbursing agencies. Some informants felt this was undercutting UNDP's attempts at promoting good management practices, but it was not possible to verify with donors their motives for this ear-marking/funding behavior. There is also the issue of to what extent disbursement *per se* should be seen as a success criterion, since different projects are addressing varying degrees of problems depending on the geographic area and issue that is being addressed.

UNDG Cluster Model

147. Pursuant to the Secretary General's reform agenda, Iraq is the first country in which UNDG agencies have adopted the Cluster approach, a common planning, funding, coordinated implementation and reporting arrangement for large scale operations

148. The UN Cluster Group model strengthens internal UN coordination, and strategic rationale behind decision-making and resource allocation. Both the peer review process and decision making within the Steering Committee were credited with strengthening the overall quality of UNDG ITF initiatives. The model has been adapted over time to improve efficiency, including reducing the number of clusters from 11 to seven.

149. The Cluster System has not resolved all the problems inherent in the UN Country Team system. Informants and the Price Waterhouse evaluation noted that that competition between agencies has affected the efficiency of some clusters. The Governance Cluster was cited as the primary case in point. The mandate of many UN agencies includes a governance component. Accordingly a larger number joined the governance cluster and were left to compete for the resources in a context where the thematic parameters were poorly defined. Donors express concerns over negative competition between agencies for funding, which they considered distorting to priority setting.

Findings and Conclusions

150. The IRFFI has not fully tested the "two-window" concept. The UNDG ITF and the WB ITF were intended to function as independent but coordinated entities. Both can finance activities in all of the sectors and cross-cutting issues identified by the *Joint Needs Assessment* (2003) and the *National Development Strategy* (2005). However, there is no established division of labor between the funds and, therefore, no comparative advantage or complementarity has been developed. Rather, the respective areas of advantage between the Administrators appear to have become less clear over time. The one area where there is an understanding of comparative advantage is that the UN leads humanitarian assistance and emergency operations.

151. The IRFFI was designed to improve performance by allowing the two Administrators to use their own systems and procedures. Despite the lack of coordination, this objective has largely been achieved. Using own procedures has been particularly useful for the UN system, which in other MDTFs has been required to apply for funding against Bank criteria. Missing is the understanding

of where the respective own procedures might be most appropriate to beneficiaries.

152. There has been some progress in harmonizing between the Administrators in agreed areas, such as reporting to donors. Future "two-window" MDTFs can build on this accomplishment.

153. The relations between the UN and the Bank within IRFFI are considered cordial and constructive. One reason is that there is no overt competition for funds and that the Administrators are using own procedures.

154. The *Joint Needs Assessment* (2003) was as a good example of effective collaboration between the UN, the World Bank, and Iraqi officials. In addition to outlining recovery needs, the assessment filled a policy vacuum in the absence of a national government counterpart and development strategy. It also provided a basis for the subsequent *National Development Strategy* (2005), whose priorities now guide the IRFFI.

155. Iraq's attempts at coordinating external assistance have improved with adoption of the national strategy and strengthening of the IRSB over time. These provide a more coherent vision of both the development agenda and how Iraq intends to manage external aid. The IRFFI has played a constructive role initiating this process. The national strategy foresees a wider and more participatory forum for all donors, which the IRFFI can also consider among its accomplishments.

156. There has been no evaluation or lessons learned exercise for the overall IRFFI model. As initial insights:

- The United Nations system and the World Bank indeed have distinctive competencies, which are relevant to different aspects of a post-conflict environment. While there may be some similarities, is difficult for one organization to imitate the other's competencies or work effectively in those areas.
- The respective competencies of the United Nations system and the World Bank can be complementary, with one enhancing the effectiveness of the other and potentially strengthening the overall facility programme.
- Ensuring this complementarity requires that the distinctive competencies and roles of each organization be identified in the original planning documents. Future "two-window" MDTFs, therefore, would benefit from a clear statement of the respective competencies of the two Administrators, the kinds of programs they are best suited to support and how initiatives can be mutually supportive.
- The governance structure must play the lead role in ensuring these roles are implemented in the facility's portfolio.
- There were three levels in the government structure where coordination between the funds could have been improved: the IRSB, the governance structure and within the FCC's technical capacity. Future funds should

ensure that the governance and technical support capacities play a robust coordination role. If circumstances require adaptations at any of these levels, these must ensure that the coordination capacity is not lost.

- The ability for the World Bank and the UN system to use own procedures within their respective funds has accelerated delivery of activities, thus increased disbursement rates, and reduced transaction costs, when compared to the experience of other MDTFs. The understanding of where these procedures can maximize benefits could be improved in the context of determining the division of labor between the funds.

D.6 Ownership and Capacity Development

157. **National Development Strategy (NDS)**: In October 2004, the Iraqi Interim Government drafted a medium-term NDS to outline a vision for Iraq anchored in market-focused reforms, economic diversification, and strong social safety nets. The NDS stresses sustained employment and growth through improved security, an effective reconstruction program, and market reforms. The strategy highlights the importance of capacity building to allow the Iraqi Government ownership of the reconstruction and reform agenda. Following the Iraq election in January 2005, a new NDS was produced in June, setting out strategic priorities for Iraq's reconstruction and Development. This NDS also outlines a new vision for Iraq-led coordination.

158. The NDS established four major pillars to govern strategic public actions for reconstruction and development. These are: (i) Strengthening the foundations of economic growth; (ii) Revitalizing the private sector; (iii) Improving the quality of life; and, (iv) Strengthening good governance and security.

159. WB ITF projects are implemented by Iraqi institutions through a Project Management Team (PMT) in each Ministry. The PMTs report directly to the Minister. The key staff of each PMT have attended the training courses and workshops organized by the World Bank, UN agencies and some bilateral donors. The World Bank provides intensive training to PMT staff before and during project approval in all aspects of project management, including procurement and financial management.

160. The WB ITF's project *First Capacity Building*, implemented by the World Bank from February to August 2004, trained 600 civil servants, enabling the ministries to access modern practices of procurement, financial management, and social and environmental safeguards, and move quickly to implement reconstruction projects whether financed by the World Bank ITF or other donors. Hadad-Zervos illustrates this point by noting that the Ministry of Education adopted Bank procedures to procure textbook printing services, based on the experience with the competitive bidding procedures with the Bank-financed Emergency Textbook project. These procedures yielded a cost savings of approximately USD 9 million, which was used to procure USD 3.5 million more in text books than originally planned.

161. The first WB ITF capacity development project provided considerable training in Bank procurement and financial management, so that Iraqi institutions could implement Bank ITF funded activities. Bank procedures are also emerging as government standards in a number of fields. In November 2004, the Bank began implementing the Second Capacity Development project, which aims to strengthen economic management and build institutional capacity to improve public administration and services. It will, over its two year lifespan, provide capacity building in four areas: (i) economic reform and transition; (ii) poverty, social protection, and social development; (iii) public sector management; and (iv) managing the project cycle, including the legal/fiduciary aspects of reconstruction. This program is aimed at senior Iraqi policy-makers and technical specialists.

162. In many emergency and conflict-affected environments, the World Bank and other donors rely on units similar to the PMTs. Experience elsewhere, however, has indicated that, although the use of implementation units are adequate in the initial stage of emergency operations, the use of such units can undermine long-term sustainability and institution building. In Iraq, the World Bank is striving to strengthen Iraqi institutions through use of dedicated ministry staff and consultants constituting a flexible project management team. Hadad-Zervos writes that three lessons learned from past Bank experience have been used in Iraq:

- PMT members are *civil servants* paid by the ministry instead of external consultants;
- PMT members *receive the regular pay scale* instead of the higher Bank-funded international consultancy fees, which governments cannot compete with or maintain;
- The World Bank *provides intensive training* to civil servants *before and during project approval* in all aspects of project management, including procurement and financial management, instead of training external consultants.

163. PMTs are thus designed to provide the skills needed for effective project implementation, yet be flexible and easily reintegrated into the ministry's institutional structure.

164. Strengthening institutional and governance capacity within Iraq is also a key objective of the UNDG ITF, as noted in the UN Strategy Framework. UN agencies work with line ministries and local governments as well as with civil society organizations through out the project cycle such as project designing and monitoring. A number of UNDG ITF funded activates include training, and especially for local authorities such as training of technicians and equipping labs in the safe water projects. UN activities also aim at strengthening the links between government and civil society, such as UNDG ITF projects in the health sector, where the Health Cluster works through linking ministries and other institutional groups such as parliamentarians and religious organizations. UNDG ITF also funds public-private partnerships, such as the national wheat flour fortification project.

Findings and Conclusions

165. With the development of the *National Development Strategy* (2005), Iraq put in place both a vision, a priority program, and outlined its donor coordination approach. This has made national ownership of IRFFI support much more clear, and is a success of the donor-GOI dialogue process.

166. WB ITF funds are implemented by Iraqi institutions, relying on PMTs staffed by civil servants. The Bank is, therefore, building national public sector capacity and avoiding parallel structures, such as external project implementation units.

167. UN capacity development targets both public and non-public actors. UN capacity development focuses on human resource training at various levels of the government. It also targets institutional and organizational development of civil society organizations. UN capacity development complements the World Bank's focus on state building in that it provides vital support to develop capacities outside the public sector, and to augment national capacities through strengthening links between public and non-public sectors.

168. UN capacity development plays a role in strengthening civil society and the private sector, which are strategically important in a post-conflict situation. However, the UN did not appear to have an overall capacity development strategy that focused on non-public sector capacity development as a means of empowering those actors, strengthening accountability and democratic governance except on an *ad hoc* project-by-project basis. So while the State is systematically being built with Bank funds, the other actors necessary for successful post-conflict development are receiving much less attention and support.

169. Early focus on and a heavy dosage of training for civil servants has improved project management capacity in Iraqi institutions. Important lessons learned from past Bank experience have been used in Iraq: projects are implemented by civil servants who receive regular pay and undergo intensive training in all aspects of project management.

170. Capacity to manage projects in the public sector has been built and lost due to transition between interim governments. While changes in the administration of public sector institutions due to political changes occur in most countries, post-conflict environments are more prone to such shifts due to the quick process leading to, or at least attempting to, political stabilization. Moreover, retention of qualified professionals in the public sector for a long period of time is also more difficult in post-conflict counties due to security reasons and to highly competitive market forces in an environment with scarce qualified human resources. While negotiating the stability of politically appointed positions is outside of the realm of multilateral agencies in their role of MDTF administrators, the World Bank has shown that reaching an agreement about the need for stability of a core group of bureaucrats is possible and necessary if project and program objectives, including capacity development objectives, are to be achieved in a timely manner compatible with an agenda of political stabilization.

D.7 Thematic Areas and Beneficiaries

171. The UNDG ITF worked in crossing cutting themes of gender, human rights the environment. Initiatives include advocacy with the government and considering these themes in the project review process.

172. One Thematic Area that the Review Team has tried to review more carefully, concerns Conflict Awareness and Conflict Sensitivity. Foundation documents – the *Joint Needs Assessment* (2003), the World Bank's 2004 Memorandum to the Board, and the UN's 2004 "Strategy for Assistance to Iraq" – all note security as a risk to implementation of the IRFFI. Sensitivity to conflict dynamics should be, therefore, a key element of fund operations. There are three places where conflict analysis could take place:

- At the level of *general policy* and *portfolio analysis*, at all levels within the Governance structure: the Donors Committee, the FCC, and the Technical Secretariats.
- The ISRB *priority setting and review process*, and any dialogue between government agencies responsible for project design and implementation, and the IRFFI.
- During *project development and monitoring*, in the work of both the Administrators and the counterparts. This analysis should be done in light of overarching portfolio and risk analyses carried out for IRFFI as such.

173. Stakeholders were aware of conflict risk, which was taken into consideration during IRFFI operations. Also, donors, the UN system and the World Bank have all developed conflict assessment tools over the past decade that could be applied in Iraq. However, at none of the three levels did there appear to be a systematic process for assessing:

- The impact of conflict on the project/portfolio. Discussion would range from whether a project is viable under prevailing conditions to design options for mitigating risk.
- The potential impact of the project/ portfolio on conflict dynamics, and whether the intervention proposed will reduce or increase the possibility of violence.
- The UNDG's portfolio of over 100 projects with average budgets of USD 8 million that are being implemented in diverse communities is partly based on a strategy of avoiding the growing security risks while spreading income and employment impacts – two important UNDG ITF criteria for project approval.

174. Of particular concern was the lack of direction from the Donor Committee and the FCC, two key elements of the governance structure providing guidance, coordination and information. The Donor Committee has not met formally since 2005, notwithstanding the May 2006 progress report presented by the Administrators, or yet conducted the proposed "stocktaking" exercise. The FCC does not function as intended and there is no common technical capacity to

conduct or support conflict analysis at the portfolio level. A World Bank informant noted that this function may have been superseded over time by the strengthening of national coordination capacity. At the same time, violence has escalated and projects are bring adversely affected, so it is clear that framework conditions have deteriorated badly.

175. Related to conflict analysis, the Review Team had discussions with informants on the question of threshold conditions beyond which an MDTF should or could not operate. Two potential dimensions were (i) identifying minimum levels of political will and capacity within government needed for the MDTF model to work, and (ii) levels of violence beyond which operations were no longer viable.

176. The idea of thresholds assumed that, with the deterioration in either, projects could reach a point at which (a) operations cannot achieve the minimum desired results, or other positive outcomes, and/or (b) the levels of risk and expense or absence of improvements in security would mean that an operation could no longer be justified.

177. The question of thresholds has not been confronted in Iraq, despite the gradual deterioration of security conditions. Conflict analysis could also be used to nuance this. What kinds of projects are possible or nor possible in this security environment? Are there some geographic areas where levels of violence are lower? Do certain kinds of projects have more potential to mitigate conflict dynamics, under certain conditions? Is working with certain beneficiary groups more likely to provide an impact? One informant noted that this would be extremely valuable information, although it would necessarily be a living process as the situation remains volatile. Questions arising included: Who would be responsible for the analysis (perhaps the FCC)? How would it be funded (dedicated funds included in the design of the governance structure)?

178. One example discussed with Bank ITF informants was large scale infrastructure projects in conflict-affect urban areas, such as Baghdad. In 2003, as today, there was pressure to restore basic services and infrastructure. At the same time, these kinds of "hard" projects have suffered serious problems. These are due to at least two sets of factors. In the first place, they are complex and depend on government capacity (planning, financial management, technical services and procurement) and security for officials and contractors during construction. Secondly, they are visible and exposed as potential high value targets, factors which could make them targets for violence or otherwise have a negative effect on inhabitants that were intended to be beneficiaries.

179. On the other hand, capacity building or rural infrastructure may be less visible and more viable in terms of creating framework conditions for medium term development. According to one informant, "if we had this to do again, we might better understand what projects are possible, under what conditions?" Another noted that they might have gone for a different balance between "hard" (infrastructure) and "soft" (capacity development) projects. How do MDTFs provide critical infrastructure and public services, when the environment is not

permissive but the absence of these services is a factor behind discontent? Some of these trade-offs are considered in the project development approval process. However, their assessment is complicated by the lack of analytical tools and capacity and rapidly changing conditions in the field.

180. The issue here is one of dynamics. In the short run, "hard" projects make sense as a way of showing "the peace dividend" in identifiable improvements to living conditions. Once the conflict dynamics is such that external support itself is a target and visibility therefore a liability rather than an advantage, a conflict analysis/risk assessment/portfolio review would seem to be needed. This needs to be an inclusive process, led by the decision making bodies of the IRFFI. Otherwise the portfolio performance and risk profile of the trust funds are made the exclusive responsibility of the two Administrators, which is neither reasonable nor in line with the basic concept of the partnership behind the multi-donor trust funds.

181. By having the bilateral donors more heavily involved in such a review process, it is also possible to draw on the considerable resources they have in terms of research institutes and other skills centers. These can be brought in at the appropriate times, which also frees up the IRFFI as such from necessarily having a permanent conflict analysis capacity in place, which probably is neither efficient nor effective.

Findings and Conclusions

182. Cross-cutting themes are being addressed in the UNDG ITF review process. They appeared absent from the WB ITF portfolio, although some individual projects address gender issues. The key concern is the lack of more pro-active conflict analysis to guide portfolio development as framework conditions change, including analysis of conflict impact that might affect project choices. The lack of more active engagement by the donors is seen as a weakness, since it pushes all the portfolio and project risk onto the Administrators. The donors have conflict analysis tools and capacities that could be used to enhance IRFFI capacities. However, there was no evidence that these have been applied.

ANNEX E: The Indonesia Multi-Donor Fund

E.1 Background and Introduction

1. Indonesia was struck by a tsunami on 26 December 2004, with devastating results along the coastal areas of the Aceh province on Sumatra. Three months later an earthquake added further damage to the region. This province had also been affected by a long-standing conflict with the Acehnese armed movement, GAM.

2. The Government of Indonesia (GOI) responded to the tsunami by issuing a series of government decrees, and immediately organized both overview and relief efforts to ensure as rational and coordinated response as possible. The first task was to produce a Damage and Loss Assessment (DLA). Ten working groups were established in Jakarta, covering different thematic areas, using both national and international expertise. Similar working groups were subsequently established in Aceh itself. The DLA was produced within a few weeks, estimating total losses at nearly USD 4.5 billion[7]. The DLA was presented to the international community mid-January 2005 as the basis for mobilizing external resources. The UN, under the leadership of the Humanitarian Coordinator, carried out a related assessment in January as background for its FLASH appeal.

3. The DLA work was led by the Ministry of Planning (BAPPENAS) on the GOI side, and the World Bank on the international community side. It is generally agreed that the DLA work was "best practice": international expertise from the UN system, the lending agencies, bilateral donors etc were quickly mobilized and brought into the different working groups. The methodology to be used was agreed upon, and GOI was recognized to be in charge of the process. The task was done in a very short period of time, and while some of the information had to be updated later, the overall picture that emerged was seen to be quite accurate. The collaboration between the different actors involved was also seen to be positive and constructive.

4. The DLA was followed by a more detailed Master Plan for Rehabilitation and Reconstruction (MPRR), also led by BAPPENAS. The MPRR consists of a Main Book plus eleven volumes that provide in-depth sector plans, spatial planning, the governance and supervision arrangements of finances with considerable attention to how to avoid or minimize corruption. The process behind the MPRR was consultative, with a wide range of local stakeholders and public offices being heard. The MPRR was presented on 26 March.

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[7] The methodology applied had been developed and refined by ECLAC for natural disaster assessments particularly in Central America, one of the most disaster-prone regions of the world. It looks at both direct (infrastructure loss) and indirect (foregone flows due to asset destruction etc), and thus provides a more comprehensive and dynamic picture of the impact. For a comprehensive and interesting discussion on the methodology, its application in Aceh including the more sophisticated work done in the field of governance, see UNDP TRU (2005).

5. The MPRR was to form the basis for a general three-stage strategy. The ***Relief phase*** was originally set to six months, but was then reduced to three: January-March 2005. The ***Rehabilitation phase*** is to run for about 21 months, through December 2006, and the ***Reconstruction phase*** from July 2006 through December 2009. The MPRR provides a well defined phasing of interventions. The objectives for the Relief efforts were ***humanitarian relief***: rescue; food and medicine; emergency infrastructure and temporary shelter; and burying the dead. The Rehabilitation phase is to ***restore services to minimum level***: public services; economic facilities; banking and financial institutions; trauma treatments; secure land rights; law and order; and temporary shelter. Finally, Reconstruction is to ***rebuild the region***: rebuilding the economy (production, trade and banking); the transportation, telecommunications, and social and cultural systems; improving institutional capacity; and housing.

6. The Government set up a ministerial-level agency to manage the MPRR program from Aceh itself, the ***Badan Rehabilitasi dan Rekonstruksi NAD Nias*** (BRR – the Rehabilitation and Reconstruction Agency for Aceh and Nias). The BRR was formally established end April 2005 and became operational early May.

7. This country study is based on:
    a. Document review covering the MDF itself, projects, GOI documents, independent reviews and reports (see Annex C for complete list);
    b. Informant interviews, covering donor, government, UN and World Bank officials, some civil society and beneficiary representatives (see Annex B for full list of informants);
    c. Field visit to Jakarta and Aceh during the period 09-29 May 2006;
    d. Participation in the MDF "Lessons Learned" workshop 14 May; at an Aceh donors' meeting; the Technical Group meeting on the IREP project; and project visits in Aceh (KDP, UPP/Housing, Waste Management).

Section E.9 provides a chronological overview of key MDF events.

E.2 Trust Fund Establishment

8. The international response to the devastation in the region was overwhelming. The UN system, development banks, bilateral donors, and the NGO community committed vast resources but also demanding a lot of GOI attention. The UN's Office for the Coordination of Humanitarian Assistance (OCHA) was asked to coordinate the international humanitarian support, while during the already-planned Consultative Group (CG) meeting 19-20 January 2005 in Jakarta, GOI asked the World Bank to coordinate the reconstrucotin assistance. The Bank suggested a multi-donor trust fund as the most appropriate instrument, which GOI accepted. The Bank began mobilizing support among the donors for a "Multi-donor Trust Fund for Aceh and North Sumatra" (MDTFANS), later simplified to "Multi Donor Fund for Aceh and Nias, MDF".

9. The World Bank Board on 30 March 2005 formally established what was then MDTFANS. It provided at the same time an IBRD grant of USD 25 million as the Bank's contribution to the MDF.

10. On 10 May 2005, the MDF Steering Committee (SC) had its first meeting in Jakarta. Four project proposals were presented for discussion, all prepared by the Bank, of which two were extensions of on-going national IDA-funded projects. At this meeting it was also agreed that a strategy for the MDF should be produced.

E.3 Financial Overview

11. One and a half year after the tsunami, the total funds committed by various actors for the period 2005-2009 were estimated to total nearly USD 9 billion as follows:
    - Government of Indonesia: USD 2.8 billion
    - Bilateral and multilateral donors: USD 3.6 billion
    - NGOs: USD 2.5 billion.
12. A total of 15 funding agencies, including the Asian Development Bank and the World Bank, have committed over USD 537 million to the MDF (table E.2 below). MDF funding is thus less than 7% of the total, and 15% of the funding from the donors. Of this, nearly half – about USD 248 million – comes from the European Commission[8]. In terms of the importance of the MDF in the overall rehabilitation and reconstruction funding, the MDF thus represents a limited share.

Share of Donor Funding through the MDF

13. The share of each donor's funding going through the MDF varies considerably. Only USD 10 million of ADB's post-tsunami funding of USD 336 million is through the MDF. All the USD 588 million mobilized by the UN goes to UN agencies for direct project implementation. Concerning bilateral donors, the EC channels nearly 93% of its funds through the MDF, while only 2.5% of USD 400 million from the US goes to the MDF. Japan and Australia are among the largest donors, with total commitments around USD 300 million each, but none of this goes through the MDF. If one looks at the donors that are active in the MDF, their post-tsunami funds that come in addition to their MDF contributions are around USD 1 billion.

Project Funding

14. The SC had held a total of ten meetings as at end June 2006. One of the key topics has been the review of project proposals and their endorsement for funding. By the end of June 2006, a total of 12 projects have been approved. Four more had Project Concept Notes (PCN) endorsed and were being appraised, so total funds committed were USD 392 mill. An Infrastructure Reconstruction Enabling Financing Facility of USD 100 million has now also been agreed to, leading to in fact USD 492 million of MDF funds allocated (see table E.1).

[8] EC contribution is in EUR, so the value changes over time. This value is as of 30 June 2006.

15. While payments into the fund were slow, disbursements out of it were to begin with even slower. At the sixth SC meeting at the end of October 2005, it was noted that while project agreements for about USD 200 million had been signed, only USD 3 million had actually been disbursed[9]. This was in large part due to the fact that the first four projects had been expected to be on-budget, which caused considerable delays and problems for the program (discussed below). As of early 2006, disbursements to projects picked up considerably, and actual expenditures on the ground thus also took off, as can be seen in the table below.

Table E.1: Project Budgets, Disbursements and Expenditures, 30 June 2006

Project	***Budget, USD***	***Disbursed, USD***	***Spent, USD***
Recovery of Communities			
Reconstruction of Aceh Land Admin System, RALAS	28 500 000	11 695 000	2 160 067
Community Recovery thru Kecamatan Dev't Project, KDP	64 700 000	49 000 000	44 759 699
Community Recovery thru Urban Poverty Program, UPP	17 960 000	6 554 671	3 586 773
Community-based Settlement Rehabilitation and Reconstr	85 000 000	21 437 798	9 541 973
Nias Kecamatan Recovery & Planning Project (1) (2)	25 750 000	0	0
Sub-total, sector	*221 910 000*	*88 687 469*	*60 048 512*
Infrastructure and Transport			
Sea Delivery and Logistics Program	24 700 000	24 700 000	14 638 833
Reconstruction and Rehabilitation of Ports	3 580 000	3 580 000	277 999
Flood Mitigation for Banda Aceh	4 500 000	0 (3)	87 065 (3)
Road and Bridges Repair Lamno-Calang	11 500 000	2 420 000	0
Infrastructure and Reconstruction Enabling Program, IREP (2)	42 000 000	0	0
Labor-based Rural Road Rehabilitation (2)	6 420 000	0	0
Sub-total, sector	*92 700 000*	*30 700 000*	*15 003 897*
Sustainable Management of Environment			
Tsunami Waste Recovery Management Program	14 430 000	11 000 000	3 968 529
Aceh Forest and Environment Project	17 530 000	1 600 000	*2 106*
Sub-total, sector	*31 960 000*	*12 600 000*	*3 970 635*
Capacity Building			
Technical Support to BRR	14 740 000	11 000 000	3 334 706
Support to CSO Capacities	6 000 000	3 000 000	82 417
Support for Poor & Disadvantaged Areas, SPADA	25 000 000	0	0
Sub-total, sector	*45 740 000*	*14 000 000*	*3 417 123*
Grand Totals	**392 310 000**	**145 987 469**	**82 440 170**

(1): This is 50% of the total budget, as GOI is contributing a similar amount to the project

[9] The RALAS project was the first to be approved, and got a first transfer of USD 3 million on 21 September 2005.

(2): Only PCN formally approved, though budget in principle accepted.

(3): Project started up with own funding which the Bank reimbursed/disbursed in June 2006.

16. Regarding the funds committed, disbursed and spent, the relevant figures concern those 12 projects that were active at the end of May 2006. They had budgets totaling USD 288 million total, and of this about USD 146 million had been disbursed – that is, just over half of the funds. Of the funds disbursed, over USD 82 million had actually been spent by the projects.

17. There is a substantial lag between approvals in principle; activation of projects; disbursements; and spending. But as projects get underway, the Bank's data show a disbursement and expenditure rate that is similar to that of the large NGOs and generally better than that of the bilaterals and multilateral lending institutions. The first year report by the MDF provides a commitments/disbursements/expenditure graph that shows expected commitments of the full value of the fund at the end of 2006, disbursements around USD 290 million and project spending of USD 190 mill. The two last categories show a convergence toward full expenditure around June 2009, with final expenditures by June 2010 ("Progress Report II: The first year of the Multi Donor Fund: Results, Challenges and Opportunities", p. 48).

E.4 Efficiency of the Trust Fund

18. This study is to look at the efficiency and timeline for establishing and running the trust fund. Several dimensions are looked at below, from the political support for establishing the MDF, donor funding, and project to policy processing.

Efficiency I: World Bank Support to Establishment of the MDF

19. Shortly after the tsunami struck, the then-president of the Bank visited the region. He promised Indonesia USD 25 million from the Bank, and he made it clear to the Bank office in Jakarta that they could call on the full capacities of the Bank in responding to GOI requests.

20. The World Bank has a big program in Indonesia with almost 200 professional staff, they approve about a dozen new lending operations a year, and the Country Director is resident in-country. The ability to address the consequences of the tsunami was therefore considerable.

21. In addition to in-country capacity, a lot of staff from Washington spent time in Jakarta and Aceh, working on the DLA, the subsequent assessment work, and in preparing the Bank's response to the disaster. The feeling in the Bank office was thus of a massive concentration on the tsunami, though some of the relevant skills were acquired by chance: the disaster management unit in the Bank was not known to either the MDF secretariat or management, but one Jakarta staffer happened to remember an individual working there. This person was contacted and ended up spending several months in Indoneisa, helping on the analysis and response side.

22. The Bank's Country Director was from the start instrumental in mobilizing Bank capacity to assist on the DLA, donor support for the MPRR, and setting up and

running the MDF. There has been clear and strong leadership and support for the MDF throughout, which is recognized both within the Bank and by the other parties to the MDF. This strongly pro-active role has by some been seen as dominating the process and the instrument. GOI and most donors, however, appreciate this as having contributed heavily to the MDF's success.

23. One of the resident project managers was assigned the task as MDF Manager, on a half-time basis. He was responsible for the Bank's environment program, and had just come from Brazil where he had managed a large multi-donor trust fund for the rainforest. He had not, however, been involved in establishing the Brazilian fund, so this particular task was new also to him.

24. The overall attention paid to the MDF by management in Washington and Jakarta was clear. This was reflected in easy access for the MDF manager to the Country Director and senior staff in Washington, and was a critical factor in enabling the MDF to become established within a short time span.

25. Perhaps most important was that the Bank's long presence in-country meant the Bank had strong relations with the Government. At critical points in the process, the Country Director was able to contact the President's Office, and together they were able to identify solutions to bottlenecks and ensure that problems were addressed (see paragraph 46).

Efficiency II: Donor Contributions to the MDF

26. While donors were quick to pledge funds, getting all the agreements in place took time. A Standard Agreement was prepared by the World Bank Country Lawyer in Indonesia, and it was in principle agreed to by donors. However, once it came to signing agreements, several donors had special requests/clauses to meet their legislative requirements and policy decisions. These special requests had to be accepted by the Bank's country lawyer as well as other Bank units that clear such agreements, especially the Trust Fund Accounting section (ACCTF). The MDF Secretariat spent significant time drafting these clauses, getting the country lawyer to review and approve them, negotiate with the donors and obtaining the required Bank clearances (see box E.1 below).

27. Because this workload had not really been planned for, legal capacity became a bottleneck since there was already a substantial workload tied to the existing large portfolio of loans and trust fund work. Over time, this has changed, but in the first critical phase when donor agreements had to be put in place, this was experienced as a serious challenge to the secretariat. The reason the MDF was able to address this task well was that the person hired as financial manager/accountant also happehed to have a law degree, and thus did much of the preparatory legal work.

28. Because it took time to get the agreements signed, contributions to the fund were at first slow to come in. This was a topic during the second SC meeting on 15 June. A number of donors promised to speed up transfer of their first contributions, though the first one was not deposited till about one month after the SC meeting. After that, however, contributions came fast, not least of all

because donors were under pressure to disburse. Since payments out of the fund at the same time were slower than expected, there has so far not been a cash problem. Table E.2 shows pledges, commitments and payments made as of end June 2006, showing more than USD 243 million paid in, as against USD 146 million actually disbursed (table E.1).

Box E.1: Contribution Agreements

The Bank had a general contribution agreement with a set of Standard Provisions that donors had largely agreed to. However, when it came to signing the agreement, several donors came back with special requests. These were hard to accommodate because by policy, all donors are to be treated equally and therefore agreements must be substantially the same. The interpretation of what "substantially the same" meant differed between the Bank's Trust Fund Accounting (TFA), Legal office, and the MDF secretariat. TFA felt all agreements must be word-for-word identical, whereas Legal said that if the request does not change the obligations of the agreement, it could be accommodated. There were many minor issues, but the three main things that caused delays were:

- Four donors wanted a ***formal cap on the administrative costs***. This was contrary to the Board Resolution establishing the Fund which stated that "actual costs" must be charged. One donor has a legislative requirement that there must be an admin costs cap. While they proposed 13%, the Bank's TFA refused because it "contravened" the Board Resolution. In the end, the compromise was that agreements with the two donors with the greatest legal issues could include a 7% cap (7% was chosen even though donor A accepted 10% and donor B 13%) because since it was considered impossible to go over that limit therefore is was consistent with the Board Resolution. The MDF did not have to change the Standard Provisions, but informed the SC, which had no complaints.
- ***Terrorism language:*** The World Bank and the donor agreed on the language very quickly, but because it imposed a condition on the funds, the MDF had to amend the Standard Provisions. That meant it had to be agreed to with all donors. One donor objected, the MDF had to revise the language to the satisfaction of both donors, before the agreement could be effective.
- ***End date for the agreement***: one donor started off with six pages of requests that had to be negotiated down to a few manageable items. One was its need for the MDF to report all taxes paid, prohibition of activities attracting investment into Indonesia, but the one that took the most time was the challenge posed by the donor's Appropriations legislation. In that, the tsunami money had to be spent by 30 September 2007. This means that their agreement has to be terminated on that date. The issue is that to avoid paying a refund, the MDF had to show that the entire contribution was committed. Since MDTFs operate a policy of co-mingling funds and no earmarking, this would only happen if ALL of the donors' funds were committed. TFA felt this was treating donors unequally, and furthermore the software used to manage trust fund monies did not allow different closure dates. A compromise was reached where a formula was used to say that if 50% of the funds were committed, it was deemed that this donor's entire contribution was committed and no refund would then be necessary.

The MDF secretariat had to spend considerable time to respond, cajole, discuss, argue with both World Bank units and donors about these special concerns, and have this done in a timely manner so that the agreements could be signed

29. The MDF secretariat has offices in Jakarta and Banda Aceh. In Jakarta, the secretariat consists of the MDF manager and three full-time external consultants, all foreigners, plus office support staff. In Banda Aceh, the office is run by a local staffer under the supervision of an international Bank staffer acting as overall coordinator for the Aceh activities.

30. The Bank promised GOI and the donors that it would only charge actual costs of running the fund, rather than a percentage fee, and that these costs would remain within a ceiling of 2% of the total value of the MDF. The thinking was that 1% would cover the administration and 1% project supervision and appraisal. The total budget was thus USD 11.5 million over the lifetime of the fund, while the Bank estimates that the MDF will have an investment income of over USD 12 million from its cash balances. This fee is extremely low[10].

Table E.2: Pledges, agreements and funds received, 30 June 2006, USD eq't

Donors	Pledges	Contribution agreements	Funds deposited
EC	247 580 000	247 580 000	53 270 000
Netherlands	100 000 000	100 000 000	60 000 000
UK-DFID	47 960 000	10 000 000	10 000 000
WB-IDA	25 000 000	25 000 000	25 000 000
Norway	18 030 000	18 030 000	18 030 000
Denmark	17 960 000	17 960 000	17 960 000
Canada	11 040 000	11 040 000	11 040 000
Sweden	10 440 000	10 440 000	10 440 000
ADB	10 000 000	10 000 000	10 000 000
Germany	10 000 000	10 000 000	7 400 000
USA	10 000 000	10 000 000	10 000 000
Finland	9 820 000	9 820 000	4 280 000
Belgium	9 820 000	9 820 000	2 550 000
New Zealand	8 800 000	8 800 000	2 200 000
Ireland	1 200 000	1 200 000	1 200 000
Totals	***537 670 000***	***499 700 000***	***243 380 000***

Efficiency III: The MDF Secretariat

31. So far the Bank has been able to keep within the cost ceiling, with actual expenditures as at end June 2006 only USD 1.84 mill. This, however, is in part

[10] The Progress Report referred to above notes "The target of keeping administration costs below 2% is unique, especially compared to trust funds managed by UN agencies that have costs of 5-12%" (p. 16). This comparison, however, is incorrect, as it is comparing with project overhead and not what the UN charges as trust fund fees. In the latter case, the UN has basically the same policy as the Bank – it will charge for actual costs, and not more. According to the UN, these costs compare favorably with those of the Bank. When the UN takes on project implementation, it has a different cost structure, for example distinguishing National Execution (lower costs) with Direct Execution. When Scanteam has done reviews of UN overheads compared with other project execution modalities, the UN is seen to offer largely competitive rates, often with better fiduciary standards.

because the Bank is not charging the full cost of running the MDF. Two of the three international consultants are funded by bilateral donors. This is in part because it is a way of having donors engage more directly with the MDF. But this solution has costs. Time horizons for the contracts have not been similar, funding had to be renegotiated, with one key staffer about to leave until the MDF manager was able to ensure additional funding at the last moment, etc. Time thus had to be spent on addressing personnel issues during critical phases of the fund that could have been avoided with standard Bank contracts for all.

32. Recruitment of the consultants was done through public advertising. The Bank had prepared texts, so that as soon as the Fund had been established, recruitment could begin, permitting the first staff to be in place almost immediately. The job descriptions, however, have proven to be unsatisfactory, in part because the office in Jakarta did not have examples or templates from earlier MDTFs to build on.

33. There was uncertainty where the secretariat was to sit, and its status. The external consultants were to begin with given office facilities outside the Bank premises. This was partly due to lack of office space, but also reflected a wish on the side of the Bank to make donors feel comfortable that the secretariat was serving all members of the SC and not just the administrator (the issue of the status of the secretariat is complex, and is looked at more in section E.5, "Governance").

34. The secretariat had to use existing equipment to begin with, which among other things meant they only had one computer with fairly poor internet connections at a time when they were dependent on seeking information from various Bank web-sites. Sitting on the outside of the Bank offices created access problems to other Bank staff in Jakarta, and not having Bank E-mail addresses to begin with made it more difficult to communicate with Bank staff worldwide. This situation created uncertainty on the side of the MDF secretariat in terms of their rights and position within the larger Bank organization.

35. The main secretariat thus has consisted of a half-time manager and three full-time consultants. None of the latter had worked for the Bank before and thus were not familiar with procedures, Bank organization etc. No formal training was provided. The manager had to devote much of his time to managing the relations to the donor community, while he himself did not have experience in setting up such a fund. While there were many Bank staff who were helpful to the secretariat, the support and guidance provided was felt as variable, and made the skills upgrading ad hoc, own-driven, and at times not rational since the consultants simply did not realize what kinds of resources were available, and where to find them.

36. The desire to keep operating costs low meant that equipment and other operating costs had to be fought for. There is also the feeling that resources for important tasks, such as monitoring and evaluation (M&E), are insufficient and thus suffering the consequences of the cost ceiling. While Bank units in Washington were to have charged the time they used on the MDF to the Fund, in several cases

this has not happened[11]. The overall costs of running and managing the MDF are thus considerably higher than those showing up on the Fund's balance sheet.

Efficiency IV: Project Processing and Disbursements

37. MDF funding is for projects, and the key challenge has been the processing time for project approval and implementation. The basic principles and timeline are that the proponent presents a Project Concept Note (PCN) to BRR according to a BRR template. BRR screens proposals against the MPRR, verifies quality and relevance, and will then approve or reject. If the PCN is approved and seen as appropriate for MDF funding, the BRR then forwards it to the MDF Secretariat and then to the SC members.

38. During the first months, the SC would discuss the PCNs directly. Now the PCN is sent to a Technical Review (TR) group, consisting of SC members' staff at the technical level. A TR meeting is to be organized within five days of the PCN being circulated. If there are no comments, the PCN goes to the SC at least five working days before an SC meeting, or the SC can do an electronic "no objection" process which should also take only five working days. Within five days of the decision, the proponent will be informed.

39. If the PCN was not accepted, the proponent can re-work it. If it was endorsed, the proponent and Partner Agency have 30 days to produce the appraisal according to MDF criteria.

40. Once the appraisal is ready, the appraisal documentation (which contains a more detailed project document with action plan, budget, etc) is circulated for another TR meeting. If it passes, the documents go to the SC, which has five working days for a "no objection". Within five days of this decision, the Partner agency will be informed and should begin the approval process with the authorities. This is expected to also only take five days. During this same five day period, the Grant Agreement should be finalized, and five days later the funds transferred.

41. The actual timeline for when activities begin implementation depends on the way the project is organized, which is spelled out in the project documentation. The MDF may not be the only funding source, some pre-approval funding may have been mobilized awaiting the final bureaucratic clearances, etc. Some of the projects have taken several months from the time the first PCN was presented till funds transfers actually occurred. Several factors explain this.

42. The first is the demands on document quality. For some proponents, the first documents prepared did not satisfy MDF criteria. This has raised the issue of whether the project preparation criteria are too strict. This is in part addressed in the MDF strategy, where it is recognized that the demands on project preparation

[11] One informant noted that the legal department in Washington had never presented its costs though it had spent considerable time on the MDF. One speculation was that the actual costs were so high that they were embarrassed to charge this to a fund that would then have to divert resources from addressing extreme needs.

are such that it is not cost-effective to have the MDF fund projects with budgets under USD 1 mill. So far, the lowest budget has been nearly USD 4 mill.

43. Presenting the PCNs and Appraisal Documents to TR meetings has added to quality demands. Donor concerns have been discussed in more depth and taken up prior to finalizing the PCN for SC review and approval. This is seen to have improved realism, relevance and sustainability of projects, but has also meant that proponents and Partner Agencies have had to improve their planning to address this wider range of feedback on project quality.

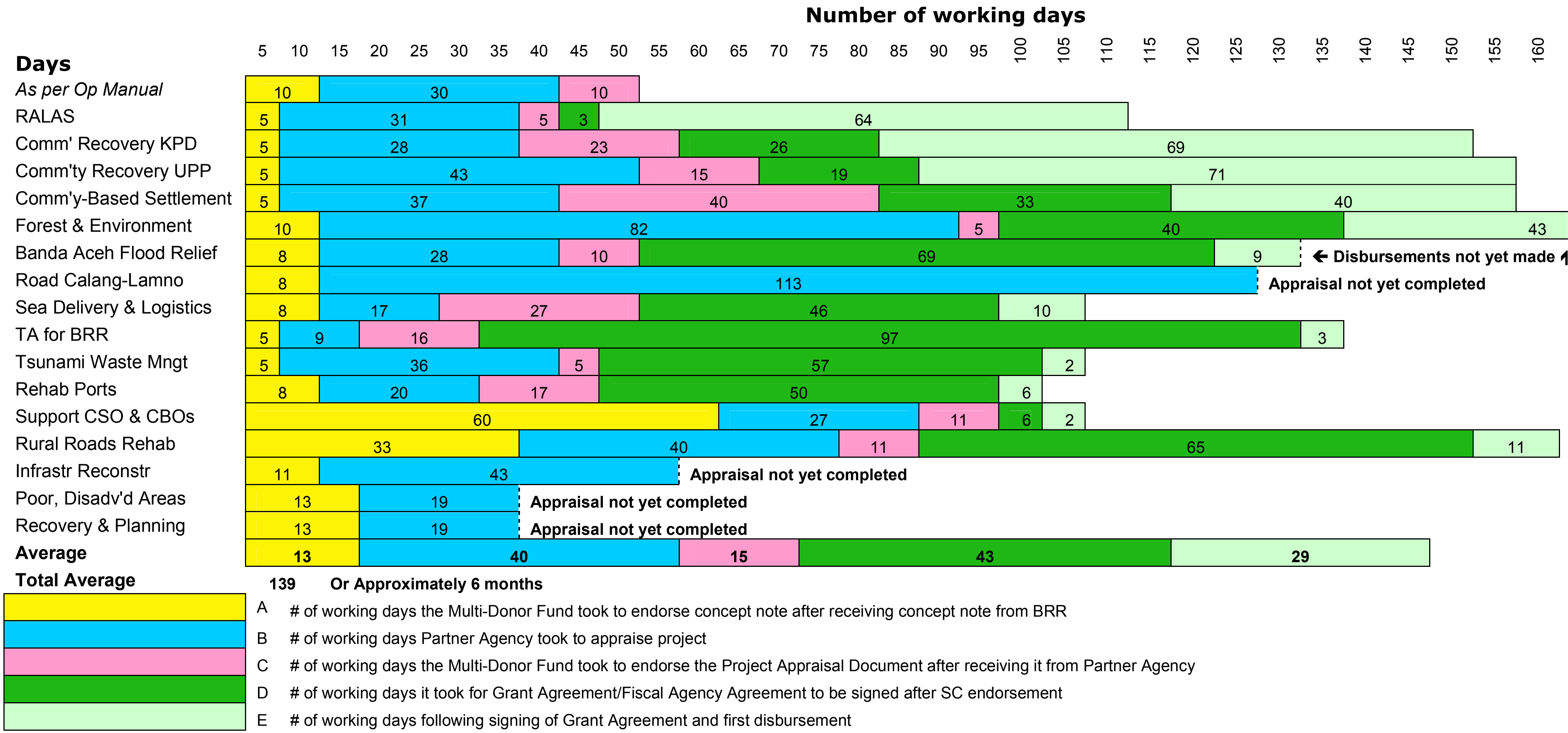
44. The final processing by national authorities was a major issue. Since the MDF was to have funded projects on-budget, they had to be implemented by government institutions. The public sector entity responsible (Implementing Agency) had to produce a detailed implementation plan and budget to the Ministry of Finance (MOF). The MOF was then to issue a Budget Execution Document (DIPA), which among other things provided the project account number and the amount available for expenditure. This would go to the Bank of Indonesia, to establish the account, and to the Partner and Implementing Agencies, for information and as authorization to begin spending once funds were deposited. The Bank would then normally transfer the funds into this project account.

45. At the sixth SC meeting end-October, the slow processing by GOI of MDF projects was the key topic. The delay in issuing DIPAs was to a large extent a result of changes to the public finance management (PFM) system that were introduced at the beginning of 2005 to combat corruption. The result was that all public funding was badly delayed in 2005, with many budget lines not becoming available till September. But the MDF partners felt that central authorities did not apply any sense of urgency to MPRR/MDF projects. At provincial level there were line agencies that were accused of slowing down their actions because of their displeasure with BRR's near-monopoly role in the MDF. BRR thus proposed that new activities be moved off-budget, and that BRR itself would take up the role as Implementing Agency in order to move activities along. When BRR took on its implementing role, the Ministry of Law and Human Rights decided that any funds channeled through the BRR must be through the national budget, therefore all MDF-BRR projects are actually "on-budget".

46. Subsequent to the SC meeting, the delay in MDF DIPAs was raised by the Bank's Country Director with the President, who issued instructions to address the issue. As of November, the backlog of DIPAs was largely taken care of. For a couple of projects, other sources of funding had in the meantime been found, to provide "bridging funding", so that MDF financing was then used to retroactively reimburse for project activities already undertaken.

47. Early on, several projects were also held back because some donors were concerned that project ideas were being discussed without the MDF framework being in place. Once the MDF Recovery Assistance Policy (see point below) had been approved, these projects were then put forward again.

Table E.3: Speed of Project Processing for MDF



Source: MDF Secretariat

See table E.1 for a list of the MDF portfolio and the more complete name of the various projects

48. While the Manual foresees a processing time of 50 working days for projects that do not meet any objections during the processing, the actual average for the 16 projects so far included in the process points to an average of 139 working days – six months. This, however, should be seen against the normal project processing time in Indonesia of World Bank projects, which is around two years, which is fairly standard World Bank project processing.

49. One particular issue has been NGO-implemented projects. The Bank has been the partner agency, which means NGOs had to follow Bank procedures. The NGOs felt the Bank "due diligence" review of their financial management was very time intensive, and the financial and performance reporting as onerous and not straight forward. Regarding the reporting, one informant stated that his organization found both the EU and ADB schemes to be easier and more logical to use.

50. Internally the Bank ensured faster processing by using simplified PCNs and PADs. The Board furthermore delegated approval authority to the regional Vice President, to avoid full Board presentations. Over time, however, the field has experienced Washington as wanting to move back to more standard PCN and PAD documents: once the immediate emergency is over, the Bank wants to ensure standard quality control through full document compliance. The latest PAD, for the Infrastructure Reconstruction Enabling Program, is 120 pages long.

Efficiency V: Producing MDF Policy and Manual

51. The first version of the MDF Operations Manual (OM) was drafted towards the end of April during a visit to the field by staff from the region's Central Operational Services Unit (COSU). It was sent for comments in July and the first version approved in August[12]. The Manual has been revised over time. The current version is from March 2006, where section D and Annex 1 provide the guidelines for project processing.

52. At the first SC meeting, on 10 May 2005, the donors asked the Bank to prepare what was termed a "road map" for project approvals. This was in part a reaction to the fact that all the first four project proposals were IDA projects (the Bank was proponent, would be Partner Agency for the government Implementing Agencies, while also MDF funder and trustee). But there was also a felt need to define which parts of GOI's MPRR the MDF should focus on, based on an analysis of the comparative advantage of the MDF as compared to other sources of funding. This was all the more important given that the MDF in fact did not represent a significant share of funds available.

[12] Other staff have claimed that the draft was prepared and approved in June, just one month after the MDF was established. Here as other places the story provided clearly depends on where one was sitting, with Washington staff typically seeing a much stronger role and field presence of HQ staff compared with what staff in the field recall and believe.

53. The Bank presented a first draft on 24 June to the donors, a first set of discussions were held in the Bank office three days later, with a follow-up discussion at the EC on 28 June. Feed-back was provided at the third SC meeting on 30 June, where a small editing group was established to finalize the policy document for "no objection" approval. The group met on 7 July, and the draft Recovery Assistance Policy (RAP) document was sent to all. Given some new comments, the original deadline of 15 July was extended. At the fourth SC meeting on 28 July, a logical framework approach to the RAP was presented that would strengthen the program's monitorability. The RAP was in principle approved at this meeting.

54. But at the same time, three new elements – gender, support to the peace process, and avoiding worsening regional disparities – were added. This was partly in response to the expected peace agreement with GAM, which could extend BRR's mandate into the conflict areas as well. In light of that, it was agreed that the MDF should be open to support activities in the post-conflict areas as well as the post-disaster ones if BRR's mandate was extended to also cover post-conflict[13].

55. It was clear that the Strategy process was at times a frustrating one for the MDF secretariat. In Newsflash 1 (July 1), the first draft was announced, Newsflash 2 (11 July) noted the working group meeting on 7 July with the expectation that a "no objection" could be obtained by 15 July. Newsflash 3 one week later pushed the deadline to 19 July, while Newsflash 4 (5 August) noted that the fourth SC meeting had provided "final changes". Newsflash 5 (7 September) announced that first drafts had been distributed in both English and Bahasa Indonesia, and that once the MDF logo was ready, the final copies would be released. The RAP was, however, for all practical purposes agreed to at the fourth SC meeting, meaning that the RAP process had taken about six weeks, which is quite fast, given the number of actors involved and the issues to be resolved.

Efficiency VI: Partner Agency Agreements

56. The implementation arrangements for the MDF assume a two-actor model: a Partner Agency that is responsible for appraisal and supervision (including financial management and performance monitoring), and an implementing partner that is responsible for the activities on the ground. As is normally the case with Bank-administered trust funds, the initial thinking at the Bank was that it would be the Partner Agency for all projects. This mode of operation was also considered to be the preferred model because the Indonesian Government had requested that all projects be on budget, with government entities as implementing agencies. The Bank proposed to the Government and donor partners that trust fund arrangement should be flexible to allow Partner Agencies other than the Bank to also manage projects, given the emergency nature of the activities. The Asian Development Bank (ADB) and the World Bank, under the

[13] In the end, this in fact did not occur as a new agency, the Aceh Reintegration Agency, BRA, was formed to handle this.

Trust Fund for Timor Leste (TFET), had reached agreements on how the ADB could manage projects funded by a Bank-administered trust fund. The arrangement under TFET were kept simple, given that the Bank and ADB operate more or less in a similar way with both being mainly lending institutions. The possibility of UN agencies as Partner Agencies was introduced, which was seen as a positive option.

57. The Bank initially wanted to use a Fiscal Agency Agreement. This is a simple contract that allows the Bank to transfer the funds to the Agency, which then assumes full responsibility for financial and performance management. But because the Bank had contributed its own funds to the MDF, the Bank's legal department proposed that a more careful Partner Agency agreement had to be put in place. There were no suitable templates for Partner Agency arrangements that were available to use as the basis for the MDF case. A first draft of the Partner Agency Agreement was prepared by the country lawyer and the MDF Secretariat and circulated for internal comment in August 2005, though with very few comments forthcoming. It took the Legal department three to four months, with support from COSU, to draft an agreement that satisfied the Bank's fiduciary responsibilities and was acceptable to the UN Agencies. Negotiations with UNDP were time consuming and both head offices had to be involved, and where response times were slow. This all was done under the immense time pressures that the MDF was facing, where those involved felt that the critical issue was finding acceptable operational solutions as quickly as possible

58. In the end, formal Partner Agency agreements were not established with the UN agencies, but rather project-specific Grants Agreements. The one with UNDP was fairly straight forward since the Bank was already familiar with UNDP's financial and procurement policies. The WFP is somewhat different, however, since it often works under emergency conditions, so WFP's procedures and standards had to be reviewed. Once this process was finished, and since no further comments were received from the legal advisers in Washington, the agreements were signed. As part of these agreements, to address the emergency nature of the activities, there were also provisions for retroactive payments for eligible expenditures.

59. Once the agreements were signed, two issues arose. The first was that the Bank and the UN system were working on a Financial Management Framework Agreement (FMFA) which was to be a global standard. The FMFA only addresses financial management issues, however, and not procurement and safeguards (environment, social, etc)[14]. The MDF staff were not aware of this process since it was being handled by central units at UN and Bank head offices. Some of the

[14] It should be noted that the Bank had entered into discussions with the UN Comptroller's office, not realizing that this only covers the UN Secretariat and its offices. For the FMFA to cover the operational agencies, each agency had to review and sign separately. The FMFA furthermore is focused on the issue of accounts and audits, due to the UN's principle of being accountable only to its member states and the Bank's reliance on external audits were therefore an issue.

work that had been done in the field therefore had to be re-done to be in line with what was being agreed to under the FMFA. The other was that the final signed agreements were criticized by central offices in Washington because they were concerned that precedents were being established, and questions were asked on a couple of the points in the agrements. But the Grants agreements remain valid, though they only cover those projects explicitly included. They therefore do not represent formal Partner Agency agreements, but will undoubtedly be used as inputs to the continued discussions in this field.

Findings and Conclusions

60. There was strong political support from top management in the Bank, both in Washington and the field. The Bank quickly allocated a manager for the MDF from among its most experienced staff in the field, but only on a half-time basis. The argument given was that the manager was only to oversee the fund itself – the activities would all be managed by separate project managers. While Bank management maintains this was the right decision, this Review would argue that a USD 500 million emergency fund requires a full-time experienced Bank manager at least during the critical start-up period.

61. Donors quickly made pledges, but getting the formal agreements in place took considerable time and effort. The Standard Provisions which the Bank has are are of course subject to individual donor concerns at the time of signature. But any changes to standard Bank wording must be cleared by units in the Bank, who between them had slightly different understandings of formal requirements, and also by all the contributing donors. Finding acceptable language required considerable negotiations and time. This slowed down resource mobilization unnecessarily. While it did not affect disbursements and thus project implementation, it took a lot of MDF secretariat time. This points to the need for both the Bank and the donors to be flexible regarding formal agreements, and accept simple, generic paragraphs that can contribute to speedy resolution of slightly differing phrasings and concerns. There should also be a mechanism for bringing donor disagreements to senior decision making level for quick resolution.

62. The secretariat consists largely of external consultants who had not previously worked for the Bank and thus were not familiar with Bank procedures. Their recruitment was quite fast due to early planning, but the status of the secretariat and thus its access to Bank staff and resources in the early phase was unclear. These issues are typical start-up concerns that should be addressed through providing clear Bank support, and give the consultants access to a central experience center with templates and examples to build on.

63. The skills composition of a secretariat is important. In the early phase, experienced staff from the Bank need to support the rapid setting up of the fund, its systems and instruments, whether these staff are in the field or provide advice from HQ. Staff incentives for playing this role need to be considered, including senior management releasing these skills when needed. The balance between Bank and externally recruited staff should be looked at, and the shifting

composition in skills as the fund matures should be looked at: management, communications, legal, procurement and accounting skills early on, additional quality assurance (M&E) as activities begin picking up, capacity building and exit skills as the fund reaches maturity and begins winding down.

64. The processing of projects came up against two issues. The first was the assumption that all projects should be on-budget. An MDTF focused on rapid processing ought to verify the viability of using standard PFM channels and from the start consider alternative implementation modalities. The second was the processing time for the project proposals themselves. Table E.3 shows that the steps of the process under direct MDF management have generally been very fast, with the exception of getting Partner Agency agreements in place, since this has turned out to be a more complicated and contentious issue than first realized. The appraisal by partner-implementing agencies in some cases took too much time, in part due to unfamiliarity with appraisal demands, where both more flexibility on quality demands and more training in how to do appraisals should be considered. But overall appraisal time and quality has been good. Once the DIPA issue had been addressed, the disbursement to projects has generally also been good. NGOs have, however, faced difficulties with Bank procedures, especially on the reporting side, which are seen as administratively costly. The reporting requirements should be adjusted to be reasonable in comparison to the size of the small-scale projects that NGOs typically implement.

65. Getting a Fund policy and operations manual (OM) prepared and published was important. The RAP was produced within a short period of time, aligned with the MPRR, but only after the first four projects had been approved. It includes policy concerns donors found important, though the authorities at times felt donors were intruding on issues that were not appropriate (see more under Governance). It was adjusted when the peace agreement came into being, showing flexibility. It falls short of being a *strategy*, however, with clearer criteria on funds allocations and priorities, which some donors have suggested. This Review does not see this as appropriate in a high-risk, fast-changing environment, however, where flexibility in funds allocations over time is of value. The OM was also prepared within a short period of time, has been revised several times, but time could have been saved if MDF staff had had access to "best practice" examples early on.

66. The *concept* of Partner Agency agreements is a useful and flexible approach when activities are off-budget. The Jakarta office was pro-active and received support from COSU for developing agreements that could address the specific situation it faced. Aspects of those agreements need to be improved. The FMFA addresses the accounts and audit dimensions only. The Bank and UN agencies should pursue the Partner Agency idea through to a more comprehensive and flexible tool that provides agreed-upon standards for procurement, safeguard issues, and other administrative and operational concerns that should be in place for fiduciary responsibilities to be transferable. Such a Partner Agency agreement could be reviewed on a regular basis, to ensure that the parties have an up-to-date off-the-shelf contract that can be applied in time-constrained situations.

E.5 Governance

67. The MDF governance structure consists of a one-tier Steering Committee (SC) that is made up of six voting representatives from GOI, one vote for each donor that had contributed at least USD 10 mill, and two voting representatives from Aceh civil society (the latter nominated by GOI). The UN and one representative from the international NGO community meet as observers, as do the important donors, Australia and Japan, who are not members of the MDF. The SC has three co-chairs: the BRR on behalf of GOI; the EC as the largest donor; and the Bank as trustee of the MDF.

MDF Meetings

68. The first five SC meetings took place on average on a monthly basis, and the subsequent ones about every other month. Meeting agendas and minutes are posted on the MDF web-site, www.multidonorfund.org.

69. The SC meetings are quite broad and have covered policy issues that have been seen as relevant to the MDF. This has at times created tension among donors as well as with the BRR. Some felt that too much time was spent on issues that were not appropriate to the MDF forum, and in particular that some donors brought in experiences from aid-dependent countries where donor-coordination bodies were the typical place for policy discussions. In Indonesia, which has a strong government with clear policy debating and decision making bodies, some national bodies were not happy with what was seen as donors interfering in national issues through a mechanism that was providing only a marginal financial contribution.

70. The project discussions in the early SC meetings took a lot of time as technical matters were discussed. In order to streamline the SC procedures, Technical Review meetings on each project were organized before sent to the SC for final decisions. TR and project information are posted on the web-site.

71. SC meetings are now structured in two parts. The first one discusses policy and project proposals, while the second tackles more general matters and MDF management issues (funding situation, etc).

72. Participation at the meetings has been variable. GOI has largely been represented by the BRR, which is in line with its mandate but which means that the ownership on the government side to the MDF is largely limited to the BRR.

73. The system with three co-chairs is seen as useful in principle, though the EC has not allocated additional own staff time to this task until quite recently. The BRR co-chairing has been highly useful, and has provided the authorities with a direct channel to the donors and their thinking that has been constructive.

74. The SC decides on policy, finances, and projects. The decision making process is clearly laid out in the OM. While there is a clear vote-based structure in place, in practice decisions have been based on consensus – no decisions have been put to a formal vote. This deliberative approach by the Bank to managing the MDF has

at points been time intensive and frustrating to some, but is seen overall to have built a good understanding and ownership by most actors, though the Bank's strong role is perceived by some as being dominant and domineering (see below).

Bank Roles and Possible Conflict of Interest

75. Some donors have asked whether the Bank has too many roles in the MDF, which may create conflicts of interest. It is trustee and administrator of the fund, it heads the secretariat, it chairs and has a vote on the SC, it is a funder, and it is the primary partner agency and thus co-responsible for preparing and presenting projects for funding and for monitoring and reporting on project performance.

76. The Bank's legal department provided a written analysis that noted that the Bank is not taking on tasks or roles that are different from those in other trust funds. The arrangements are thus in principle well known to the donors, and conflict of interest issues have been addressed in line with normal Bank policies.

77. While the note provided an answer to the formal issues, it did not address the "perceptions" aspects that had some actors concerned. Because of its size, competence and relations with the government, the Bank plays a dominant role in overall MDF decision making. This, it is argued, is reflected in the fact that three quarters of MDF funds went to Bank-partnered activities.

78. A more serious argument is that the problem of structural asymmetry in the "information market" is even more important in emergency and weak governance situations. Information is scarce and costly to access, so that actors who have privileged access to decision makers, such as the Bank in its relations to GOI in general and the BRR in particular, will always know a lot more than others. Coupled with the fact that the Bank has a much greater capacity to prepare projects and at the same time has written the ground rules regarding how projects are to be assessed, the Bank will always have an "unfair" information advantage over other actors. The MDF is seen in this context as a limited source of funding that all comers should have equal access to, but the Bank is using its privileged position to "crowd out" other possible partner/implementing agencies.

The Donors

79. Donors have contributed to the MDF for a variety of reasons, which can perhaps be classified into four groups:

    a. "Minimalist view": Some wish to support the reconstruction efforts in Aceh but do not have own capacity and often not strong views on how best to pursue this. They want the Bank to assume fiduciary responsibilities for the funds in a high-risk environment, and also to take a lead in ensuring that the funds go to prioritized activities. The MDF is thus seen a well-managed bank account with some paid-for administrative services.

b. "Standard donor view": These actors want to support the Paris Declaration on aid effectiveness through pooling of resources for enhanced coordination, harmonization and alignment. MDF is thus a rational vehicle for minimizing total transaction costs and maximizing impact of the aid.

c. "Maximum leverage view": The MDF is seen as a platform for joint donor action. This is both for internal policy discussions and clarification amongst donors, but also as a way of engaging GOI in policy dialogue on issues that the individual donors otherwise would not have a possibility to. The MDF is thus an entry point for engaging on framework conditions for sustainability, relevance and impact: policies, quality assurance, anti-corruption, gender, etc.

d. "Seat at the table": Some donors seem to have contributed to the MDF at least in part to get a formal vote on the SC while most of their funds flow on the outside of the MDF. One concern is to have full information on what the MDF does, and to potentially be able to influence the MDF on issues that may be of concern, but perhaps also to be able to coordinate own funds with what the MDF is doing.

80. The level of individual donor engagement in the MDF seems to be a function of their objectives in joining. Some have attended SC meetings on a "when convenient" basis, relying on MDF information for providing feed-back to the capitals on fund activities and results. Others have allocated dedicated staff time for engaging the SC on issues that were felt to be important.

81. The differing expectations by donors have created some costs and frustrations. One is that some donors do not seem to realize the disparity in views and agendas within the group, another is that SC meetings were used for somewhat different purposes and thus did not respond to this variety of expectations. One donor complained that the Bank treated the MDF "as its own ATM", to which one Bank staffer replied that this is what a trust fund is: donors provide funds for the Bank to manage, and it does so using its standard procedures. This is the same way the UN treats the funds it is provided in trust (see para 13).

82. The donor focus on Aceh in the early period meant that staff were dedicated either at head office or field level to the program. Over time, this has diminished, which means that many of those who were involved in the early phases no longer are in Jakarta, or their head office responsibilities have changed. The institutional memory on the donor side has thus weakened. This has further increased the relative role of the Bank, though most donors seem to welcome this, as it relieves them of this responsibility. At the same time, the need for increased reporting on results is leading to pressures from donors to carry out independent evaluations. The EC in particular was set to carry out two evaluations on MDF activities towards the end of 2006, and this and the possibilities of other similar initiatives led to a call for continued coordination through the MDF.

Other Stakeholders

83. The MDF was innovative as it included Acehnese civil society representatives and an observer on behalf of the international NGO community on the SC. Their roles and performance require some reflection, however.

84. The two Acehnese representatives had not been elected or selected by Aceh civil society, and thus had no mandate nor any constituency to report to. They themselves felt uncomfortable in their roles, and uncertain of what was expected of them and on what grounds they could speak or contribute. They did not have any particular interest or background for being involved with the MDF, and did not have any resources for preparing or participating in MDF activities. When SC meetings took place in Jakarta, the MDF paid their airfares, but otherwise did not provide any funding to avoid any impression of trying to influence or compromise the independence and judgment of the two.

85. The NGO seat was to rotate among the larger international NGOs, with any one organization only sitting on the SC for one year. The NGOs face the same predicament as the Acehnese participants: they had no clear mandate or report-back forum to interact with. The interest of the NGO community in the MDF was limited, especially once it became apparent that it would be difficult to access MDF funds. Whatever information they wanted, they could largely get from the web-site. They found some of the policy discussions interesting, but the NGO community in general was not well organized nor much interested in coordination, so the value-added of the MDF's potential coordination role was not used.

86. The Aceh reconstruction effort was unique in that most NGOs had sufficient own funds for their programs. In other situations, NGOs would go to their ministry of foreign affairs for funding, and would have taken guidance and coordination signals from them. In Aceh this did not happen. While OCHA played its normal coordinator role during the humanitarian assistance phase, many NGOs did not follow this since they had their own funds and thus worked according to own mandates, and in fact often competed with other NGOs for access to local labor, which areas to work in, etc. Where there was coordination, it took place in the sectors: WFP for food distribution; UNICEF for drinking water distribution, education and child protection; etc. UN Habitat was seen as an agency that provided good leadership in informing on housing standards, helping agree on monitoring systems and standards, and getting the various actors to come together around a common reporting process that was aligned with national policies.

MDF Secretariat

87. The MDF Secretariat has offices in Jakarta and Banda Aceh. The Jakarta office manages general MDF finances, communications with central government and the donors, support to the SC, and the overall portfolio including project processing. The Banda Aceh office focuses on liaison with the BRR and other reconstruction stakeholders, communication and outreach to beneficiaries. The Secretariat manages the web-site, produces the reports to GOI, donors and the

public at large, monitors and evaluates the overall progress of the portfolio, tracks the financial situation for the Fund as a whole, and the projects in terms of disbursements, commitments while each project manages its own funds and must report and audit back to the MDF and BRR. The key information instrument is the web-site, which provides updates on the fund and the individual projects, informs of upcoming events, provides all the key documents, etc.

88. The role and independence of the Secretariat has been raised as an issue. On the one hand, the Bank is the administrator and trustee of the fund, and thus has the responsibility to manage and report to stakeholders. Secretariat staff are thus hired to fulfill these functions, and are recruited by and answer to the Bank as their employer. On the other, some donors feel that the secretariat should be a more independent unit that should generate own M&E information, have views on appraisals, and thus service the SC directly and not the Bank as fund trustee.

89. This latter view has implications for the size and skills of the secretariat, and it is not clear if donors are willing to pay the additional costs. More important are the principled questions of who hires and manages the secretariat if not the trustee of the fund. At the end of the day, therefore, most actors were happy with the secretariat being essentially a management unit under Bank stewardship.

Findings and Conclusions

90. The all-inclusive SC made membership large and to some extent unwieldy, and forced it to discuss both policy and operational issues. This has partly been addressed by (i) structuring SC meetings in two parts, (ii) pushing project issues to TR meetings. This governance model faces two questions. The first is whether it is rational to have only one body handle both kinds of issues, or whether they could be separated, and in particular that operational/project issues be addressed by a smaller group. The other is whether the MDF, since it provides such a small share of total funding, is the best forum for policy issues or if this should be discussed in a larger setting. Since the GOI/BRR have not really provided for this, the MDF by default has had to take on the policy issues, but this may both have made the forum too donor dominated, and created challenges in accommodating views that do not emanate from the MDF setting (such as NGO, Acehnese and other stakeholder positions).

91. Setting up TR meetings and having thorough technical discussions of the projects is helpful. The SC meetings should then respect the TR conclusions and not go over technical matters once again at the level of SC, which at times has occurred.

92. Roles and mandates of civil society stakeholders should be clarified so that their participation is meaningful both to their own constituencies and to the trust fund. Funding that allows them to prepare, contribute and report back to their peers needs to be found for them to be able to function.

93. Having several co-chair of a trust fund is useful if the co-chairs dedicate own staff time to the function and thus provide value-added. In the case of the MDF, the EC should have been more pro-active in this regard.

94. The Bank needs to address the perceptions on conflicts of interest. Its privileged access to actors and information and thus likely biases in favor of its Partner Agency role should be discussed with donors up front, so that clear decisions are taken whether a fund is a "fund in trust" or a multi-donor management structure. The MDF is to some extent the latter, with GOI and donors having clear decision making roles. If donors want to move further in this direction, a better burden- and risk-sharing structure needs to be put in place, however. In this connection, a revised role and status of the secretariat can also be discussed. This Review's conclusion is, however, that donors agreed with the Bank's different roles, and were happy with its performance.

E.6 Harmonization and Coordination

95. One of the objectives with the MDF was to contribute to donor harmonization and coordination. This has been achieved to some extent along several dimensions.

MDF as Instrument of Alignment

96. The MDF had as a general principle that funding should be on-budget. This means that MDF funding is contributing to aligning donor financing with GOI policies, priorities and programs. The MDF can in principle fund government programs, not just individual projects, and has thus taken an additional step towards sector budget or program support.

97. The MDF is also closely linked with the BRR. The BRR ensures that external support is aligned with the MPRR, which is GOI's primary tool for ensuring a coherent, comprehensive and coordinated response to the natural disasters. One of the first MDF projects was to strengthen BRR's own capacities to fulfill this mandate, thus ensuring that GOI would have the organizational presence on the ground not just to prepare plans, but to prioritize among proposals and monitor implementation and report back on performance.

98. Because the MDF, as other Bank managed trust funds, does not accept strict ear marking of donor contributions – though it does allow for preference indications – it means that the funds are freely available for programming according to the criteria and priorities that the MDF SC agrees to. Since the BRR has a co-chairing role as well as must pre-approve all proposals that go before the SC for funding consideration, the MDF funds are in fact available to finance GOI priorities. This has been commented on favorably by GOI/BRR officials.

99. The BRR carried out an analysis of reconstruction funding towards the end of 2005 that showed there was a gap in terms of "mid-level infrastructure": while national and community-level infrastructure activities were covered, the district and regional-based linkage structures were missing. It thus presented a strategy where MDF funding would act as catalyst for mobilizing additional funding for these kinds of investments, and which the MDF thus accommodated.

MDF as Instrument of Harmonization and Coordination

100. Primary responsibility for coordinating donor support lies with BRR. The MDF, as channel for only 15% of external funding, is to some extent a minor actor in this regard. As noted above, however, it is the only permanent institutional arrangement that in a systematic way tries to strengthen dialogue across stakeholder groups.

101. MDF-related activities are also organized to be as inclusive as possible. The TR meetings are open, project supervision missions are organized on a planned basis with possibilities for all donors to participate, and various kinds of financial and performance reporting are publicly available.

102. The use of Partner Agency agreements has also ensured harmonized and transparent standards for fiduciary management. The MDF has worked with the BRR to establish procedures and standards regarding anti-corruption measures, and has put in place its own stringent anti-corruption steps. The MDF has an ombudsman in Aceh to handle controversies and address problems, which also seems to be working well.

Harmonizing Project Planning

103. Project preparations are done according to criteria set by the MDF itself (where the BRR has a permanent and important voice), but which must first adhere to the BRR templates before even being considered for MDF funding. Feed-back from the various steps in the MDF approval procedure ensures that the various actors involved, donors included, are made aware of the rules that are to be followed, and how they are applied.

104. A report prepared by the NGO constellation "Eye on Aceh/AidWatch" is critical regarding the way in which many donors have gone about planning their activities. There are strong statements about donors not involving the local communities, not taking advantage of local skills and knowledge, etc. It is more favorable regarding MDF-funded projects, where the two key ones, the UPP and KDP, both have a track record in Indonesia as successful community programs. They are based on locally driven processes with local facilitators who are embedded in the communities. The Housing and Settlement reconstruction project is then linked into these two.

Harmonizing Performance Tracking

105. Performance tracking is being harmonized, in part through the RAP logframe[15]. Each project has its own objectives hierarchy codified in a logframe

[15] The initial RAP logframe is being revised, to strengthen its value for monitoring MDF performance. The challenge is that the MDF is such a small part of the overall reconstruction effort that the issue of attribution is problematic. Reporting on MDF results may thus not be very meaningful. Each project should report against its own Results hierarchy, as is done now, while the MDF should ensure that the projects fit into the larger sector objectives so that the aggregation of results is done in the more appropriate context: the overall performance reporting that BRR should be managing and that the RAN should be contributing to.

with outputs, indicators etc. One challenge the MDF has is to try to ensure that project output indicators and targets in similar fields are harmonized so that they can be aggregated. The fact that the MDF is a minor actor in sectors such as housing and infrastructure rehabilitation thus means that the problem is not so much if the MDF has a good strategy and logframe on its own, but the extent to which this is harmonized with the larger BRR objectives. To the extent that the MDF is able to impose some coherence in the structure of the results reporting from each project, and thus perhaps can provide a standard and "best practice" reporting, this could be another contribution to the harmonization agenda.

106. By the time of the mid-term review (MTR) of the MDF, currently foreseen for the end of 2007, the M&E activities should be able to report on the spatial and social group distribution of benefits. These should be seen in the context of what other projects were doing, so coordinating with other donor reviews will be important. The MTR should therefore preferably be able to say what, on the margin, were the Outcome and Impact contributions by MDF projects.

107. At the Lessons Learned workshop organized in May 2006, M&E was given considerable attention, as this is recognized as the key challenge for now. One conclusion was that more resources are required to improve overall M&E systems and tracking, and that the focus needs to shift from activities and immediate outputs to more medium-term outcome and impact analyses. Since the workshop, the secretariat is focusing a lot more on the M&E of the portfolio. In addition to revising the RAP logframe, the Secretariat will assist those projects that do not have good outcome and impact indicators, to produce these. Projects are to conduct milestone and indicator tracking, implement standard performance reporting formats, evaluate cross cutting issues such as the environment, gender and conflict sensitivity (TORs have already been developed), and look at the distribution of funds according to geography and beneficiary. Most of these activities are in their planning stage, but results will feed into the MDF mid-term review, planned for September 2007.

Harmonizing Views through Discussions and Joint Learning

108. The MDF serves as a meeting place for GOI officials and donors in particular but with possibilities for other actors also to join in. MDF project supervision missions have included a number of donors and thus provided an important venue for joint learning. The Lessons Learned workshop one year after the establishment of the MDF included a wide range of participants. The workshop had as its starting point the results of a survey of the SC members, with a focus on how the lessons generated could be used to guide the next steps.

109. The Lessons Learned workshop is not unique in the Aceh context. The NGO community has carried out a series of reviews and evaluations on the post-tsunami response in the region that present a considerably more rigorous and in-depth perspective on both processes and results. But the MDF workshop represents an important contribution to the learning regarding the MDF itself, and succeeded in creating consensus among the stakeholders on where the MDF needs to focus its efforts in the near future.

Findings and Conclusions

110. The MDF has clearly been the most successful instrument for harmonization and coordination in an environment that has been criticized for lacking both, between donors as well as among the NGOs. To what extent MDF coordination has had any effect on donor funding outside the MDF itself is unclear, however. There is nothing this Review has seen to indicate that this has been the case. On the other hand, the MDF has no mandate to coordinate other resources than those made available to it directly – the larger coordination effort is a BRR task.

111. Alignment with GOI policies and priorities has been clear, and MDF funding for the new BRR infrastructure strategy is a further example of how untied MDF funding has been an important support to government.

112. The main challenge now is for better performance tracking, through more harmonized results frameworks across projects and within sectors, with common indicators, success criteria, periodicity of data collection and presentation, and more joint M&E activities that support both results reporting and learning, with increasing attention to medium-term Outcome and Impact. This is currently being addressed by the MDF secretariat in cooperation with the Steering Committee.

E.7 Ownership and Capacity Development

Leadership and Ownership

113. GOI immediately established leadership of the tsunami response. Already the day after the disaster, the President issued a decree declaring the tsunami a national disaster, and issuing 12 directives for immediate response.

114. GOI rapidly produced the DLA and subsequently the MPRR. A large number of actors were involved, but with GOI in the driving seat as far as the process and the final products were concerned.

115. Establishing the BRR and placing it in Aceh was an important sign of GOI commitment to the MPRR and its implementation. Senior GOI officials paid attention and provided a rapid response when the MDF complained about slow processing of MDF DIPAs. This, however, has been a one-time occurrence, as the tendency has been to treat Aceh much as any other part of the country, particularly as subsequent disasters have also required central bureaucrats' attentions.

116. The role of the BRR as coordinator of the disaster response, as noted above, alienated some line ministries and local officials. These jealousies were exacerbated when the BRR began taking on implementation responsibilities as well. This meant that *ownership* of the MDF program was narrowly focused on the BRR. This has improved, however, as the BRR has become better at working with local officials and local offices of line ministries. But it means that strength of leadership in the first instance led to strong but narrow ownership on the government side.

Capacity Development

117. MDF projects have made important contributions to capacity development. The two large community-driven projects for urban and rural areas – UPP and KDP – both have local capacity development as key components, building on approaches that have proven to be successful in the Indonesian context. The labor-based road rehabilitation project partnered by ILO is supporting small-scale entrepreneurs, strengthening their management capacities, though this is a limited project in terms of its radius of influence. The UNDP-partnered support to local CBOs is to strengthen the voice of "rights holders", though at the time of this mission's visit activities were not yet underway so it was difficult to guess at possible future impact. All these projects focus on building "capacity from below", using participatory approaches, and may thus potentially provide important longer-term effects in civil society, whether at the level of communities, private sector, or local organizations.

118. Most of the MDF-funded capacity development has been in the public sector, however. The UNDP-partnered support to BRR was critical for getting technical expertise, infrastructure and support services in place for implementing the MPRR, to get information systems for selecting and approving projects, tracking performance, etc. The BRR is now moving to a second phase where its capacity is being extended down to district level[16]. This is part of BRR's exit strategy, where it is moving staff out of Banda Aceh and to the districts.

119. This personnel policy is in line with the new BRR strategy on allocating most of the remaining MDF funds to "the missing middle" infrastructure. GOI wants to mobilize as much as USD 1 billion for district and regional infrastructure, and in addition wants to tap into local government budgets. To support this, the SC approved USD 42 million to the Infrastructure Reconstruction Enabling Program (IREP). This will finance key technical services that will facilitate GOI mobilizing the USD 1 billion. The BRR strategy is thus based on putting together a financing package consisting of central GOI funds, external financing, district funds, and the MDF. But it also foresees a mix of the external technical skills funded by IREP, and the strengthening of district administrations that the decentralization of BRR staff and the phasing out of BRR by 2009 entails.

120. BRR's capacity development strategy builds largely on an "on the job learning" approach. BRR argues, in line with experience from elsewhere, that such "hands on" experience is the best form for capacity building. Moving BRR staff to the districts will allow local staff to learn in this way, but BRR also expects that some current BRR staff will be hired by the district administration itself when the BRR phases out. This capacity development approach is supported by the MDF, as it has approved two new projects based largely on the same principle, namely the Support for Poor and Disadvantaged Areas (SPADA), and the Nias Kecamatan Recovery and Planning Project.

[16] The 1999 law on decentralization of public administration pushed much of the local budgets directly to the districts, not to the provincial administrations/governors.

121. KDP, UPP, SPADA and the Nias projects foresee capacity to build capacity. IREP, however, is largely a procurement project. It is to bring in world-class skills in order to ensure success for the large-scale investment program. It is not realistic to build such skills locally in a short period of time, so while there undoubtedly will be some on-the-job learning also from this project, it is to provide more specific "deliverables".

122. While BRR thus seems to have addressed capacity development at the level of skills quite well, questions remain regarding *systems* and *institutional memory.* Who is to ensure that program management functions, the information database, the performance monitoring and quality assurance etc are carried over into more permanent governance activities? How does GOI intend to ensure sustainability of the important capacity that has now been created in the region within BRR?

Findings and Conclusions

123. Government leadership has been strong, though the dominant role of the BRR undermined more broad-based ownership in the public sector. This is being addressed as the BRR decentralizes its staff and becomes better integrated with local administration.

124. Capacity building is taking place in civil society using participatory approaches, which should strengthen impact and sustainability of these efforts. Most capacity development resources are for the public sector, however, which in the first instance went to building BRR as an organization. With the new BRR strategy, skills and tasks are being moved down to district level, using "learning by doing" as the basic approach, which is further extended through more recent MDF project support to local planning.

125. BRR has an exit strategy, which in itself is commendable. What still seems to be missing is how the institutional memory and organizational capacities created by BRR are to be handled once the BRR itself is dissolved.

E.8 Thematic Areas

126. The MDF program has established nine criteria for project selection and monitoring: the quality; capacity building; poverty reduction impact; contribution to good governance; sustainability of results; gender; geographic balance; conflict sensitivity; and shared workload. Of these, the TOR for this task requested assessment concerning capacity development and governance (both discussed above), gender, and geographic balance with conflict sensitivity. The MDF had therefore specified dimensions of the projects that were seen as important both at the level of the individual activities, but also to ensure that the portfolio as a whole made the best contribution possible to the rebuilding of Acehnese society.

Gender

127. Gender is a key concern several places in the MDF documentation, especially in light of the limited rights women in rural Indonesia usually have. There is not a specific project/s for women, but several projects have specified gender targets.

In the Waste Management project, 40% of the work was to be awarded to women, and actual results point to 45% female participation. The Land Titling project was to pay particular attention to the land rights of women and orphans, where women before the tsunami were registered as landowners in 0.5% of the cases, whereas 6.5% of land titles under RALAS have been for women ("The first year of Multi Donor Fund", p. 62). This should be seen in the context of many more women than men having lost their lives in the tsunami. In some of the worst affected communities, adult women represent less than 10% of the population (op. cit.).

128. What is less clear is the results from the capacity development/community driven projects. Mobilization, engagement, empowerment of community members are difficult to track, and the gender dimension requires more carefully crafted instruments to capture what is actually happening in a situation where increasingly conservative Islamic codes of conduct are being enforced. This issue seems to have created tensions between the donor community and some members of authority – formal and informal – that need understanding for correct interpretation of results data. The MDF has prepared a TOR to conduct impact of MDF projects on gender in Aceh and Nias. This survey is expected to start in March 2007, so that the results can be included in the second anniversary report.

Conflict Sensitivity and Area Balance

129. On 15 August 2005, the GOI and the Aceh rebel movement GAM signed a peace agreement in Helsinki. This was to end nearly 30 years of conflict that has caused 15,000 deaths and untold suffering to the population in the affected areas. Most of these were in the interior of Aceh, and thus not badly affected by the tsunami, while some districts have suffered the consequences of both the man-made and natural disasters.

130. As soon as the possibility for the peace agreement became known, the Bank commissioned a rapid assessment to identify options for support (Barron, Clark and Daud). This was in line with the discussions at the fourth SC meeting on 28 July, where the extension of the BRR's mandate to the post-conflict situation was supported, and thus the possibility for MDF funds to be used also in post-conflict areas.

131. The assessment was conducted 26 July-19 August, with broad participation from both local expertise and donor advisers. The study noted that local actors had not been involved in the negotiations, so this represented a first problem. The four main challenges identified were (i) incentives to local actors to continue the conflict and their illegal activities on the side, (ii) insufficient monitoring capacity, (iii) how GAM will be reintegrated, (iv) consequences of dislocated people moving back, especially regarding land claims. The study looks at key short-term problems (managing local crime and resistance, and integration of ex-GAM combatants), and points to five areas where donors like the World Bank/MDF can play a positive role: (a) socialization of the peace process; (b) bringing people into the process; (c) reintegration of GAM (funding): (d)

provision of a peace dividend (projects and funding); and (e) institution building (improving local governance, in a number of fields).

132. The sensitivity to the conflict, its root causes and multi-dimensionality, the problem of distrust that 30 years of conflict has created while building on lessons learned elsewhere in disarmament, demobilization and reintegration (DDR) seemed to provide a solid basis for MDF action. The report is quite detailed and prescriptive in a number of fields regarding what external actors can provide.

133. One problem that arose was that for some donors, it was not legally possible to support post-conflict reconstruction: the MDF funds were specifically for natural disasters. For a number of donors, other funds must be used for post-conflict aid, and requires own studies and decisions. This created some tensions within the MDF, since the KDP project began working across Aceh, also in districts that clearly were suffering from the effects of conflict and not the tsunami. Over time, this issue has been addressed with the MDF applying a "do no harm" principle, and with the SPADA project being used to support more assistance to the conflict-affected areas. Furthermore, since BRR's official policy is that all of Aceh was affected by the tsunami – they distinguish between "more affected" and "less affected" areas – this meant that the MDF was not restricted by the geography but whether the activities of the project were within the post-disaster reconstruction mandate. This helps limit the disparity between geographic areas

134. The Waste Management project has made efforts to recruit ex-GAM members, though how far this has succeeded was not known at the time of this mission. The Forest and Environment project is working in areas that previously were conflict affected, and thus is meant to provide a visible "peace dividend". The previously mentioned NGO study has some critical observations regarding lack of conflict sensitivity on the side of some donors, though again the MDF seems both to have done a serious study to map out the issues, and has taken some steps to both avoid exacerbating the conflict, and provide more balanced support to conflict and tsunami affected areas. To what extent the MDF has done enough and has tackled the challenges well will require once again more careful analysis. The survey on conflict sensitivity and geographic balance is expected to be conducted during the first half of 2007. These results of this survey will be fed into the MTR. The lingering resentments and distrust were considered quite serious by a number of observers, and thus is a dimension to the Aceh reconstruction that needs to be addressed well, not least of all by the large-scale infrastructure program that MDF is to support.

Findings and Conclusions

135. MDF has gender-specific targets in several projects, which also produce gender disaggregated data. More complex aspects like capacity development, empowerment, and mobilization of women are difficult to track, but may be more important over time than immediate employment results. Given the cultural dynamics in Aceh, more careful ways of tracking such results must be used.

136. The conflict dimension is important. While much donor funding for MDF was for post-disaster and not post-conflict assistance, MDF has moved towards also addressing inequities from the conflict. Both gender and the conflict dimensions will, however, be paid attention prior to the MTR at the end of 2007.

E.9 Basic Chronology of Events

26 December 2004, Tsunami hits Indonesia, other parts of Asia.

27 December 2004, Presidential Decree, declaring the earthquake and tsunami wave a national disaster, issuing 12 directives to immediately organize the response.

December 2004-January 2005, Damage and Loss Assessment: The assessment was done by a team of 80 specialists from GOI, NGOs and international agencies, estimating total damages and losses at about USD 4.45 billion.

6 January 2005, International Meeting, Jakarta: ASEAN countries, multilateral and bilateral funding agencies discuss tsunami response, to ensure comprehensiveness and coordination.

19-20 January 2005, Consultative Group meeting for Indonesia, Jakarta: GOI presented the joint damage assessment as the basis for a request for financial support.

1 February 2005, World Bank Board briefed: The Board agrees in principle to Bank support for assistance on the ground for expedited recovery planning, mobilize financial support, and help coordinate rehabilitation and recovery support.

22 March 2005, Bank restructures projects: Bank Board agrees to restructure three on-going Bank projects to re-allocate IDA savings for tsunami reconstruction efforts.

26 March 2005, Government Master Plan for Rehabilitation and Reconstruction presented: The 12-volume MPRR – one main book and 11 related books that detail specific aspects of the reconstruction plan – is presented.

30 March 2005, Bank Board establishes MDTF: Based on discussions with GOI and donors, the Bank Board approves the resolution that establishes the MDF with the Bank as trustee, and with USD 25 million from Bank surplus as IDA contribution.

May 2006, BRR Established: GOI's coordinating body, the BRR, is formally established with offices and operations in Banda Aceh.

10 May 2005, First Meeting, MDF Steering Committee, Jakarta:

(i) BRR announces that it has already signed rehabilitation agreements with Red Cross/Red Crescent for USD 600 million, with USAID for USD 245 million.

(ii) Several donors note that since MDF funding is grant money, fiduciary controls need to be tighter than usual. The SC noted that this has been addressed by the Bank Board when establishing the TF, and in the Operating Manual, which should be seen as a "living document" that can be adjusted as need arises.

(iii) Members requested that a general "road map" for MDF support be developed so that project proposals could be assessed against this. This was agreed to, but the need for speed was also pointed to.

(iv) The four proposals before the SC were all IDA projects. SC members asked that other organizations come forward both with proposals and as partner agencies. If they lacked capacity to prepare proposals, this should be provided.

(v) The first project, *Recovery of Property Rights and Reconstruction of Land Administration System* (RALAS) was endorsed with a budget of USD 28.5 million subject to satisfactory appraisal. IDA was designated Partner Agency, and the National Land Agency (BPN) as Executing Agency. This was the first project approved for funding by the MDF.

(vi) The next two projects concerned Urban and Rural Community Rehabilitation projects. They were endorsed with budgets of USD 18 million and USD 54.4 mill, respectively. Concerns were raised about duplication between the projects, and overlap with other NGO-based activities, but where the BRR pointed out that this was its responsibility to resolve, and that local coordination mechanisms were already in place. IDA was Partner Agency and GOI agencies Executing Agencies for both.

(vii) The SC endorsed the concept of using USD 150 million for Community Driven Housing and Settlement, though the project had still to be appraised, and the coordination issues were even more important here.

(vii) Finally, the SC endorsed support for BRR, given that GOI resources would only cover staff costs. A specified document was to be drawn up.

(viii) The first SC meeting thus approved four projects with budgets of about USD 250 million plus a fifth project with at that time unknown budget (BRR support).

15 June 2005, Second Meeting, MDF Steering Committee, Jakarta:

(i) BRR updated on the status of commitments: (a) 172 NGO projects with budgets of USD 585 million plus a further 70 projects in the pipeline with budgets of USD 260 mill, (b) Red Cross/Red Crescent USD 600; (c) others including MDF USD 600 mill, (d) GOI about USD 850 million for calendar year 2005.

(ii) BRR strategy was to primarily manage the "supply and demand" for rehab projects in the first phase, focusing on "turnkey" projects that could quickly deliver solutions to the population. MDF funding, which was largely to go through government agencies and be on-budget, would thus act to fill gaps that these other first-line providers would not. Government agencies would at the same time be expected to deliver – "business as usual" would not be accepted.

(iii) Questions regarding BRR's "market approach" to rehabilitation were raised related to need for common standards, enforcement of regulations, maintenance and thus sustainability of new infrastructure, etc. Since much of the rehabilitation is community-based and thus –driven, this was seen as manageable given the local involvement in decision making. There were questions regarding BRR's role, as it was established with a four-year time horizon; its relations to permanent public bodies; how agreements between donors and other public bodies were to be handled by BRR. – It was noted that longer-term (more permanent) issues were being addressed through the appropriate public bodies, such as the land tenure question, so coordination, coherence, policy clarity was in place.

(iv) Given the projects endorsed at the previous meeting, there was an urgent need to get donor contributions into the fund, since few donors had actually transferred funds as of mid-June. A number of donors promised that financing would be forthcoming shortly.

(v) Five new project concepts had been received. All were returned for further information before any SC action is required.

(vi) Non-contributing members (Australia, Japan, US) asked to join the policy part of SC meetings, which was endorsed as a means of improving coordination.

(vii) Civil society and NGO representatives to the SC were being identified.

29 June 2005, Third Meeting, MDF Steering Committee, Jakarta:

28 July 2005, Fourth Meeting, MDF Steering Committee, Jakarta:

(i) BRR updated status: (a) funds pledged stood at USD 6/7 billion, (b) Of 401 projects reviewed, 209 were still held since they did not satisfy BRR criteria, (c) off-budget projects worth USD 202 million are approved, others worth USD 1.258 billion are conditionally approved, (d) on-budget projects totaling USD 863 million are approved, including MDF projects. It was underlined, however, that not all MDF projects must be on-budget, where the proposed UNDP support to BRR was one example. But on-budget is preferred due to GOI's role in rebuilding the nation's devastated areas.

(ii) BRR was setting up a special anti-corruption unit with high-level staff. International audit firms are being invited as BRR's external auditors.

(iii) The expected peace accord with GAM would extend BRR's role into GAM-held areas, reconstruction thus extending also to post-conflict areas.

(iv) A logical framework approach would be used to design MDF policy and its indicators, as the basis for the monitoring and evaluation (M&E) program. The M&E officer would design macro-indicators, baseline values, deliverable outputs.

(v) The policy would add in three new elements: (a) gender, (b) support to the peace process, (c) avoid worsening regional disparities. The Mission Statement was revised to include Poverty alleviation.

(vi) MDF project concept evaluation would provide a 1-5 rating rather than Yes/No approval. Risks, potential for rapid implementation, cost effectiveness will be added under Additional Comments.

(vii) The SC endorsed the *Tsunami Recovery Waste Management Program* with UNDP as Partner Agency, off-budget, with USD 15.2 million subject to appraisal.

25 August 2005, Fifth Meeting, MDF Steering Committee, **Banda Aceh**

(i) SC endorsed the *Integrating Environment and Forest Protection* project as an off-budget project with USD 14.05 million with IDA as Partner Agency and two environmental organizations as executing partners, subject to appraisal.

(ii) SC discussed the proposed ILO project for scaling up labor-intensive rural road rehabilitation. While the concept was supported, numerous questions led the

SC to ask for a re-write, but where the revised note could then be circulated electronically on a five working-day No Objection-basis.

(iii) The SC endorsed the *Disaster Response Logistics* project as off-budget, with UNDP as Partner Agency, and a budget of USD 3.75 million subject to appraisal.

(iv) BRR gave a presentation of its "vision" of a more pro-active role in both proposing project concepts, but also linking MDF-funded activities with longer-term capacity building of the public sector in Aceh and Nias. The principles for this vision were presented, and which were endorsed by the donor officials.

27 October 2005, Sixth Meeting, MDF Steering Committee, **Jakarta**:

(i) Key issue was slow disbursement: out of USD 200 million in approved projects, only USD 3 million had been disbursed. BRR noted that going on-budget meant both line ministry and MOF approvals, including issuing DIPAs. Many procedures did in fact not work as conceived, so off-budget disbursement might be better. Further, if cooperation with line ministries did not work, BRR was prepared to be an executing agency. The new procurement regulation permitted direct procurement on some vital projects, but this window would only be open through June 2006.

(ii) The Bank also noted slow disbursement. While not slower than for other development projects, it also was no faster – there was no sense of *urgency* in the bureaucracy. The Bank suggested that MOF and line ministries process in parallel, but others noted that it was not simply a matter of better coordination at the center but also local agencies and line ministry staff being slow. One positive aspect was that MDF project managers did not have to be civil servants; BRR could recruit freely.

(iii) BRR asked donors why so many insisted on going through BAPPENAS, with one donor pointing out that if they did not, line agency staff objected and slowed down their actions. BRR was aware of this jealousy and line agency contestation.

(iv) BRR with Bank support then proposed an Immediate Action Plan with four projects that would be off-budget. While project concept notes should have been circulated ten days prior to SC, there had not been time for this now, but a PCN technical meeting would be held the following day. The four were (a) roads and urgent works with Catholic Relief Services, (b) flood control, with Muslim Aid, (c) port recovery, UNDP, and (d) delivery and logistics, WFP, with total budgets of USD 44 mill. Subsequent steps were agreed upon to speed up possible approval, including allowing agencies immediate appraisals with costs applied retro-actively though the SC could still object to the project concept in the end.

(iv) The M&E officer presented the Recovery Assistance Policy regarding (a) focus on verifiable results, (b) assumptions and risks, (c) RAP periodic review. She ran through M&E mechanisms, focusing on project M&E with regular monitoring of performance indicators that could be aggregated into higher-level TF indicators. Projects would need to have better logframes, where indicators should measure *results* and not *processes,* and the draft RAP logframe seemed to have both kinds.

(v) Overhead fees by Partner Agencies for project execution was raised as some asked 7%, others 10%. The Bank noted it intended to keep its 2% admin fee target.

13 December 2005, Seventh Meeting, MDF Steering Committee, **Banda Aceh**:

(i) A review of GOI projects showed 397 projects approved, only 77 being implemented, 210 in tender, 100 not yet tendered. BRR was thus going to carry out a portfolio assessment, to re-allocate funds to priority tasks, and act as executing agency for speedier implementation. Key issue is that GOI funds are the largest and hence GOI portfolio has to be "the locomotive" for all efforts.

(ii) Un-earmarked funds from donors were now becoming scarce. Co-financing with local resources was becoming more important, having the salutary effect of involving local government more deeply in the reconstruction and rehabilitation efforts – an important part of BRR's exit strategy.

(iii) BRR wanted MDF to focus on infrastructure due to its flexibility. Donors in principle agreed but would only commit funds after a strategy review in Jan 2006.

(iv) The BRR Recovery of Aceh and Nias (RAN) Database was introduced, though not yet fully operational. Links to MDF were requested, and questions on the sustainability – who will run RAN post-BRR – were raised.

17 February 2006, Eighth Meeting, MDF Steering Committee, **Banda Aceh**

(i) BRR's Infrastructure Reconstruction strategy based on a portfolio approach was presented, relying on MDF co-financing under a medium-term expenditure framework and with strong focus on local government capacity building. Issues of gender, environmental assessments, transparency and anti-corruption measures, local government involvement, M&E, livelihoods and flexibility were raised.

(ii) A key proposal is for GOI to attract up to USD 1 billion for infrastructure rehabilitation while MDF re-allocated USD 42 million to be used for design and implementation support. Local government would be heavily involved.

(ii) The new co-financing approach was seen as an important change to the way donor and GOI funds were used, and reflected new collaborative arrangements. While this cooperation had not always been easy (BRR statement), it would now be based on a more solid foundation.

(iv) The potential conflict of interest of the various roles of the Bank was raised: trustee/administrator of the MDF, donor, Partner Agency. Similar for BRR – its role as both implementer and coordinator.

(v) Agreement on organizing a "Lessons Learned" seminar, probably in March.

23 March 2006,MNinth Meeting, MDF Steering Committee, **Jakarta**

15 May 2006, Lessons Learned Workshop, **(Jakarta)**

27 June 2006, Tenth Meeting, MDF Steering Committee, **Banda Aceh**

18 July 2006, Technical Review Meeting, SPADA project, **Jakarta**

29 August 2006, Technical Review Meeting, Sea Delivery and Logistics project

21 September 2006, Eleventh Meeting, MDF Steering Committee, **Jakarta**

ANNEX F: The Sudan Multi-Donor Trust Funds

F.1 Background and Introduction

1. Sudan is Africa's largest country and incorporates multiple religious, ethnic and socio-economic divisions: between Muslims and Christians, Arab and African, nomad and farmer. Sudan's three conflicts, in the South, Darfur (West) and the East reflect these divisions, and have been exacerbated by struggles over control of the country's natural resources, the role of religion in the state and self-determination. At their heart is the desire for greater political autonomy in Sudan's regions and sharing of wealth, most recently from oil revenues.
2. Sudan's North-South conflict started before independence, but broke out as a civil war right after Sudan's independence in 1956. Apart from a period of peace between 1972 and 1983, Sudan has remained at war. The last war between successive governments in Khartoum and South Sudan started in 1983. An estimated two million people died and a further four million were displaced. Sudan suffered enormous damage to its physical infrastructure and economy, and its standing in the international community.
3. The war formally ended in January 2005 with the signing of the Comprehensive Peace Agreement (CPA) that incorporated the former rebel group, the Sudan People's Liberation Movement (SPLM) into a Government of National Unity (GoNU). The agreement was the culmination of two and half years of negotiations. It included provisions for power and wealth sharing. The CPA is silent on the Darfur conflict, which is ongoing.
4. In addition to joining the GoNU, CPA mandated the SPLM to establish the Government of Southern Sudan (GoSS), and gave the GoSS extensive autonomy within the framework of national government. The SPLM, therefore, plays two roles: the party of government in South Sudan, and a partner in the GoNU. The CPA included special provisions for Abyei, Nuba Mountains/Southern Kordofan and Blue Nile, referred to as the "Three Areas". These were identified as the poorest and most disadvantaged regions of the north, and seriously affected by the conflict.
5. Signing of the CPA marked the beginning of a Pre-Interim Period of six months, during which time the institutions and mechanisms provided for in the CPA were to be established, as well the constitutional framework for the peace agreement. These included formation of the GoNU and the GoSS. Sudan is now in a six-year Interim Period, which will conclude in 2011 with a referendum on whether South Sudan will secede or remain in the Republic of Sudan. Implementation of the accords is ongoing with support from the international community, initially through the offices of the Intergovernmental Authority on Development (IGAD) and now Assessment and Evaluation Commission and other fora such as the Sudan Consortium (see section F.5, "Governance"), and the United Nations Mission in the Sudan.

6. Obstacles to CPA implementation include:

   - The National Congress Party (NCP) has the capacity to implement the CPA, but may lack the political will. The NCP constituted the former Sudanese regime and is the dominant partner in the GoNU. It signed the CPA willingly, but under some pressure from the international community. Some in the party remain opposed to the CPA Process and are reluctant to embrace power and wealth sharing, and the southern self-determination referendum at the end of the Interim Period as Southern independence can have economic implications to Khartoum as well.
   - The SPLM shows commitment to the peace process, but is itself still in transition from rebel movement to political party. It needs capacity to establish the basic structures of governance in South Sudan, while at the same time is contributing to the GoNU, and also developing as a political party on the basis of civilian democratic norms.
   - The GoNU does not have strong public constituencies that support the CPA. There is greater public knowledge of the CPA in the South, accompanied by higher expectations regarding the benefits that the CPA should deliver in people's daily lives.
   - Engagement from the international community shows signs of slippage over time. In addition, the situation in Darfur distracts international attention from CPA implementation.

F.2 Trust Fund Overview

7. Articles 15.5 through to 15.11 of the CPA's Wealth Sharing protocol call for the creation of two Multi-donor Trust Funds (MDTFs) during the Pre-interim Period, one for the National Government and one for the Government of South Sudan (Article 15.5). The agreement specifies that the MDTFs were to serve as a channel for international resources, and provide immediate support to the priority areas of "capacity building and institutional strengthening and quick start/impact programs identified by the Parties" (Article. 15.6). The CPA also directs the funds to support urgent recurrent and investment budget costs (Article 15.7) and to flow through government systems (Article 15.8).

8. The two Sudan MDTFs, therefore, have a common origin in the CPA. However, the funds were established as independent operations with their own governance structures and resources. During the Interim Period, the international community deals with one country, although they work through two systems that have distinct needs.

9. Based on three options for Trust Fund management, the World Bank was asked by the two Parties to the CPA, the Government of Sudan (GoS) and the SPLM, to serve as the Administrator. However, the option of Bank administration was chosen on the understanding that UN agencies, using their own rules and procedures as provided in the CPA, would be an important implementation modality for quick recovery activities under the MDTF.

10. The National Multi-donor Trust Fund (MDTF-N) was subsequently established to support the Government of National Unity, focusing on reconstruction and development of war-affected Northern states, where focus is given to the "Three Areas". The Multi-donor Trust Fund for South Sudan (MDTF-SS) supports the Government of Southern Sudan's recovery and development programs.

11. The legal and regulatory framework for the World Bank's role as Sudan MDTF Administrator was outlined in the Memorandum of the President of the World Bank to the Bank's Board dated 17 March 2005. The Memorandum was approved by the Executive Directors on 7 April and endorsed during the Donor's Conference held in Oslo one week later, 11-12 April 2005. Eleven donors pledged USD 508.5 million at the Conference to support the two funds during the period 2005-2007. Six donors pledged a further USD 102.8 million after the Oslo conference, bringing total MDTF pledges for 2005-2007 to USD 611.3 million.

12. The MDTFs provide a vehicle for donors to pool resources and coordinate support to fund the overall reconstruction and development needs for Sudan during the Interim Period. As agreed in the CPA, MDTFs funds are to focus on recovery and longer-term development activities, guided by priority activities identified in the Joint Assessment Mission (JAM). The President's Memorandum outlines the guiding principles for prioritization of MDTF funding (table F.1):

Table F. 1: Guiding principles for prioritization

MDTF-N	MDTF-SS
Support priority national investments to consolidate peace; Support state- and locality-level investment programs, especially in war affected zones ; Focus on pro-poor rural development; Make decentralization work; Lay the groundwork for good governance: private sector; civil society, support to media and rule of law.	Establish an effective core of public sector administration – core capacity to plan/ finance GoSS programs with key accountability mechanisms in place; Access to basic services – consolidate peace and generate social capital through rapid scale-up of education/health programs; Put priority sector programs in place, including basic infrastructure (roads, electricity, water); Facilitate transition from subsistence-based livelihoods to development-oriented economy - support to agriculture and private sector development; Harmonization of development assistance.
Key priorities: "Three Areas", other war affected areas in Northern States, marginalized urban areas, the East, and, once peace is established, Darfur.	**Cross-cutting strategic objectives:** Ownership and capacity building; Enable GoSS to prioritize recovery and development needs; Harmonization of development assistance.

13. The MOU established that the MDTFs should be linked with the respective government budgets. Reflecting the resources available as a result of growing oil revenues, each project should in principle be co-financing the respective governments, with the GoNU and GoSS contributing at a 2:1 matching rate. All MDTF-N projects are included in the GoNU's budget, and all MDTF-SS projects are included in the GoSS budget. Projects must also be consistent with poverty alleviation and peace-building objectives of the respective government. A programmatic approach was to be applied in the framework of multi-year investment programs and sector-wide initiatives.

The Joint Assessment: A Framework for the MDTFs

14. The programmatic framework of the MDTFs was defined by a Joint Assessment Mission (JAM), coordinated by the World Bank and the UN at the request of the two parties to the CPA. The assessment was initiated in December 2003, and was conducted with the guidance and participation of the GoS and the SPLM. The JAM was mandated to determine Sudan's reconstruction and development needs over the six-year Interim Period. It produced a *Framework for Sustained Peace, Development and Poverty Eradication*, to be supported by national and international resources and efforts. The JAM published its assessment on 18 March 2005. The report was presented to the April 2005 Oslo Donor Conference and endorsed by the 60 countries and international organizations participating, as well as the Government of Sudan and the SPLM.

15. The Sudan JAM is considered unique among post-conflict assessments. The process was characterized by strong collaboration between the stakeholders, national ownership and undertaken with extensive donor and civil society participation. These factors contributed to both the quality of the assessment and its credibility as a blueprint for post-conflict development. Informants described it as a model for future assessments, including for the manner in which UN agencies and the Bank collaborated.

16. The JAM divides the Interim Period into two phases. The *Phase One Recovery Period (2005-2007)* focuses on addressing immediate recovery needs, building the capacity of the GoNU and the GoSS and initiatives intended to create tangible improvements in people's lives. Informants referred to these elements as delivering a "peace dividend". The JAM document places emphasis on the *Recovery Phase* as critical to consolidating the CPA. Initiatives were to be supplemented by ongoing humanitarian efforts, which would gradually phase out as the situation stabilized. The *Phase Two Development Period (2008- 2011)*, focused on initiatives that put Sudan on track to meet Millennium Development Goal (MDG) objectives by 2015.

17. The JAM included both national and external financing requirements. The costing covered:

    - The Phase One Recovery (2005-2007) was estimated to cost USD 7.9 billion. USD 4.3 billion of this was to meet national needs, while USD 3.9 billion was for South Sudan.
    - Indicative cost estimates for the longer run (2008-2011) were put at USD 1.5 billion a year. The assessment noted that further work was needed to develop estimates of Sudanese resources, within the context of a poverty reduction strategy.
    - There were separate cost estimates for the GoNU, the Northern states, the GoSS, and the "Three Areas". Recurrent and capital expenditures were costed separately, and a linkage was established between JAM cost estimates, results, and the management of government budgets and resources.

18. The JAM identifies eight thematic clusters: capacity building and institutional development; governance and rule of law; economic policy; productive sectors;

basic social services; infrastructure; livelihoods and social protection; and information and statistics. There are four crosscutting themes: gender; HIV/AIDS; conflict prevention; and the environment. Performance indicators for reform and actions were also developed by the JAM process for the eight clusters plus indicators on security and donor accountability, as well as a commitment to a decentralized framework.

19. The two MDTFs were not expected or designed to channel a major portion of the total international assistance contribution to Sudan. The comparative advantage of the MDTFs was to create a mechanism for the pooling of international resources, promoting government and donor coordination, and leveraging international funds for recovery and development against national resources. The MDTFs represent only a small percentage of total flows:

- The international community was asked to provide USD 2.6 billion of the USD 7.9 billion JAM estimate. From this figure, only USD 508 million was pledged to flow through the MDTFs, equal to about 20 percent of international resources pledged to support the JAM, and six percent of the total estimated JAM cost.
- Donors pledged USD 4.5 billion at the Oslo conference. Of this amount, USD 2.5 billion was to support humanitarian and peacekeeping operations during 2005-2007. USD 2.0 billion was pledged for recovery and reconstruction as identified in the JAM. From this figure, only USD 508 million was pledged to flow through the MDTFs, equal to 25 percent of international resources pledged to support the JAM, and six percent of the total estimated JAM cost.
- UN OCHA estimates commitments for humanitarian assistance to Sudan as of September 2006 at nearly USD 1.2 billion, with approximately USD 250 million in pledges outstanding.
- Most donors reported channeling only a portion of their resources into the MDTF mechanism, and that they would continue to use UN and NGO in parallel. In 2006, donors pledged USD 110 million for recovery activities in South Sudan through the UN Work Plan.

Findings and Conclusions

20. The Sudan MDTFs were established in a high risk environment, characterized by low capacity (state and society) and limited political will among some important actors.

21. The CPA established the MDTFs with a set of objectives that were ambitious and potentially contradictory to be implemented by a single Administrator: (i) build state capacities, (ii) provide quick impact programs – "the peace dividends", (iii) be on-budget.

22. The JAM established a good foundation for delivering on the peace dividends in terms of the needs identification and the joint processes and thus consensus and ownership that it was based on. However, informants were concerned that the JAM did not prioritize requirements, resulting in difficulty with MDTF program design.

F.3 Efficiency of the Trust Funds

Donor Contributions

23. Total Oslo and post-Oslo MDTF pledges were USD 611.3 million. Donors made pledges directly to the MDTF-N and the MDTF-SS. At inception, donors deposited their pledges in a timely manner. Secretariat personnel for the two funds reports of only minor delays resulting from late pledges. The status as of 30 September 2006 is given in table F.2 below:

    - The MDTF-N had USD 96.2 million paid in from a total 2006 commitment of USD 129 million. Commitments for 2006 of USD 32.8 million are pending deposit.
    - The MDTF-SS had USD 184.4 million paid in, from a total 2006 commitment of USD 257.2 million. Commitments for 2006 of USD 72.8 million were pending deposit

24. There were delays with donor deposits in early 2006. Donor informants expressed concerned about slow disbursement with both trust funds and, therefore, did not want to replenish. At least one donor had a formal requirement to disburse existing resources before making additional contributions.

25. World Bank Trust Fund Regulations only permit Fund commitments against actual paid-in deposits. This requires rationing of funds by balancing aggregate MDTF commitments for expenditures against actual deposits. In order to improve efficiency, the Bank applies the concept of program/time “slicing” to MDTF project design. Under this arrangement, where donor deposits have not yet matched donor pledges, grants for projects with a total MDTF contribution above the available limit of funds may still be approved but with a smaller amount (slice) actually committed, with a signed Grants Agreement, to meet disbursement requirements over a specified period.

26. As of September 2006, seven MDTF-SS Grant Agreements have been signed, allocating USD 106 million with GoSS matching contributions of USD 171.8 million. These agreements became effective between March and September 2006. Four other projects have been approved by the Oversight Committee (OC), and were pending Grant Agreement signature. Their value was USD 48 million. In addition, supplementary funds totaling USD 36.3 million for four existing projects have been approved. To date, MDTF-SS allocations amount to USD 190.6 million.

27. During early fall 2006, both the MDTFs faced funds shortfalls, which made it difficult to make commitments to new projects. The estimated shortfall for the MDTF-SS was USD 9 million compared with the funding required to cover projects in the pipeline and supplementary financing. The equivalent shortfall for MDTF-N was USD 20 million compared with the needs to cover the pipeline and supplemental amounts.

Table F. 2: Financial Overview of the Sudan MDTFs: Pledges and Contributions, 2005-2007, as of end September 2006 (USD million)

	Pledge	2005 PAID IN			2006 PAID IN			2006 COMMITTED #			2007 COMMITTED			TOTAL 2005-2007		
Country/Org	TOTAL 2005-2007*	Nat'l	South	Total	Nat'l	South	Total	Nat'l	South	Total	Nat'l	South	Total	Nat'l	South	Total
Netherlands	195.0	23.4	23.4	46.8	17.7		17.7	35.1	35.1	70.2	33.8	33.8	67.6	92.3	92.3	184.6
Norway	100.0	10.4	20.3	30.7	6.2	12.0	18.2	12.8	23.7	36.5	12.5	23.2	35.7	35.7	67.2	102.9
UK	80.7	11.7	11.7	23.4	7.7	7.7	15.4	15.4	15.4	30.8	15.4	15.4	30.8	42.5	42.5	85.0
EC	45.5		28.2	28.2		17.5	17.5		28.2	28.2					56.4	56.4
Sweden	28.6	3.4	6.3	9.7	2.3	4.5	6.8	4.2	7.8	12.0	4.2	7.8	12.0	11.8	21.9	33.7
Germany	26.0	0.0	0.0	0.0		12.1	12.1		12.1	12.1					12.1	12.1
Finland	12.0		4.4	4.4					4.8	4.8		5.2	5.2		14.4	14.4
Denmark	15.0	0.0	6.2	6.2											6.2	6.2
Italy	5.2															
Iceland	0.5	0.0	0.1	0.2	0.1	0.1	0.1	0.1	0.1	0.2	0.1	0.1	0.2	0.2	0.3	0.5
Greece	0.1	0.1		0.1										0.1		0.1
TOTAL Oslo	**508.5**	**49.0**	**100.6**	**149.6**	**34.0**	**53.9**	**87.8**	**67.6**	**127.2**	**194.7**	**66.0**	**85.4**	**151.4**	**182.5**	**313.2**	**495.8**
Post Oslo																
Canada	34.4				8.6	25.8	34.4	8.6	25.8	34.4				8.6	25.8	34.4
World Bank	10.0				5.0	5.0	10.0	5.0	5.0	10.0				5.0	5.0	10.0
Saudi Arabia	50.0															
France	7.2															
Egypt	1.0															
Arab League	0.2															
Total	**611.3**	**49.0**	**100.6**	**149.6**	**47.6**	**84.7**	**132.2**	**81.2**	**158.0**	**239.1**	**66.0**	**85.4**	**151.4**	**196.1**	**344.0**	**540.2**

28. A decision from donors to delay meeting their commitments could therefore have an unwelcome effect. The MDTF Administrator can not sign grants agreements or otherwise make commitments if the funds are not in the MDTF accounts. Delaying deposits in the present as a reaction to slow disbursement could therefore adversely affect project development in the future.

Addressing Stakeholder Objectives

29. The Government of Sudan's capacity was eroded during the conflict period. GoNU informants acknowledged Sudan's limited capacity to implement the CPA from the perspective of both financial and human resources. Government systems lack the capacity to plan, implement and manage development programs, particularly at the state and local levels. Almost two decades of isolation from the multilateral system left the government with limited experience working with international norms, and weakened public management systems. Officials noted that aspects of Sudanese law, standards and systems were not good enough to meet international standards, and needed revision.

30. By engaging the MDTF, the GoNU and the GoSS sought to strengthen:

- Support for the CPA process within the GoNU and the NCP. Important actors continue to oppose the CPA process. The MTDF provided an opportunity to demonstrate that cooperation with the international community can deliver benefits to Sudan. According to one informant, the message of benefits was directed to "some in our government who are suspicious of closer cooperation [with the international community]. If the MDTF does not work, it weakens the position of more open elements in the government, and the possibility of more dialogue with the donors/international community on other conflict issues."
- Delivery of the programs described in the JAM and CPA. Some GoNU informants described this as reducing the burden on government resources and capacity for post-conflict recovery, by transferring aspects of that burden to international cooperation.
- Mobilizing GoNU own resources to meet JAM priorities, for quick impact. The MDTF provided a form of external leveraging.
- The transfer of knowledge from the international community to GoNU, and then downward to the state and local governments.
- Building knowledge and relationship with the multilateral financial system.
- Public finance management, bringing GoNU systems to international and World Bank standards. The process was described as a step towards deepening the relationship between Sudan and the multilateral system.
- Confidence with the international community. Not many donors had a bilateral relationship with the GoNU. All parties needed a trusted mechanism through which they could interact.

31. In addition to supporting the MDTF objectives, most donor informants noted additional reasons for engaging with the CPA process. These varied between agencies, but included:
    - Using the MDTF as a mechanism to align assistance with national government objectives, and harmonize and coordinate with other donors.
    - Many donor agencies had little capacity on the ground and did not really want to increase it much. The MDTFs allow donors to have the trust fund Administrator assume most of the burden and risks of program development and management.
    - Leveraging funds through pooling with others increased policy access and influence.
    - Supporting the tying of national resources to the peace process through the matching funds principle.
    - Avoid direct bilateral engagement with the government by working through a proxy mechanism. Some donors are not willing to deepen bilateral relations with the GoNU, given the ongoing conflicts in Darfur. Using the MDTF mechanism allows those donors to engage in policy dialogue, while sharing the political risk.
    - Bring a sense of “normalcy” to the relationship with Sudan, by strengthening both the GoNU and the GoSS as interlocutors in the CPA process.
32. The Bank re-opened its Sudan office in 2005, after the signing of the CPA. Sudan defaulted on payments in 1993, leading to closure of the Bank’s offices there. Resumption of normal lending operations will depend on a resolution of Sudan’s IDA arrears, which total USD 400 million. In the interim, the World Bank was mandated (as reflected in a Board document in July 2003) to “provide technical assistance and support to capacity building efforts in a way that reflects the political structure in the peace agreement – a national Government and a Government for South Sudan”. The Bank’s mandate also provided for the possibility of administering donor trust funds.
33. For the World Bank, the JAM and the MDTF were vehicles to support post-conflict reconstruction and poverty reduction, and consolidate peace; re-establish a presence in Sudan; engage the GoNU, the GoSS and the donors in policy dialogue; and influence development of public financial management structures from the outset of the CPA process.
34. There were significant differences between stakeholder objectives and expectations for the National and South Sudan trust funds. GoNU officials in technical positions were frustrated with what they considered to be slow World Bank procedures and disbursement. These concerns were raised as early as the 14 September 2005 MDTF-N Oversight Committee meeting. One GoNU informant summarized the situation as follows: "The World Bank assured us that they would deliver a fast and flexible fund structure. This is what we had in mind when we made our decision [to choose the World Bank as an Administrator over

the UN]. The MDTF has not met our expectations. The delivery of both funds has been extremely slow and the administration anything but flexible".

35. Despite these concerns, there has not been the same pressure at the national level as there is in the south for the MDTF to deliver a rapid "peace dividend". Consequently, slow disbursement has not destabilized the overall CPA process or developed into political risk. The explanations given for this by informants include:

- The GoNU did not have a political constituency pressuring for fast and visible delivery of a "peace divided". The NCP has never informed its own population about the CPA process or its contents and the SPLM has limited capacity to influence outcomes. Public expectations of the CPA, therefore, appeared low and have not evolved into political pressure. The MDTF-N had limited visibility in this context.
- GoNU systems were weak but still functioned, and did not depend on technical support to the same extent as those of the GoSS. There was also some resistance within the system to accepting international assistance and oversight.
- Some GoNU officials had experience working with multilateral financial institutions, such as the African Development Bank (ADB). There was greater technical capacity, therefore, to manage Bank systems.
- Even where GoNU officials expressed frustration, there was a consensus that that the World Bank's systems reflected international best practices and needed to be learned. They accepted, therefore, the trade off between building capacity and rapid implementation.

Financial Status of the MDTF-N

36. As of 30 September 2006, the MDTF-N had commitments of USD 40.1 million and an uncommitted balance of USD 55 million. The estimated value of project agreements in the "pipeline" and anticipated for approval by end 31 December 2006 was USD 62.5 million.

37. The actual disbursements by 30 September 2006 was USD 12.0 million, of this amount USD 10 million was to UN agencies. Disbursements were projected to increase to USD 14.6 million by 31 December 2006.

38. The project portfolio is comprised largely of capacity building for institutions delivering public service institutions and infrastructure projects. All are designed to be implemented through the GoNU. As such, implementation depends on GoNU systems and engagement, including provision and timely release of counterpart funds. It includes:

- *Community Development Fund*, Initial Project Proposal (IPP) approved on 14 September 2005 with the Grant Agreement signed on 16 January 2006. Value of the project is USD 50 million, of which USD 30 million comes from MDTF-N funds. The grant became effective on 26 April 2006.

- *Technical Assistance Facility*, IPP approved on 14 September 2005 with the Grant Agreement signed on 16 January 2006. Value of the project is USD 5.7 million, with USD 5 million from MDTF-N funds and with the possibility of periodic replenishment. The grant became effective on 31 July 2006.
- *Fifth Population Census*, IPP approved on 14 September 2005 with the Grant Agreement signed on 8 May 2006. Value of the project from MDTF funds is USD 20 million. The grant became effective on 26 April 2006.
- *Capacity Building of the National Judiciary*, IPP approved on 12 October 2005 with final approval given on 26 February 2006. Total project cost is USD 18 million of which the MDTF will contribute USD 13 million and the GoNU USD 5 million. The grant became effective on 23 August 2006.
- *Sudan Emergency Transport Project*, Value of the overall project is USD 370 million, of which USD 123 million from the MDTF. Final approval given on 28 August 2006. The initial Grant Agreement for USD 43.5 million from MDTF-N was signed 29 October 2006.
- *Decentralized Health Systems*, IPP approved on 26 February 2006 with final approval on 28 August 2006. Total 3-year cost of the program is USD 70 million, of which Government provides USD 47 million and the MDTF USD 23 million. The initial Grant Agreement for USD 6 million was signed on 29 October 2006.
- *Education Rehabilitation Project*, the IPP is being developed and is pending approval.
- *Public Service Reform, Decentralization and Capacity Building*, the IPP is being developed and is pending approval. Value of the project is USD 24 million, of which the MDTF-N will contribute USD 8 million. The 2006 GoNU budget has allocated USD 6 million for capacity building.
- *Integrated Local Level Recovery & Development*, the IPP is being developed and is pending approval.
- Finally, the Monitoring Agent had been contracted as of April 2006, and has received the first payment.

Financial Status of the MDTF-SS

39. As of 30 September 2006, USD 39.68 million of MDTF-SS funds had been disbursed, and of this amount USD 28 million was to UN agencies. MDTF-SS funds were matched by a disbursement from the GoSS of USD 42.1 million. The principle of a 2:1 matching rate, therefore, is not currently being respected due to the WFP disbursement, which was totally from the MDTF-SS. GoSS and Secretariat informants stated that the transfer of oil revenues from the national government was significantly less than expected, and the matching rate might have to be reviewed. It was agreed however that the co-financing ratio (calculated on the basis of commitments) would be treated flexibly to accommodate changes in government budget availabilities.

40. Disbursement figures lag behind other program indicators, but show progress:
    - Seven grant agreements were signed and effective, with an allocation of USD 276 million (USD 106 million from the MDTF-SS and USD 169.9 million of GoSS matching funds).
    - Seven projects were in preparation, with all expected to clear the approval process before the end of 2006 or the first quarter of 2007. Implementation of these projects can reasonably be expected to begin over the next year.
    - The value of MDTF-SS allocations to projects approved or pending approval was USD 144 million, including World Bank administration costs. This accounts for approximately 85 percent of total resources available to the MDTF-SS at present.
    - Donors have not replenished funds, pending further disbursement of existing funds.
41. The MDTF-SS portfolio includes an emergency project and other projects supporting public sector management, infrastructure projects or the delivery of sector-based public services. All have a capacity development element and are designed to be implemented through the GoSS. As such, implementation depends on GoSS technical capacity and systems for financial and program management, and procurement. Approved projects include:
    - *Rapid Impact Emergency* project for drugs and text books. The IPP was approved on 14 September 2005 with final approval on 24 November 2005. Grant Agreement was signed and effective the same day, on 24 November 2005. From the total MDTF-SS allocation of USD 20 million, USD 10.1 million had been disbursed by 30 September 2006.
    - *Core Fiduciary Project*, The IPP was approved on 14 September 2005 with the final approval on 12 November 2005. The Grant Agreement was signed on 21 February 2006 for USD 6 million, of which USD 3 million is the MDTF contribution. The project became effective on September 6, 2006.
    - *Sudan Emergency Transport and Infrastructure*, The IPP was approved on 14 September 2005 with final approval on November 12, 2005. The Grant Agreement signed 20 December 2005 for USD 150 million for Phase One, of which USD 50 million is the MDTF-SS contribution. The Grant Agreement was later split into two, the second signed on August 2, 2006 with WFP for USD 30.1 million and effective immediately. Project was declared effective on 25 August 2006, after several withdrawals, delays resulting from inconsistencies over bidding procedures and protracted negotiations between the World Bank and the World Food Programme on the agreement's fraud and corruption clause.
    - *Southern Sudan Umbrella Health Program*, The IPP was approved on 11 October 2005 with final approval on 21 February 2006. The Grant Agreement of USD 225 million was signed on 23 March 2006. The total cost for Phase One is USD 60 million, of which USD 20 million is the MDTF-SS contribution. The project became effective on 28 July 2006.

- *Multi-donor Education Rehabilitation Project,* The IPP was approved on 11 October 2005 with final approval on 21 February 2006. The Grant Agreement of USD 153 million signed on 30 March 2006. The total cost for Phase One is USD 23.1 million, of which USD 7.7 million is the MDTF-SS contribution. The project became effective on 27 July 2006.
- *Census Project*, The IPP was approved on 11 October 2005 with final approval on 26 February 2006. The total cost of the project is USD 73.7 million. The MDTF-SS will contribute USD 13.3 million and the MDTF-NS will contribute USD 20 million. In addition, the National Government will provide the balance of USD 40 million for required GOS/GoSS contribution. The Grant Agreement of USD 4 million was signed on 14 June 2006 with an additional grant amount of USD 1.3 million signed on 31 August 2006. The project became effective on 31 July 2006.

42. The seven projects in the approval process at the time of this mission's visit were:

- *Water Supply and Sanitation*: The IPP was approved on 11 October 2005 and the FPP was presented to the Oversight Committee on 1 September 2006. The total cost of the project is USD 86.1 million with the MDTF-SS providing USD 28.7 million. The initial grant agreement of USD 30 million was signed on 27 October 2006, with USD 15 million contribution form MDTF-SS.
- *Capacity to the Ten States*, with support from the UNDP. The Initial Project Proposal (IPP) is being revised for presentation to the Oversight Committee in December 2006.
- *Capacity Building, Institutional and Human Resource Development*: The IPP was approved by the OC on 21 February 2006 and the Final Project Proposal (FPP) was approved on 7 November 2006. The total cost of the project is USD 13.7 million with MDTF-SS contribution of USD 8.2 million. Grant Agreement to be signed soon.
- *Rule of Law, Police and Prisons*, in coordination with the UNDP. The IPP was approved by the Oversight Committee on 11 October 2006 and the FPP was approved on 7 November 2006. The total project cost is USD 45 million with the contribution of the MDTF-SS of USD 15 million. Grant Agreement to be signed soon.
- *Livestock and Fisheries Project Development*, The IPP was approved on 11 October 2205 and the FPP was approved on 7 November 2006. The total project cost is USD 42 million with MDTF contribution of USD 20 million. Grant Agreement to be signed soon.
- *Capacity Development to Agriculture and Forestry Development*, FPP being finalized for presentation to the oversight Committee in December 2006 or January 2007.
- *Private Sector Development*, IPP conditionally approved by Oversight Committee on 1 September 2006. The IPP was approved by the Standing Committee of the OC in October 2006. The total project cost is USD 14.8 million with MDTF-SS contribution expected to be USD 10.4 million. The FPP

is being prepared and expected to be presented to OC for final approval in January 2007.

43. Project development is moving into an implementation phase, one year and seven months after the creation of the Sudan MDTFs were decided in Oslo and one year after the MDTF-SS became operational ("operational" here includes the time lapse for the GoSS and GoNU cabinets to be established - see timetable). The average time from inception, to approval of the IPP, approval of the FPP and meeting the conditions of effectiveness and disbursement appears to be a year to 18 months, with the exception of the *Rapid Impact Emergency Project*.[17] This figure is an estimate, as many projects are not yet disbursing. Meeting conditions of effectiveness before disbursement has resulted in additional delays. Informants were not aware that the conditions existed, and considered their addition after approval by the Oversight Committee a surprise.

Constraints to Implementation I: Government of National Unity

44. A key issue at the national level is the commitment of the NCP to the peace process. The party's slow progress in fulfilling its obligations to the CPA is generating political frictions, and especially when its option for a military rather than diplomatic option in Darfur is becoming more evident. This in turn implicates the attainment of formally stated expectations for the MDTF-N.

45. Regardless of its commitment, GoNU has limited capacity. Working on-budget and with a capacity development approach ties MDTF implementation to the effectiveness of GoNU systems. Informants noted that project development was hindered when the GoNU:

    - Did not have pre-requisites in place for project development and management: systems, procedures, human resources, knowledge. Establishing prerequisites included learning about Bank procedures by the GoNU bureaucracy;
    - Seemed to not be interested in moving projects through their own development process;
    - Perceive that funding flowing through the MDTF-SS is seen as relatively small in relation to its own budget;
    - Experienced infighting, either between reformist and traditional elements, or different ministries seeking to enhance their own position.

[17] The average time from inception, to approval of the IPP, approval of the FPP is shorter. For example, the IPPs for MDTF-SS Health and Education Projects were approved on Oct 11, 2005 and effective July 27 and 28, 2006 respectively first deposits made into Project Accounts on Aug 25 & 28th. For the WFP project, the IPP was approved on Sept 14, 2005 and effective August 2, 2006; the WFP disbursement request took two months to be sent by WFP, so the WB disbursed only after receiving the request in October - one week after received.

Constraints to Implementation II: GoSS Capacity

46. The pace of implementation has been affected by low government capacity since MDTF-SS projects are delivered through the public sector. The GoSS was only formed in October 2005, and faces major challenges. Under-Secretaries and Directors were confirmed in their posts only in July 2006, with few civil service appointments below the Director level so far. Decision making authorities within GoSS were and somewhat remain undefined and unclear, and delays in implementation of government structures has led to major difficulties in identifying appropriate government counterparts and organizational structures for project preparation and implementation. Training and support in World Bank procedures and project management have been required.

47. Government systems are rudimentary and the physical infrastructure is basic. The payroll system, for example, was not effective as of the summer of 2006, resulting in irregular or non-payment of salaries to officials on the government side of MDTF-SS projects. The payment of salaries was identified as a concern in the first meetings of the Oversight Committee. Systems get weaker moving from Juba out to the ten states where much of the work is to be implemented. Considerable effort has also been required to establish program, financial management, and procurement systems that are required for implementation. Establishing these systems are part of meeting the Bank's procedures, but more fundamentally as part of the MDTF-SS capacity building program.

48. The GoSS political leadership is still being consolidated, and has been fairly slow to define policy or priorities and make decisions. Leadership was clearly affected by the death of Dr John Garang in 2005. Some of the experienced leadership has moved to Khartoum to participate in the Government of National Unity, leaving further capacity gaps in the South. It is important to note that GoSS is still in transition from being a war-situation military force to a peace-era political entity. The concepts and values of governance are still being defined.

49. The JAM process outlined reconstruction needs, but did not provide direction on priorities and sequencing. In this regard, the report was not an operational document but rather an overview of needs. All things were given equal weight, which made a program response difficult. A policy gap, therefore, existed between defining reconstruction needs and presentation of a first development strategy.

50. Government systems are gradually improving, however. The GoSS recently reaffirmed its commitment to using World Bank procedures as its own standard for financial management and procurement, eliminating uncertainty in these areas. GoSS participation and ownership in the OC mechanism, which was relatively fragile at the outset, is now much stronger. Furthermore, the most recent OC meetings show an incremental involvement and ownership of the GoSS ministries and agencies involved in the MDTF. Most importantly, a development strategy issuing from a process of government-led planning and budgeting through the Budget Sector Planning Process 2007-9, has since June 2006 created an emerging framework for government-donor co-ordination in ten

sectors (broadly aligned to the JAM structure, but clustered around the functions of government). President Salva Kiir outlined this development strategy in his speech to Parliament on 6 September 2006. This has culminated in November 2006 in the presentation by MoFEP of a donor mapping exercise, which is to be used as a next step to identify how well key priorities for recovery, reconstruction and development are covered by existing donor.

Constraints to Implementation III: MDTF-N Secretariat

51. The MDTF-N secretariat had difficulties recruiting staff, and appeared seriously understaffed. Staffing was furthermore based heavily on using staff seconded from other organizations. They had received limited training in Bank systems and procedures. Additionally, it took the Bank six months to bring in and regularize the position of seconded staff. One year into operations (April 2006), the situation was that:

   - The proposed GoNU secondment to the secretariat staff had not been recruited;
   - Two donor commitments to provide secondments had not been filled (filled December 2005 and August 2006);
   - A UN secondment on gender was pending. It was noted that the OC later decided that UNIFEM would provide this support and instead of a gender position within the Secretariat;
   - Discussion on recruitment or secondment for a position focusing on the "Three Areas" was ongoing (filled August 2006);
   - The World Bank was still recruiting internally for a financial management specialist (filled October 2006).

52. By the time of this mission's visit in July 2006, the situation had improved somewhat. The personnel in place appeared competent, with country knowledge and experience working in post-conflict field missions. However, only the Country Manager was World Bank staff. Two of the three core staff were secondments from the UN system and donors. However, Bank staff noted that the Bank has four senior sector specialists (i.e., rural, private sector, economist, human development) based within the Region who make frequent visits to support both the MDTFs.

53. The reliance on seconded staff slowed the processing of projects. This was not only a matter of not being familiar with the Bank's project development and approval processes, but knowing where in the system to look for information and support. Much of the burden for working with the World Bank system then fell to the Country Manager, as the only experienced World Bank staffer in the field. His workload appeared unrealistic as a result, especially during the first six months when his responsibilities were divided between Sudan and Ethiopia.

54. Bank Task Team Leaders (TTLs) and procurement officers assigned to work with the MDTFs were posted outside the country. Bank presence on the ground was hence thin at a time when the MDTFs needed to get procedures, instruments and

strategies in place, and to have sufficient capacity to meet its commitment to assist the partner governments build *their* capacities.

55. Secretariat staff noted that there is no single unit in Washington that brings MDTF experience and skills together. Few people in the Bank system have worked with such issues or have relevant field operation experience, and it is difficult in particular for field staff coming from outside the Bank system to identify them. Rather, MDTFs gets mixed in with other operations, and local staff experienced that post-conflict trust funds were given low priority compared to other programs. In this context:
    - There appeared to be limited cumulative institutional learning, so few lessons learned elsewhere were used during the MDTF start-up phase in Sudan.
    - Lessons learned and tools from other operations are not easily available.
    - The policy framework for making decisions/priorities was not always clear to Secretariat personnel, and clarification was difficult to get from Washington or Addis Ababa.
56. Since most Bank decision-makers are based outside Khartoum, this placed limits on the secretariat's ability to participate in dialogue and resolve problems on a day to day basis. Referring decisions to World Bank offices in Addis Ababa or Washington led to delays. The secretariat's inability to act quickly, even on small decisions, also weakened its credibility with the donors and the GoNU. GoSS informants also perceived this as a lack of commitment to the MDTF-SS, and a constraint on communications and establishing a relationship. They were also aware of the limited decision-making authority placed in the Juba Secretariat.
57. The secretariat only recently recruited a Communications Officer, had its communications strategy approved and launched its website in April 2006, at www.mdtfsudan.org. Material on the site is dated, and not up the same standard as other MDTF sites, such as in Iraq and Indonesia. Secretariat staff feel this has been a serious gap, and that the absence of a communications officer during the MDTF-N inception phase contributed to frustrations and misunderstandings among stakeholders.

Constraints to Implementation IV: MDTF-SS Secretariat

58. The MDTF-SS secretariat in Juba lacked important infrastructure and staffing during the start-up phase. These limitations have contributed to slow implementation downstream. The secretariat staff are seen as competent and dedicated, and most had previous field experience, and understood the dynamics of working in post-conflict situations. Regardless, the Juba-based secretariat personnel were over-stretched. They lacked both numbers, and the some of the basic staff and skills required for operations.
59. In the challenging start-up phase, the secretariat did not have:
    - A resident manager to oversee activities on a daily basis, and to engage stakeholders at the political level. Juba-based personnel did not have the

decision-making authority to meet these requirements or respond to situations in real time.

- Access to government personnel with whom to engage. Government decision making authority was often either absent or unclear.
- A communications officer to manage the flow and presentation of information to stakeholders, address inaccurate perceptions or to feed back assessments of these perceptions into the system.
- A website, where information on fund operations could be posted.
- Sufficient capacity to respond to the higher than anticipated capacity development and support requirements of the GoSS.
- Adequate IT and communications infrastructure. The Office of Foreign Assets Controls' (OFAC) restrictions in this field did not allow for the shipment of necessary equipment, which hindered communications.

60. Living and working conditions in Juba are rudimentary. Secretariat personnel resided in a tent compound, and worked from portable office containers. These conditions were shared with UN and other international personnel. Human Resource policies did not address their circumstances, particularly as these relate to leave and benefits for hardship posting. While UN personnel were given leave every six weeks, Bank employees did not receive these kinds of hardship station benefits.

61. Since July 2006, the World Bank has taken steps to address these issues:

- The World Bank will increase its Juba-based staff. A Program Manager was scheduled to be in place by the end of October 2006 to oversee operations. These responsibilities are currently held in Nairobi. Seven positions are projected to be filled in November, adding capacity in the areas of communications, financial management and procurement.
- The contractual conditions for Bank-hired staff have improved as of July 2006, including better leave benefits that are commensurate with UN and bilateral agencies. While these currently are specific to conditions in Juba, they have become part of a larger discussion of the Bank’s personnel policies for work in fragile states.
- A lease for office space and housing was signed, with renovations to begin in August 2006. However, personnel were projected to work in the rather difficult conditions for some months more.
- The required OFAC license was granted in July 2006, so the IT equipment could be shipped.

Constraints to Implementation V: World Bank and the UN Contractual Relations

62. The Bank-administered trust fund concept provided for the UN system to be a major implementer, particularly for rapid impact initiatives, due to the long-standing presence of UN agencies in the country. Once requested by Government partners, UN agencies would be involved in implementation of MDTF programs

under the following modalities: (i) implementation through government agencies under a Grants Agreement (GA) between the World Bank and the government, with a subsidiary agreement between the government and the UN agency for implementation of a part of the project; (ii) direct implementation by a UN agency when so requested by the government under a GA between the Bank and the implementing agency; (iii) UN agencies contracted as procurement agents directly or through government counterparts. The method of involvement is determined during the appraisal process and is based on competencies and cost effectiveness.

63. The President's Memorandum to the Board (April 2005) stated that UN agencies would be able to use their own financial management and procurement practices. For financial management, the global Financial Management Framework Agreement (FMFA), signed between the World Bank and the UN system in March 2006, provided the legal framework for UN agencies to use their own financial management and audit systems for those UN agencies who became signatories. The Bank's Managing Director provided a waiver in March 2005 for UN agencies to use their own procurement systems.

64. In the meantime, the World Bank's Development Committee began discussions on a new Fraud and Corruption policy with language to strengthen preventive measures, including in procurement. Issues related to fraud and corruption were not foreseen in either the FMFA or the procurement waiver. The Bank and the UN have ongoing dialogue at HQs in this regard as well, trying to achieve commonly agreed language and ways to incorporate them in a manner that does not undermine institutional rules and procedures.

65. However when the time came in early 2006 to draft actual Grant Agreements between the World Bank and the UN (i.e. World Food Programme), the new fraud and corruption rules had been introduced by the World Bank. The main issue regarding the Fraud and Corruption language is related to access to documentation. The UN follows a "Single Project Audit" principle, according to which audit reports from annual audits are made available to pertinent stakeholders[18]. Bank rule requires access to full documentation in case of irregularities in projects occur or when evidence to irregularities exists. Bank requirement to documentation is to comply with its fiduciary responsibilities. In the President's Memorandum to the Board, the Bank assumes full fiduciary responsibility to MDTF grant funds. This means that the Bank must, among other things, exercise financial monitoring of projects throughout. The UN regards that its procedures should be respected since they are as reliable and acceptable to donors as the Bank's. While agreement to this issue was being sought, delays at the corporate level continued to create delays in the field.

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[18] Many UN agencies also carry out an internal audit procedure, but reports from projects' internal audity are restricted to UN personnel.

66. The new contractual terminology resulted in lengthy negotiations between the Sudan teams of the Bank and UN agencies which became protracted and frustrating for all parties. The agreement with the World Food Programme took eight months to negotiate, and was resolved in August 2006 with the signing of another waiver on fraud and corruption language and on the requirement of the UN agency to issue a refund to the NIDTF in the event that fraudulent funds were not recovered.

67. As a result, the potential for collaboration between the Bank and the UN has not been achieved, with a significant and negative impact on project delivery. The February 2006 Progress Report states that efforts were underway to improve the coordination between the two agencies. To clarify the position of the UN in its involvement in the preparation and approval process of MDTF projects, a coordination meeting was held on 12 February 2006 in Khartoum between the World Bank and UN agencies based in Sudan. However, these initiatives do not appear to have produced concrete results. MDTF efficiency has significantly been affected by these lengthy negotiations and implementation of peace dividend further delayed. What was originally foreseen to have been rapid impact initiatives to assist those whose lives has been deeply affected by conflict has become caught in a lengthy negotiation that in the end was about competition for institutional roles.

68. Global negotiations between the UN system and the World Bank were at an impasse in September 2006 when the team consulted with UN and Bank lawyers in New York and Washington involved in the negotiations. The proposal being examined was that the World Bank would use the WFP agreement as a template for agreements with other UN agencies in Sudan, with the understanding that it was a special situation and did not create a precedent within the global negotiation process. This proposal was being discussed considering the impact for the UN of the WFP agreement on UN-Bank partnership. The World Bank and UN finally agreed on 9 November 2006 on the interim arrangement for Sudan, based on the WFP waiver on fraud and corruption language, and holding to the understanding that the agreement does not create a precedent within the global negotiation.

69. These negotiations notwithstanding, some UN agencies have been actively involved in the implementation of four projects in the MDTF-SS (for which USD 28 million has been disbursed to UN agencies) and two projects at the national level (USD 10 million disbursed).

Managing Expectations and Perceptions

70. One of the major challenges that the MDTFs have had to face, is the high and wide-ranging expectations that key stakeholder groups hold with regards to what the MDTFs are going to deliver, and how fast.

71. GoSS and a number of donors and UN agencies believed that the MDTF-SS would be a key mechanism to meet the requirements of early recovery, creating a rapid and visible impact while doing initial capacity building of GoSS Ministries.

These expectations were held regardless of the fact that only a small percentage of total aid to South Sudan flows through the MDTF-SS.

72. These expectations were reinforced by promises made in President Salva Kiir's 2006 budget speech, which increased pressure on both the government and the MDTF-SS to deliver.

73. Statements from World Bank management also left donors and others with the clear impression that the MDTF-SS could accomplish these tasks. Some World Bank staff have admitted that they also thought speedy implementation of MDTF-SS activities would be feasible. This was based on three assumptions held by the country team. The first was that the GoSS would be established quickly, with ministers nominated, bureaucrats hired and their mandates and terms of references prepared and approved. The second was that it was thought the Bank's Operational Policy OP 8.50, "Emergency Recovery Assistance", could provide them with the needed flexibility to speed up procedures. The third was that quick recovery activities would be prepared and implemented by UN agencies.

74. Against the backdrop of high expectations, there is a strong perception among many stakeholders that implementation has been slow. Some have concluded that the MDTF-SS is not and will not deliver on the expected peace dividend. The security situation in Juba significantly improved after the CPA, although more recently the security situation has deteriorated and remains tenuous making implementation outside Juba more challenging. The opening of roads has increased trade and commerce, within the South Sudan region and with neighboring countries. There has not been a surge in common crime, despite high unemployment and the easy availability of small arms. However, there is little physical evidence of development activity in Juba resulting from the CPA. The mission saw little construction, road repair or similar activity that can be visibly seen by the population. This, however, speaks to the entire recovery effort and not just the MDTF-SS.

75. Perceptions crystallized when UN Secretary-General Kofi Annan reported to the UN Security Council that "the World Bank structure and administration of trust funds have proved ill-suited to meet immediate post-conflict requirements (S/2006/728 para 53)." Annan's statement was preceded by public criticism from several high level GoSS officials of the MDTF-SS's performance.

76. Civil society organizations are critical of a general lack of progress. They note growing popular discontent with the CPA and the GoSS, fearing that it could translate into social unrest. Frustration focused on the lack of basic infrastructure (roads, water and sanitation), public services (health and education) and food security. The MDTF-SS was not named specially as being responsible for slow delivery. Rather, fault was directed at the GoSS and the international community in general.

77. GoSS informants stated they expected the MDTF would help them achieve a rapid and visible impact, to consolidate both the peace process and its political position with the GoSS's own political constituency. A secondary objective was

described as achieving legitimacy with the international community and strengthening the GoSS's position in relation to the GoNU. The MDTF-SS was a first point of engagement, to build confidence and relationships over time. Informants also focused on resource mobilization, service delivery and building systems for public finance management. The MDTF was to allow the GoSS to shift some of the burden for implementation of the CPA on these matters to the international community.

78. Against these expectations, GoSS informants expressed frustration with the MDTF-SS. Among the criticisms:

- Project development and approval is slow and comes across as being confusing. It demands a lot of administration. The GoSS does not have the experience to understand MDTF-SS procedures, or the systems (financial administration and procurement), nor the human resources to manage them.
- A high share of the limited GoSS human capacity is therefore tied up addressing MDTF-SS processes and issues. The claim was made that this made it difficult for GoSS to have their staff work more on other initiatives that are moving faster[19].
- GoSS officials noticed that the MDTF-SS procedures are not transparent. The process and requirements for approval, conditions of effectiveness and disbursement were not clearly stated at the outset. Officials experience "surprises" with each new step.
- Officials further expressed that the MDTF-SS has not provided adequate capacity and training to Ministries to help them understand and respond to MDTF procedures.
- Bank procedures had not been adjusted to take account of the reality on the ground. There were few if any local firms that could fulfill the formal requirements for tendering, for example, so Bank-funded contracts would not go to local businesses, meaning that the local private sector would not have a chance to develop and compete.
- Government officials regard the secretariat presence in Juba weak, both in terms of the number of staff and their ability to make decisions on the ground. MDTF-SS managers are based in Addis, Nairobi and Washington, making occasional visits to Juba [The MDTF-SS Manager commutes to Juba Monday thru Friday]. GoSS informants interpret the weak field presence as a lack of commitment. They did not believe the non-resident World Bank officials had adequate local knowledge, or that it was possible to build a working relationship at a distance.

[19] It should be noted that the limited information available to the mission at that time was that most processes were in fact quite slow, so it was not clear what these other activities might have been. But the real point is that senior officials felt they were not able to manage their staff time as they wanted, since they had to spend so much time addressing MDTF-SS requirements.

- GoSS officials often did not understand fully the Bank's role as administrator, or the role of the donors in MDTF-SS decision making. They would therefore equate the MDTF-SS with the World Bank, and the Bank therefore became the focal point for frustration.

79. For the GoSS, slow MDTF-SS delivery was perceived as translating into political risk. Informants stated that key development objectives, programs and resources were tied to the MDTF-SS. Slow delivery meant the GoSS could not respond adequately to the needs or expectations of its political constituency, or the general population. Discontent was calling the credibility of both the GoSS and the peace process into question.

80. Donors, UN and other stakeholder were concerned about slow implementation, but also the Bank's performance as administrator. Perceptions about MDTF implementation and Bank's role were as follows:

    - The MDTF-SS can deliver sectoral programs over the medium term, based on what is now in the pipeline. The quality of these proposals appears good and will contribute to GoSS capacity. However, benefits will not begin flowing for a year or more.
    - The World Bank's procedures are perceived as cumbersome and unable to deliver within the expected time frame (see next section). The MDTF-SS therefore may simply not be able to deliver what it promised.
    - Some stakeholders regard that the World Bank wanted to move into Sudan for long-term strategic reasons. These informants perceive that the Bank used the MDTFs to establish a presence, but did not have the mechanism or capacity to actually deliver. The motivation, according to them, was wrong and not supported by capacity.
    - Some stakeholders are concerned that the Bank is using its position as administrator of the MDTF-SS to influence GoSS policy, overstepping its technical role.
    - Procedures are perceived as time-consuming and complex and no attempt has been made to adjust them to the reality of GoSS capacity. There is an endless cycle of discussion between Khartoum, Washington and Nairobi, with the Juba Secretariat simply being on the receiving end.
    - Stakeholders expressed been uneasy with the Juba secretariat not having enough resident field staff. Basing staff in Khartoum, Nairobi, Addis or elsewhere is not effective. Juba requires a hands-on presence, given the weakness of the GoSS and the dynamics of Southern politics. It must have more authority to make decisions to be credible and respond in real time.
    - Public expectations have not been met and there is concern about the potential for unrest.

81. Expectations among stakeholders regarding the MDTF-SS were also influenced by the rapid turn-over in staff within the donor and UN agencies. Many of the staff who had been involved in the early stages of the JAM, for example, were

substituted with staff who came from head office and hence did not have the history of the process and the earlier discussions and explanations that had taken place. Some came with own ideas of how quickly things ought to move, or with knowledge of the discussions that were taking place back at HQs regarding pressures to deliver.

82. A number of UN agencies had not participated directly on the JAM, but had hired consultants to represent them. Since the consultants were now gone, these UN offices had limited knowledge about the discussions that had taken place. A number of expatriate representatives in Juba met by this mission clearly were not very familiar with the objectives and principles of the MDTF.

83. Some in the NGO community were led to believe that the MDTF could represent a window to donor funding, as several donors had discussed this as potentially a valuable part of the Funds. This possibility was looked into, but has not yet been implemented, although there is significant NGO involvement in several government-executed projects (e.g. social service delivery, livestock). Donors by and large continued funding NGOs directly instead. But the notion that such a mechanism could or should have been part of the MDTF fueled the perception of the Fund as not delivering as expected.

84. Confronted by growing discontent, the MDTFs did not have an expectation management or communications strategy. Rather, statements from the Country Director reinforced high expectations. The result when those expectations were not met was growing frustration, which left some in the donor community and the GoSS questioning the Bank's commitment to the Fund.

85. A more decisive Bank response has recently begun to emerge. High level discussions have taken place between the World Bank and the donors, UN and the GoNU and GoSS. These include a meeting between the President of the World Bank and the President of South Sudan in July 2006, where both parties reconfirmed their commitment to the MDTF-SS and agreed to remove obstacles to implementation. As a follow up, the World Bank's Vice President for the Africa region, for the first time, visited Khartoum and Juba in August to meet with senior GoSS government officials. Bank documents now make clear that regional management attention will be increased.

Role of the Donors

86. During the establishment of the MDTFs and its early operational phase, many donor agencies were establishing new or re-opening old offices in Khartoum. In the South, the donors themselves had limited capacity. Previously, most donor representatives were based in Khartoum or Nairobi, only visiting Juba. Later several donors established offices in Juba, where the Netherlands, UK, Sweden, Denmark, and Norway established a joint office in Juba in April 2006 – the Joint Donor Team. The Head of the Joint Donor Team is the Co-Chair of the OC, representing the five joint donor countries and the MDTF-N is currently co-chaired by the Netherlands.

87. Negotiations leading to and establishing the MDTFs were mostly led by staff from donor head offices. Many donor agencies changed staff during the establishment of the MDTFs, generating a gap of institutional memory of the negotiation process and of the mechanisms themselves. Overall, donor capacity for oversight and support to the MDTF-SS has grown, as has leadership and donor participation in OC meetings and in decision making processes. At the level of the OC, the Joint Donor Team has used its Co-Chair function to underpin a determined effort to strengthen participation, as well as to get coherence in the policy positions of the donors, on matters ranging from the overall broad policy issues, to the specifics of sectoral programmes.

88. GoSS participation and ownership in the OC mechanism, which was relatively fragile at the outset, is now much stronger. The Joint Donor Team and other donors such as the EC have also worked hard to help troubleshoot problems at the local level – e.g. blockages within specific programmes, identifying capacity problems in specific ministries, and helping inter-agency working (within government, between GoSS and others). The Joint Donor Team mechanism, with the five countries working together, has also been helpful in raising issues to the level of the capitals leading to joint high-level lobbying (e.g. on the UN-WB agreements issue).

89. Nonetheless, at the inception phase the donor community ought to have played a more constructive role with regards to the two Sudan MDTFs:

- They sit on the decision making bodies of both Funds, and therefore could have provided policy analyses, proposals and even decisions when it became clear that performance was unsatisfactory;
- Some donors promised staff resources to the MDTFs which in several cases did not materialize as promised. This has undermined the capacity of the secretariats to function as expected.

90. Donors have also been distracted by the conflict in Darfur, which has taken much of their energy and resources. The situation in Darfur has also led to renewed tensions between the international community and government. While an effort has been made to compartmentalize the conflicts and their resolution, deteriorating relations around Darfur affect the north-south agreement.

91. A number of donors have voiced quite strong criticism of the Bank, including receiving insufficient and sometimes inaccurate information from the Bank about implementation road blocks, what has limited donors' ability to assist in problem resolutions. Some donors, for example, have noted that they were informed by Bank officials that contractual issues between the Bank and the UN had been resolved when it had not. Their ability to intervene was thus restricted.

92. Some criticism, however, are unwarranted:

- There is a disconnect between the donors accepting the Bank as the Administrator of the MDTFs, while at the same time expecting the Bank to provide fast-disbursing and flexibly-implemented rapid-impact projects. The donors have a good understanding and knowledge of how the Bank dispenses its fiduciary obligations, since it is the donors, sitting as Directors on the Board, who have promulgated these rules and regulations. The Board expects Bank management ensures staff follow these;

- While donors provide the financing for the MDTFs, most donor funds flow on the outside of the MDTFs. Only for a few donors do the MDTF funds represent the largest share of their assistance to Sudan. The information indicates that the MDTFs are not performing much different from other large-scale project funds, so the performance expectations should be based on reasonable comparisons to donor performance elsewhere.

93. Once donor capacity has increased locally, donors need to further reconsider among themselves their own communication strategies as well as sharing of their insights in MDTF project planning, implementation and monitoring in a way that strengthen the Bank's role as Administrator and government and their partners as implementers while avoiding micromanagement.

Civil Society

94. There was no civil society participation at the decision-making level of the MDTF-N prior to April 2006. Community organizations were participating in implementation at the local and state levels. Several donor and Secretariat informants stated they believed these organizations were chosen by government and aligned with the NCP, making the allegation that community work was strengthening NCP structures in advance of the 2009 elections. It was not possible to confirm the allegation other than to note that:

- Projects are designed to be implemented by government. During the process, government has every opportunity to choose which non-state actors it will work with.
- The project review focus is largely technical, and does not fully consider political or conflict impact dimensions. The review, therefore, does not appear to include checks on the possibility for this kind of abuse.

95. Civil society organizations in the South have also participation in decision-making level, and addressed in paragraph 137-9 below.

Findings and Conclusions

96. The overall performance of the MDTF-SS is perceived by stakeholders as unsatisfactory. There was particular concern from government and the donor community that disbursement rates were too slow, and Bank procedure too heavy or inappropriate for such a low capacity environment. There was a consensus that the MDTF-SS had not delivered a "peace divided", which is support by the project data. However, at the end of 2006 numerous measures to improved performance and increase disbursement were taken by the Bank, donors and GoSS.

97. The overall performance of the MDTF-N was perceived by stakeholders as satisfactory. Donor and GoNU informants shared concerns about low disbursement rates and heavy Bank procedures, the data on which is consistent

with the MDTF-SS. However, there were lower expectations of what the MDTF-N would deliver, particularly given mixed political will on the part of the GoNU. Also, there was less public pressure for delivery of a peace dividend at the national level than in the South.

98. The MDTFs were quickly set up in terms of getting agreements with donors in place and establishing relations with government and donors. MDTF-N disbursements a year into the program represent 30 percent of funds committed to projects (USD 12 million out of USD 40 million), and the situation of the MDTF-SS is better at 38 percent (USD 28 million out of USD 106 committed. Both see increases in disbursements during the second half of 2006 and acceleration in 2007, but many projects will not deliver results during the JAM's Phase One period of 2005-2007.

99. The MDTFs have not met expectations for rapid and visible impact. There was a consensus among informants that senior Bank management oversold the Funds' ability in this regard. Given the Funds' policy to work on-budget, build capacity and mitigate fiduciary risk, it was not realistic to expect short-term results. Both funds should instead be seen as recovery and development mechanisms designed to work over the medium-term.

100. Bank project development procedures were tied to implementation through the public sector. Failure to reach a global agreement with the UN meant that the two MDTFs did not have full access to the UN's program capacity, including ability to implement directly. The consequences were significant and negative in South Sudan, where there was a greater expectation for rapid delivery.

101. The Bank's general performance on secretariat staffing has been unsatisfactory. Rather than providing a strong staff profile to support the inception phase, the two MDTF secretariats appeared to be understaffed and reliant on secondments from the UN or donors. The secretariats were given limited decision-making authority and access to lessons learned and tools from other MDTFs. MDTF staffing has increased in the end of 2006.

102. As Administrator, therefore, the Bank did not respond adequately to the requirements of working in the Sudan context, and did not make the appropriate up-front investments, particularly in human resources. Reliance on seconded staff for the secretariat, and difficulty recruiting within the Bank system, made MDTF project processing slow and cumbersome. Communications and expectations management have been poor.

103. MDTF decision makers are the OCs, whose members are based in Sudan. But MDTF decision-makers within the Bank were based outside Sudan. The secretariats thus had limited authority to address MDTF issues and find the best solutions based on their knowledge of the situation on the ground.

104. The MDTFs channel only a small share of total aid flows, but are the most visible mechanism for donor coordination and collective dialogue with government. In the South, a framework for government-donors coordination and planning is emerging through the Budget Sector Planning Process 2007-9.

105. The possible *political* consequences of slow delivery of the MDTFs and the Bank's failure to meet or manage expectations is something that the Bank and the donors need to assess, since failure to deliver will typically weaken those internal stakeholders that were in favor of the Funds, and who may now be accused of trusting and relying too much on external support.

106. The MDTF-SS's focus on capacity development coupled with projects being on-budget has caused very slow implementation. Relying on public sector capacity to build further capacity has been a serious bottleneck, and one that was easy to foresee. Steps should have been taken to compensate for this. Although it was foreseen the need for including project execution by UN agencies in areas where government capacities were limited, this need was not translated into the MDTF design (e.g. Partner Agency).

F.4 Institutional Procedures and Challenges

107. Operating procedures for both the Funds were outlined in the President's Memorandum to the Board. They were presented and approved by international stakeholders at the Oslo Donor Conference (April 2005) and by the GoNU and GoSS through national consultations. The Bank's terms and conditions for serving as the Sudan MDTF Administrator were clearly stated and discussed before acceptance. Interviews and documentation do not reveal significant dissent or a request for the Bank to make changes in its procedures.

108. As Administrator of the Sudan MDTFs, the World Bank is guided principally by its Operational Policy (OP) 8.50, "Emergency Recovery Assistance", and OP 14.40, "Trust Funds"**.** This means the World Bank:

- Retains sole fiduciary responsibility. This responsibility can not be shared or exercised jointly. An exception was made for projects implemented by UN agencies, who would be allowed to use their own rules and procedures under the FMFA and provisions of a special procurement waiver. The Bank's fiduciary role responded to Donor and GoSS concerns to mitigate the risk of fraud and corruption in a weak state context.
- All projects are subject to technical appraisal and review according to Bank polices and procedures. Bank standards for procurement, disbursement (conditions of effectiveness) and financial management also apply.
- The Bank has the responsibility to reject or terminate funding to any project where funds were not being used effectively and for their intended purpose.
- Funds are on-budget and flow through government systems.

109. The World Bank recovers administration costs under two categories: (i) an administrative fee to recover the cost of central services provided by the trust fund operations, accounting and other support units. The fee is set at 0.4% of the paid-in deposits and is payable when donor contributions are deposited in the MDTFs; (ii) Actual full cost of other support, which covers eligible expenditures for the following items:

- Operational and administrative costs of the Technical Secretariats[20], including staff salaries and benefits of UN and Government seconded.
- Costs of project analysis, appraisal, and supervision, including: fiduciary and safeguards review and oversight; supervision of the Monitoring Agent; outreach and dissemination activities, and organization of Sudan Consortiums and Oversight /Standing Committee meetings.
- Costs of contracts for the Monitoring Agents and independent review of their performance; costs of MDTF reporting and audits.

110. Procedures for the MDTF administration require that a Monitoring Agent (MA) be contracted for each fund. The MA has responsibility for recommending withdrawal applications, monitoring the procurement of goods, works and services, and monitoring expenditures out of the MDTFs to ensure that funds are disbursed only for the purpose intended and in accordance with acceptable accounting, financial reporting and auditing standards. Both funds have now contracted an MA that are in place and operational. For both the funds, the MA is also providing technical assistance to help build government capacity in the areas of procurement and financial management.

Institutional Challenges

111. As written in Bank documents, embedding the MDTFs in the government budgets has many positive features such as strong government ownership of MDTF-supported programs, greater transparency in the application of both donor resources and government funds allocated to MDTF-supported projects, and an opportunity for development partners to engage in a dialogue on spending priorities with the governments through Public Expenditure Reviews and Poverty Reduction Strategy Papers.

112. The downside is that project implementation can become hostage to the vagaries of government budgets (especially the timely release of funds), the lack of institutional capacity, and bureaucratic inertia, thus slowing down progress.

113. The key issue affecting project development was the ability of GoNU and GoSS systems to work with Bank procedures. Generally, the procedures were poorly understood and neither government had the systems or personnel in place to meet requirements. For example, there was no banking system in Juba, complicating the receipt and management of money. This however was overcome by reliance on bank accounts based in Nairobi with the facilitation of fund transfer by an accounting firm (KPMG). Capacity concerns moved through the entire project cycle, from conducting the technical studies necessary for the IPP, to meeting conditions of effectiveness on project approval (e.g. opening of a

[20] The salaries and benefits of Fund Managers are paid by the World Bank and are not reimbursed from MDTFs. Salaries of support and administrative staff jointly shared by the WB's Country Office and the MDTF-N Technical Secretariat in Khartoum are paid also by the World Bank and are not charged to the MDTF.

project bank account). The evidence of problems is found in low disbursement rates and long project development timelines, at least in the context of rapid impact objectives.

114. Consultation with government on project design was at times seen as insufficient by local stakeholders, due to TTL time constraints and the unavailability of GoSS interlocutors and counterparts during their missions. Concerning project processing, projects are generally prepared by government with support from Bank staff with solid experience in sector policies, but with little experience regarding how to address sector development in a post-conflict or emergency situation.

115. A Project Preparation Facility (PPF) was proposed for each MDTF. This was discussed and approved by the MDTF-N Oversight Committee at its April 2006 meeting, and is now under implementation for both trust funds. The facility's purpose is to reduce delays in project implementation once the FPP had been approved, by helping projects meet the conditions of effectiveness. Satisfying these conditions had emerged as an obstacle to timely disbursement. Such a facility would support project preparation and start-up activities even before the Grants Agreement is signed.

116. The MDTF-N further allocated USD 5 million to the creation of a Technical Assistance Facility (TAF) to assist the GoNU and state governments, with special focus on the "Three Areas". The TAF was mandated to strengthen professional and technical capacities for formulation of policies, programs, and projects derived from the JAM Framework, especially for large infrastructure projects and sector-wide programs. Where UN agencies are the implementing agencies, project start-up costs would continue to be supported by them. The TAF:

- Supported MDTF-N project development
- Served as a pipeline for investment projects in strategic sectors, such as infrastructure, agriculture, and rural development.
- Worked with the preparation and adoption of medium-term sector programs in health, education, transport and rural development.

117. GoNU informants expressed satisfaction with the support received from the World Bank, however. In particular, Secretariat support with training on procurement was singled out. The World Bank provided several workshops given by a senior procurement specialist. There were 55 participants from the states, and the TAF notes an improvement in general performance (little is known by this review team about how this has worked in the South).

Human Resources Challenges

118. The Bank did not have sufficient own staff for the two Secretariats. It was offered seconded personnel from the UN system and donors, which was accepted, rather than the Bank advertising and hiring directly (as it has done in other MDTFs). This approach has the advantage of the Bank accessing experienced donor/UN staff, but also makes it dependent on the hosting

institution actually delivering on the promise, both in terms of time and quality. This was not always the case. The Bank internally also was not able to handle seconded staff quickly.

119. Bank TTLs as well as procurement managers are posted abroad and manage projects in other countries as well. Given the extremely weak capacity of the public and private sectors, especially in South Sudan, insufficient presence on the ground and local knowledge all have contributed to delay in project approval and implementation. A senior procurement specialist has now been selected for posting to Juba.

120. Resolution of the human resource issue is tied to a broader discussion within the World Bank on working in fragile states. A recent internal study noted that the Bank is giving greater priority to fragile-states, a client segment that accounts for almost half of the IDA-eligible countries. However, the Bank's overall field presence does not reflect this priority or existing knowledge of what works in fragile state environments.

121. There are common challenges regarding human resources for both the Sudan MDTF operations:

- MDTF human resource requirements need to be linked with the broader discussion of work in fragile states.
- Increasing the Bank's field presence, including making the necessary human resource and infrastructure investments at the inception of operations. The appropriate level of investment was not made in Sudan, and the Bank as Administrator is reacting to problems after the situation has deteriorated.
- Having a list of personnel that can be deployed to Sudan MDTF-type field operations, or at least provide full-time support from HQ, on short notice.
- Creating incentives to attract top performers to MDTF operations. These include giving MDTF-type operations greater visibility in the Bank's career track and developing pay and benefits packages that reflect difficult field conditions.
- Decentralization of appropriate management authority to field operations
- Appropriate training for seconded and externally recruited staff.

Poor Institutional Memory

122. The Bank has no central institutional capacity where basic program tools or good practice lessons are located. Rather instruments are found in Task Teams and within the various funds. The Sudan MDTFs, therefore, can not easily draw on the Bank's accumulated experience.

123. Among requirements is a basic tool box of standard documents to support MDTF operations. These include partnership agreement templates and operations manuals that can be given to stakeholders. One Secretariat official described the situation: "No one has kept lessons learned that we can draw on.

There is no [operations manual] despite the fact there has been other trust funds. We are doing pioneering work, and have to make it up as we go along. The World Bank has not centralized knowledge or procedures in a way that we can access. It means we end up working piecemeal, and wasting a lot of effort in the process. Of course, this is causing delays and people are complaining that they do not have all the information that they need.”

Bank Procedures

124. Working with weak state systems requires an up-front investment in building and government capacity to manage projects. Both GoSS and GoNU informants expressed difficulty working with World Bank standards, resulting from the lack of experience.

125. Secretariat personnel were required to develop tools during the start up phase, which resulted in delays and confusion with government counterparts:

- An MDTF operations manual was to be completed in June 2006, almost a year after the trust fund became effective which would replace the short project processing manual prepared during startup. One approved project (Community Development Fund) had developed its own operations manual and was training stakeholders on procedures. The project was able to be proactive as the GoNU’s coordinator had previous IFI experience. However, this was an exception.

126. Procurement procedures have not been adjusted to the realities on the ground. Bank eligibility criteria make it impossible for most local businesses to compete for contracts, so the local private sector is not able to compete, with resources instead flowing to businesses in neighboring countries. Responses on international tenders have been insufficient due to the difficulties involved in working in South Sudan: many suppliers simply are not interested because the business environment is too chaotic for outsiders to deal with, though local business people would know how to navigate the difficulties .

127. The possibilities for flexibility in Bank procurement rules, such as a waiver for the standard requirement of receiving at least three bids, have not been used. The thin presence of decision makers on the ground added to country management’s risk averse approach, which has allowed procedural formalities to slow down processes considerably.

128. Senior management at HQ has not made the legal department sensitive to the emergency situation in the country. One result of this is the drawn-out discussion with the World Food Programme on a high-priority emergency project, where the subject matter of fraud and corruption, and the legal obligation to be able to guarantee a possible full refund in cases of fund abuse, leaves local observers wondering where the international community has its priorities and sense of reality (see also paragraph 88). As noted by one local Bank staffer, "Bank procedures and the actual policy environment in Sudan are working against the objectives of the MDTF, and have generated conflict".

Findings and Conclusions

129. Bank project preparation and approval procedures are demanding and take too much time from national authorities. While putting projects on-budget strengthens government ownership, it slows down implementation.

130. Using the Monitoring Agent to build capacity, and using Project Preparatory Facilities and a Technical Assistance Facility in the North, are positive steps taken by the Bank to address the local capacity constraints.

131. The Bank needs to adjust its personnel policies to the need for attracting and retaining highly qualified and experienced technical and managerial staff in post-conflict countries such as Sudan, especially during the difficult and standards-setting initial phase of an MDTF.

132. Institutional memory regarding MDTF experiences is weak and difficult to access from the field. Concerning the establishment of the MDTFs in Sudan, there was a lack of "lessons learned" readily available to Bank staff, but seemingly also not much attempt at applying those lessons that do in fact exist. The two secretariats for example have spent considerable time developing their Operations Manuals, which have taken much too long.

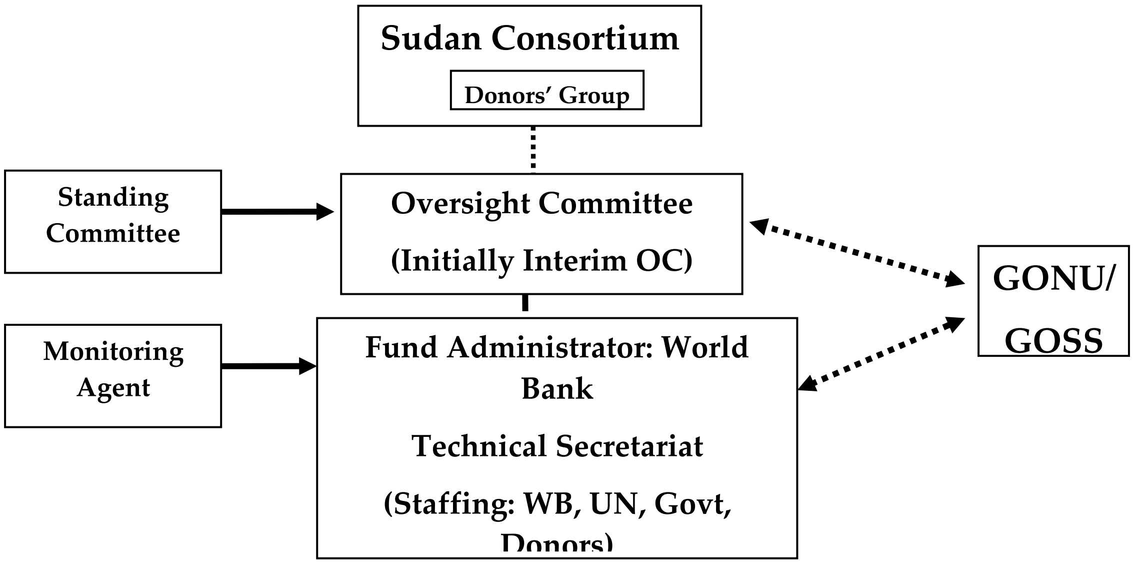
133. Bank procedures during implementation are complex for the post-conflict setting of Sudan and existing flexibilities have not been applied in Sudan. Procurement rules have not been adapted to the realities on the ground, and should be made more flexible to implement activities in post-crisis situations.

134. The Bank has lately taken on board these lessons and begun implementing improvements, but the time taken to respond to what should have been seen as unsatisfactory performance, has been long. The lack of knowledge by the Bank of the actual situation on the ground in Southern Sudan should have made it clear that it needed to recruit appropriate skills early on, and take much greater advantage of Bank staff with experience in emergency operations and other those actors who had a long history there.

F.5 Governance

135. The MDTF-SS and the MDTF-N have a common foundation process, tied to the CPA. Both are governed by a two-tier governance structure comprised of the Sudan Consortium and an Oversight Committee, and with Technical Secretariats that service them. While the two funds work towards common goals, they operate independently of each other. Accordingly, the MDTF-SS and the MDTF-N have parallel governance structures that are similar in design and principle, but which operate independently. A capacity for information sharing and collaboration is built into the structure.

136. The **Sudan Consortium** meets twice on an annual basis. The Consortium is comprised of all donors, GoNU, GoSS and representatives of civil society and the private sector. The Consortium reviews past performance and future priorities of the overall peace process. It is a forum for consultations focusing on social and economic development, as well as for renewing of donor pledges. A key role of the Consortium is to jointly assess, with the respective Government, progress against benchmarks, in particular those developed within the JAM framework.



Graph F. 1: Governance Structure

137. Both the MDTF-N and the MDTF-SS have their own **Oversight Committee**, which exercise responsibility for decision-making and resource allocation. The Committees' responsibilities include:

- Approve proposals for funding, with decisions made on the basis of consensus;
- Set and revise general guidelines for MDTF operations, such as criteria for allocation of funds;
- Decide on a ceiling beneath which allocation responsibility may be delegated to the Technical Secretariat;
- Review decisions in cases where allocation has been delegated to the Technical Secretariat;
- Review results on the ground and discuss major issues emerging from MDTF operations;
- Ensure the integrity, competition, and the equity of allocation of implementation responsibilities to different entities consistent with the overall objectives of the Framework and the MDTF.

138. The Committees comprise representatives of the World Bank, the UN, the two respective governments (GoNU and GoSS) with the other government sitting as observer, the two largest contributing donors, and a rotating representative of other donors. The Oversight Committees have an elected chair and meet on a regular basis (usually monthly), the frequency of which is not established in the foundations documents. Broad participation increases the potential for transparency and confidence building.

139. The World Bank-administered **Technical Secretariats** receive and review project proposals from the two governments, and work with the two

governments to develop the proposals through their various stages. They ensure consistency with the development framework and undertake technical appraisals. The secretariats have also been charged with responsibility for providing capacity support and development to the governments, at a level greater than foreseen in the foundation documents. The secretariats make recommendations to the Oversight Committee regarding approval and allocation of resources.

Governance of MDTF-N

140. The Oversight Committee has met on a regular basis as anticipated. The committee has met on five occasions since the MDTF-N became operational. No concerns were expressed regarding delays in convening meetings. An expanded committee was launched in April 2006 to include representation from the Sudanese national Ngo coalition (SCOVA) and the chair of the international NGO forum.

141. The committee has high-level participation from all stakeholders and the Administrator. GoNU representatives include comes from the Ministerial and Undersecretary level, the donors are represented mainly by heads of mission and the UN system by the Resident Coordinator.

142. Informants and a review of minutes indicate the Oversight Committee is fulfilling its mandate as this regards decision-making on projects, information sharing and stakeholder coordination. Agenda items have included:

- Decision making on various stages of project development, including requests for revisions and re-presentation.
- Substantive discussion on program strategy
- Review and approval of staffing plans, the Technical Secretariat budget and facilities.
- Review of contributions from the GoNU and donors
- Information sharing, including updates on implementation with JAM and GoNU priorities.
- Clarification of rules and procedures, including the project development process and MDTF-N governance.
- Preparation for Sudan Consortium meetings

143. GoNU, donor and Secretariat informants expressed a concern that the committee was not providing broader strategic guidance to the fund. In particular, the committee does not appear to have addressed the slow pace of implementation in a concerted manner. Concerns were raised at the June and September 2005 meetings. However, the minutes of subsequent meetings do not reveal much in the way of follow up and action. The committee, therefore, may have missed an opportunity to improve overall performance.

Governance of MDTF-SS

144. The Interim/Oversight Committee of the MDTF-SS has met 11 times: the first three times were in Khartoum. Since October 2005, all meetings of the MDTF-SS Oversight Committee have been in Juba, with the last meeting occurring in November 2006. Informants stated there have been some delays with convening meetings, but did not indicate that the delays have caused problems with fund operations. There also appeared to be regular communication between the secretariat and the Steering Committee or OC working groups between meetings.

145. The meetings have been chaired by the GoSS Minister of Finance, with a donor co-chair. Participation in the meetings has been mixed in terms of number of participants, recently including wider participation of other stakeholders. The September 2006 meeting was attended by 13 representatives of the GoSS, two observers from the GoNU, six representatives of the donors, five from the secretariat, five from UN agencies and the Monitoring agent. In addition, other donors to Sudan (e.g. USAID), SDC, and the NGO Forum have participated as observers. Representation was at the senior level, with five GoSS ministers in attendance, along with the UN Deputy Resident Coordinator (the Resident Coordinator is located in Khartoum), and the World Bank Country Director for Sudan.

146. A representative of the Government of National Unity has been present at all MDTF-SS Oversight Committee meetings. The one exception was the Committee’s meeting of 03 May 2005.

147. A review of the minutes and informants indicated that the Committee is fulfilling its basic mandate. The Committee is:

- Reviewing the project portfolio, making the relevant decisions and asking for revisions or further information where deemed appropriate.
- Serving as a forum for coordination, exchange of information and ensuring the alignment of MDTF-SS activities with emerging government priorities. Policy dialogue is reported in the minutes, but appears weaker.
- Reviewing the status of donor commitments and deposits, and general donor participation.

148. Donor informants expressed concern that the MDTF-SS secretariat was not managing the preparation of meetings well. Frustrations included the late arrival of documentation and overloaded and unrealistic agendas, although it should be noted that the agendas are finalized by the OC members, and not the Secretariat. Some of these concerns are noted in the September minutes, with action items for improvement.

149. A critique emerging from the interview process was donors and the GoSS have not pushed on clarifying MDTF processes and governance structures. Also, the Committee’s focus has been on technical and administrative issues, rather than on larger strategic concerns. According to one Ambassador, the committee is “not providing guidance at the strategic level or seeking to clarify and streamline processes. This should be their role.”

150. NGOs are invited on a regular basis to send representatives to the Oversight Committee and some do attend meetings. Yet some civil society informants expressed their frustration, having neither the opportunity to participate or access to information and the policy dialogue:

- The Oversight Committee distinguishes between the humanitarian and development assistance roles of NGOs. While agreed the former should be independent, there was a consensus in the Committee that NGO development activities should support government policy.
- The donor community informed the GoSS at the 11 October 2005 meeting that it supported NGO participation in development activities. However, minutes do not confirm their position regarding NGO participation on the Committee. At that same meeting, the GoSS advised the meeting that it was fully open to NGO and civil society participation in the development process. However, the GoSS position on NGO participation on the Oversight Committee itself was not clearly stated.
- Two observer positions for NGOs were approved at the 3 May 2006 meeting, with PACT representing the NGO Forum. The role of civil society representatives, as reflected in the Minutes of the September meeting, is clearly stated as observers, with the same rights of comment as other observers, and no right of decision making which is solely that of the members.

151. Regarding the MDDTF-SS, several informants stated that the UN, the secretariat, and the donors are "often not on the same page" in their relationship with the GoSS. The result was mixed messages and weak political coordination. Part of the issue was identified as weak donor presence in Juba, which has decreased with the opening of the Joint Donor Office. The mission observed several examples of competition between international actors for influence and access to the GoSS, which had a divisive impact. Although the Oversight Committees role or mandate does not extend to overall donor coordination of all donors in the South, it is an important donor coordination mechanism. Non-MDTF donors (e.g. US) have been invited to OC meetings to further coordination, but the competitive environment and effect of this on the MDTF should have been addressed more forcefully by the OC.

152. While donors in the Oversight Committee express their wish for increasing NGO participation, government's intention is yet not clear regarding their role. Both Secretariats have continued outreach to NGOs, an NGO strategy for North and South has been developed and NGOs have been consulted on this for feedback. NGOs participate in the OCs, and there is regular on-going contact with them. The issue is that the MDTF is not necessarily the instrument that meets all NGOs' needs, and therefore when it does not, there is a resultant frustration. Not all NGOs are managing well the transition to a demand driven work environment with a need to respect government ownership (a fundamental principle of the MDTFs). For the NGOs who are managing this transition, the

tension is much less, and they are increasingly participating in programs (as noted above for the social sectors).

Findings and Conclusions

153. The Oversight Committees for both Funds appear to function according to their mandates regarding decision-making on the project portfolio, coordination and information sharing between stakeholders. The tone appears constructive, building trust between the actors.

154. The effectiveness of both Committees is improving. Meeting agendas are more substantive, high-level participation contributes to decision-making and implementation. An important item on the agenda of both committees is the review of Government development priorities and budgets, thus contributing to overall coordination, information sharing and transparency.

155. Both Oversight Committees could exercise stronger political leadership. The governance structures have not been used effectively by stakeholders to address implementation concerns. In this regard, the Committees could have:

- Been more realistic with own assessments of what is probable, given obstacles in the program environment.
- Filled its responsibility for expectations management,
- Acted in a proactive manner to address concerns over Funds operations, particularly regarding slow start-up of disbursements. Committee members understood by late 2005 that there is a gap between expectations and the actual pace of project development and disbursement. However, there was little evidence of discussion of how the gap could be filled.
- Managed relations with the Secretariat in a manner that would diffuse tensions, and focus on solutions.

156. The OCs has since middle 2006 strengthened its guiding role and efforts to troubleshoot implementation problems.

F.6 Harmonization and Coordination

157. On 9-10 March 2006, the first meeting of the Sudan Consortium was held in Paris, organized by the UN, the IMF and the World Bank. The Paris meeting restated the key objectives of the Sudan Consortium, which are framed in terms of increasing both national as well as international funding for development purposes, with a focus on increased transparency of GoNU and GoSS budgets and good governance, and key areas covered in the policy dialogue on economic, structural and institutional reforms.

158. The meeting focused on assessing the implementation progress of the peace accord, including the institutional set-up for monitoring the performance indicators for reform and actions agreed during the JAM, and on future actions. The broad conclusion was that progress is being made in implementation of the CPA, but that commitments on pro-poor development need to be implemented in order to ensure tangible results on the ground.

159. A meeting to discuss the MDTF first progress report was held in Paris on 8 March, the day before the Sudan Consortium meeting. This meeting was organized by the World Bank and attended by all the MDTF-donors, new/potential donors, and the UN represented by the Resident Coordinator. Donors expressed overall satisfaction with the performance of the MDTFs and confirmed their role as a key instrument for donor coordination as the MDTFs have promoted policy dialogue, discussions on the reform agenda and thereby reducing the burden to recipient governments and related transaction costs. It was also recognized that the MDTF is the right instrument for sustainable development in line with government and donor priorities. Moreover, the MDTFs are contributing to a comprehensive sector approach for public investments, especially in South Sudan.

160. Bank documents note that donors expressed the following areas of concern: strategies and pipelines of the MDTFs, speed of implementation, Bank staffing, relation with the UN agencies, and presence in Juba. Decisions were made during the meeting to make progress in all these areas.

161. Sector coordination has been challenging. It has been decided that functional and operational Thematic Groups, where all donors and stakeholders can be involved in coordination of policy and program areas, will be formed. It is also hoped that Thematic Groups can explore solutions to the issues of capacity limitations on the government side. Hopefully, this will not generate a piecemeal approach to capacity development. In the meanwhile, the OC will remain an important forum for coordination. To foster coordination and the use of donor experts, the Technical Secretariats will work at instituting a more systematic system of information about missions' plans well in advance of the mission visits.

162. Other stakeholders have not acted in a coordinated manner to allocate existing resources that might be more flexible against need. The MDTF-SS, therefore, does not appear to be fully effective as a mechanism for coordination on broader issues. However, GoSS leadership of the Budget Sector Planning Process 2007-9, a planning and budgeting process that incorporates all donors as earlier mentioned (paragraph 50), is working towards creating a framework for government-donor co-ordination. This is a strong initiative by GoSS, which need the continued support of the MDTF OC and Secretariat through working closely with MoFEP to ensure convergence of MDTF processes with the government-led planning and budgeting cycle, and to complete the overall prioritisation and mapping of donor assistance.

The World Bank and the UN

163. The UN and the Bank partnered the JAM process, and the UN expected to play a prominent role in the wake of the CPA. There were several roles that it could play: (i) the political conflict-resolving/conflict-reducing role, in particular in Darfur, but also stabilizing peace in the South; (ii) provide emergency relief management and support, at least till the humanitarian needs had been addressed; and (iii) as *the* Fund managers if the national authorities so decided, or as one of the Funds managers if one of several possible models were selected.

164. A UNDP Trust Fund was early on set up for humanitarian and emergency operations, with a foreseen life of six month, to avoid an expected funding gap while the Bank MDTFs were being established. However, the trust fund never took off since donors hesitated in contributing to such a short-lived instrument. Government resistance to an UN-led MDTF, due to UN's mandate and political role in Sudan, created further barriers to donor support.

165. The Capacity Building Trust Fund (CBTF) managed by UNICEF was set up in the South. The CBTF was quickly established to finance administrative costs associated with the establishment of the GoSS such as payment of government salaries, acquisition of space, vehicles, office equipment and supplies.

166. The UN wanted to propose some version of the Iraqi two-fund model, to ensure immediate implementation of fast-disbursing activities, which the UN can executive directly. The selection of the Bank as the only MDTF administrator with no significant formal role for the UN was thus a disappointment to many in the UN system.

167. As above addressed (paragraphs 62-68), the potential for collaboration between the Bank and the UN has been challenged by organizational issues. A number of projects foreseen to be implemented by the UN are delayed due to contractual issues, what has become a serious constraint to implementation. Negotiations have been lengthy and the time lapse has undermined the urgent character of the activities.

168. Contractual problems have just been resolved (9 November 2006). However, UN agencies believe their roles have been curtailed by the way the Funds work:

- UN staff believe their agencies are better placed to manage rapid impact projects, and some of these projects are not happening.
- The UN and World Bank have limited understanding of each other's corporate culture and procedures.
- UN and World Bank systems are not interoperable, a problem complicated by the fact that systems for financial management and procurement are not fully harmonized between UN agencies themselves.
- The ability to overcome some of these obstacles through the FMFA was lost when the Bank introduced its new fraud and corruption policy.

169. Beyond the contractual problems between the UN and the World Bank, relations between UN and Bank staff at the field level appears quite good. Staff support each other and share tasks; the MDTFs both have UN-seconded staff in the Technical Secretariats.

Coordination with Civil Society Organizations

170. Civil society organizations (CSOs) issued a Statement during the Sudan Consortium meeting in Paris, noting that there is much room for improvement in CSOs participation in MDTF activities in Sudan. This is recognized by the Bank. According to the February 2006 Progress report, the MDTF interaction with the

NGO community and the civil society in general has not been adequate, to fully reflect the understandings reached at the Oslo Conference.

171. In recent months, the TSs for both National and South have begun outreach efforts to share information and increase involvement of NGOs in the MDTF proceedings. Furthermore, the Bank has agreed, together with UN agencies, to develop a strategy to increase the involvement of CSOs in the development and implementation of MDTF funded programs. A World Bank consultant has been engaged to prepare this strategy in close collaboration with the UN and NGO representatives. Recently NGOs have been consulted on the strategy. However, the Bank's ability to increase CSOs participation through project implementation depends on government willingness.

172. According to Bank documents and informants as well as members of the OC, NGOs are encouraged to participate in the OC meetings, in the project appraisal process on a consultative basis and attend workshops to develop and finalize projects. However, particularly in the South, NGOs are often located outside of Juba and therefore many are unable to participate in such workshops. NGO involvement is expected to increase once the logistical conditions in Juba become more favorable and more NGOs shift their operations to Juba.

Findings and Conclusions

173. The performance of the Sudan MDTF-N in terms of coordination is seen as satisfactory by donors. There were stronger criticisms of the performance of the MDTF-SS related to coordination. However, these should be understood in the context of a weak donor presence in Juba during the start up phase.

174. For both MDTFs, donor and government informants expressed concerns that it was difficult to get information from the Secretariats.

175. The MDTF has not served as an effective mechanism for coordination with the UN system. The relationship between the World Bank and the UN system has been strained and not achieved its potential for coordination or delivery of services. An improvement in the relationship will depend on resolving the issues surrounding the use of UN agencies as implementing partners. An interim solution to Sudan regarding contractual issues was agreed by the UN and the Bank in November.

176. The MDTF-SS has not served as a mechanism for broader donor coordination with non-MDTF resources. In particular, donors have not used the MDTF governance structure to allocate bilateral resources into gaps created by slow MDTF-SS disbursement. However, GoSS leadership of the Budget Sector Planning Process 2007-9, is working towards creating a framework for government-donor co-ordination, which need continue support from the MDTF Secretariat and donors.

177. Coordination with CSOs suffers from lack of operational relations due to complex rules. These are now being looked into. Civil society organizations have recently been invited to sit as observers to the MDTF-N and MDTF-SS. There has been some reluctance on the part of the GoSS and GoNU in this regard.

F.7 Ownership and Capacity Development

178. Government officials, donors, and Bank staff interviewed as well as Bank documents place particular emphasis on ownership and capacity building. Embedding the MDTFs in the government budgets has aimed at ensuring strong government ownership of MDTF-supported programs.

179. Building public sector capacity is among the guiding principles for funding prioritization in both MDTFs, especially the MDTF-SS. Issues related to capacity building also figure in minutes from MDTF donor meetings. The MDTFs, governments and donors seem to have a firm commitment to government ownership (but a weaker commitment to more broad-based *national* ownership) and the development of public sector capacity in both South and North Sudan. A more holistic approach to and strategy for capacity building is currently being produced.

Capacity Development in Project Approval

180. Capacity development was the common denominator linking all MDTF supported projects. The MDTF-SS took the following steps to ensure GoSS ownership and prioritization:

- The priority framework from the CPA and the JAM has been updated to include GoSS development priorities and strategy, as these emerge.
- All IPPs and FPPs are reviewed by an inter-ministerial Appraisal Committee, appointed by the GoSS and the Ministry of Finance and Economic Planning. The review occurs before projects are forwarded to the Oversight Committee for consideration.
- During all stages of development, projects may be subject to a consultative process, led by the GoSS and involving interested donors, relevant UN agencies, World Bank specialists and NGOs. The consultations are intended to improve the quality of proposals, promote synergies, avoid duplication and identify cost and time-effective solutions for delivery.

181. MDTF-N project development also reflects investment priorities identified by the JAM and the requirements of the CPA. The MDTF-N pipeline has been developed through discussions with the GoNU and relevant sector ministries or state governments, and in coordination with other donor programs to avoid duplication and foster synergies. This informal consultative process is now expected to be formalized in 8-9 thematic groups chaired by relevant GoNU sectoral agencies.

182. Earlier establishment and functioning of these thematic groups would have allowed better prioritization and sequencing of proposed MDTF investments and a more holistic approach to the design of project components. Sequencing of project implementation in time-bound slices is partially intended at developing core capacities and initiating critical reforms in the initial phases. To this end, the Technical Assistance Facility was among the first two projects supported by MDTF-N, with the aim of developing a foundation of sector and project-specific studies that will set the stage for well-conceived, high priority public

investments. The scope of MDTF assistance at the national level is to support a mix of investment and policy-based operations aimed at consolidating peace and expanding pro-poor spending to improve livelihoods, especially in rural areas.

Findings and Conclusions

183. Governments, donors, and the Bank have shown strong support for government ownership and the development of public sector capacity in both South and North Sudan. A more holistic approach to and strategy for capacity building has is currently being produced.

F.8 Thematic Areas and Beneficiaries

184. The MDTF finances areas and sectors identified in the JAM and in agreement with the governments. The MDTFs thus place special focus on the peace consolidation phase, in the Interim period (2005-2007), and on the poorest and most disadvantaged parts of the country, in particular Southern Sudan, the "Three Areas" in the North, and other zones seriously affected by decades of conflict and underdevelopment.

185. As noted in the Minutes from the 8 March donor's meeting in Paris, the gender dimension is not being paid sufficient attention in the work of the MDTFs. However, the Oversight Committee agreed that support in this area would be provided by UNIFEM, although this has been slow to materialize.

186. More surprisingly, and more importantly, neither the World Bank nor the UN have a specialist on the ground to assess the extent to which projects and programs are conflict sensitive and contribute to peace. The open conflict in Darfur and the tensions and low-intensity conflicts in parts of the South mean the situation remains volatile, and thus the need for continuous monitoring is obvious. In the case of the Bank, the Africa Region's lead conflict specialist is heavily engaged, but not at the level of assessing likely project impacts on conflict dynamics. The need for understanding how donor resources can contribute to stabilize the political situation and defuse tensions would seem to be important.

Findings and Conclusions

187. The gender and conflict sensitivity aspects are not being paid sufficient attention in the MDTFs. These, however, are very time demanding issues. The bilateral donors could be in a position to provide such skills through research institutions in their countries. These could be contracted to carry out particular tasks for the MDTFs, to ensure that distributional and other dimensions of MDTF-funded interventions are understood and that benefits are in fact directed to the intended target groups or areas.

F.9 Sudan MDTFs - Chronology of Key Events

2005

- **7 April:** World Bank Executive Board approves the World Bank as Administrator of MDTFs

- **11 April**: Oslo Pledging Conference
- **9 July:** Presidency of the new National Government of Sudan (GoNU) sworn in
- **30 July:** First VP John Garang killed in a helicopter crash
- **1 August:** Technical Secretariats established; Fund Managers of two MDTFs appointed and in place
- **11 August**: Salva Kiir sworn in as First VP, replacing John Garang
- **23 August:** MDTFs effective with first donor contributions received
- **22 September:** Cabinet of Government of National Unity formed
- **23 October:** Cabinet of Government of Southern Sudan formed
- **24 November:** First MDTF-SS Grant Agreement signed for Rapid Impact Emergency Project (RIEP), totaling USD 20 million.
- **20 December:** Second MDTF-SS Grant Agreement signed (Transport and Urban Infrastructure): USD 50 million (leveraging USD 100 million of GoSS funds)

2006

- **16 January:** First two MDTF-N Grant Agreements signed (Community Development Fund: USD 15 million; Technical Assistance. Facility: USD 5 million)
- **8 March:** First disbursement CDF (USD 3 million)
- **March:** Grant Agreements signed MDTF-SS Health & Education
- **26April:** Community Development Fund effective (MDTF-N).
- **7 June:** CDF First Disbursement (USD 1.5 million)
- **27-28 July:** Health and Education Projects effective (MDTF-S)
- **2 August**: WFP Grant Agreement signed
- **25, 28 August:** Health and Education first disbursements.
- **2 October**: WFP Disbursement request received for first tranche
- **10 October:** WFP Disbursement effected

ANNEX G: The Greater Great Lakes MDRP Trust Fund

G.1 Background and Introduction

1. The series of armed conflicts in the greater Great Lakes region had different causes, but the linkages and spill-over effects across borders made a regional approach both meaningful and necessary. During the late 1990s, political developments within and across countries opened up possibilities for more broad-based donor interventions. The UN, donors and the World Bank began a series of discussions to use the "lessons learned" from the Balkans and in particular from Africa itself (Sierra Leone, Liberia, Rwanda and Mozambique, among other places) for bringing political stability and peace to the region through a more comprehensive approach to disarmament, demobilization, reinsertion and reintegration (DDR).

2. The Greater Great Lakes Multi-country Demobilization and Reintegration Program (MDRP) Trust Fund was established on 25 April 2002. It is administered by the World Bank. Nine countries in central and southern Africa are eligible for support: Angola, Burundi, Central African Republic (CAR), Democratic Republic of Congo (DRC), the Republic of Congo, Namibia, Rwanda, Uganda and Zimbabwe, but with no activities in Namibia or Zimbabwe.

3. This study is based on:
   - Document review covering the MDRP itself, the various country programs and documents, and mission reports (see Annex C);
   - Informant interviews, covering donor, government, UN and World Bank officials, and some beneficiary representatives (see Annex B);
   - Field visits to five of the countries: Rwanda (20-22 August), Burundi (23-26 August), Republic of Congo (27-28 August), the Central African Republic (29 August-2 September) and Uganda (23-28 August).

G.2 Trust Fund Overview

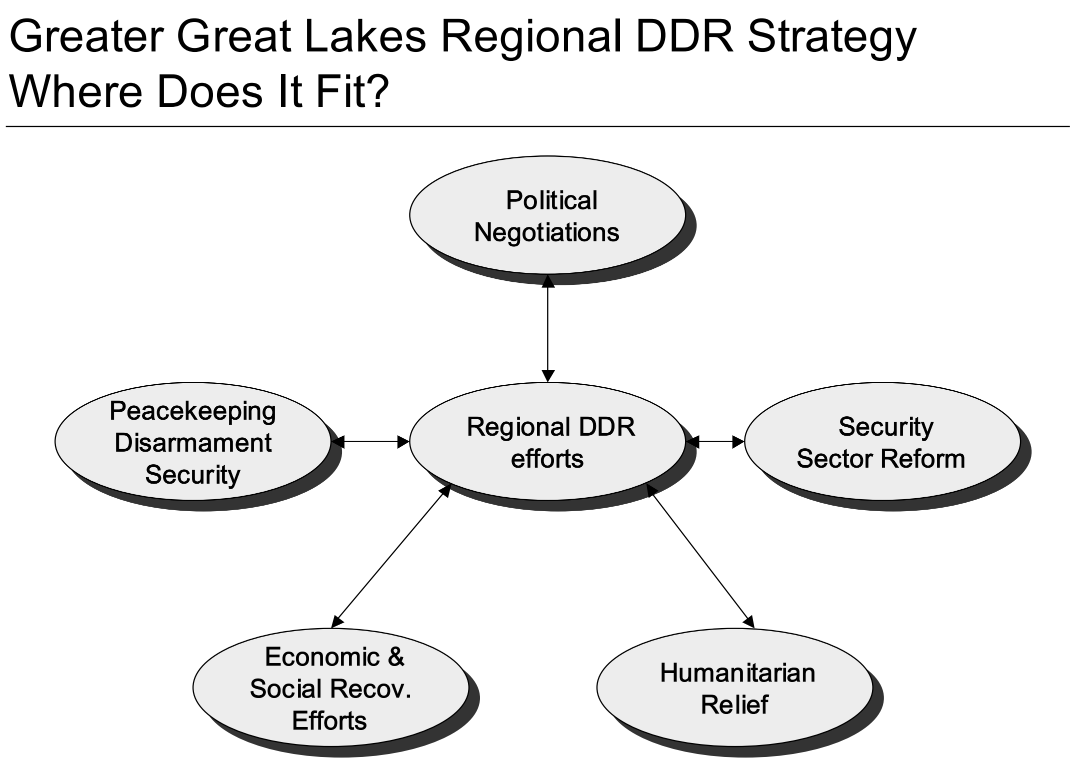
4. A series of missions to the region to engage in dialogue with the various parties on the ground took place during 2001. These were supplemented by meetings among the potential external supporters. During the fall of 2001, several key meetings took place where both the MDRP and the corresponding Multi-donor Trust Fund (MDTF) were agreed to. Two key documents for specifying the objectives and operational areas of the MDRP were prepared: "Towards a Regional Framework for Disarmament, Demobilization and Reintegration in the Greater Great Lakes Region" (World Bank, December 2001), and the follow-on "Greater Great Lakes Regional Strategy for Demobilization and Reintegration" (World Bank, March 2002) (section G.8 provides a chronology of key events of the MDRP program).

5. The UN system has mandates to deal with certain direct conflict issues, such as peace-keeping operations. The World Bank can finance demobilization and reintegration activities. However, it cannot support activities related to the

military or police sectors that are excluded by OECD/DAC guidelines. With all resources contributed by MDRP donors to the MDTF also bound by the same limitations, the MDRP cannot fund disarmament but can only provide support once ex-combatants (EXCs) hand over their weapons and thus become eligible for demobilization and reintegration support.

6. The MDRP is the largest program of its kind in the world. It was planned to assist about 450,000 EXCs in the seven participating countries. The latest estimate is for about 412,000 to be demobilized, of which 64% (almost 263,000) have now been demobilized and of these about 155,000 (39%) of the 400,000 to be reintegrated either have been or are in the process of being reintegrated (see table G.2).
7. The MDRP is funded by World Bank grants and credits, and grants from eleven donors through the MDTF: Belgium, Canada, Denmark, France, Germany, Italy, Netherlands, Norway, Sweden, the UK, and the European Commission.
8. The program was originally foreseen to run till June 2007, but at the MDRP Trust Fund meeting in London November 2005 it was proposed to extend the program till June 2009 because of the need for more time to complete implementation of some of the national programs. By September 2006, all eleven donors had formally agreed to this extension.
9. Given the complexity and scale of the conflicts in the region, the demobilization and reintegration activities that the MDRP/MDTF could fund are only parts of what was assumed to become a more comprehensive program of support from the international community. During the MDRP/MDTF pledging conference in Paris April 2002, the World Bank presented the larger picture in the form of the figure below, where the links between DDR and the other activities are shown.

Figure G.1: DDR and Overall Peace and Stabilization Program



10. The MDRP reintegration component largely provides targeted transitional reintegration assistance to ex-combatants. In most countries these resources are for the EXCs themselves, and for a specified, limited time. Some agencies (including MDRP partners) have argued for more community based activities, to provide communities with the means to absorb EXCs, to provide more equitable financing between EXCs and those who had suffered from the violence, etc.. For the most part this is considered outside the short-term remit of the MDRP, and rather the responsibility for the country's medium-term overall growth strategy. The need for links to a country's Poverty Reduction Strategy (PRS) is increasingly being recognized as part of the exit strategy from targeted assistance towards the inclusion of ex-combatants in broader national development efforts. Rwanda has taken steps to ensure this linkage, and Angola, Burundi and the CAR are including small-scale community-selected activities in its program, but more as support from the program to the communities for accepting EXCs back rather than based on any direct livelihoods and sustainability concerns[21].

11. Disarmament and security issues are largely handled by the governments themselves (Angola, CAR, Republic of Congo, Rwanda and Uganda) or by the UN operations (Burundi, DRC) in the region. The most important are the MONUC in the DRC (which also has a sub-office in Rwanda) and ONUB in Burundi. Security Sector Reform is provided less systematic support by the international community, though considered critical for the longer-term stability in a number of the countries. This lack of complementary assistance is leading some donors to exert pressure on the MDRP to provide resources and support for such linked activities (such as community-driven development and security sector reform).

G.2.1 The MDRP

12. The *objective* of the MDRP strategy, as laid out in the March 2002 document, is "to enhance the prospects for stabilization and recovery in the region". The main premise is that DDR of EXCs is necessary to establishing peace and restoring security, which in turn are required for sustainable growth and poverty reduction.

[21] In the case of the CAR, the communities are given a lump-sum – usually around USD 20,000 – that they can use on some joint undertaking. Often this is the rehabilitation of a school or other community infrastructure. Perhaps the most important aspect of this component is the community organization and mobilization, as this often represents the first important external support that the community itself can decide on. During the field visit to Sebut district close by the capital, it was clear that these small community programs are important even for the local administration in the CAR, as they are among the few aid-funded activities in a country that is receiving very little ODA despite its obvious poverty and need for development cooperation.

13. The objectives of the MDRP program are to "(i) provide a comprehensive regional framework for DDR efforts for both government and irregular forces, (ii) establish a single mechanism for donor coordination and resource mobilization, and (iii) serve as a platform for national consultative processes that lead to the formulation of national Demobilization and Reintegration Programs (DRPs)" (World Bank 2002, pp. 1-2).

14. The reasons for the multi-country approach were: (i) confidence building by allowing for mutual disengagement, by improving transparency across programs and encouraging cooperation between participating countries; (ii) harmonization of approaches and thus improve consistency in the treatment of EXCs of all parties to the conflicts; (iii) knowledge sharing and capacity building across country level efforts; (iv) special projects could address DRR of irregular forces in areas outside the full control of the national authorities; and (v) resource allocation could be optimized across the region and be adjusted to changing circumstances in each country.

15. The MDRP can support four types of activities: (a) national programs (b) special projects, (c) cross-border activities, (d) program management.

National Programs

16. The main approach of the MDRP is to support national governments to implement a national DRP. The actual programs vary depending on the scope and nature of the conflict, the profiles of the EXCs, and the conditions on the ground (such as the ease with which EXCs can be reintegrated). A program could contain six components (i) disarmament, (ii) demobilization, (iii) reinsertion, (iv) reintegration, (v) support to special groups, and (vi) implementation arrangements. Programs may contain cross-cutting issues like HIV/Aids prevention and mitigation, targeting of special groups like female, child and disabled EXCs.

Table G.1: Expenditures by National Program/Source, 30 Sep 2006 (USD '000)

Country/Fund	Allocated	Expenditures	% Spent
Angola – IDA	33 000	16 244	32.7 %
Angola – MDTF	48 400	15 072	28.2 %
Angola – Government	157 000	157 000	100 %
Angola – Other	17 457	1 450	8.3 %
Burundi – IDA	33 000	22 848	69.2 %
Burundi – MDTF	41 800	14 536	34.8%
Burundi – Other	27	24	88.9 %
CAR – MDTF	9 777	9 126	63.8 %
CAR – UNDP	1 565	1 118	71.4 %
DRC - IDA	100 000	94 653	81.7%
DRC – MDTF	100 000	67 694	40.5 %
RepCongo – MDTF	17 000	1 587	0.0 %
Rwanda – IDA	28 711	26 170	91.1 %

Rwanda - MDTF	14 400	7 976	55.4 %
Rwanda – Government	2 700	2 737	101.3 %
Rwanda – Other	11 492	9 596	83.5 %
Uganda – MDTF	4,204	3 969	74.0 %
MDRP - Total	**620 534**	**399 443**	**64.4 %**

Source: MDRP Monthly Statistical Progress Report, October 2006, on www.mdrp.org.

17. Implicit in the support to the national programs is that governments either have the capacity and political commitment necessary to plan and successfully implement the program, or that this will be put in place, with donor support if need be. Where this was found not to be the case, other implementation modalities could be resorted to, such as using UN agencies, in the short-term (Angola) or in certain special cases as with CAR.

Special Projects

18. Special projects generally provide support to particular target groups, such as child EXCs, or to EXCs resettling outside their country of origin ("Combatants on Foreign Soil", COFS); or for activities that are carried out in regions outside the effective control of the central authorities (the eastern part of DRC was the obvious case). Special projects were in principle expected to have a limited duration, till the country itself could handle these situations within the DRP. The guiding principles for the DRP would still hold for the special projects, but they might contain a different focus, such as more support on the reintegration and communication sides.

Regional Activities

19. Certain activities could not be expected to be handled by the national programs. This would be the case with cross-border information and sensitization campaigns to inform combatant groups about initiatives they could benefit from; knowledge generation that would be of interest and relevance to all actors; structured knowledge sharing through meetings and activities that covered a number or all of the actors in the region; and harmonization of databases for national programs and special projects to avoid that EXCs cross borders to benefit from several DDR operations simultaneously. These costs would be borne by the MDTF.

Program Management

20. The MDTF funds the administration and management costs of the MDRP. This includes the actual administration, financial management and overall program handling by the World Bank, but also DDR specialists hired by the Bank to work in the field. These costs were originally estimated to be around 3.5% of the MDTF, and 2.4% of the overall value of the MDRP including IDA financing. Both donors and host governments have over time requested that the MDRP provide greater level of technical support and to increase MDRP Secretariat field presence. The result has been a significant jump in the MDRP Secretariat costs which at the time of this review had risen to 5.5% of the projected MDTF and 3%

of the overall program value. Moreover, renewed management efforts in support of several key activities (DRC, COFS, etc.) as well as an expanded learning program will further increase this level of program management costs.

G.2.2 The National Programs

21. In order for a country to become eligible for support to its national DRP, it had to prepare a Letter of Demobilization Policy (LDP) that would present the country's approach to the integration of DDR in the larger national security sector and social policy context. Below are summary descriptions of the status and nature of LDPs and what has been achieved as of end August 2006.

Table G.2: Program Status and Targets, 30 September 2006

	Activity	August status	Target	% Achieved
Angola	Demobilization	97 114	138 000	70 %
	Reinsertion	49 882	62 716	80 %
	Reintegration	53 590	166 662	32 %
Burundi	Demobilization	21 418	55 000	39 %
	Reinsertion	18 403	55 000	33%
	Reintegration	5 401	55 000	10 %
Central African Republic	Demobilization	7 142	7 565	94 %
	Reinsertion	5 611	7 565	74 %
	Reintegration	6 768	7 565	89 %
Democratic Republic of Congo	Demobilization	99 914	150 000	67 %
	Reinsertion	89 782	120 000	75 %
	Reintegration	54 617	90 000	61 %
Republic of Congo	Demobilization	0	11 000	0 %
	Reinsertion	0	11 000	0 %
	Reintegration	0	30 000	0 %
Rwanda	Demobilization	26 162	36 000	73 %
	Reinsertion	38 499	47 400	81 %
	Reintegration	38 533	50 000	77 %
Uganda	Demobilization	16 096	15 310	105 %
	Reinsertion	11 851	15 310	77 %
	Reintegration	0		
MDRP Total	***Demobilization***	***267 846***	***412 875***	***65 %***
	Reinsertion	***214 028***	***318 991***	***67 %***
	Reintegration	***158 909***	***399 227***	***40 %***

Source: MDRP Monthly Statistical Progress Report, September 2006, on www.mdrp.org.

Angola

22. The Government submitted a LDP dated ***7 March 2003***. It included a statement on the Government's strategy, reform of the security sector, the benefits and rights of the EXCs to be covered by the program, a description of the Angola Demobilization and Reintegration project (ADRP), which was the main

instrument for implementing the policy, and a budget. Angola was in the situation that it expected to fund most of the costs of the DDR program itself.

23. Planning for the ADRP had begun in May 2002, just one month after the Luena agreement, and was approved by the Bank on 27 March 2003. The results attained have been very encouraging. Nearly 98,000 UNITA fighters of a targeted 105,000 have been demobilized as of May 2006. An additional 33,000 from the Angolan armed forces are to begin demobilization by the end of 2006.

24. A UNDP/ FAO Special Project that provided seeds and tools as part of the early phase of the reintegration program was given high marks for efficiency and effectiveness, reaching 85% of the target group at unit costs lower than planned for. By June 2006, the ADRP had approved 84 re-insertion projects supporting over 60,000 EXCs and an additional 16,000 opportunities were in the process of being contracted for. An internal survey of nearly 2,200 EXCs showed that three to six months after the completion of the reintegration support, 52% were self-employed, 5% were salaried employees, 95% had access to land and 90% considered themselves socially integrated in their communities. An independent beneficiary survey is to be conducted.

25. This project came up against the kind of procedural delays that the UN system has complained about on several occasions. Because MDRP financing was not available on time, the UNDP through the Bureau for Conflict Prevention and Reconstruction had to advance USD 1-2 million, to ensure that the seeds and tools would be in place when needed.

26. It is estimated that 11,000 children and over 2,700 women associated with the UNITA forces are receiving some form of assistance, although child soldiers were not formally registered in the program and therefore are not shown in table G.3. The disabled pose an additional challenge for the ADRP given the high percentage of disabled among the government soldiers to be demobilized. For example, in the first batch of 15,200 (out of the 33,000), over 8,000 were listed with disabilities. There are already four contracts with specialized agencies for providing assistance to this group, and the national agency IRSEM has established a special unit to manage this component.

27. The MDRP assistance consists of an IDA grant of USD 33 million and USD 48.4 million from the MDTF. Moreover, the EU is providing a grant of EUR 13.5 million for vulnerable groups, while the Government of Angola has itself spent an estimated USD 157 million on the disarmament and demobilization of UNITA (table G.6).

28. MDRP has furthermore worked with IRSEM to improve their monitoring and evaluation work, including strengthening the results framework, performance indicators and action plan, as the project is to end December 2008.

Burundi

29. The Transition Government of Burundi submitted its LDP dated ***19 February 2004***. The letter provides an analysis of the regional setting and the various steps that have been taken to promote peace in Burundi, and then the strategy the

Government intends to pursue to implement it, including a reform of the armed forces. The basic principles of the DRR policy are laid out, the estimated number of combatants expected to be included in the program (55,000) and number to be demobilized by year. It mentions special target groups – child, female and disabled EXCs – and irregular groups and militias that are to be considered. It then links the DRR policy with the country's Poverty Reduction Strategy (PRS), and the budget implications of the program.

30. The peace-keeping and disarmament task had first been implemented by the African Union with its African Mission to Burundi (AMIB). This was later handed over to the UN Operation in Burundi (ONUB) when this was established. As of the middle of 2006, ONUB still had almost 5,000 soldiers in the country, but these were to be withdrawn by December 2006. This is to be replaced by a much smaller integrated UN program addressing judicial sector reform, governance issues, security sector reform, etc.

31. Once demobilization and reintegration began, it became clear that figures for EXCs were much lower than expected. By the middle of 2006, the Emergency Demobilization, Reinsertion and Reintegration Project had demobilized just under 21,000. The remaining EXCs are thought to be no more than 3,000 combatants of the FNL. It Is hoped that these will be demobilized, under the terms of the cease-fire agreement signed on 7 September 2006, by the end of the year. A demobilization of a number of former government soldiers reassigned to the National Police in the course of the transition is still under discussion. Still, it is unlikely that the program will demobilize more than 35,000 combatants, significantly less than the original target of 55,000[22]. This means that the allocation for Burundi is considerably higher than what is needed to implement the program according to the original parameters, since the unit costs per soldier demobilized in Burundi was also set at a considerably higher rate than in neighboring Rwanda.

Central African Republic (CAR)

32. The Ministry of National Defense, Restructuring of the Army and Disarmament forwarded the country's LDP dated ***11 June 2003***. It contains a fairly detailed analysis of the situation, the numbers of armed persons who are to be affected by the DDR program, and then a presentation of the overall strategy and structure for program implementation along with the funding picture.

33. The national authorities recognized that they did not have the capacity to implement the program themselves, and asked that UNDP be given this task since UNDP had been involved in previous demobilization activities. A special project with a budget of a little under USD 10 million was set up. A National

[22] This means that the total Target values in table G.1 ought to be reduced by 30,000 in all categories – in which case the achievement values are in fact considerably higher than the ones given.

DDR Commission (CNDDR) was established to provide policy guidance and monitor performance.

34. The project was slow in taking off. The country suffered from political instability, with the former president being deposed in a coup in March 2003. During the following two years, steps were taken to introduce reforms and a more stable leadership, with President Bozizé formally sworn in June 2005. The conditions for demobilization were not satisfactory to begin with either, in part due to lack of strong national leadership for the process, and the security conditions in the field[23]. One of the results, which has come to haunt the project later, is that there was no an authoritative list of EXCs, so the exact number and identities of those eligible to receive support was not in fact finalized till August 2006.

35. UNDP had problems finding a good project manager, terminating the first contracts, with the current one joining the project in August 2005. His background is in rural development and agriculture rather than DDR, but with considerable project management and field experience from the region. Under previous managers, UNDP had begun recruiting staff and building infrastructure for the demobilization program, so as to be ready once conditions on the ground improved. Expenditures were thus being incurred at a brisk pace but without results to show for them, as detailed in the Mid-Term Review of March 2006: (i) nearly 60% of the total budget had been spent at that time, with the "goods" category 100% spent, operations 50%, and USD 670,000 had been used on infrastructure, which was not foreseen in the grant agreement at all, (ii) on the results side, 45% of the reintegration budget had been spent but only 12% of the target group reintegrated. UNDP had, as recorded in the October-December 2005 Quarterly Progress Report, committed itself to an audit for the period since effectiveness by February 2006. This had not taken place. The Midterm Review (MTR) led to a series of changes to the budget, an accelerated action plan, MDRP placing a DDR adviser in Bangui, and changes to the relations between the UNDP project management and the national authorities with a clearer role for the national DDR commission (the MTR and its repercussions are discussed further in G.5, "Harmonization and Coordination").

Democratic Republic of Congo (DRC)

36. The LDP is dated ***5 May 2004*** and is essentially a four-page personal letter from President Kabila to James Wolfensohn where the intention of demobilizing 200,000 combatants is highlighted, and the objectives and overriding principles for NDP implementation are spelled out.

37. This program has a MDRP budget of USD 200 million. The IDA grant of USD 100 million was 82% disbursed by end June 2006, while the MDTF grant of USD 100

[23] As late as this field visit, in August 2006, rules were still that a military escort had to be provided even to Sibut, the demobilization site closest to the capital.

million was 40.5% disbursed. In addition, USD 38.4 million was allocated for six Special Projects:

(i) Support for the reunification and reintegration of former child soldiers (Save the Children – USD 5.37 million);

(ii) Situation assessment and pilot projects for demobilization and reintegration of child soldiers in Orientale, Northern Katanga and Maniema provinces (International Rescue Committee, CARE, International Foundation for Education and Self-help – USD 9.16 million);

(iii) Community recovery and reintegration of ex-combatants in eastern DRC (UNDP and Government – USD 5 million);

(iv) Rapid reaction mechanism to support the DDR of ex-combatants (UNDP – USD 12.62 million);

(v) Capacity building and support to the prevention of recruitment, demobilization and reintegrating of children soldiers (Belgian Red Cross – USD 1.14 million);

(vi) Prevention of recruitment, and demobilization and reintegration of children associated with armed forces (UNICEF – USD 5 million). The UN Observer Mission to the DRC (MONUC) is a key actor on the ground.

38. The demobilization and reintegration process initially moved slowly due to the difficult security conditions in the east of the country. By mid-2006, however, nearly 100,000 EXCs had been demobilized, and nearly 20,000 child soldiers who had been entrusted to child protection agencies or who had been assisted through a series of special projects targeting child EXCs.

39. 33 reintegration projects targeting about 53,000 EXCs have begun. Eight projects with 15,000 places were approved and six others for 24,000 EXCs were reviewed at the end of June 2006. While the program is now running quite well, the national commission CONADER has faced financial and management problems, though recent MDRP missions have been working with them to find solutions,

40. An independent review of the UNDP projects pointed to major inefficiencies in the community recovery project. As in the case of the CAR, though on a smaller scale, UNDP was seen to use too many resources on project management, own staff and organization, with too little actually reaching beneficiaries. UNDP feels the Bank does not fully understand the complexities and hence the costs, including time delays and patience required, to work in that part of the country. The report's advice was that UNDP take more fully advantage of the investments made and ensure that more continuous benefits flow reach the target population.

41. The Rapid Reaction Mechanism (RRM) was seen as a success by the review, as it provided the kind of flexible funding that the fluid situation in the eastern DRC often required. To the UN, the RRM in fact revealed the weaknesses of the MDRP as a program that was highly dependent on national bodies to take decisions. The RRM was able to respond to the spontaneous demobilizations that occurred and which it was important to support immediately. In the view of the UN, this direct

response made a critical contribution to stabilizing the situation in the Eastern DRC. The UN feels this strategic role is not sufficiently appreciated.

Republic of Congo (ROC)

42. The LDP, dated ***27 January 2005***, provides a detailed program with justification and the basic principles underlying it. It goes on to describe the target groups, describing the program's plan of implementation, cross-cutting issues, organizational set-up for implementation, action plan, budget and a logframe for the program. UNDP was asked to take on the Lead Agency role.

43. The government signed the financial agreement with the Bank on 3 January 2006. It took an additional seven months to meet the effectiveness conditions: contract an independent financial management agency and external auditor, and put in place a financial management system. The program was therefore only declared effective end of August 2006. The ROC had in the meantime used own resources to begin training staff, purchase office equipment, and begin sensitization campaigns.

44. The program is estimated to cost USD 25 million, of which USD 17 million is from the MDRP and the EU is providing the balance of EUR 6 million. There has been a disarmament and small arms collection program implemented by the UNDP and largely funded by the EU running parallel to the DDR program, with particular concern for helping to stabilize and remove arms from the Pool region. This program is still (August 2006) not successfully completed, so the DDR program is operating in a situation of continued armed activity and instability in a key part of the country.

Rwanda

45. The LDP is dated ***14 March 2002***, and was the first national DDR policy to be spelled out. It explains the restructuring of the security sector, the links to Rwanda's PRS, before presenting the National Demobilization Program: objectives, guiding principles, and a generic budget. The national program is funded through an IDA credit of USD 28.7 million, an MDTF grant of USD 14.4 million, bilateral grants of about USD 11.5 million from the UK and Germany, and GOR counterpart contribution of USD 2.7 million.

46. The Rwanda Demobilization and Reintegration Commission (RDRC) manages the program, which is considered the best organized in the region. It was approved by the Bank on 25 April 2002. It has so far demobilized over 26,000 and provided reintegration benefits to over 38,000. The initial reintegration benefits package was, however, quite limited, and follow-up surveys noted that many EXCs were struggling to establish a sustainable livelihood in an economic environment marked by limited access to land, a national unemployment rate of 60%, and a context in which 60% of the population of Rwanda remains below the poverty line. A supplementary Vulnerability Support window (VSW) as well as vocational training, formal education, and apprenticeship training activities was therefore established, which provides additional financing for approximately

60% of ex-combatants supported under the Program. By October 2006 about 27,500 EXCs had received their first tranche of VSW support.

47. One key challenge for the RDRP is the slow rate of disarmament in and repatriation of Rwandese COFS from the eastern DRC. The information is that while the majority of these combatants want to return, they are apparently being held back by their commanders. In the absence of the political will of the leadership, the Government of the DRC and MONUC have lacked the capacity to advance the disarmament and repatriation process more effectively. Closer collaboration with MONUC and agencies working in that region, with an improved outreach and sensitization program, is hoped to increase the flow of COFS back, but by November 2006 the numbers remained limited.

48. The program has conducted extensive M&E activities, including a quantitative tracer study (2004), a qualitative community dynamics study (2004), and follow up studies in 2005 to review the reintegration issues of women, the disabled and child soldiers 2005. Two independent program evaluations have been carried out, the second one in early 2006. Payment verification surveys were done in 2004 and early 2006, providing feed-back to the program on progress and problems. The program's MIS was also upgraded in 2006, among other things to provide better M&E tracking abilities.

Uganda

49. There is no national program in place, though a defense sector review was to generate the equivalent of an LDP that could serve as the basis for MDRP support. The review and subsequent discussions conclude that there is not a significant number of soldiers to be demobilized. There is, however, MDRP support for a Special Project to support the country's Amnesty Commission. This is expected to benefit about 15,300 irregular forces and collaborators who reported for amnesty. This number includes 8,000 "backlog" cases from seven different armed groups, including the largest one, the Lord's Resistance Army (LRA). Uganda has COFS in both Sudan and the DRC, and is working with CONADER and MONUC towards the return of the DRC cases, but the number of returnees remains low.

50. The Government of South Sudan has been mediating negotiations between the Ugandan government and the LRA. The process proves to be difficult. But as of October 2006 there is hope that a peace agreement could be reached between the two parties. If this happens, it would likely increase the need for DDR funding. The LRA has most likely somewhere between 2,000 and 4,000 members, including many children. These would all have to be repatriated and supported in their reintegration. Most would be eligible for support by the Amnesty Commission. Managing this process properly would make a major difference to the stability and peace in the northern and eastern regions of the country. The Amnesty Commission is preparing an Action Plan and discusses this with the MDRP Secretariat and other partners, such as UNDP and UNICEF. Government and its development partners are trying to balance the support to the ex-

combatants, collaborators and former abductees with the broader needs of the (returning) IDPs and other war affected groups.

51. While the existing Special Project is quite small and simple in comparison with those in some of the other countries, it has faced a number of management and logistical problems that reflect the complexity of the specific situation in Uganda. Because of the benefit packages, there are incentives for non-eligible persons to claim benefits through fake or stolen IDs, late joining up with armed groups to become listed as EXC, trying to get benefits several times, etc. Verifying identities and eligibility thus is costly and time-consuming. Children under 12 pose a different problem: since they cannot legally be held responsible for armed activities, they cannot be granted amnesty, and thus would not receive benefits through the Amnesty Commission. So special arrangements had to be made to ensure that also child EXCs under 12 were covered and could be supported.

G.2.3 Vulnerable Groups

52. Three groups of EXCs are given special mention: children, women and disabled.

Children Soldiers

53. Child EXCs have been given particular attention in national programs and Special Projects due to the concern by national and international actors regarding protection of children. In several countries, such as in Burundi, there are fairly broad-based support and follow-up programs in place that include both national authorities and national and international NGOs and UN agencies. The number and share of child soldiers varies between countries, but in general there does not seem to be a problem with resources to address this group. The actual activities vary from one country to another, where some countries focus on educational opportunities and vocational training (Rwanda) while others provide more targeted benefits (Burundi).

Table G.3: Number of Children EXCs Demobilized, August 2006

	Female	Male	Total	% Female
Angola	*0*	*0*	*0*	
Burundi	*46*	*2 969*	*3 015*	*1.5 %*
Central Afr Rep	*9*	*14*	*23*	*39.1 %*
Dem Rep of Congo	*1 267*	*6 542*	*7 809*	*16.2 %*
Republic of Congo	*0*	*0*	*0*	
Rwanda	*2*	*595*	*597*	*0.3 %*
Uganda	*1 754*	*3 678*	*5 432*	*32.3 %*
MDRP Total	*3 078*	*13 798*	*16 876*	*18.2 %*

Source: MDRP Monthly Statistical Progress Report, August 2006, on www.mdrp.org.

Female Ex-Combatants

54. The share of female combatants in the total number of EXCs is strikingly different between countries. In Rwanda there are virtually no female EXCs, while in the

CAR women make up over 20%. In the Sibut district of the CAR, of the 566 who were demobilized at the end of August 2006 (over 10% of the national total at that date), 190 were women – that is, one third! This seems to be due to two factors. One is the more "flexible" interpretation of the concept of EXC: women who were with combatant groups but did not necessarily carry arms, have been included. But women were also more active in armed activities, as even in the current armed forces, gendarmerie and police, women are quite common. Second, the rate of participation of women in some of the forces demobilized under the MDRP has been very low. Overall, female EXCs make up less than 4% of the total number of combatants to be demobilized.

55. The role and status of female EXCs is an issue that had not been addressed systematically prior to the MDRP. Female EXCs clearly had different experiences than males, which for some included problems such as sexual abuse. "Child-mothers", abducted children who have children of their own as a result of sexual abuse by male parties of the conflict, suffer from trauma and social stigmatization. These young girls and their children are often rejected by the communities where they settle and have fewer opportunities than other girls of their age in the community. There were also experiences by female EXCs who felt a social freedom and responsibility during the period of armed struggle that was very different from their traditional village life, and who upon demobilization and reintegration experienced being forced back into traditional roles of subservience, which they reacted to. It should also be noted that in some instances females associated with fighting forces choose not to participate in demobilization processes in order not to be labeled as combatants, as this entails negative social stigma in some societies.

56. The MDRP has put in place a more systematic research program that is expected to provide more evidence-based knowledge about female EXCs, what kinds of support they want and can best take advantage of under DDR programs. A first seminar regarding gender and DDR was organized in Kigali during the period 29 October to 2 November 2005, with wide participation from MDRP countries.

57. The real attention paid to female EXCs in the various country programs is difficult to gauge; it seems stronger on paper than in practice. While the issue is addressed in all the written materials, only more careful reviews of the various programs and projects will be able to identify successes and problems in addressing the needs and particular challenges of female EXCs. In Uganda, for example, special attention to child-mothers figures in project proposals. Documents from supervision missions consistently recommend the Amnesty Commission to strengthen its capacity to deal with gender issues within its work, and especially to child-mothers. Yet the Amnesty Commission does not report on its efforts in this regard; quarterly reports do not even mention child-mothers. In 2006 the Netherlands commissioned a study on child mothers in Northern Uganda. The report also proposed the outlines of an approach to the issue. Thus far the follow up has been a meeting with the MDRP, donors and the Amnesty Commission to discuss the report.

Table G.4: Number of Female EXCs Demobilized, 30 September 2006

	Female	Male	Total	% Female
Angola	3 339	93 775	97 114	3.4 %
Burundi	494	17 904	18 398	2.7 %
Central Afr Rep	1 138	5 981	7 119	15.8 %
Dem Rep of Congo	2 236	89 550	91 786	2.4 %
Republic of Congo	0	0	0	
Rwanda **	50	25 515	25 565	0.2 %
Uganda	2 105	8 457	10 562	19.9%
MDRP Total	***9 362***	***241 227***	***250 807***	***3.7 %***

Source: MDRP Monthly Statistical Progress Report, August 2006, on w589mdrp.org.

*: The total here does not include children EXCs and thus is generally lower than the total in table G.1

**. The RDRP stage II has also provided reinsertion and reintegration support to 204 female ex-combatants of the former FAR, and to over 200 vulnerable female ex-combatants of the RDF demobilized in stage I of the RDRP.

Disabled EXCs

58. The issue of disabled EXCs varies. In Angola, the percentage of government forces that are disabled, as noted above, seems to be very high mainly due to the selection criteria utilized by the Angolan Armed Forces in the selection of candidates for demobilization, in Burundi and Rwanda just over 10%, while somewhat lower in the DRC. The other countries either do not have the problem (the fighting in the CAR was less intense, which accounts for the very low number), or so far has not been registered.

59. The costs of this component can be substantial. In Angola, IRSEM has special units and projects for the disabled, in Rwanda 400 houses are built to disability-specified EXCs, etc. Where disabled EXCs are an issue, the M&E systems seem to be tracking this group well.

Table G.5: Number of Disabled EXCs Assisted, August 2006

	Adults	Children	Total	Target
Angola	0	53	53	6 250
Burundi	697	7	704	4 140
Central Afr Rep	4	0	4	??
Dem Rep of Congo	242	0	242	9 000
Republic of Congo	0	0	0	??
Rwanda	3 773	0	3 773	4 129
Uganda	??	??	??	??
MDRP Total	***4 716***	***60***	***4 776***	***23 519***

Source: MDRP Monthly Statistical Progress Report, August 2006, on www.mdrp.org.

G.2.4 Principles and Guidelines

60. The MDRP is an unusually complex operation, both politically and administratively. It currently operates in seven countries with different socio-political settings, varying degrees of political will and actual capacities to address DDR issues. The vastness of the region, the geographic dispersion of the affected populations, the persistent insecurity in eastern DRC and the spill-over into neighboring countries create uncertainty, though there is increasing stability and predictability in general.

61. A number of principles and Guidelines have been prepared for MDRP and its related trust fund regarding implementation:

    a) A ***General Framework*** was jointly prepared by UNDP and the World Bank in 2001, where the basic principles were presented (World Bank 2001):

    - *National ownership of programs*. A successful DDR programs must be based on national political will and ownership. Conditions vary across countries in the region. To optimize flexibility and enable governments to exploit national windows of opportunity, the timing of national programs will be determined by national leadership (and commitment including to the relevant peace process) in consultation with the international community. MDRP will strengthen the capability of governments to design, implement and coordinate these programs in the context of the regional peace process. **This principle is seen as key to the MDRP and fundamental to the structure of the overall program, since it leads to and justifies country-specific programming and pacing of implementation**;
    - *Comprehensive national programs*. Within each country, the regional framework would support the establishment of a *single* national program consistent with local needs and the regional context. Fragmentation and duplication of efforts will be discouraged. National programs would also seek to address the needs of all ex-combatants of that country;
    - *Cross-border forces*. Some combatants are expected to seek repatriation to their country of origin, other will resettle in their current country of residence, a minority may have to be resettled in a third country. The MDRP will support those who cannot or will not return to their country of origin to be integrated into civilian life elsewhere;
    - *Local authorities and community participation*. Successful economic and social reintegration of EXCs requires the involvement of local authorities and communities. The MDRP will encourage their participation and strengthen their capacities where necessary;

- *Transparency*. The regional approach would encourage transparency of national DDR efforts at the regional level. Monitoring and evaluation will take place at the regional level and information-sharing across countries will be encouraged, both as a confidence-building and learning instrument;
- *Coordination and partnerships*. The MDRP will seek to unify the international community in support of a single framework for DDR in the region. Implementation responsibility may lie with a variety of partners depending on government preferences, program needs, and comparative advantage;
- *Links to civilian reconstruction efforts*. DDR programs will take place in the context of larger national reconstruction efforts. DDR programs will be encouraged to coordinate and link closely with such efforts, particularly in the reintegration phase in order to benefit from employment opportunities as well as to contribute actively to local reconciliation and recovery efforts; and
- *Expectations*. Reintegration will be challenging in a context of devastated economies and high political volatility. Realism in the design of national programs and the communication of objectives is vital in a context where frustrations and unmet expectations can easily turn into renewed violence.

b) ***Guidelines for National Programs***, which are based on the Guiding Principles above, are annexed to the regional strategy documents (World Bank 2002). They define the possible components referred to earlier, special target groups, cross-cutting issues, and implementation arrangements. This includes proper use of funds (with quite detailed instructions on how resources are to be made available to EXCs); supervision, monitoring and evaluation (M&E); the need for environmental and social safeguards; and how to address risks.

c) ***Guidelines for Special Projects*** that gives instructions on project proposal formats, the approval process with a timeline provided for each step; fiduciary and procurement arrangements; M&E and audits; with templates for key components. In general, special projects are expected to have a budget of USD 1-5 million, last no more than two years, and be executed by a UN agency or an NGO. The screening is done in two stages – first in-country by the MDRP secretariat to ensure that it complies with general MDRP guidelines, and then by a so-called ***Local Ad-hoc Committee*** *(*LAC) consisting of an MDRP DDR adviser, two MDTF financing partner representatives, and a government representative, to assess technical feasibility. In this first phase, the role of government has been limited and not changed much since these projects were approved in the early phase of the MDRP. Rather the government has taken over as national programs are put in place and the Special Projects are coming to a close. The second phase of review is carried out by the MDRP Secretariat in Washington where, in the case of non-UN implementing partners, the proposal is reviewed to ensure it meets fiduciary, environmental and social safeguards. Following this clearance, the SP is approved by the World Bank's regional VP and the legal documentation is prepared and negotiated with the implementing partner.

d) ***Procedures for Requesting Grant Agreement for MDRP National Programs*** lays out how governments need to approach the MDRP for funding.

e) ***Environmental and Social Screening Procedures*** are specified, including activities that the MDRP will *not* finance; and check lists for screening purposes.

f) ***Involvement of the UN Agencies*** is addressed since the UN both has specific roles in areas that are linked with but cannot be funded by the MDRP, but also because UN agencies can be implementing partners for MDRP special projects.

62. In addition, the Strategy document presented a Program logframe with ten Key Monitoring Indicators. These cover three levels of the MDRP: the strategy itself; program indicators; and output indicators. The annual Joint Supervision Missions used these indicators to report back on progress, though over time some of these have become less relevant as targets or objectives were attained.

G.2.5 Supporting and Monitoring MDRP Implementation

63. Beginning in the third quarter of 2002, the MDRP Secretariat prepared quarterly ***Progress Reports and Work Plans***. They provide updates on national programs, special projects, regional activities, Joint Supervision Missions (JSMs), and other relevant events. The first report covered the period April-October 2002, with a work plan for November through April 2003. Once the MDRP web-site became operational the reports have been made publicly available there, on www.mdrp.org.

64. In order to strengthen cross-border learning, ***Technical Coordination Group*** (TCG) meetings have been organized. The first took place in Angola in July-August 2002. There were participants from all seven countries, five UN bodies, the Bank and external resource persons. The meeting was seen to strengthen regional networks, helped draw on lessons from other countries (Sierra Leone, Ethiopia, Chad), and thus deepened national understandings of DDR program concepts. Other meetings have been held in (i) Rwanda to look at M&E, (ii) Sierra Leone to study reintegration, (iii) Rwanda looking at gender, and (iv) a visit to Angola was conducted in July 2006 to also look at reintegration. The visits have

focused on management and technical personnel of national commissions, and are seen to strengthen both understanding and technical skills while also building cross-border relations.

65. The Special Project proposals were reviewed by the ***Local Ad-hoc Committees*** (LACs). The first such review was held by the DRC LAC in Kinshasa in December 2002. The experience from this meeting became the model for the other countries. But the LACs have not been involved in subsequent project monitoring, and have therefore played a limited role.

66. ***Joint Supervision Missions*** (JSMs) were among the most important instruments for bringing the different actors together. Government DDR agencies are usually invited to participate, and all MDRP partners are invited to participate, with the JSM usually structured into several teams. The country reports, which are attached to the main report as country annexes, include performance assessments against the MDRP ten basic indicators mentioned earlier. The first JSM took place September-October 2002, with one immediate result being a proposal to modify the guidelines for Special Projects to include small-scale (pilot) activities where a national program is not yet in place. The Hague meeting in November 2002 approved these new guidelines. These missions have taken place annually since 2002. In addition, the World Bank and MDRP Secretariat undertake regular ***Implementation Support Missions*** that monitor the technical performance of national programs and special projects. Most of the staff on these missions are from the World Bank and the MDRP Secretariat, though individual missions always involve local partners and often external ones for the more sensitive programs. The reporting for these missions is along the lines of classic Bank supervision mission reports. There have been over 30 such missions since 2002.

67. There have been an increasing number of external ***Project Reviews,*** including of national programs such as Angola's ADRP and the Rwanda RDRP, and also ***Midterm Reviews***, both of national programs such as the one for Rwanda (December 2004); the CAR (March 2006), and for the MDRP as such (end of 2004). The latter (Development Alternatives, February 2005) provided a concise picture of achievements and criticisms of the MDRP up to that point.

68. The single most important development, however, is the improvements to ***national M&E systems.*** These provide national decision makers updated and evidence-based findings. The MDRP has provided considerable support to the countries' efforts in these fields, since they also provide critical data to the MDRP on achievements and shortfalls.

69. In Angola, for example, the ADRP was given high marks for demanding better financial and accounting performance from NGOs and other local implementers. The ADRP review noted that most of these actors had built their capacity during the emergency phase but now were being pushed and supported to develop the enhanced capacity necessary to work on more long-term rehabilitation activities. This was seen as a major value-added of the ADRP's attention to procedures.

Findings and Conclusions

70. The overall design of the MDRP was flexible and relevant, and has proven itself through successfully addressing the varying and changing national contexts. It built on lessons learned from Ethiopia, Sierra Leone, Uganda, and other African DDR processes;

71. Focus has been on government ownership and national programs, supplemented by Special Projects either when national political parameters or technical capacities were not in place, or if the issue to be addressed required a more impartial actor. The MDRP has therefore sufficient flexibility to tackle different situations on the ground.

72. The implementation pace has varied from one country to another, reflecting one of the strengths of the regional approach: ability to adapt to country circumstances and provide tailored support when needed (generally). At the same time, the basic issues being faced have been similar enough that cross-border learning has been possible and useful. Regional DDR activities - particularly the issue of the COFS - has been less successful, though not due to design flaws but because of the external political and security impediments on the ground.

73. Achievements to date are encouraging, with about two-thirds of the targeted EXCs demobilized and around 40% considered reintegrated. While performance varies from one country to another, in all developments are positive. Country specific circumstances have required the MDRP to step in (DRC, CAR, others), but solutions have been found and lost time largely made up.

74. Vulnerable groups - children, female, disabled EXCs - are being addressed through national programs and special activities, and results are difficult to gauge. Tackling gender issues seems stronger on paper than in practice.

75. Performance monitoring and quality assurance has taken time to develop, but is receiving increasing attention through a variety of instruments. National M&E activities and capacity are becoming more central, with MDRP analyses and training activities providing value added to overall monitoring and local learning. This increased attention to quality assurance towards the end of the Fund period is appropriate.

G.3 Efficiency of the Trust Fund

76. The MDRP design came into being in part based on the experiences with DDR programs in the region, and in part as a function of the unique characteristics of the post-conflict situation in the region. On the Bank side, staff who had been involved with the previous successful Uganda, Sierra Leone and Ethiopia programs were key actors in thinking through and designing the Great Lakes program.

Efficiency and Timeframe for Establishment

77. It was clear from the experiences by UN agencies, the Bank and the donors that a country-by-country approach would not be able to address the complex cross-border issues. At the same time, many actors were interested in supporting DDR efforts in the region, but nobody wanted to take the risk of assuming overall responsibility. The idea of an MDTF to support the MDRP was thus an early concept that many supported. The MDRP and its related MDTF were hence designed as integrated parts of the overall approach for the region.

78. The situation that had to be addressed was thus complex and with no clear model to build on, since till then there had been no multi-country trust fund. This supra-national aspect of the MDRP had to take into consideration the fact that the interest and willingness by the governments to address similar issues varied across countries, and the capacity to address them likewise. Furthermore, the national programs had limited ability to tackle the cross-border conflicts and the political and security tensions and competition among governments that these fostered, or the incentives for some combatants to continue their armed existence where it provided their livelihoods.

79. The MDRP was also just addressing a limited range of the issues outlined in the more comprehensive situation picture provided in Figure G.1. The implementation of the national programs would thus to some extent be dependent on the interrelated complementary issues and how these were being addressed (or not), something the MDRP would have little influence over.

80. On the donor side, the agendas were also somewhat disparate. Some had clear country-specific concerns due to historical ties to particular countries; others were concerned with the larger security issues that could have knock-on effects outside the region, etc. UN agencies had specific concerns that were tied to their mandates and the resources that they had mobilized around these. Setting up an MDTF that had as one of its principles that it should be the only vehicle for funds mobilization for demobilization and rehabilitation was thus seen by some as challenging the UN role and presence. Linked to this was the role and concerns of the NGOs and CBOs working to address the needs of the civilian population affected by the conflicts.

81. Given the wide range of actors, agendas and objective challenges on the ground, most of the documentation seems to conclude that the process leading up to the establishment of the MDRP/MDTF was a success; the design was able to provide the flexibility necessary to accommodate different dynamics on the ground; the consultation was sufficiently inclusive to get the required "buy-in" by all key actors; the speed with which principles and practical arrangements were designed was about as one could have hoped for, yet provided all actors with a clear framework and possibilities for action.

82. The dissent is from some UN agencies. They feel that their practical on-the-ground experience was not sufficiently acknowledged and thus not given the proper role in the overall program. Having the MDTF as the only funding channel was also seen as problematic, partly because they feared delays in

disbursements but also because it would make it more difficult to raise funds independently for DDR activities (returned to in section G.5).

Financing of the MDTF

83. The complete MDRP was initially estimated to cost USD 500 million. Of this, USD 446.5 million were for national programs, USD 37.5 million for special projects, USD 5.5 million for regional activities, and USD 10.5 million for program management. The World Bank was going to fund USD 150 million with IDA credits, while the remaining USD 350 million was to come from the MDTF.

84. The Trust Fund/regional strategy was approved by the Bank Board on 25 April 2002. At the subsequent donors meeting in Paris, donors pledged USD 164 million to the fund – about half the funding necessary for the five-year period of the Fund.

Table G.6: Flow of first funds from donors, by date of signature of agreement

Donor	Amount	Date signed	Date received	Time lag
1. France	EUR 2,000,000	08.11.2002	Nov 2002	Nil
2. Sweden	USD 2,000,000	08.11.2002	Nov 2002	Nil
3. UK	USD 5,000,000 (1)	08.11.2002	Nov 2002	Nil
4. Germany	EUR 1,000,000 (2)	15.11.2002	Jan 2003/March 2003	2 months
5. Belgium	EUR 2,000,000 (3)	22.11.2002	Dec 2002	1 month
6. Norway	NOK 25,000,000	25.11.2002	Jan 2003	2 months
7. EC	EUR 20,000,000	29.11.2002	Jan 2003	2 months
8. Italy	EUR 1,500,000	02.12.2002	Feb 2003	2 months
9. Canada	CAD 5,000,000 (4)	06.12.2002	Jan 2003	1 month
10. Netherlands	EUR 35,000,000 (5)	06.12.2002	Dec 2002/Apr 2003	Nil
11. Denmark				

(1) First tranche of five-year pledge of USD 25 million.
(2) First tranche of two-year pledge of EUR 2 million, two equal payments, January and March 2003.
(3) Promised informally an additional EUR 8 million, for a total of EUR 10 million.
(4) First tranche of three-year pledge of CAD 15 million.
(5) First tranche of three-year pledge of EUR 108 million: EUR 10 million in December 2002, next EUR 25 million in April 2003.

85. Once the pledges had been made, however, it took a long time to get the signed agreements in place: (i) the Bank had to reach agreement with eleven donors simultaneously on the legal language of the agreement, (ii) there were disagreements on some recipients' eligibility for MDRP support, (iii) the summer vacations in European donor head offices meant issues could not be sorted out immediately. Table G.6 shows the 7-8 month delay from the pledging in Paris till agreements were in place – and then the rapid response in providing the funding itself. While it thus took some time to get the funds flowing, this did not delay any of the activities that were to be financed by the MDRP.

Table G.7: Donor Contributions to MDTF, 30 June 2006

Donor	USD
1. Belgium	10 992 483
2. Canada	11 172 191
3. Denmark	2 486 188
4. EC	22 764 000
5. France	2 078 600
6. Germany	7 090 908
7. Italy	1 714 050
8. Netherlands	74 344 913
9. Norway	3 533 070
10. Sweden	2 190 820
11. UK	20 000 000
Investment Income	*4 242 871*
Total MDTF Resources	***162 610 094***

Source: MDRP Quarterly Progress Report, April-June 2006, on www.mdrp.org.

86. While there are eleven donors to the MDRP, the Netherlands alone has contributed about 45% of the funds. When adding the UK and EC, the two other large donors, these three provide nearly three quarters of the funding. This fairly narrow donor base poses some challenges to the Bank in terms of vulnerability and political relations that will be returned to in section G.5.

Disbursements

87. When it comes to the disbursement to the national programs, table G.1 shows the shares of MDTF and other funds disbursed to national programs as of October 2006. If we look at the MDTF components (table G.8), there are country allocations (including the Special Projects) of USD 235 million, of which USD 131 million had been spent by the end of August 2006. This meant that about 64% of the programmed funds had been disbursed. By now most of the Special Projects have been concluded, and it is largely the national programs and some regional activities that remain.

88. The MDRP got off to a slow start in terms of disbursements. The main reasons for this were environmental rather than related to MDTF management. First, the political and security negotiations among factions in major program countries has taken longer than expected (Burundi, DRC). Second, in some cases (e.g., Uganda and RoC), the preparation of national programs has either not materialized or taken longer than anticipated for larger policy reasons. Third, in some cases the set-up of national institutions including contracting for external/financial management units has been time consuming (e.g., Angola, DRC, Republic of Congo).

89. Since October 2005, however, disbursements have been rising rapidly. As table G.9 shows, the increase in disbursements for national programs just from the first

to the second quarter of 2006 was over 37%. Special Projects are nearing the end of their activity cycle so total disbursements are now growing slowly. Percentage changes to regional activity disbursements are less meaningful since the total amounts involved are so small that any change may give a big percentage result.

Table G.8: MDTF Expenditures, National Program, September 2006 (USD '000)

Country	Allocated	Expenditures	% Spent
Angola	48 400	13 895	28.7 %
Burundi	41 800	12 815	30.7 %
CAR	9 777	7 263	74.3 %
DRC	100 000	40 477	40.4%
RepCongo	17 000	0	0.0 %
Rwanda	14 400	7 769	54.0 %
Uganda	4,204	3 156	75.1 %
MDTF - Total	**235 581**	**85 375**	**36.2 %**

Source: MDRP Monthly Statistical Progress Report, September 2006, on www.mdrp.org.

90. The rapid disbursements have also meant, however, that the MDTF is now facing a rapidly declining cash balance, which is a challenge Fund management is addressing through (i) mobilizing replenishment funding from donors and (ii) requesting national programs to shift expenses to IDA provided financing where feasible (Angola, Burundi, DRC and Rwanda)

Table G.9: Disbursements by MDRP Components, Q1 and Q2 2006

Component	**USD**	**USD**	
Disbursements	***Status 30.06.2006***	***Status 31.03.2006***	***% Change Q1 → Q2***
National Programs	85 718 094	62 459 234	37.2 %
Special Projects	47 095 870	44 016 440	7.0 %
Regional Activities	1 298 071	1 181 538	9.9 %
Program Management	12 414 542	10 698 844	16.0 %
TF Admin charge	950 203	950 203	0.0 %
Total disbursements	***147 476 781***	***119 306 259***	***23.6 %***
Cash Balance	**15 133 313**	**36 853 275**	

Source: MDRP Quarterly Progress Report, April-June 2006, on www.mdrp.org.

91. Basically the MDRP MDTF is facing the kind of disbursement profile that could be expected from a typical Bank MDTF: slow to begin with as the programs are being put in place, then spending increases as activities get underway, with a big "bulge" in expenditures when the bulk of the benefits are being transferred to beneficiaries, and then a slow down as the majority of beneficiaries have been reached and the program winds down. This semi-logistical disbursement curve ("the lying S-curve") occurred first for the Special Projects since they were up and

running first, and they are now facing the tapering off period in the aggregate (most projects are now finished), while the different national programs find themselves at somewhat different points on their curve, and with the MDRP in the aggregate pretty much where one could expect.

92. What is not clear from the data is expenditures against expected results – that is, to what extent targets are being reached within planned-for unit costs. In the case of CAR we know this was a major issue. Burundi negotiated a higher compensation package for its EXCs than most other programs, and Burundi has a budget that still remains too high given the actual number of EXCs to reintegrate. Rwanda had to enhance the reintegration component of its program since the original benefits package was not sufficient to address the economic reintegration needs of a significant number of ex-combatants.

Efficiency of Program and Project Delivery

93. The time required to establish national programs have varied. Rwanda, Angola, the Republic of Congo and Uganda had some national implementation institutions in place prior to the MDRP. In these cases, the MDRP Secretariat focused on helping governments to strengthen the existing institutions. For example, in Rwanda, a previous phase of demobilization had been funded through the UNDP but had to be suspended due to a lack of financing. Strong national commitment made the program operational and the government drew on IDA resources to put the necessary technical capacity in place, so as soon as MDRP grant financing was approved, associated resources could be disbursed and implemented relatively quickly.

94. Each country has had its own issues to address. Many of these are directly related to the armed conflict and thus the distrust and competition for resources that the parties engaged in after the conflict. It seems clear, however, that in those cases where there is a clear victor, such as in Angola and Rwanda, the programs have been faster to put in place and easier to implement. A key reason is that there has been much less time spent on negotiating compromises that had to address particularistic agendas of the actors, and that there has been a clear and unchallenged leadership, also when it came to the management of DDR activities.

95. Overall, the MDRP seems to have been able to respond appropriately and provide support when national authorities were ready for putting in place a DDR program. It has also applied pressure as well as continued support for moving the process ahead, from receiving the LDPs, to signing agreements, to meeting conditions of effectiveness. This process has been quite long in some countries, part of it having to do with non-familiarity with Bank procedures (for example procuring a financial management agent or external auditor). Procurement has in several instances been a problem, where some processes took a very long time such was the case in Uganda where the first Financial Management Agent on the shortlist was found to be unacceptable. Other factors, such as changes in governments and thus in the key staff of national DDR bodies, such as in Burundi, have also led to temporary slow-downs in the pace of implementation.

96. The Bank has applied regular emergency procedures (OP 8.50) in order to ensure fiduciary standards. In post-conflict situations which often entail changes to governments and also in some cases the absence of the Bank for an extended period of time, the time needed to understand and apply correctly Bank procedures thus appeared as extensive and frustrating to some national actors. Overall, however, it is appreciated and accepted that these are the standards and that they must be applied correctly. While this may have held back implementation in some cases, the dynamics of most of the national programs have been such that these procedural matters do not seem to have materially affected program performance. Getting national bodies and systems in place and ensuring their correct functioning has been seen as important, and where speed of delivery was critical, Special Projects have been used. The one case where the MDRP may have missed an opportunity concerns spontaneous demobilizations in eastern DRC, where MDRP resources were not available fast enough and through actors who could support these processes when they occurred.

97. The MDRP MTR noted that MDRP staff had to spend a high share of its time on the relatively small part of the program that the Special Projects represented. Despite this bias in favor of the projects, this is an area where the MDRP has received the most criticism.

98. The MDRP Secretariat had streamlined some of the procedures for project approval, but they remained highly centralized. A time sheet showing how to process these projects gives very short turn-around times for moving from grant agreement to disbursement, for example. But originally there were still four steps required, including getting originally signed documents pouched to Washington for processing by legal and loans departments, questioning whether legal department can begin processing based on a faxed agreement or has to wait till the pouched copy arrives, etc. These steps were therefore not delegated to the field. Another example of an "all projects are equal" approach was a reintegration sub-project where a micro-scale local chicken raising activity in rural DRC supposedly had to document social and environmental impact, and local MDRP staff were unable to avoid this kind of procedure. These kinds of early bureaucratic problems were addressed, but posed serious headaches to the actors involved at the time.

99. The Joint Supervision Mission Report of September-October 2003 noted that 13 Special Projects had been submitted to MDRP for consideration, of which 11 had been reviewed by LACs in four countries. Two proposals had been withdrawn, but as of October 2003, ten projects had been endorsed, seven had been approved by the Bank, five grant agreements had been signed, and USD 2.4 million had been disbursed to one grant recipient. On average Special Projects took six months from the date of first submission to the grant signature by the World Bank. However, most time was lost on the redesigning of projects and revising proposals after the first submission.

100. The MTR of the MDRP (February 2005) provided two tables that showed that a year later the picture remained troubling. The average time for the first ten projects to be approved was 162 days, for the grant approval process 192 days,

then 19 days for government and implementer to sign, and 89 days till first disbursement, for a total average of 461 days – one year and three months. The fastest processing time was 243 days for the UNDP RRM project in DRC – the slowest 691 days for UNICEF's child soldier project in Burundi.

101. When looking at the individual project time charts, it can be seen that the processing time for the four steps varied considerably. In some cases, the first step of getting the project itself approved was very fast – the child EXCs project in DRC seems to have been passed in less than ten days. For UNDP's Eastern Congo project, the time needed was nearly a year. Similar for the grants approval process, which varied from around 80 days for the RRM project to around 400 for the child EXCs project that had been approved so quickly in the first step.

102. Several issues came up. One is the extremely long time it took to finalize the first set of grant agreements,particularly with UN partners. The MDRP was breaking new legal ground with many of the Special Project implementing partners (UNDP, UNICEF and international NGOs) and thus was establishing precedents. The MDRP seems to have been the first time an MDTF had contracted directly with NGOs or UN agencies where the Bank had to apply its standard procedures (previous cases where the Bank had contracted NGOs or UN agencies was with the Bank's own surplus income funds that are governed by somewhat other rules). As such, it became particularly important for UN agencies, which believed that Bank-managed TFs might be important funding vehicles also in the future, to ensure that longer-term legal concerns were addressed. The project negotiations thus involved head office staff and legal departments, until both sides were satisfied that equitable arrangements had been arrived at. Particular areas of debate between the MDRP/World Bank and the UN had to do with procurement and audit requirements which called into question or conflicted with UN procedures and legal requirements

103. This Review Team did not have the opportunity to meet project implementation teams. Since the Special Projects are now largely completed, the issues surrounding them are also primarily of interest as "lessons for the future". One is the issue of how good project documentation needs to be and thus the amount of time that should be spent preparing it. Another has to do with performance tracking and reporting. Both have to do with the time and administrative costs of managing relatively small-scale projects in high-volatile situations, where there are differing views on what should be considered "acceptable standards" for implementing what are often time-critical tasks.

Efficiency and Timeframe for Secretariat

104. The MDRP secretariat was set up with a presence in the field but with MDRP management in Washington. The fund was established in April 2002, the initial administrative budget available in July, one staff and one consultant were almost immediately in the field, and two more were in place by September. Then four additional technical staff were recruited and largely in place by yearend. There were 650 applications for these positions, and all four who were hired had various DDR backgrounds from UN agencies. Further staff have been hired since

then in response to continued donor and host government requests for a stronger MDRP presence on the ground. In addition, three Bank staff were spending the majority of their time on the preparation of the MDRP and implementation of MDRP activities from early 2002 onwards.

105. The core staff of the MDRP has been among the most experienced in the Bank on DRR issues, with personal knowledge from previous experiences (e.g., Bosnia, Cambodia, Chad, Guinea-Bissau Eritrea, Ethiopia, Sierra Leone and Uganda). They are knowledgeable both on procedures and contents of DDR issues, they had a proven track record and hence were quickly able to establish credibility and were listened to by all parties.

106. The new field staff hired have by and large not had previous Bank experience. This means that they were not familiar with Bank procedures, rules and policies. Over time, some of them have taken on more important tasks within the program, including as program managers. With hindsight, they see that it would have been useful, despite the heavy demands on their time, to have been given training early on in Bank procedures. This could have helped speed up project processing and avoid some of the procedural errors and misunderstandings that held back national program and special project progress.

107. The MTR noted the negative impact of the MDRP having three different program managers during the first two and a half years. While the third manager is still in post, the issue concerns the profile and stability of senior management in a volatile situation. The MTR noted that the profile of the manager changed considerably. The first manager was the "visionary" who put the MDRP together, and then left six months after it became operational. The next one focused a lot on getting the MDRP Secretariat up and running, addressing operational issues but at the detriment of the long-term vision and the political contacts. The current manager is back to providing a stronger leadership while attending to the political demands of the task. The changes in management over the period have been disruptive, in particular to some of the dialogues with national authorities, since there have been changes in several governments. Experience is that in post-conflict situations, where governance and structures are weak, personal relations are critical. Maintaining a more continuous institutional memory and leadership on the Bank side during the early phase of the program would have been helpful. The issue is what kind of job description or personal profile the Bank believes is optimal for this kind of job, since it is highly demanding. Some MDRP staff believe that MDTF posts, where MDRP project managers usually have projects in other countries as well, are seen as fairly unattractive by staff in the Bank. If the Bank wants to attract and retain ambitious and good managers and staff to handle these complex situations, special incentives need to be put in place[24].

[24] Bank management begins to recognize post-crisis situations as common in the African Region and affecting an important number of countries. More attention is therefore *supposed* to be given to these countries, and some groups within the Bank such as CPU and LICUS are pushing for what are

108. Another issue in the MTR is the question of how much staff a trust fund like the MDTF should have on the ground. The Bank, as a policy, wants government ownership and thus likes to step back and let decisions and implementation be the responsibility of the national authorities, and then monitor intensively and provide support. But a question here is not only what levels of support post-conflict situations demand in terms of management and technical advice, but also how: in the form of more permanent presence on the ground, or is the Bank's usual mission approach sufficient? Risk management studies show that a key reason large-scale projects fail is because of poor risk management, where the riskiest period is project start up. The conclusion is that pro-active risk management would require more and higher-quality resources in the start-up phase of a program or project. Bank staff argue that a considerable staff contingent was recruited and put in place within six months of MDRP effectiveness, and that most national programs were not ready to absorb more MDRP support at that time.

109. Some donors expressed concern that the MDRP was "too thin" on the ground to begin with. This was seen as especially important in view of the weak capacities in some government institutions responsible for implementing the DDR programs. Some MDRP secretariat staff were in place quite fast, but recruitment of the external consultants who were hired as technical staff took longer. Some Bank managers involved expressed frustration at the time lost, which held back the MDRP's ability to become visible and operational on the ground at the critical start-up phase. For the last round of recruitments, the MDRP has been able to move much faster, including hiring staff as short-term consultants till formal procedures like health and security clearances were in place. The real issue is that the Bank does not have procedures that allow for fast recruitment of critical personnel for time-critical activities like an MDTF.

110. Experienced Bank staff were involved with the MDRP from the beginning, but worked largely out of Washington. Much of the decision making capacity including Task Team Leaders (TTLs) was therefore not permanently in the field. National authorities noted that while Bank staff were extremely helpful and constructive, the fact that TTLs were not always on the ground was at times a problem for addressing problems as they arose. Staff missions were time constrained and focused on pre-defined issues. Bank staff believe that questions were addressed through E-mail and phone calls quite rapidly. But the perceptions and in particular the expressed "comfort level" by local actors in a potentially volatile situation is worth taking into account. More recently TTL roles in some programs have been handed over to MDRP Secretariat personnel who are permanently on the ground, and this has been well received by the local actors.

considered to be more appropriate personnel policies if the Bank wishes to become more effective in these situations.

111. On the question of whether overall MDRP management should be put in the field, as some have suggested, the view by MDRP staff is that it was more important to have management based in Washington, since the important policy decisions are taken there. MDTFs, including the MDRP, find that they receive little attention by senior management, which is more focused on the normal lending portfolios of the Bank. There is therefore a real need to remain as visible and close to management as possible. In the case of the MDRP, there was the additional argument that it is easier to provide overall management to a dispersed regional program from a more "neutral" city outside the region.

112. Concerning the balance between regular Bank staff and MDRP Secretariat personnel recruited from the outside, the consensus is that the MDRP had largely got it right, but that greater support was needed to upgrade staff new to Bank procedures more quickly and throughout the first year. A Bank manual with standard templates and operational procedures, accompanied by practical and creative solutions to lessons learned from legal and procurement problems was highly commended by Bank staff. There were several senior Bank staff with DDR experience from the region, but supplemented with external staff with backgrounds from the UN and national governments.

Findings and Conclusions

113. The planning for MDRP was inclusive and mobilized support from national governments, donors, UN agencies and stakeholders on the ground. The establishment of the trust fund, given the complex regional context, was seen as efficient and opportune, given the incipient peace processes in the region. The integration of the MDTF as part of the MDRP provided a vehicle for donor involvement, allowed the MDRP to finance activities that the IDA grant could not, and provide a forum for stakeholder interaction.

114. The MDRP succeeded in mobilizing the resources required to cover estimated funding needs. Signing the agreements took considerable time, but once they were in place, donors were quick to disburse so lack of funds has till late 2006 not been a problem.

115. Disbursements to national programs were slow, due to program reasons rather than administrative ones, but have increased as of late 2005. The overall disbursement profile is following the expected trajectory of Bank-managed MDTFs, with special projects nearing completion. Early criticisms of slow disbursements seem in part based on Bank’s thin presence on the ground, change in MDRP management, weak administrative capacities in government counterparts, but also to unrealistic expectations: some activities were just not ready to move as fast as had been hoped.

116. Special projects took a disproportionate amount of MDRP staff time, one reason being that staff new to Bank procedures were learning “on the job”. Project approval in the more extreme case took nearly two years. One major reason for delays in the case of UN implemented projects was that contracts took long to negotiate. Overall project processing should have been handled faster.

117. Bank hiring procedures meant it took considerable time to get the first group of MDRP technical staff on the ground. Donors and national authorities felt the MDRP was "too thin" on the ground for too long. New MDRP staff only got training in Bank rules and procedures after they had already learned “on the job”, which reduced their ability to address operational issues facing the early program and project periods. TTL roles have now increasingly been given to staff permanently on the ground.

118. MDRP program management changed too often in the first critical period. The Bank needs to consider the job descriptions and incentives necessary to attract and retain top managers and staff for the demanding task that a post-crisis MDTF poses.

119. In general, from a risk management perspective, it is important to have senior and sufficient number of skills in the critical start-up phase of a complex process like an MDTF.

G.4 Governance

120. The MDRP/MDTF has had a consistent governance structure since the program was set up. The Advisory Committee consists of all donors to the MDTF, other donor agencies interested in the MDRP, UN and other partner agencies, and representatives of national government, civil society and NGOs of the greater Great Lakes region. The Responsibilities of the Advisory committee are to (i) review periodic program progress and, as appropriate, recommend ways to improve performance; (ii) review and provide input to the MDRP Secretariat work plan; (iii) help to coordinate national program activities with relevant bilateral efforts; (iv) provide input related to the political and security context to overall program and national project preparation and implementation; (v) help sensitize wider national/organizational audience as to the MDRP purpose and objectives; (vi) help raise resources for the MDRP; and (vii) assist in the identification of key resource people, consultants, etc. to participate in appraisal, technical assistance or supervision missions.

121. The Trust Funds committee consists of all active donors to the MDTF. Its responsibilities are to (i) review utilization of MDRP Trust Fund resources; (ii) review and approve annual work plans and budget of MDRP Secretariat; (iii) discuss the eligibility of new country and special programs for MDRP support; (iv) review quarterly program progress reports and recommend actions to be taken to respond to identified opportunities and/or address constraints; (v) designate appropriate technical staff to participate in regular supervision missions of the MDRP; (vi) assess need to redistribute resources between national and special programs; and (vii) raise resources for the MDRP as necessary.

122. The MDRP committees have largely met every six months. The first meeting of the donors was held before the MDTF had been set up, in Brussels in December 2001. A pledging conference was held in Paris April 2002, and subsequent meetings have been held in the fall and spring of each year, in

different capitals. Minutes from both sets of meetings are posted on the MDRP web site.

123. At national level, Local Ad-hoc Committees (LAC) were established to approve the Special Projects. While the LACs performed their role as expected, their time of functioning and hence overall utility has been limited.

124. At the regional level there is no inter-government mechanism established, largely because there is no real need for anything beyond the consultative mechanisms that the Advisory Committee provides. Regional workshops have addressed specific issues, providing training for technical staff and thus establishing links and cross-border learning, but this is a fairly ad hoc process driven by specific issues rather than building networks and continuous dialogue.

125. While the formal decisions regarding what to fund and by how much are taken by the Trust Funds committee, much of the real discussions take place on the ground, where projects and programs are presented, reviewed, appraised, negotiated and finalized. In line with MDRP principles, however, all program partners were invited to participate in these key decision missions and meetings (particularly appraisal) and in fact they did. While most frequently these were local representatives of MDRP partners, in the case of the high profile programs (in Burundi and DRC) focal points and other representatives of key donors and partners would also participate in such decision missions. By the time project proposals get to the Committee, the issues have largely been settled. It is during this process that host governments' views are presented, so the formal decision making in committee was not seen as problematic by public officials met: Bank staff were perceived as listening and supportive, and there had thus not been conflictive issues due to the decision making structure or process.

126. Voice of civil society has been weak. A few of the larger international NGOs attended early Advisory Committee meetings, but NGOs have generally been involved as contractors under the Special Projects. At national level, civil society actors are members of the National Commission in CAR, but the space provided in most other cases seems minimal. In general NGOs complain of lack of being heard and consulted, such as in the eastern DRC where a number of them are active on the ground and have considerable experience.

127. The national DDR bodies vary in composition. Some are highly political with a separate technical secretariat to manage the program (Burundi) while others are more broad based with a focus on the policy role (CAR – though here also it is also increasingly engaged in implementation).

128. The MDRP uses conditionality by having governments show political commitment to a national DRP in the form of the LDP and the development of national programs. The quality and comprehensiveness of the LDPs have been quite variable, so the ability to hold governments accountable for their performance is uneven. The JSMs have, however, reviewed the situation in each country on an annual basis up against the ten MDRP indicators that have been agreed to, which provides a timeline of how the DDR programs are progressing.

Findings and Conclusions

129. The MDRP has a broad-based Advisory committee and a donor-based Trust Funds committee that formally takes all financing decisions, though all appraisals and approvals must first be done in the field. MDRP thus has separated general policy from resource allocation bodies. The committees meet every six months, and minutes are posted on the web site;

130. Voice of civil society is variable from one country to another, but generally weak. NGOs largely enter as contractors and not as partners to be consulted.

131. Government commitment must be shown through issuing a Letter of Demobilization Policy, developing a national program and establishing appropriate institutional arrangements for implementation. JSMs track performance in each country against 10 agreed upon indicators tracking performance at three program levels.

G.5 Harmonization and Coordination

Harmonization and Donor Coordination

132. The MDRP was created in part to function as a "one stop shop" for DDR in the region, and in this it has largely succeeded: financing and advisory services have been made available to all interested host governments in the region, the MDRP has been able to move its staff resources to those areas that were most urgent in need of assistance, and financing has been made available in a transparent manner.

133. Those donors that committed resources to the MDTF have delivered on their financial obligations so far. There are now attempts to reach out to other donors to enlarge the group from the current eleven.

134. The actual engagement by the donors in program discussions and development has varied. The larger donors have been the more active, to the point where it has created problems for the MDRP. A couple of donors at one point wanted the MDRP to engage in security sector reform, which the Bank had to reject. There was also early pressure for the MDRP to accelerate activities with donors expressing impatience with what were perceived to be long delays due to Bank procedures, though perceptions vary in terms of whether it was lack of national ownership or Bank rules that caused delays.

135. One important donor threatened to withdraw its remaining financial support to the MDRP. The problem for the MDRP is that it has to enter into legal arrangements with host countries, but can then find itself without the expected resources since a donor can simply issue a letter of withdrawal. Since one of the main arguments for increased donor harmonization is the improved predictability of donor funding, this raises a serious issue of principle, and points to the risks that the Administrator (whether the Bank or the UN) potentially faces in multi-donor funds.

136. At the same time, the MDRP has provided a forum for getting a large number of actors with different agendas and cultures around the same table (as one

informant put it, "where else could you get the Americans, Belgians, Dutch and French to discuss common concerns in the DRC?").

137. One area where some donors expressed dissatisfaction was the early reporting on the MDRP and its activities. MDRP staff then carried out a satisfaction survey regarding their information activities a while back, and the feed-back was largely positive. The quarterly reports are now well structured so that it is easy to find the specific information that is being sought, by country, by thematic area, or financial and performance results. The longer country reports at the end of the year contain a lot more detail. Since all of this is on the web-site, it is freely available to all who are interested.

138. Overall, however, the reactions by donors to the MDRP are highly favorable. There is a recognition that the situating in the Greater Great Lakes region required a concerted reopens by the international community, and the Bank has been able to provide leadership and contribute important funding for this.

The World Bank and the UN System

139. The relations between the World Bank and the UN family reflects the multi-dimensional nature of the MDRP itself. In some countries, the relations are good (Angola), in others the relations vary from one agency to another (ONUB in Burundi and the Bank have good relations while the discussions surrounding performance of the UNICEF project created strains). There are several factors that influence this relationship: (i) overarching structural dimensions; (ii) the roles and thus relations that the organizations play in different settings – implementing agency, lead agency, historical roles that are being changed; (iii) corporate cultures, (iv) personalities and specific stumbling blocks.

140. Among the structural issues are the different mandates that various UN bodies have, such as MONUC in the Congo. From their perspective, other agencies like the World Bank and the MDRP are thus interesting primarily in so far as they can complement and contribute to their objectives. When the Secretary General made a proposal to the Security Council in September 2002 "that the costs of disarmament, demobilization and repatriation of members of armed groups be borne under the assessed budget [of MONUC]", the Bank/MDRP flagged this as a concern about possible duplication of funding mobilization. The first reaction from some in the UN family was that this was challenging the UN system's ability to carry out its mandate (though the issue was amicably resolved).

141. One structural concern is the dependence that the UN system has on project overhead income, which makes the UN vulnerable to abrupt changes in funding patterns. Once a trust fund has been built up (such as in a conflict/post-conflict situations), a large country office is dependent on continued flows of donor funds. Since these are tied to specific programs, the UN, and perhaps in particular the UNDP, have often fought to maintain a project management role. While there is a sense of mandate and thus entitlement in some of the argumentation that the UN system presents to justify its continued role, the

financial dimension is also there. This issue played itself out in a couple of countries during the early stages of the MDRP.

142. There is furthermore a sense in parts of the UN family that the World Bank is expanding its presence in areas that the UN has historically filled, such as in capacity building (UNDP). This is resented by some.

143. There is also the notion that the World Bank is more the owners' agency (that is, it represents primarily the donor community), while the UN is a more universal body and thus should be listened to when it comes to understanding and defending the rights of the resource poor, a key concern in most post-conflict situations.

144. When the MDRP was being developed, the UN participated actively. DDR experts from UNDP and other agencies contributed actively on the key documents. They thus had high expectations regarding the partnership that would flow from this collaborative effort, and were disappointed with what some perceive as a "Bank only" trust fund. This was felt reflected in a number of areas:

- Bank disbursement procedures were used, which are seen as quite rigid. UNDP experienced delays in funding on several occasions that hampered their project implementation, and in a post-conflcit situation this was felt to be unhelpful.
- UNDP management felt that with the high profile of the MDRP – which was presented as the unified funding channel for DDR activities – that it became difficult to mobilize supplementary resources for complementary buit critical activities like small-scale reintegration projects in eastern DRC and support to spontaneous demobilizations.
- The process for clearing Special Projects was bureaucratic, time consuming and seen as patronizing. It could take weeks before a LAC meeting was convened, and it might take several rounds before decisions were taken. During these processes there could be major technical disagreements between different actors, and between those sitting with operational responsibilities in eastern DRC and Bank and LAC personnel taking decisions in Kinshasa. For UN staff sitting in the field with responsibilities to address and used to moving such small-scale projects fairly quickly, it was difficult to accept this process as providing value added.
- Once the project had been approved by the LAC, the Bank came in with their own appraisals even though UNDP had already done theirs, which was seen as questioning their skills in a field where the UN believes it has considerably more experience.

145. Another area that created discussions was the Lead Agency role. In countries where the national authorities were not in a position to lead the DDR task right away, either UNDP or the World Bank would act as MDRP Lead Agency. In Burundi the relations between the two became difficult in early 2003 when

UNDP tried to get government sanction for this role after the Government had formally requested the World Bank to take this on.

146. The discussions in the DRC also were intense. The Government requested the UNDP to assume the role of Lead Agency in early 2003. The UNDP also became, however, a project implementing partner and thus a beneficiary of MDTF allocation decisions – a decision making process that the Lead Agency should head. This conflict of interest situation was raised by MDTF donors, and the issue resolved when the Lead Agency role was handed over to the transitional government.

147. The corporate cultures of the two systems are different. The UN system puts pride in delivering results on the ground, while the Bank is wanted as fund trustee due to its management and fiduciary oversight capacities. On the other hand, the Bank believes it is much better at handing responsibilities to the appropriate authorities, since it largely lends and thus does not "own" any of the projects or have its own staff funded as project implementers the way the UN does. While there is considerable flexibility in the National versus Direct Execution modalities in the UN system, government officials in several countries expressed a dislike for UN executed activities, which they saw as competing with government responsibilities rather than building local capacities. UN staff have pointed out that national authorities have often not been in a position to provide critical services, and that their commitment is to needy beneficiary groups, not national authorities as such.

148. This issue is part of a criticism that has been leveled against the Bank's MDRP approach with its strong focus on the national programs, and what the MTR refers to as the Bank's policy of equating national with government program. The MTR returns to the examples in the eastern DRC where actors on the ground, whether reputable NGOs or UN agencies, could have handled the spontaneous demobilizations not only faster – with the presence on the ground – but also with more trust. The reason is that the government and hence its national agency may be viewed with suspicion by its armed opponents. Using an "honest broker" as go-between rather than insisting on a government agency from this perspective would thus have been helpful in these cases.

149. The Bank believes that this criticism ignores "lessons learned" elsewhere – that without government ownership and commitment, the DDR is not going to be successful. In Sierra Leone, evaluations of the Bank’s DDR Program assert that the strong ownership by the government was key to the smooth implementation of the complete process. In Angola (1992, 1998) and Liberia (1997, 2004), the lack of credible government ownership is seen as a major cause of the DDR processes failing or suffering major shortcomings. In Burundi, there was no alternative but for the parties themselves to agree on issue like "rank equivalency" for the officers in the various groups who were being demobilized, in order for the benefits to be considered fairly distributed. These and other examples are used to defend the need for a national body to be in charge, and that this approach must be in place from day one in order to help governments build the necessary implementation capacity. Bank staff would also point out that actual

implementation of key demobilization and reintegration activities is frequently contracted out to NGOs or UN agencies under programs financed through national governments.

150. The issue of how to balance the need to deliver on the ground versus building national capacity is central to the efficiency-effectiveness debate. This is particularly important in post-conflict situations where the state itself may be quite weak and conflict-ridden: what is a legitimate role for delivering directly (pushed by some UN agencies as the best approach) vs. building national capacity in a field that is eminently a public sector/government domain issue?

151. Another area that has generated tensions is how the relations between the Bank as administrator and UN agencies as Partner Agencies are to be understood. The UN does not want the Partner Agency role to be simply one of contractor, but based on its competence, experience and internationally sanctioned mandates. It experienced the Bank's early insistence on oversight and insight as contradicting its status as an international body that can only be accountable to its member governments. While agreements were eventually found, the discussions regarding the Bank's right to demand financial accountability including independent audits demanded a lot of staff time on both sides of the table.

152. The way the Bank has handled reports critical of UN performance has created some hard feelings. UNDP had expected the Mid-Term Review (MTR) of the CAR program to be an independent assessment, whereas the Bank treated it as part of its oversight responsibilities and used its own staff. While UNDP accepted that performance was highly unsatisfactory and that MDTF resources had been utilized for activities not agreed to in the grant agreement, the tone of the document was seen as unnecessarily confrontational, and contained formulations that UNDP felt undermined its relations to the government, which was seen as unnecessary. Also troubling to the UNDP was that the draft report was distributed to government before UNDP had had a chance to comment.

153. In Burundi UNICEF ran a special project to support the demobilization, reintegration, and recruitment prevention of an estimated 3,000 child soldiers, with a budget of USD 3.5 million. The project finished middle of 2006. The Bank commissioned an independent evaluation of the project September-October 2005, which produced a highly critical draft report towards the end of the year. Apart from disagreeing with some of the contents of the report, UNICEF reacted to the fact that it had been widely distributed before they had had a chance to comment. Bank staff reacted to what they saw as UNICEF's attempt to focus the discussion on the document finalization process rather than discuss the fact that it had failed to implement two of five project components to which it had committed itself in the project proposal.

154. One issue raised had to do with the financial reporting. UNICEF noted that it was working with ten local NGOs. These had been selected based on their ability to work with children and their presence on the ground in the appropriate regions. Several of them were not familiar with the accounting and reporting

standards expected, and were late in providing documented accounts, which delayed UNICEF's own accounting. UNICEF felt this was a second-order concern compared with successfully addressing the reintegration of the children.

155. These cases reflect the different perspectives some UN and Bank staff have of the other. Some Bank staff feel UN agencies are not serious about their contractual obligations while UN staff accuse the Bank of not understanding the problems of implementing in the field, though Bank staff feel UN agencies sometimes do not accept being held accountable for lack of performance. One interesting aspect in this regard is the fact that a number of the Bank MDRP staff have UN backgrounds, so the reason for the disagreement is in fact not due to a lack of understanding of one agency by the other.

156. Despite the history and cases given above, most actors now feel that relations are generally improving, with more genuine collaboration and understanding between the UN and the Bank. A commitment to "win-win" relations is furthermore being pushed by senior management in both organizations.

Findings and Conclusions

157. Donor harmonization has largely been successful, though the MDRP is trying to increase the number of donors, reduce its dependence on a few larges ones, and avoid legal commitments being undermined by donors suddenly withdrawing financial support, which also weakens the purpose of donor harmonization.

158. Some donors have tried to push their own concerns via the MDRP, including extending the MDRP agenda beyond what the Bank is mandated to do and for activities which cannot be financed by ODA resources. But overall, donors are satisfied with the leadership provided by the Bank, though would have liked to see the Bank be more flexible and respond faster to the urgency of needs on the ground.

159. There has been criticism of the Bank's focus on government led national programs, where the UN believes that sometimes it can deliver the results directly to the beneficiaries more quickly. The Bank would counter that externally-driven UN approaches pay insufficient attention to local ownership and political will.

160. Relations with the UN are complex, varying across country, over time, by agency and by issue, and have at time been quite conflictual. Reasons for this are in part structural, in part different roles and differing corporate cultures. Relations are seen as much better now, with a strong commitment by senior management in both organizations to better working relations.

G.6 Ownership and Capacity Development

161. Ownership and leadership of national programs were highly variable. Angola moved its DDR program quickly, but was able to do so because it had won the battle militarily, destroyed the leadership of Unita through the death of Savimbi and thus wanted to both demobilize Unita forces and its own excess military as

soon as possible. This clear winner-loser situation is also found in Rwanda, where a confident government moved purposefully to address the DDR agenda. In the other countries, a national commitment and capacity to DDR has only emerged over time.

162. The Bank was everywhere commended for its support to national ownership, with the caveat noted earlier that some felt there was an exclusive and somewhat conflict-naïve focus on support to the government-in-power.

163. Capacity development is given importance in all the programs, and resources are allocated to strengthen national DDR agencies' capacities to implement the programs. Some concerns are raised, such as in the MTR, when the DDR agency is not clearly inside a more permanent institution, like a Ministry of Defense. The issue becomes how much capacity should be built in an agency that is temporary; where it should be placed in order to ensure maximum operationality during its lifetime; how can relevant skills and organizational capacity be maintained for more sustainable impact of the considerable capacity development resources spent.

164. In the case of Sierra Leone, there was a "sunset clause" for the DDR agency that seems to have worked. In Sierra Leone, a Tripartite Committee was created to act politically over the implementation of the DDR and to promote reconciliation. It is not clear if MDRP countries have exit/success strategies, and thus what the long-term capacity development vision actually is. There is also the counter-question if it matters if the DDR agency is attracting "too much capacity development" because it needs to have sufficient capacity now, because the downside costs of not delivering – probable continued conflict – are so high as to be unacceptable.

G.7 Thematic Areas and Beneficiaries

165. The situation of the key vulnerable groups – children, female and disabled EXCs – have been discussed in section G.2.3 above.

166. The role of civil society in the MDRP, as noted previously, is limited. The most visible role is as implementing agencies for special projects and less as sources of experience, policy advice and advocacy. The national government bias in the Bank approach is noted in the MTR, with the conclusion that it tends to marginalize civil society. The focus on the government as representing the nation, and on public institutions as the embodiment of the collective will, over-simplifies the political landscape and makes state institutions dominate access to resources and to decision making.

167. The analyses regarding resources actually reaching the intended beneficiaries is increasing. There are now several beneficiary surveys from Rwanda and Angola, and also data from Burundi and Uganda. The increasing number of project and program reviews, including MTRs, is providing further data on the Outputs and medium-term Outcomes for the demobilized and reintegrated EXCs.

168. The MTR noted that the MDRP had achieved little in the field of regional activities, though there has in fact been considerable cross-border learning by the different DDR bodies. One question was if the MDRP could have invited in more regional actors, such as the African Union or South Africa. While there have been some new initiatives in 2006 to coordinate the approaches to COFS in eastern DRC better, this has so far yielded limited results.

169. One observation in the review of the UNDP projects in the DRC was that both projects, but in particular the community reconstruction one, had put limited effort into tracking results and monitor implementation. The review criticized this lack of oversight capacity on the ground, noting that it bordered on the irresponsible in the context of a country that is considered highly corrupt.

170. The MDRP's approach has been criticized by some for being too focused on demobilization and not enough on reintegration and even less on reconciliation. This means that the sustainability of achievements can be questioned. This was the main reason UNDP insisted on providing resources for community-driven public infrastructure in the CAR program. The MDRP Secretariat argues that the expenditures and focus of national programs supported by the MDRP so far have followed the typical implementation lifecycles of DDR programs – most programs are now shift their attention to reintegration assistance following significant demobilization in 2005 and the first half of 2006. In general, about 70% of resources for national programs under the MDRP are allocated for reinsertion and reintegration activities.

171. This issue raises the one of where to draw the boundary around a MDTF. In order to be successful, it needs to focus on what are the key challenges – in this case getting armed persons disarmed, demobilized and reintegrated back into civilian life. But in order to achieve this, the international community also needs to provide a broad-based and open approach to post-conflict assistance that takes a longer-term view. Additional financing for complementary social and economic recovery activities are essential to ensure that DDR programs do not become islands of temporary success.

Findings and Conclusions

172. Beneficiary assessments and performance tracking is improving, with better data on Outputs and medium-term Outcomes for intended beneficiary groups becoming available. Implementation oversight on projects is seen as uneven, in a context of considerable danger of corruption.

173. The program has focused its resources on demobilization and reintegration, but little on reconciliation, conflict prevention, and peace promotion. This may pose a threat to longer-term sustainability of reintegration results. This, however, is primarily a challenge to the international community as such, and merits more attention than has so far been given to these issues. The MDRP would seem to be the logical forum for addressing these matters.

G.8 Chronology of Key Events

1 November 2001, internal meeting, World Bank. Discussed

(i) plans for MDRP, including expected budgets,

(ii) how to handle pledge from Dutch for USD 100 mill, of which USD 30 million for the current FY but which would have to be paid by the Dutch before 26 November,

(iii) several "windows" in the TF to handle national versus regional programs,

(iv) implementing agencies: governments; UN agencies; the Bank,

(v) agreed that donors could express *preferences* for specific country programs but in the context of one coherent TF – if donors insisted on *earmarking* the Bank would have to set up special TFs,

(vi) that the admin fee be estimated based on actual costs of managing the TF.

19 December 2001, donors meeting, Brussels. Situation briefing by MONUC, and UNDP on its program in Eastern DRC. UNDP was focusing on socio-economic community development as the basis for reintegration of ex-combatants, and collection of small arms. UNDP expressed interest in exploring opportunities to synchronize its activities and TFs with the MDRP. The Bank presented the principles of the MDRP, estimated target group (280,000 EXCs in five countries), and budget of USD 425 mill[25]. MDTF was being set up in response to donor requests, and the Bank would provide 25-35% of total MDRP costs. TF would have co-mingled funds, managed by the Bank, joint supervision missions, governance structure not yet settled though in line with normal Bank procedures. The urgency of setting up the fund given the processes but also the fragility of the situation was stressed.

8 February 2002, UNDP-Bank meeting, Washington:

(i) Governance structure was agreed to have two levels: Consultative Forum (later called Advisory Committee, AC) that included all funding agencies, governments and implementing parties, and a Steering Committee (later called Fund Committee, FC) of actual donors, where others parties could participate as observers. These were to meet every six months. The Bank was responsible for funds mobilization, quarterly financial and activity reporting, establishing legal agreements etc.

(ii) Country level management would in general be by national agency responsible for DRP. Standard Bank procedures for procurement, audit etc were to be used.

(iii) Special projects where government implementation was not feasible or reasonable was agreed to, where most capable agency would be given the contract.

[25] The estimated cost per EXC was USD 1,500 distributed with USD 200 for demobilization; USD 400 for reinsertion; USD 800 for reintegration; and USD 100 in administration costs.

(iv) UNDP agreed that the Bank would be responsible for funds mobilization, and would not seek further financing for existing or new TFs for D&R in the Great Lakes region.

(v) The complementary activities that UNDP and others were engaged in would be given special mention in MDRP documents and agreements, and national coordination bodies should be fostered.

19-20 February 2002, MDRP focal point meeting, Washington:

(i) discussed the MDRP design, including the need for flexibility in a highly volatile environment,

(ii) the relation between the MDRP and national authorities, to the UN Security Council, the breadth and depth of MDRP role etc were debated, specifically that the MDRP focuses on D&R for EXCs,

(iii) the many complementary activities by the UN system were noted: MONUC; UNDP in eastern DRC and with small arms collection; UNICEF and child soldiers; etc. While outside the Bank and MDRP mandate, they are important supplements to the MDRP and thus need to be kept in mind;

(iv) the structure of Advisory and Fund Committees were agreed to, and the semi-annual meeting schedule;

(v) the Bank would charge a 2-3% admin fee on the TF principal,

(vi) MDRP Framework Document was to be ready by 27 February, MDRP Board presentation expected 18 April, TF documents for donors ready by 15 March.

26 March 2002, MDRP/MDTF formally established, Washington.

12 April 2002, Partners meeting, Paris:

(i) the MDRP strategy document had been updated, incorporating lessons learned from other DDR initiatives such as the Southeastern Europe Stability Pact,

(ii) expanded discussions of related links to political, military, peacekeeping and security sector issues,

(iii) updated the Governance structure with a Sub-Committee of the AC to mobilize funds and endorse individual grant proposals,

(iv) agreed on a mid-term review of the MDRP,

(v) estimated management costs over a five-year period at USD 8.4 mill,

(vi) the role of community-based development as key to EXC reintegration was again brought up,

(vii) coordination with other issues at the national level was recommended,

(viii) staffing, flexibility, and ability of MDRP secretariat to address issues and take decisions in a timely manner was stressed,

(ix) the Bank pledged USD 150 million and the donors about USD 180 mill,

(x) the Rwanda DRP was presented, and noted that it was expected to go to the Board on 25 April, along with the MDRP TF agreement itself,

(xi) several partners expressed interest in participating in regional missions,

(xii) while IDA funds will go towards national programs, the TF will in addition fund Special Projects, regional activities, and program management of what was now expected to be a USD 500 million MDRP.

July-August 2002, Technical Group Meeting, Luanda: Brought technical staff from 7 country programs together, brought in three experts from other DDR programs (Chad, Sierra Leone and Ethiopia), got DRC, Rwanda and MONUC staff to discuss implementation of Pretoria Agreement which was signed at that time, and later followed up with meetings in Nairobi.

23 September-4 October 2002, Joint Supervision Mission: It visited all seven MDRP countries to assess MDRP implementation, explore better regional coordination, identify activities for financing:

(i) Only Rwanda had a program in place, Angola was getting ready to have its program approved in 2002, but the criteria for MRDP support were considered appropriate – particularly the need for a Letter of Demobilization Letter, and the development of a national body to implement DDR. Experience from Rwanda was positive, with the R DR Commission very weak, but now implementing well.

(ii) The Bank was using flexible procedures regarding environmental safeguards and fiduciary measures to avoid unnecessary delays.

(iii) The mission noted that UN SecGen had requested "that the costs of disarmament, demobilization and repatriation of members of armed groups be borne under the assessed budget [of MONUC]" in the report of 10 September to the Security Council, raising concerns about duplication of funding mobilization.

(iv) Also concerned that MONUC cross-border DDR initiatives be better synchronized with governments in DRC and Rwanda, to minimize risk of funding and operational gaps and duplication.

(v) Want to reduce Special Projects and instead address needs of special groups – women, child, disabled combatants – through the national programs. MDRP was sensitizing national authorities on this, and working well in Rwanda while in Angola child soldiers were not registered.

(vi) The MDRP TF had not become operational yet, and there was also not a satisfactory timeframe for Special Projects in place.

(vii) The need to see DDR and EXC reintegration in a longer-term perspective, and hence the importance of general community development, was noted, linking this to other war-affected populations and general rehabilitation and reconstruction.

(viii) The data for MDRP monitoring at Strategy, Program and Output indicator levels are being established, with baseline data available on key indicators, and ongoing monitoring generating data on Output levels. There are seven country annexes to the report from the four teams..

8 November 2002, Advisory and Trust Fund Committee meeting, the Hague: While donors pleased with progress, felt that the MDRP needed to move faster on the ground, be more flexible so that it could exploit possibilities as they opened up, and that MDRP should have an office in Kinshasa in order to process Special Projects faster. Agreed that Special Projects launched ahead of national programs should be designed so that they could fit into the NP framework. The Letter of Demobilization Policy was innovative in that it linked the MDRP DDR to wider security sector reforms. MDRP Secretariat had two staff in place and 650 applicants for the other 4 slot that were expected to be filled by early 2003. As of end October, three donors had signed agreements worth USD 9 million (France, Sweden, UK), and four more by end of Nov for USD 17 million expected (Canada, Germany, NL, N). Cash flow was expected to be fine till 2003 3Q. The guidelines for Special Projects needed to be revised, and in particular more delegation to national Ad Hoc committees for approval.

27 September-15 October 2003, Joint Supervision Mission: Three teams visited all seven MDRP countries:

(i) Angola has demobilized and reinserted 90,000 UNITA EXCs, Rwanda has demobilized 13,800 EXCs in the second phase, national programs are being produced in Burundi and DRC, and draft NDPs and LDPs are being prepared in CAR and Congo. The imminent Defense Review in Uganda will serve as the platform for MDRP dialogue there. But overall slow progress on returning EXCs from DRC and on SSR is troubling.

(ii) Special Projects: 13 proposals made, 11 being considered by LACs in 4 countries (2 withdrawn), 7 approved and 5 agreements signed, by mid-October USD 2.4 million had been disbursed on one project. Average time from first submission to grant signature was on average six months. The mission was concerned at these serious delays. MDRP explained this was due to (a) lack of appropriate models for legal agreements with NGOs and UN agencies, (b) interest of some NGOs and UN agencies to establish certain precedents. This has prolonged negotiations.

(iii) Only Angola and Rwanda met all MDRP requirements. Both countries have MDRP support approved. Rwanda got first tranche of USD 1.4 mill. Angola's program delayed due to lack of independent unit for procurement and financial management. Both need capacity development, institutional support.

(iv) The implementation modalities in countries varies, though all are to have a national coordinating body – procurement and financial management is handled differently depending on country-conditions, government capacity to handle this. Simplified environmental and social safeguard measures have been adopted in the two countries with operational programs, Rwanda using checklists, which is proposed as procedure for all other countries as well.

(v) The mission pointed to three specific instances of interesting experiences (Ex: high female EXC drop-out rates in DRC-Rwanda for MONUC-supported DDR), so MDRP asked to develop learning activities around these.

(vi) One important "lesson learned" was from Muyange cantonment initiated by African Mission in Burundi (AMIB) June 2003: risks and pitfalls of beginning cantonment exercise without clear definitions for combatant status, procedures for verification, child soldier verification, camp management, reintegration "exit strategies" etc. Urged MDRP to ensure that all partners in region made aware of lessons for possible similar cantonment activities in other countries.

(vi) The potential conflict of interest for UNDP as Lead Agency in DRC as well as project implementer for DRC Special Projects was raised, where UNDP was asked to address this at the forthcoming Kinshasa meeting **[**at Kinshasa, the meeting was informed that with the establishment of a new DRC government, the lead role on DDR was shifted from UNDP to the government, so that the issue was solved**].**

July 2003: MDRP Web site uploaded and active at www.mdrp.org.

10-13 August 2003, M&E Workshop, Kibuye (Rwanda): Trained national program staff in M&E and MIS, to improve management, produce relevant data, etc. Trainers from GTZ and practitioners from Chad and Ethiopia.

12-14 November 2003, Advisory and Trust Fund Committee meeting, Kinshasa:

(i) On the Special Projects, the secretariat felt that innovative solutions to the obstacles identified had been found, and that these would be useful to other similar programs elsewhere [**what are they**?],

(ii) Agreed to freeze new Special Projects in DRC for the time being, and that special needs should be attempted accommodated under the NRP,

(iii) Two studies presented: (a) links DDR-SSR: the need for common analytical framework, government ownership of SSR, with the meeting agreeing to establish a working group to pursue these issues, (b) targeting of MDRP assistance, which explained the principles for MDRP assistance, which was seen as helpful.

(iv) The financial status as of 31 Oct 2003: funds received and earned USD 54.7 mill, disbursed USD 6.1 mill, committed USD 37.8 million to national programs in Angola and Rwanda and special projects in DRC. Expects to commit an additional USD 130 million by mid-2004 for the national programs in Angola, Burundi and CAR as well as outstanding Special Projects. It was also agreed that MDRP funds could be used for vehicles for MDRP field representatives.

10-28 October 2004, Joint Supervision Mission:

(i) Reviewed the 12 special projects (ANG, BUR, DRC, CAR, UGA). About 50% of funds disbursed, USD 16.4 mill. UNICEF project in Burundi particularly delayed, with agreement only signed August 2004 and first disbursement expected shortly. Some donors expressed frustration at perceived administrative bottlenecks within Bank regarding disbursement and implementation of Special Projects, and want a "lessons learned" exercise carried out.

(ii) Despite MDRP note on targeting of assistance, some donors want MDRP to go beyond Bank and MDTF mandate in funding activities – source of some friction.

(iii) Wanted MDRP ensure similar standards of M&E across national partners, more baseline and tracer studies etc to improve monitoring, and also improve consistency and completeness of reporting by partners.

September-October 2004, Midterm Review Field Work.

25 January 2005, Midterm Review Report presented.

14-16 February 2005, Advisory and Trust Fund Committee meeting, Paris:

(i) MDRP was discussed in context of "best practice" internationally, with proposal that MDRP participate more actively in international fora, link up with wider SSR and PRSP activities, engage more with AU, more active sharing of lessons.

(ii) Admin fee was increased from 3% to 6% given the activities MDRP secretariat had to undertake, which donors accepted as reasonable given expanded field presence.

(iii) The MTR was presented and discussed. Bank comments had been distributed beforehand, where issues of improved management of partnership was raised, national ownership and its impact on speed of implementation; need for more flexibility on side of Bank which informed it was working on OP 8.50 and more streamlined procedures, especially for contracting UN agencies, and suggestions regarding MDRP "afterlife", which was deemed a little early though relevant.

(iv) Host Government representatives felt their views not sufficiently well reflected, stressed the importance of national ownership and the amount of work that had gone into DDR programs, importance of COFS, and distinction between urgency of D&D and the longer term R.

(v) Donors felt maintaining transparency, political will important, clear roles based on comparative advantages, agreed with Report's idea of moving more to field, and how "lessons learned" can be better disseminated.

(vi) UN agencies felt report missed some of their views, that MDRP could benefit from special competencies and experience (SRSGs, MONUCs etc), but overall UN-MDRP relations provided some major successes. Also felt that report could have looked at other funding possibilities, since UNICEF in particular felt more and more flexible funding in post-conflict situations was a strength. EU noted the challenge of national ownership as governments typically party to the conflicts and thus not always generating necessary political will for solutions.

(vii) Final conclusion: set up working group to pursue themes in MTR, and TOR for this to be sent out 5-6 weeks later.

21-23 November 2005, Advisory and Trust Fund Committee meeting, London:

(i) Focus on work program for 2006 where more attention to M&E thru a new Quality Enhancement team; better info through the web; merging Special Projects into national programs except Uganda and CAR; work on a program-wide performance management framework; more work on analysis and learning with focus on groups with special needs.

12 Jan-3 Feb 2006, Implementation Support Missions, ***Burundi & Rwanda*****:**

A team of seven staff visited the Rwanda program. The report reflects standard Bank monitoring missions, with review of program implementation, including the situation of child, female and disabled EXCs, the number of COFS, etc. This is traced through the work plans and budgets, with particular focus on the reintegration activities, concluding with a table of 40 "next steps" covering demobilization, regional activities, reintegration, special target groups, and M&E.

An eight person team (four were also on the Rwanda team) likewise reviewed the Burundi program. These two missions had quite similar TORs, though the Rwanda program is considerably further along. Similar dimensions were looked at, in the case of Burundi developed into a 45-step action program, including follow up to an evaluation of the national DDR agency.

Subsequent to this, a number of Implementation Support Missions have taken place, and a meeting with donors to discuss MDTF replenishment was held in November 2006.

ANNEX H: The Afghanistan Trust Funds

1. The donor-community has supported two multi-donor trust funds in Afghanistan: the Afghanistan Interim Authority Fund (AIAF), from end 2001 till June 2002, and the Afghanistan Reconstruction Trust Fund (ARTF), from March 2002 to the present. The AIAF was administered by UNDP while the ARTF is administered by the World Bank. This chapter briefly describes and assesses the AIAF but focuses on the ARTF. In addition, there has been a special "window" under the ARTF that can be considered a third fund, namely the Law and Order Trust Fund of Afghanistan, LOTFA (see paragraph 16).

H.1 Trust Funds Overview

2. When the international community intervened in Afghanistan to oust the Taliban regime during the fall of 2001, it was clear that large-scale assistance would be urgently required. This was both to address the physical damage and the many years of neglect that the country had suffered, but also to ensure support for a regime that would bring stability, control and socio-economic development to Afghanistan.

3. A first donors' conference took place in Islamabad at the end of November 2001. Following this, it was agreed that needs for establishing an Interim Authority in Afghanistan in the early part of 2002 was to be funded through a UNDP-administered AIAF. This decision was based on the UN being in charge of the political transition, but also because it had a large operational system on the ground because of its support to civil society actors during the Taliban period. In line with the political transition timetable set out in the Bonn Agreement signed on 5 December 2001, the AIAF was to expire after six months with the convening of an emergency *Loya Jirga.* The *Loya Jirga* was to establish a two-year transitional government, before full elections were to be held by the end of 2004. Donor meetings early 2002 in Brussels and Tokyo endorsed the notion of an Afghanistan Reconstruction Trust Fund to succeed the AIAF.

The AIAF

4. The Bonn Agreement made provision for the establishment of the Afghan Interim Authority, which took office on 22 December 2001. The Interim Authority faced the challenge of providing basic social services for citizens and paying civil servants[26]. However, the Interim Authority did not have domestic revenues for these essential costs and needed urgent budgetary assistance from the international community.

5. After the Bonn Agreement, the Afghanistan Support Group met in Berlin and requested UNDP to establish a flexible mechanism for rapid resource

[26] This section relies heavily on UNDP "Final Report on the Afghan Interim Authority Fund" of March 2003, and the draft annex of the UNDG-commissioned "Review of Trust Fund Mechanisms for Transition Financing" being carried out by Development Initiatives/UK, dated January 2006.

mobilization and disbursement, which would help with initial institution building.

6. The AIAF began to operate in January 2002. It ceased to operate in July 2002, after the conclusion of the *Loya Jirga* and the establishment of the Transitional Administration. Budgetary support for the Transitional Administration was then taken over by the ARTF.

7. UNDP established the AIAF under the overall leadership of the Special Representative of the Secretary General and within the framework of the UN Assistance Mission for Afghanistan, UNAMA. A UNDP Senior Advisor was in charge of the day-to-day management, while the UNDP Country Office was responsible for the direct implementation of activities and for local coordination with UNAMA and the Interim Authority. At UNDP Headquarters, over-all management of the Fund as well as backstopping and resource mobilization was facilitated by the Bureau for Crisis Prevention and Recovery, BCPR.

8. The AIAF was to fund the following:

   - Administrative costs associated with the establishment of the Afghan Interim Authority: payment of government salaries, acquisition of space, vehicles, office equipment and supplies;
   - Essential repairs of administrative facilities, and maintenance;
   - Support to the implementation of special responsibilities outlined in the Bonn Agreement: Civil Service Commission, Judicial Commission, Human Rights Commission, and support for the convening of the *Loya Jirga;*
   - Teachers' salaries to ensure the nation's schools reopened;
   - Other critical public functions, such as payment of the civilian police.

9. The main task was paying civil servants (including teachers), since most had not been paid for at least five months, much of the payroll data had been lost, most of the information only existed in manual form and had to be computerized, etc. Despite this, in January 2002 over 175,000 civil servants were paid, and by the time the AIAF closed some five months later, over 250,000 were receiving their salaries on a regular basis. This must be seen against the situation on the ground at that time: few functioning central services in place including no banking system; infrastructure largely destroyed in a vast country with a harsh climate.

10. The AIAF received over USD 73 million from 24 donors, spent a little over USD 71 million and transferred the savings to the ARTF.

11. The main expenditure items were salaries (USD 54 million), *Loya Jirga* expenditures (USD 11.7 million), vehicles (USD 1.5 million), infrastructure rehabilitation (USD1.5 million), start up kits for ministries (USD 1.1 million) – the other items were all relatively small.

12. The consensus is that the AIAF achieved its objectives in an efficient and effective manner. It contributed to establishing the credibility and legitimacy of the Interim Authority by ensuring that it could pay civil servants and begin to

provide basic social services to Afghan citizens. According to the UNDP final report, the successful implementation of AIAF-funded activities was due to the strong leadership of the Interim Authority, which established clear priorities for its tenure and took ownership of the activities implemented with AIAF support. It was also clear that the willingness of the donors to contribute non-earmarked funding was critical to the AIAF being able to flexibly address funding issues as they arose.

13. UNDP attributes its ability to establish the Fund quickly to a well-established system for fund management through the use of a BCPR Trust Fund service line, "Special Situations". This offered an existing vehicle for donors to deposit funds for Afghanistan. UNDP's in-country presence meant that it had the necessary infrastructure, local knowledge and legal framework in place.

The ARTF

14. The ARTF was approved by the World Bank Board on 27 March 2002. The Grant Agreement was signed in May, and the Fund began operating in late May 2002. The ARTF was set up with the intention of providing support only for the initial years, during which the Government of the Islamic Republic of Afghanistan (GIRA) would establish the capacity to mobilize revenue to cover its recurrent budget. The ARTF closing date was first established for two years after the election of a permanent government or June 30, 2006, whichever came first. In June 2004, however, donors agreed to extend the closing date of the ARTF from June 2006 to June 2010.

15. The ARTF was set up primarily to fund GIRA's recurrent budget, in particular the wages of civil servants outside the security sector (primarily in education and health). But the ARTF is also used as a mechanism to fund priority investments in GIRA's National Priority Programs (NPPs). These are based on the National Development Framework (NDF). The ARTF Program thus contains two components or "windows": (i) Funding for recurrent costs of the budget (wages and operations and maintenance): "Recurrent Window"; and (ii) Development Projects: "Investment Window".

16. There is a third "window" under the ARTF, which is the LOTFA referred to in paragraph 1. LOTFA is administered by the UNDP, and is to provide funding for the internal security sector, primarily police and prison services. The reason for this is that the Bank, by its mandate, cannot be directly involved in financing security sector organizations. LOTFA was thus set up as a sub-fund under the ARTF, where donors could provide the funding to the Bank, which would then pass the funds straight on to UNDP[27]. This provided the donors with the advantage of only having to provide funds to one fund, while the Bank did not

[27] This arrangement had to go through a fairly careful scrutiny by the Bank's lawyers before it was found to be acceptable. The argument was that since this was a pure administrative "pass-through" mechanism, the Bank could not be held accountable in any way, and was simply providing a transmission service.

have to assume any kind of fiduciary responsibility for LOTFA. UNDP then takes on this responsibility, essentially as a Partner Agency as seen in other Bank-managed MDTFs.

17. The objective of the ARTF was to provide a mechanism for coordinated funding of reconstruction activities in line with agreed priorities of the Government. The ARTF is designed to:

(i) promote transparency and accountability of reconstruction assistance;

(ii) help reinforce the national budget as the vehicle for promoting alignment of the reconstruction program with national objectives;

(iii) reduce the burden on limited government capacity for the first few years of re-engagement, while promoting capacity building over time;

(iv) help fund the essential recurrent budgetary expenditures required for the government to function effectively; and

(v) provide a convenient mechanism for donors to fund priority investments.

ARTF Financing

18. By the end of October 2006, 24 donors had paid in about USD 1.45 billion since the inception of the ARTF. As can be seen from table H.1, the payments have been quite well spaced out over the lifetime of the fund so far (Afghanistan's fiscal year is the solar year, SY, that begins around 20 March each year. SY 1381 was 21 March 2002-20 March 2003, SY 1383 was 20 March 2004-20 March 2005, etc).

Table H.1: ARTF Sources and Use of Funds (USD million)

	SY 1381	SY 1382	SY 1383	SY 1384	SY 1385	
	Actual	Actual	Actual	Actual	Actual	Forecast
SOURCES OF FUNDS						
Net Donor Contributions	184.2	284.4	378.6	404.1	197.3	402.7
Donors contributions	184.8	286.5	380.4	404.1	193.3	403.2
IDA fees minus Investment income	0.5	2.1	1.8	0.0	-4.0	0.5
B. Cash from previous year		119.5	147.7	237.9	234.3	234.3
Disbursements	64.7	256.2	288.4	407.7	210.8	406.3
Recurrent window	59.2	214.1	235.2	288.0	146.6	280.0
Wages	41.0	145.8	179.3	201.5	106.6	
Operations & Management	13.7	51.2	55.3	86.5	40.0	
Other	4.6	17.2	0.6	0.0	0.0	
Investment window	0.0	23.9	50.6	117.6	62.2	122.0
Pass-through to LOTFA (UNDP Police)	4.8	16.8	0.0	0.0	0.0	0.0
Fees to monitoring agent	0.7	1.4	2.6	2.2	2.0	4.3
Cash Balance	119.5	147.7	237.9	234.3	220.8	230.7

Source: ARTF Financial Status Reports, 22 October 2006

The Recurrent Window

19. According to recurrent window procedures, GIRA receives ARTF funds as reimbursements for eligible expenditures. In order to monitor the eligibility of the expenditure claims, the Bank has contracted an external Monitoring Agent that monitors, supports and reports on these claims against eligibility criteria and fiduciary standards.

20. The Monitoring Agent is to (i) provide timely reviews and transmission of withdrawal applications to the World Bank; (ii) screen GIRA withdrawal applications and related documentation to ensure expenditures submitted for reimbursement under ARTF are consistent with the grant agreement and related eligibility criteria; (iii) review operations of the ARTF special accounts; (iv) monitor expenditures of the ARTF to ensure that funds are disbursed for the purposes provided; (v) work closely with MOF and other agencies to ensure that the rules for eligibility of expenditure are widely understood; (vi) monitor the progress of GIRA in complying with fiduciary benchmarks, and contribute to their continuous improvement; (vii) maintain the civil service headcount database at MOF; (viii) improve capacity of the central, provincial, and district government staff in financial management and accountability of recurrent expenditures; and (ix) review reporting from MOF and ministries receiving ARTF, and bring critical issues to the early attention of the Bank and Government.

Table H.2: Donor Contributions by Solar Year, in USD million

Donor	SY 1381	SY 1382	SY 1383	SY 1384	SY 1385		SY 1381-85
	Total Paid-In	Total Paid-In	Total Paid-In	Total Paid-In	Total Paid-In	Total Pledges	Total Paid-In
Australia	0.00	2.63	6.27	7.65	0.00	0.00	16.56
Bahrain	0.00	0.50	0.00	0.00	0.00	0.00	0.50
Canada	12.00	50.09	5.49	72.34	21.95	21.61	161.88
Denmark	5.00	5.00	3.16	3.92	0.00	3.98	17.08
EC	15.87	52.69	47.60	58.77	0.00	51.57	174.92
Finland	2.79	2.45	5.95	0.00	2.42	5.00	13.61
Germany	10.07	11.44	15.94	1.23	20.47	20.63	59.16
India	0.20	0.20	0.00	0.40	0.00	0.20	0.80
Iran	0.00	0.99	0.00	0.00	0.00	0.00	0.99
Ireland	1.00	1.73	1.81	0.61	0.00	0.00	5.16
Italy	17.00	0.00	6.54	0.00	0.00	0.00	23.54
Japan	5.00	0.00	0.00	0.00	0.00	0.00	5.00
Korea	2.00	2.00	2.00	0.00	0.00	0.00	6.00
Kuwait	5.00	5.00	5.00	0.00	0.00	0.00	15.00
Luxembourg	1.02	0.00	0.00	0.61	0.00	0.00	1.62
Netherlands	33.67	41.15	46.41	29.66	31.59	32.23	182.48
New Zealand					0.63		0.63
Norway	6.82	29.63	9.91	22.54	19.66	20.45	88.57
Portugal	0.00	0.46	0.73	0.00	0.00	0.00	1.18
Saudi Arabia	10.00	5.00	5.00	0.00	2.50	5.00	22.50
Sweden	3.10	5.98	25.90	12.84	0.00	1.38	47.83
Switzerland	0.67	0.00	0.00	0.00	0.00	0.00	0.67
Turkey	0.50	0.00	0.00	0.00	0.00	0.00	0.50
UK	15.08	47.10	103.06	131.47	79.10	142.91	375.81
USA	38.00	20.00	89.59	62.00	15.00	75.90	224.59
UNDP	0.00	2.41	0.00	0.00	0.00	0.00	2.41
TOTAL	**184.79**	**286.46**	**380.37**	**404.05**	**193.31**	**380.84**	**1,448.98**

Source: ARTF Financial Status Reports, 22 October 2006

21. The fee that the Bank charges for managing the ARTF is very low, as can be seen from the table H.1 above. But one should add in the costs of the Monitoring Agent, since the Monitoring Agent task description above clearly shows that the Monitoring Agent is part of the Bank's fiduciary monitoring. In table H.1, it is put as a separate line item (C.4), and is thus paid directly from the ARTF contributions rather than from the Bank administration fee.

22. While there are 24 donors to the fund, the "20-80" rule seems to hold: 20% of the donors provide 80% of the funds: the five largest donors (the UK, the US, the EC, the Netherlands and Canada) have pledged about USD 1 billion, which is about 77% of the total. For such a large fund, the ARTF is therefore dependent on a very narrow donor base.

The Investment Window

23. As of 22 October 2006, the ARTF investment window was made up of eleven active investment projects, with combined commitments of USD 349.1 million, of which USD 246.8 million has been disbursed (71%), as shown in Table H.3 below.

24. The project portfolio can be divided into three areas: (i) Infrastructure, (ii) Public sector Capacity Development[28], and (iii) Rural development.

25. Disbursements began grown slowly but over the last two years have increased considerably, largely as early build-up of organizational capacity has led to greater absorption capacity by projects, National Solidarity Program and the Micro-finance projects in particular.

26. Performance and financial reporting started late and are not consistent. However, ARTF management has been active in monitoring projects in coordination both with World Bank task managers and project management (GIRA and external).

27. In line with Bank policy, the ARTF does not permit earmarking of funds for particular activities by the donors. However, donors can express preferences for specific projects or programs for a portion of their overall contribution. These preferences can be expressed only for activities for which a funding gap exists. This helps donors show their constituencies that funding is going to areas that have been designated as priority areas by their political decision makers back home. A total of USD 403 million of general pledges in FY 1385 – about 30% of the total funding – has come with such preferences. As long as the funding gap provision remains, this increase in expressed preferences is not a problem.

[28] The project for strengthening quality of education has been included in this group, though formally it perhaps ought to be classified by itself.

Table H.3: Approvals for Investment Projects, as of 20 January 2006

	SY 1381	SY 1382	SY 1383	SY 1384	SY 1385 To date	Total
Infrastructure						
Telecom & Microwave Link	0.3	2.7	3.1			**6.1**
Kabul Roads & Drainage System		3.0				**3.0**
Kabul Power Supply		7.4				**7.4**
Emergency Power Rehabilitation			20.0			**20.0**
Urban Water Supply and Sanitation			20.0	21.0		**41.0**
Sub-total	0.3	13.1	43.1	21.0		**77.5**
Public Sector Capacity Development						
Civil Service Capacity Building	5.00		3.00	5.0		**13.0**
Technical Ass & Feasibility Studies	8.00	6.00	4.50			**18.5**
Educ Quality Improvement Project			5.00			**5.0**
Strengthening Financial Capacity		5.1				**5.1**
Sub-total	13.0	11.1	12.5	5.0		**41.6**
Rural Development						
National Emergency Empl't Program	25.4	-8.8		20.2		**36.8**
Microfinance for Poverty Reduction		8.7	11.4	34.2	**20.0**	**74.3**
Microfinance for Poverty Reduction	1.0					**1.0**
Rural Water Supply and Sanitation				5.0		**5.0**
National Solidarity Program			52.0	45.9	**24.0**	**121.9**
Sub-total	26.4	-0.1	63.4	105.3	**44.0**	**239.0**
	39.72	**24.10**	**119.00**	**131.3**	**44.0**	**358.1**

Projects closed in yellow.

Source: ARTF Financial Status Reports, 22 October 2006

H.2 Efficiency of the Trust Funds

(Time) Efficiency of Setting up the Funds

28. Both funds appear to have been set up very quickly and in a highly efficient manner.

29. The UNDP got the AIAF up and running quickly due to their existing presence on the ground; using the BCPR Trust Fund "Special Situations" facility; and taking their responsibility seriously by assigning an experienced senior adviser to be in charge of day-to-day operations, with active back-stopping from UNDP HQ in New York. With their clear mandate from the donor community and the strong logistical support provided by the UN system network on the ground and direct access to the Afghani authorities through the prestigious office of the Special Representative of the Secretary-General, the AIAF was able to operate smoothly and with what appears impressive efficiency in addressing the difficult task of getting the civil service payroll updated and the civil servants paid.

30. The ARTF had the advantage of being able to "piggy-back" on the AIAF. Since there was a clear "sunset" clause in the establishment of the AIAF, almost from the day it began operations, planning for handing over functions and results to the subsequent ARTF was taking place. This was done by the UNDP, the World Bank, the Islamic Development Bank (ISDB) and the Asian Development Bank (ADB) jointly.

31. The ARTF thus had time to be set up; the relations to the authorities, the donors and the actors on the ground were more institutionalized. The Transitional Authority was able to build on the capacity and stability that the Interim Authority had begun putting in place, and thus take advantage of the legitimacy and credibility that the civilian administration had been able to create thanks to the funding provided through the AIAF and the restoration of key public services through having a paid civil service in place. This made for a much stronger national counterpart for the ARTF, and hence a more credible partner for taking decisions and implementing them.

Efficiency in Running the Funds

32. There is not information available to allow any assessment of the efficiency of the running of the AIAF. Because the AIAF was run as a UNDP fund, most of the administration was handled directly by the UNDP accounts department. While there was a separate account through which the funds flowed, the normal procedures and staff could be used, with some additional capacity put in place[29] and the senior adviser specially assigned to manage and take decisions. On the margin, this was probably not major expenditures[30] compared with what the alternative scenario of rapidly putting in place a fully functional donor management office for the trust fund would be.

33. The Bank faced problems during the first year of operations of the ARTF, however. The capacity it put on the ground turned out not to be sufficient. It was not able to track funds use and report back to the donors as was required, the Monitoring Agent was accused of not understanding its role well to begin with and the Bank did not have sufficient own capacity to clarify roles immediately, and the dialogue with some of the national authorities was not good enough for ensuring smooth functioning and disbursement of funds. The key challenge was the reimbursement of operations and maintenance expenditures. There were a number of misunderstandings on what did and did not constitute legitimate

[29] As noted, one donor provided senior PFM staff from their own audit office to strengthen the oversight and control systems of the AIAF.

[30] The UNDP asked for donor support to set up the AIAF Admin Unit, and the UK provided USD 1 million for this. In addition came other costs, but it is not clear from the financial report what share of various costs were due to running the AIAF and what were for Interim Authority expenditures. A cost item of USD 27,185 subsistence allowance for auditors was presumably for the two donor-funded auditors, and perhaps similar for other items like "Hardship and Hazard payments" etc.

expenditures, but even more a lack of knowledge regarding the documentation requirements and procedures to be followed.

34. The Bank ended up establishing two teams that supported the implementation of the ARTF. The first was a management unit consisting of one international staff member with experience from financial management and supported by two local staff. The other was a more general financial disbursement unit including quite senior staff from Washington (some on a more permanent basis, others coming in on missions but quite frequently) that supported the Bank portfolio overall, but also the ARTF. This latter team worked particularly closely with Ministry of Finance staff to ensure that procurement and expenditure management routines were being followed, documentation of acceptable quality produced, etc. Once these two teams began functioning properly, the disbursement rates improved, as did overall financial control and reporting.

ARTF as Contribution to the Budget

35. The GIRA distinguishes between its Core Budget, which consists of the funds that go through the Treasury account and over which it therefore has full control, and the External Budget. External Budget funds flow outside the GIRA's accounts, such as when a donor provides funding to a UN agency, NGO or private contractor for implementation of projects. These funds are used to finance projects within the National Development Budget, and discussions take place between the parties as part of the general budget process.

36. For SY 1384 (21 March 2005–20 March 2006), government expenditures were estimated at USD 1,725 million, of which USD 693 million were for the recurrent budget and USD 1,032 million for development expenditures (project investments). The foreseen deficit was USD 1,339 million, of which the ARTF was to cover almost one third: USD 280 million over the recurrent window, and USD 124 million under the investment window. The recurrent cost funding requirements for SY 1385 are set at USD 280 million. Over the medium term, ARTF contributions are expected to remain at about the same aggregate level, with about USD 300 million for recurrent expenditures and USD 100 million for projects.

37. There is no Operations Manual specifically for the ARTF. Till now about 80% of the funding has gone to recurrent costs, and this share is expected to be more or less maintained (75% is the foreseen share over the next years). This means that most of the funds are allocated to the budget, and what is important is that agreed-upon fiduciary standards are followed. These have been updated/improved over time, both as weaknesses in existing systems are identified, but also in response to the increasing capacities in the central financial institutions and thus ability to improve quality and come closer to the international standards the authorities want to adhere to.

38. For all the parties, having the ARTF as a funding source has been extremely efficient. For GIRA, there is only one source of funding for the recurrent budget, and thus only one actor with which to interact. Since the Bank as a policy provides on-budget financing, and has long experience in managing funding in

this manner, GIRA has had an experienced interlocutor back to the donors who in fact are providing the funding. The fact that the Bank is administering the ARTF provides a fiduciary management service that enables more donors than otherwise to provide funding to the budget. While there are direct costs in the form of a Monitoring Agent that must be paid, this is still an efficient and effective means for ensuring oversight while strengthening the overall PFM through the on-the-job training which the Monitoring Agent in fact provides.

39. Furthermore, the alternative to the ARTF would have been donor-by-donor funding, largely through specific projects. This would have been much more costly, not least of all to the government. Given the attitudes of some of the donors, it is also likely that GIRA would have had major problems mobilizing the requisite resources for O&M expenditures over time. This would have involved negotiations, endless rounds of target setting and reporting, etc. The lessons from African countries that have had to deal with a fragmented and non-harmonized donor community are not encouraging.

40. A recently concluded Public Expenditure Review (PER) showed that there has been strong progress regarding GIRA's fiscal discipline, budget planning, and information on budget execution, with transparency assured through publishing the information on the internet. The Bank's assistance in developing the fiduciary standards against which ARTF recurrent support is being reported, the Monitoring Agent's monitoring of compliance, the support to financial management capacity, and the Bank-led PER itself have all been contributing factors to this improvement in PFM.

41. Both Efficiency and Effectiveness of the Recurrent Window are thus seen as good, not least of all because funding is provided on-budget and thus contributing to improved PFM, transparency and accountability.

42. The Relevance is also seen as high and will remain so, as the funding gap over the coming period will remain high. Impact is seen primarily in PFM improvements, but also in terms of public service delivery in key areas like health, education, basic infrastructure. Achievements are fragile, however, dependent on external technical assistance and continued improvement in national stability and security.

43. Overall, the ARTF Recurrent Window must therefore be seen as a success in terms of efficiency and effectiveness. It was established in short time, it put in place performance standards that have been adjusted over time so that the continued funding has been paralleled with improvements in GIRA's ability to allocate, fund and track performance. The funding has been on-budget and has thus contributed to strengthening transparency and capacity building by using and developing GIRA's PFM systems and tools. Finally, the Monitoring Agent has provided real value-added and has therefore been a cost-effective addition to the overall Recurrent Window management.

Efficiency of the Investment Window

44. The processing of project proposals has followed fairly simple guidelines. Projects must be proposed by the Government through the Ministry of Finance (MOF), and they must be justified in terms of the country's development policies and priorities. The ARTF Management Committee then takes a decision on which projects to fund.

45. There is no ARTF strategy for project funding, so the criteria for prioritizing proposals for ARTF financing are unclear. To some extent, this should be for the GIRA to decide by forwarding proposals, since they know the funding available. Furthermore, the ARTF provides untied funding, so the GIRA can use the ARTF as a "funder of last resort" if it so wishes. So far, this does not seem to have been the approach.

46. One obvious observation is that grant funds should not be used for capital intensive infrastructure projects, since most can find concessional loan funding, can generate service income or other forms of burden-sharing funding. Grants monies should instead focus on public goods and poverty reduction activities: rural development and public sector capacity development. Looking at table H.3, there is a clear concentration on rural development, while support for capacity development has fallen. But funding of infrastructure remains fairly substantial.

47. When looking at these figures, though, one should bear in mind the minor role the ARTF plays when it comes to project funding. It is assumed that donor-financed investment activities (this includes those using soft loans from the World Bank, the ISDB, the ADB, etc) have been around USD 3 billion a year. ARTF investment expenditures of around USD 100 million per year should hence not be driven by an overarching strategy for the ARTF as such, but accommodate the larger national panorama.

48. The first project proposals that were approved for ARTF funding were either on-going IDA or KfW projects. They were infrastructure activities largely in the Kabul area that were required to reestablish the capital as a functioning urban area. The processing of the first project proposals was thus fairly quick, though it has been commented on the Bank, as the main voice on the Management Committee, has been the one to approve supplemental funding to Bank-funded projects, and also is to accept or reject the financial and performance reporting on these activities. This possible conflict of interest has not been resolved.

49. From an efficiency viewpoint – outputs achieved for inputs provided – most projects have high overhead costs due to the use of external managers/contractors for implementation. Within the micro-finance project MISFA, the share of expenditures that went to building capacity varied from 40% to nearly 90% in the early stages. The variation reflects differences in operating and start-up conditions across MISFA partners. Concerned about the criticism, MISFA managers compared the costs to other country contexts and concluded that, given local conditions, capacity development costs were not excessive. However, for all investments, this remains a sensitive area.

50. In addition, some projects have many intermediaries (National Solidarity Program, MISFA), thus increasing delivery costs. Lack of effective competition in procurement has also negatively impacted the efficiency of projects. There are cases where the number of bidders was extremely small and their offer prices were much higher than the Bank had estimated as reasonable cost, even though the Bank had included a safety/security premium on personnel costs (telecommunication project). Projects have thus encountered cost-overruns and required additional funding and/or scaling back of scope of activities.

51. These facts, however, have not been confined to the ARTF investment window. The lack of domestic capacity, insecurity, and the need to rehabilitate and invest in basic infrastructure (buildings, vehicles, equipment) is the reality facing the country today.

52. On the other hand, ARTF that have provided supplemental funding to on-going IDA projects have been able to "free ride" on the IDA-funded project management, so this has improved the overall efficiency of the Bank's total intervention (Naghlu Hydropower and Urban Water Supply).

53. The possibility of contracting services more regionally (India, Pakistan, Iran particularly) may save costs especially on the very high international travel component in international technical assistance and is being explored by GIRA[31]. This trend could be pursued more systematically. In addition, GIRA has phasing-out plans for some of the external management units. As line ministries thus build their own capacity to supervise manage projects, overhead as well as delivery costs can be reduced. This underlines the importance of a recurrent theme in this report: the need for coherent institutional strengthening and capacity-building investments that will accelerate the phasing out of internationally-executed service delivery.

H.3 Governance Structures

The AIAF

54. The structure and mandate of the AIAF made the governance set-up very simple. The AIAF was an all-UNDP managed fund so that all decision making, implementation and follow-up was done directly from UNDP. Since the funding was largely for recurrent expenditures, the dialogue with the authorities was reasonably simple, and the reporting back to the donors also straight forward. The issues that did arise, and which in themselves may have been quite complex, had to do with implementation, though there were also issues about refurbishment of facilities etc that involved decisions. Overall, however, the expenditure pattern was clear, and the fund was due to close after only six months, so a "management light" structure was appropriate.

[31] In the bidding for the procurement management contract for one project, the costs of international travel were reportedly the most important difference between the successful and runner-up bids.

ARTF Management Committee

55. The ARTF is overseen by a Management Committee consisting of representatives from the Asian Development Bank (ADB), the Islamic Development Bank (ISDB), UNDP, and the World Bank. The Management Committee is responsible for reviewing progress and taking key decisions, including the approval of investment projects proposed for ARTF financing. The Management Committee meets on an "as need be" basis. The Bank acts as a secretariat, preparing the documentation for the meetings as well as the minutes afterwards. These minutes are posted on the Bank's web site.

56. There are several aspects of the ARTF Management Committee that are rather unique. The first is that it consists only of multilateral institutions. The second is that none of them are donors to the fund, so the decision makers are not contributors to the fund itself. The third is that the national authorities are not on the Management Committee, though as of late 2005, the GIRA is invited as an observer to the Management Committee meetings and to four of the Donors Committee meetings (see next point).

ARTF Steering Committee/Donors Committee

57. A Steering Committee consists of the Management Committee members, all donors that provide at least USD 5 million in contributions per year, plus an additional two seats for the smaller donors where these two seats are voted in on a rotational basis. The Steering Committee (or Donors' Meeting, which it is more informally referred to), generally meets on a quarterly basis. These meetings have so far largely focused on administrative and performance matters regarding the ARTF.

58. While the meetings are seen as an important forum for updating the donors on the status of activities, over the last year donors have wanted more issues-focused meetings that could address the framework problems the ARTF is facing.

59. Overall, the institutional arrangements are transparent and flexible, reporting is good and accessible through the use of the Internet. But continued donor funding for the recurrent budget is dependent on GIRA being successful in mobilizing own resources and showing a strong political commitment to achieving financial sustainability over a reasonable time horizon.

Project Proposal Processing

60. As noted, all proposals for activities that are to receive ARTF funding come from the MOF. These can in principle come from any line ministry in the Government, but must be accompanied by a justification in terms of its importance to GIRA's National Development Framework and the National Priority Programs.

61. While the formal structure is thus in place, reality is that the ARTF investment window decision-making has been heavily donor-dominated. The participation by GIRA only as observer at Management Committee meetings underlines this. At the same time, as noted earlier, the ARTF projects only make up 3-4% of the project expenditures.

H.4 Harmonization and Coordination

62. The ARTF has contributed to harmonization and coordination in several ways.

ARTF for Recurrent Budget

63. As noted several times, the ARTF as a channel for what is essentially direct budget support, has enhanced both alignment of donor support with GIRA priorities, but also ensured streamlining of donor conditionality linked with the disbursement of the financing. The conditions have largely been related to macro-economic performance, and improvements to the PFM itself. This has been rather successful, but more as a result of the dialogue between the Bank and GIRA rather than any larger dialogue between the donor community and the authorities. The one meeting place that existed previously, were the annual large-scale GIRA-donor conferences. Now that the authorities are also participating in four of the annual Donor Committee meetings, this coordination is presumably improving.

64. What is also clear, however, is that while the ARTF may not be perfect as a coordination vehicle, it is really the only one there is. The fact that the Management Committee consists of the four major multilateral actors lends it weight and helps the ARTF maintain an important role in the overall policy dialogue with the authorities (though it is also clear that some bilateral actors have their own agendas that are pursued directly with the authorities).

ARTF Investment Window

65. Given the marginal role played by the ARTF when it comes to investment activities, this ARTF itself probably is not having all that much of an impact.

66. One area where the ARTF may be playing an important role on the investment side, however, is regarding the large-scale rural development projects – the National Solidarity Program, the National Emergency Employment Program and MISFA. Here the ARTF is often playing an important role for donors that may be providing funding for these programs through the ARTF but at the same time fund these same programs directly through their bilateral programs. The rationale for this "dual track" approach is not always clear, but the direct funding often has to do with wanting to be involved directly with activities that are priority in the donor country (in part "showing the flag"). By also contributing through the ARTF, the same donor can participate also in the more policy-based discussions that the ARTF can spearhead with the authorities – most donors through their bilateral funding seldom are able to bring the large policy and principled issues to the table.

Relations to UN System

67. The relations to the UN system are multi-faceted. On the one hand, there was clearly disappointment among a number of UN staff that the UNDP was not given the task of managing the multi-donor fund over time. It was felt that the UN system had dispensed its responsibilities under the AIAF very well and thus had shown that the UN system was both capable of and the appropriate channel

for such joint funding. This was all the more justified in light of the important political issues that still remained to be addressed, and where it was felt that the Special Representative of the Secretary-General had played an important and constructive role. Continuing to link a political and financial role made sense to some, given the uncertainties of the situation – that is, the *political* dimension of the situation conferred on the UN system something of a "comparative advantage" and also a mandated role compared with the World Bank.

68. Another problem for the UN system was that the massive funds that they had been managing had paid for the large presence in the field. The rapid disappearance of the program and project overheads forced a scaling down of presence and activities that was faster and more abrupt than some had expected. This led to some resentment on the side of some in the UN system, but at the same time was also a source of some cynicism among some Afghani and donor representatives – the feeling that the UN was concerned with "jobs for the boys" rather than rapid hand-over of responsibilities and capacities to the national actors.

69. On the other hand, UN agencies have been important partners in implementing ARTF funded tasks, in particular the rural development programs. UN Habitat and ILO in particular have taken on key implementation and management tasks which have been important for successful program progress on the ground.

70. The fact that the UNDP is also on the Management Committee means that the UN system had continued to have an important voice at the table, and this is important both for the overall dialogue among the multilateral institutions, but also for harmonizing approaches to issues like capacity development, community based development, and others.

Relations to NGOs

71. National and international NGOs were important service delivery agents during the Taliban period, and continued to play an important role in the post-Taliban period. Some donors were channeling a large share of their resources through some of these NGOs, which therefore – like the UN system – had a large presence on the ground. This has created some confrontation with some members of the national authorities, and in any case their role has been somewhat diminished as the public sector is reconstituted.

72. The Bank found ways in which it has been possible for ARTF funding to be made available to NGOs when implementing important projects like the rural development programs. NGOs have therefore had a larger role in the ARTF than they had had in other Bank-managed MDTFs. They do not have any formal voice in any of the ARTF committee meetings, however, so their views and influence is conveyed indirectly through "trickle up" channels and at project/program level.

H.5 Ownership and Capacity Building

73. The Government has prepared a series of national development strategies and plans, which are becoming better and more realistic. GIRA has also not got a

Medium-Term Expenditure Framework in place that guides the overall public finance management, including the planning of the investment portfolio and the public sector's own recurrent costs.

74. The national authorities always had a strong *commitment and willingness* to take responsibility and thus had ownership to the country's development. Over the last couple of years, their *capacity and ability* at least at the planning level and more and more also at the implementation levels is also becoming stronger. The challenge is now becoming – once again – the political and security challenges to the overall development path which the national authorities in Kabul are trying to pursue.

Ownership of ARTF

75. The Government was a strong supporter of the ARTF, particularly during the first years of its existence. The Minister of Finance on a number of occasions expressed a clear desire for the donors to provide funding through the ARTF as the best means of supporting the GIRA budget. At some meetings this view was expressed very strongly, and was important for some donors to channel some of their funds through the ARTF.

76. The Ministry of Finance had also expressed a preference for a Bank-administered trust fund compared with a UN one. The reason was the experience with the UN system during the late Taliban period and transition phase, where Afghani officials felt the UN neglected local systems and aspirations and instead tended to continue with UN-managed activities directly.

77. There was therefore a strong ownership to the MDTF structure in Afghanistan from at least the Ministry of Finance. There were discussions within GIRA regarding the dominant role the MOF played in the dialogue with the donors, but overall there was agreement and acceptance of the structure since it was mobilizing resources that were more freely available to the authorities.

78. The situation that the authorities faced also needs to be understood. For SY 1383, the total budget was about USD 5.1 billion. Of this, donor funding made up USD 4.8 billion. Only USD 1.7 billion was core budget – meaning it was implemented by GIRA – but of this, USD 1.3 billion was under direct donor supervision and fiduciary oversight. This latter category includes ARTF funding, because while the ARTF funds go through GIRA systems, the Monitoring Agent is providing the oversight function. So two thirds of expenditures were completely outside GIRA's control, and only about 8% of public funds were fully GIRA responsibility.

Ownership of Investment Projects

79. The limited ability of the authorities to take charge of the budgetary situation is reflected at the level of project implementation as well. As pointed to above, much of the project implementation has been tendered to private sector or NGO organizations due to lack of own capacity to handle. Some in authority position have in fact accused some of the NGOs of not being interested in relinquishing their roles in project implementation, and thus seen as a competitor to the public

sector and its role in for example providing elementary health and education services.

Capacity Development

80. The ARTF has several important capacity development aspects. One is that the Monitoring Agent has changed its operational approach and is contributing to strengthened procedures and quality standards. Furthermore, by tracking the actual flow of funds to the end-users or beneficiaries, the Monitoring Agent has identified deficiencies in the system and come up with proposals for corrective action, which is capacity building. Providing the funds on-budget is systems enhancing and confidence building, and this is seen by the fact that flow of decisions and financial resources through the system - down to district and sector levels - is improving.

81. What is lacking is an explicit strategy for maximizing capacity development impact. The changes to Monitoring Agent procedures were not planned but simply evolved through dialogue amongst the parties. The ARTF teams in the Bank office have continuous discussions with their counterparts in the MOF, but focusing on operational issues, not on capacity development. The ARTF is funding a number of TA activities through the investment window, but this is not linked with either fiduciary concerns or capacity development issues on the recurrent side. The capacity development effects are therefore positive but *ad hoc*.

82. capacity development in the investment window has so far been designed and implemented at project level. In the case of the infrastructure projects, there has been little specific capacity building, reflecting the emergency nature of these investments. There are serious capacity constraints at mid-level in most of these institutions and dependence on foreign expertise is likely to continue for some time even with more attention to domestic capacity building. Moreover, in the power sector the (ageing) human skills base is often rather specific – e.g. German-trained engineers for one power plant, Russian-trained for another with substantively different training outcomes and little scope for common understanding. Coordinating human resource development plans in these conditions is a long-term challenge.

83. The provision of technical assistance (TA) in Afghanistan has been characterized by poor institutional arrangements, so when there are "best practice" cases, these are not easily transferred to other projects.

84. Coordination is needed with other donors financing TA, to avoid gaps and reduce overlaps. So far GIRA had not stepped in to take the driver’s seat. But Afghanistan's recent strategy note comments that "action is needed on the issue of the twin public sectors. That is, donors simultaneously fund their own and the international agencies’ bureaucracies, while also underwriting the civil service bill for the government. This requires coordinated action including major investment in human capital and a commitment to invest in innovative schemes to level the playing field between the international agencies and the government as competing employers."

85. The challenge is to raise capacity development efforts to a programmatic level while assuring GIRA's ownership and sustainability of these investments. The Midterm review of the ARTF strongly suggested a capacity development program focusing on improving PFM, thus linking the recurrent and investment windows, but this does not seem to have happened.

H.6 Thematic Areas and Beneficiaries

Public Sector Development and Reaching the Poor

86. The recurrent window has both assisted the authorities ensure their presence and visibility on the ground, as well as provided key services to the population at large. The spread of programs like the National Solidarity Program to almost all the rural areas with ARTF and other donor funding has therefore been important both for legitimacy/credibility reasons, as swell as the importance of reaching the needy population after the many years of conflict and poor public services.

87. While there are concerns about regional biases in terms of coverage and quality of services provided, it seems clear that the situation has improved dramatically with the expansion of the predictable public funding that the ARTF ahs been able to provide over the last four years. The sustainability and equity of these services is not clear from the documentation seen but presumably is something that will be tracked.

Gender

88. The ARTF has so far not developed a clear gender policy. While a number of projects have gender targets, overall this is *ad hoc* and dependent on individual task managers rather than systematic policy. This is of concern as there is a process of "backsliding" as far as women's rights and situation is concerned in parts of the country.

89. However, gender equity is paid attention in some of the projects. capacity development projects have established indicators targeting gender equity. The three large rural development projects have gender mandates. The Emergency Employment Program has developed projects to accommodate the ability of men and women to work in road and other infrastructure projects. The establishment of female or male/female Community Development Committees has been a requirement for the implementation of the National Solidarity Program. Responding to the finding in an evaluation regarding inequity between male and female Community Development Committees in deciding priorities and managing block grants (Altai 2004), the program decided that at least 10% of the block grants must be decided and managed by female Community Development Committees. MISFA is providing microfinance services for men and women and has established the *Women for Women* microfinance program.

90. But so far ARTF gender policy is *ad hoc* in that it greatly relies on the experience of the World Bank's task managers assigned to projects. At this point there is no gender mainstreaming guidelines applied to the Investment Window. As the

Administrator of the ARTF, the Bank has been consulting with the Afghanistan's Ministry of Women's Affair.

H.7 Findings and Conclusions

The main ***Findings*** and ***Conclusions*** are:

Efficiency of Establishing and Running the MDTFs:

91. The AIAF was set up and run by the UNDP at very short notice, operated under the difficult circumstances of the immediate post-Taliban period, and then shut down again within six month, as foreseen, disbursing over USD 71 million to support the new civilian administration – an extremely impressive performance.

92. The ARTF "piggy-backed" onto the AIAF, establishing two "windows", one for recurrent expenditures, the other for investment projects. The ARTF has received pledges of over USD 1.3 billion from 24 donors in four years.

93. The budget support is tracked by a Monitoring Agent (MA) in MOF, monitoring and providing advice and capacity building. Insisting on respecting procedures, fiduciary standards while providing funds on-budget has improved quality, transparency and legitimacy of the Government's PFM. The ARTF as funding channel for budget support has been efficient, and the Bank as fiduciary agent has encouraged more donors to contribute.

94. ARTF funding of projects is less important (only 3-4% of all project funding) and ARTF funding for infrastructure is not an efficient use of grant resources. There is no separate strategy for ARTF funding, but all project requests must be cleared by MOF against national development plans and priority programs.

95. The ARTF experienced disbursement problems during the first year which only was solved when both an ARTF management unit and a Bank disbursement and financial unit were set up in Kabul.

Governance Issues:

96. The Management Committee which takes the funding decisions consists of the four non-funding multilateral agencies, with the Bank as secretariat. Membership on the Donors' Committee requires a minimum contribution but this committee is only a consultative, not a decision, forum.

97. The government has only been invited as observer to the Management Committee meetings as of end 2005, and to four of the annual Donors meetings. There is a lack of a government-led policy forum.

Harmonization and Coordination:

98. The ARTF has been an extremely useful harmonizing instrument for budget support, and contributed to coordination of the national rural development programs. It is unclear to what extent ARTF is contributing to any further harmonization, since it is so small compared to other resources.

99. Relations to the UN are mixed: some resentment in UN over non-continuation of UNDP-led fund, while UNDP is on the Management Committee of the ARTF, and UN agencies are important implementing partners for ARTF projects.

100. NGOs also play an important role in implementing ARTF-funded rural programs but have no formal voice on policy and decision making arenas.

Ownership and Capacity Development:

101. The GIRA has had strong ownership of its national development policies and programs, were vocal supporters of the ARTF, especially for budget support, but had little capacity for implementation.

102. While ARTF projects support capacity development, it is on an *ad hoc* basis. The Midterm Review of the ARTF suggested a capacity development program funded over the investment window focusing on PFM, thus linking the two windows, but this does not seem to have been followed up.

Thematic Areas and Beneficiaries:

103. The ARTF has strongly contributed to building the legitimacy of the public sector, especially the PFM sector, but also critical service delivery areas to the entire populations, including the poor.

104. Rural rehabilitation programs have received priority and are thus addressing the needs of the rural poor.

105. While a number of projects have gender targets, the ARTF as such has no gender policy.

ANNEX I: The Timor Leste Trust Funds

I.1 Introductory Remarks

1. Timor-Leste has often been described as a post-conflict success story. As late as April 2006, the World Bank's Background Paper for the Timor-Leste and Development Partners Meeting (2006) was optimistic about the gradual consolidation of Government capacity, the pro-poor orientation of Timor's national development strategies (2003 and 2005), the growth in state revenues and creation of Timor-Leste's Petroleum Fund (2005), which linked the expenditure of state oil revenues to national development objectives. The IMF (2005), UN (UNDP 2006) and others took a similar position which was reflected in earlier drafts of the Timor-Leste Country Annex.

2. Few, if any, in the international community anticipated the violence of April and May, 2006. Timorese informants appeared equally taken by surprise. Thirty persons were killed in Dili, and 150,000 persons remain internally displaced. Camps are seen throughout the Dili urban area, often a short distance from the homes of the displaced persons. As of late October 2006 Timor-Leste remained in political limbo. Key members of the East Timor's small political elite have been unable to resolve their disputes, or present a plan for the country's recovery.

3. The Report of the UN Independent Special Commission of Inquiry for Timor-Leste (2006) concluded that Timor-Leste has experienced a break down of governance, both in its political and institutional dimensions. The crisis resulted from the "fragility of state institution and the weakness of the rule of law. Governance structures and existing chains of command broke down, roles and responsibilities became blurred and solutions were sought outside if the legal framework" (UN 2006: 2).

4. The UN Commission and the International Crisis Group (IGC) both concluded that the failure to consolidate reforms to the security sector lead to a collapse of military and police, and violence conflict between them (UN 2006: para 10). The IGC continued that the crisis was about "how a guerrilla movement makes the transition from war to peace, how security institutions are built from scratch… and how crisis resolution becomes infinitely more difficult when political leaders let problems fester (IGC 2006: 1). None of these appear to have been met successfully.

5. The Timor-Leste Country Annex was written in the context of these events. The country mission was postponed on two occasions (July and September 2006), and finally an abbreviated mission took place between 9 and 13 October 2006. There were several deaths in Dili resulting from acts of violence during that period, and the presence of a UNSC-sanctioned peacekeeping force had not stabilized the situation to the extent that displaced persons felt secure returning homes.

6. As a result of these circumstances, only a limited number of government officials, donors and UN officials were available for interviews. Many government programs were not operating at normal levels. Some officials had not yet

returned to work, and were reported to either be living in the displaced persons camps or taken their families to rural areas for safety.

7. The Timor-Leste Annex, therefore, does not include information on the post-crisis status of the trust funds. It depends more on the initial documentation review than other Country Annexes. There was no clear indication from informants (donors, World Bank, UN and Timorese Government) regarding:
    - The impact of the current situation on various trust fund operations.
    - Post-crisis priorities and changes to international assistance that may be required, in its composition or the modality for delivery.
    - The conflict impact of turst fund activity; whether international cooperation played a role in mitigating, fuelling or otherwise affecting the crisis, by its composition, priorities or modalities for delivery.
8. Questions of this nature were not being asked by informants, either in relation to the various multi-donor trust funds or overall international assistance. Regardless, it may be helpful for the international community to assess the results of its assistance to Timor-Leste. Since 1999, Timor-Leste has depended on the international community for security guarantees and political support during the transition to independence; financial assistance and policy, technical and capacity development support in the early years after independence; shifting focus to policy, technical and capacity development support in recent years as petroleum revenues have grown.
9. The break down of governance occurred despite significant international investments in these areas. Indeed, weak capacity and factors such as low budget execution and poor performance in the area of job creation were cited among causes. Capacity developed since independence – physical infrastructure, human skills, program operations and public confidence in state institutions – have been eroded due to the unrest, though it is not clear if there is a significant and structural loss of capacity or one that is largely temporary.

I.2 Background

10. The World Bank has administered the Multi-donor Trust Fund for Timor-Leste (TFET). In addition, it has also managed the Consolidated Support Program (CSP) and the Transitional Support Program (TSP). While the TFET was a multi-donor fund supporting programme activities, the CSP and the TSP have been multi-donor frameworks for pooled budget support funding. The change in name from TSP to CSP reflected, in part, the feeling of the Timorese Government that it was moving out of the transition phase. This chapter reviews TFET, TSP and the CSP.
11. There was limited possibility to assess the relationship between the World Bank administered funds and the Consolidated Fund for Timor-Leste (CFET), a MDTF administrated by the United Nations (UN) through the United Nations Transitional Administration (UNTAET). While requested, documents for the CFET were not made available to the review team. The UN in East Timor advised

that they are unable to locate the documentation, as is the Government. Additionally, there has been no evaluation or review of Trust Fund. References to the CFET have therefore been kept to a minimum due to the absence of evidence.

Table I.1: Timor-Leste MDTFs

MFTF	Description
CFET (2000 -)	Managed by UNTAET for recurrent expenditures, civil service and capacity building of the nascent Timor-Leste administration. CFET is analogous to a recurrent budget plus development budget set up to finance the recurrent expenditures, rehabilitation of administrative buildings, civil service capacity building and reconstruction in the justice sector mainly with donor contributions. Management was transferred to the Government of Timor-Leste at independence, and the CFET was integrated into the annual budget.
TFET (2000–present)	Finance reconstruction and development activities. As of March 2006, the TFET had financed 25 projects, of which 14 were completed, eight were active and one was in the design phase. TFET has programs in agriculture, economics and institutional capacity building, education, health, small enterprise development, roads, power and petroleum sector technical assistance. TFET activities are managed by the World Bank and the Asian Development Bank (ADB). The World Bank is the trustee. TFET projects are implemented by Government Ministries, with the support of Project Management Units (PMU) integrated into line Ministries. Most donors have transferred to budget support in recent years, and informants considered the TFET to now be a less relevant modality.
TSP I (FY2003)	The purpose of the TSP was to provide bridging finance to the Government until petroleum revenues become available. Budget support was to help the Government address fiscal gaps; mobilize donor funds; ensure maintenance of public services and continued operation of fiduciary systems; strengthen capacity to manage future revenue streams. There was no conditionality or prior action set for TSP I. Objectives: (i) establishment of the framework for poverty reduction planning; (ii) creation of the institutional and legal framework for open democratic governance and enabling environment for the private sector; (iii) ensure a pro-poor orientation of public spending and strengthening of expenditure management controls; and, (iv) improving cost-recovery in the power sector.
TSP II (FY2004)	Prior actions were set and an annual matrix constituted of quarterly milestones and targets guided the implementation of TSP II. Objectives: (i) consolidation of the institutional framework for good governance; (ii) improvement in service delivery focus and performance of key sectors; (iii) increase attention to capacity building requirements in the public sector; and, (iv) strengthening of public expenditure management capacity and improving policy alignment of external financing by channeling resources through the budget.
TSP III (FY2005)	Prior actions were set and an annual matrix constituted of outputs/indicators and targets were monitored. Objectives: (i) strengthening State institutions, public sector management and public expenditure management; strengthening administrative capacity in the justice sector; and, possibly, capacity building in the police; (ii) improve the efficiency and effectiveness in service delivery, particularly in the health and education sectors; and (iii) job creation, especially through private sector development and agriculture. TSP III focused on systems performance by making greater use of quantitative performance indicators; introduced a medium-term perspective; placed a greater focus on integrated capacity building efforts; mainstreamed gender issues throughout the program; and strengthened stakeholder dialogue on TSP design and process.
CSP I & II (FY2006, FY2007)	Timor-Leste is now generating substantial petroleum revenues. The financial rationale for budget support has diminished. However, Government and donors note the continuing importance of policy dialogue, and building capacity to establish, implement and monitor priorities. The economic justification comes from the large investments still needed to achieve the Millennium Development Goals. An annual matrix constituted of key performance outcomes and indicators for CSP I and II have been identified for monitoring purpose. CSP I (FY2006) and CSP II (FY2007) continue to focus on TSP's main thematic areas, with the addition of infrastructure under the service delivery component.

12. After independence in 2002, the Government of Timor-Leste asked the Bank and bilateral donors to provide budget support, as donors had done to the UNTAET through the CFET, to support priorities as outlined in the National Development Plan (2003) and capacity development activities. TSP was designed for such purpose, to provide bridging finance for both external and fiscal gap during the period after independence before substantial oil and gas revenues came on-stream. TSP was designed to move forward on the capacity building agenda originally mandated to CFET.

13. Until 2002, the Trust Fund for East Timor was the main vehicle for World Bank support to Timor-Leste. TFET-supported sector projects evolved into sector-wide approaches, later providing the basis for the sector components in TSP. While TFET-funded sector programs have been wide and deep in their coverage and level of engagement, TSP has complemented them by including each sector's top priorities for high level monitoring. Moreover, the joint engagement of the Ministry of Planning and Finance and line ministries under TSP has encouraged cohesiveness between sector policies and budgets. The whole-of-Government approach used by the TSP and sector interventions has thus been highly complementary. Additionally, given the Government's limited implementation capacity, support provided through sector projects has been crucial to policy implementation and the attainment of results in key TSP areas, particularly service delivery.

14. Three annual TSP operations were foreseen, covering the period FY2003 to FY2005. Government and donor coordination as well as TSP monitoring was guided by an annual program, translated into an Action Matrix, which focused in four areas: (i) continued poverty reduction planning and "quick wins" in service delivery; (ii) governance and private sector development; (iii) public expenditure policy and management; and, (iv) power sector management. The World Bank, as the manager of the TSP, organized joint Government and donors monitoring and appraisal missions, in coordination with Government meetings, on a six-monthly basis.

15. The Government of Timor-Leste has indicated that policy and technical support will be key elements of future international assistance. Timor-Leste has shown a fiscal surplus since the onset of oil production in 2004. Revenues were estimated at USD 300 million in FY2005, and are projected to rise to over USD 1 billion by FY2008 (World Bank 2006b: 17). However, the Government's capacity to develop policy, expend revenues and manage programs remains weak. Budget execution and procurement have both been described as significant bottlenecks (WB 2006a: para 5). In this context, policy, technical support and capacity development are Government priorities. The Government has sought assistance with: (i) establishing priorities; (ii) implementation of programs (iii) monitoring progress towards policy goals; (iv) building Government capacity; and (v) supporting donor coordination.

16. On the funding side, despite increased petroleum revenue, Timor-Leste will continue to require financial assistance from development partners. Although no damage assessment was available, the loss of capacity, Government property and

delays in program implementation may increase funding requirements. Support, therefore, was to be allocated against: (i) considerable development needs and related funding gaps for the achievement of the *National Development Plan* (2003; 2005) and Millennium Development Goals; (ii) the ongoing process of shifting off-budget spending onto the central government budget (CGB); (iii) the need for a more expansionary fiscal stance; (iv) the importance of respecting the country's sound savings policy; and (v) the volatility of petroleum revenues.

17. CSP I (FY2006) is also complemented by grants to support capacity building, particularly in the areas of governance and public finance, and by a program of analytical and advisory work. Given the critical importance of capacity building for improved budget elaboration and execution, CSP I was "twinned" with a program of capacity building in public financial management. The planning and financial management capacity-building program bring development partners together in the provision of considerable institutional capacity building in planning, budget preparation, execution, and reporting. Therefore, while CSP was to focus on supporting the Government's management capacity in the areas of service delivery, governance, and job creation, the capacity building program focused on the complimentary area of capacity building in public financial management, particularly addressing Government's difficulties on the expenditure side of public financial management (CSP I PAD, 2005).

I.3 Trust Fund Overview

18. Timor-Leste was invaded by Indonesia in December 1975, following the end of Portuguese colonial rule. The occupation lasted for 25 years, until political changes in Indonesia opened the possibility for a negotiated political solution. The resulting New York Agreement between Indonesia and Portugal in May 1999 called for a referendum in which the Timorese would vote for autonomy within Indonesia or independence. On 30 August 1999, 78.5 percent voted in favor of independence in a United Nations-sponsored Population Consultation.

19. Responding to the vote, the Indonesian military supported local militias that were again this outcome. An estimated 1500 persons were killed and up to 75 percent of the population was displaced in the weeks that followed. Seventy percent of the Timor-Leste's infrastructure was destroyed or rendered inoperable, including most government buildings (JAM 1999: para 1). There was also widespread looting and burning of homes or businesses, the remains of which can still be seen in Dili. Up to 25 percent of the Timorese civil service were of Indonesia origin, most filling high-level skilled positions, who fled after the independence vote (JAM 1999: para 15-16).

20. On 15 September 1999, the United Nations Security Council authorized deployment of a multinational force. The force entered Timor Leste on 20 September 1999, accompanied by United Nations-lead humanitarian operations. On 25 October 1999, the Security Council further authorized the formation of the *United Nations Transitional Administration in East Timor (UNTAET*).

21. The **CFET and TFET** were established as part of the international response to the violence and large-scale infrastructure destruction that occurred after the 1999 referendum. At the request of the Timorese leadership and the UN Department of Political Affairs, the World Bank convened a meeting of the Friends of Timor-Leste concurrent with the 1999 World Bank and International Monetary Fund Annual Meetings in Washington, which was attended by a large number of donors and the United Nations. At this meeting the World Bank was asked to coordinate a Joint Assessment Mission to identify priority reconstruction and corresponding financial needs. The assessment was coordinated by the Bank and carried out in October and November 1999.

22. In December 1999, the World Bank Board approved the establishment of TFET by providing USD 10 million from the Bank's own surplus. Originally, therefore, the TFET was a Bank-financed trust fund. In December of that same year the Bank and UNTAET co-chaired a donor’s conference in Tokyo, at which 13 donors pledged a total of USD 510 million for reconstruction and humanitarian aid to Timor-Leste. The meeting also endorsed the Joint Assessment Mission report, the expansion of the TFET into a multi-donor trust fund, and the creation of the CFET. The expansion of TFET as an MDTF aimed at economic and reconstruction activities under the trusteeship of the World Bank. The Asian Development Bank (ADB) was invited to participate as TFET co-implementer and to manage projects in the infrastructure, water supply and sanitation and microfinance sectors.

Basic Facts

23. **Joint Assessment Mission**: The literature concludes that the World Bank led a highly participatory assessment process that included Timorese experts, UN agencies, ADB and experts from five donor countries. Additionally, a representative of the United Nations High Commissioner for Refugees (UNHCR) joined the mission to facilitate linkage between relief and reconstruction planning.

24. The literature calls attention to the fact that Timorese participation in the assessment was cut short due to a lack of financing. Initially, funded by the World Bank through a grant from the Post Conflict Fund, the continued involvement of the Timorese team was supposed to be covered by UNTAET. Since UNTAET’s establishment was delayed because of UN internal problems and as no bridge financing was available, most Timorese left at the end of the mission and the work was completed by international experts. It has been further noted that Timorese continued participation could have been assured by appropriate coordination with the institutions involved and better planning by the UN.

25. The JAM identified agricultural recovery and reconstruction of state capacity as the two most urgent priority areas. A division of labor between MDTFs was set up to address priority activities identified in the JAM, as follows:

26. **Emergency Assistance Program:** A priority work program for the first six-month of operation was developed in Dili by Timorese, representatives of the UNTAET, and facilitated by the World Bank. TFET projects were designed based on the

priorities identified on the work plan and the JAM and developed in close collaboration with Timorese representatives, members of the *Conselho Nacional de Resistência*, the umbrella Timorese leadership structure during the transition 1999-2002.

CFET	TFET
Civil Service capacity building [32] Justice System	Economic Management Community Empowerment Infrastructure Agriculture Health Education
UNTAET, as the transitional government entrusted with the mandate for capacity development in the pre-independence phase, which was complemented by the UNDP Development Posts Programme. UNTAET handed responsibility to UNMISET, the successor mission, in 2002.	World Bank and ADB

27. After independence in May 2002, the Government of Timor-Leste launched the National Development Plan (NDP), which sets out Timor-Leste's development vision for 2020 and concrete goals to be achieved by mid-2007. The NDP priorities were defined on the basis of a nation-wide consultation process. The plan was drafted in the five months before independence, accepted as the first Timorese Poverty Reduction Strategy and reviewed by the World Bank and the funds as such. In February 2004, the Government outlined the Stability Program to sharpen the short term focus on governance, job creation in the private sector and in agriculture, and service delivery in education and health. TFET activities were reviewed and aligned with the NDP and subsequently with the Sector Investment Programs. TSP and CSP were designed to support and strengthen the NDP and Sector Investment Programmes.

28. **MOU**: In December 19, 1999, the TFET was established as a Bank Trust Fund by Resolution No. 99-8 and Resolution No. IDA 99-5 (the TFET Resolution) of the Executive Directors of the Bank and the International Development Association (the Association), respectively, in order to finance emergency reconstruction and recovery program in East Timor.

29. At the request of the Timorese leadership group and donors, TFET Resolution was modified to provide: (i) that the TFET be a multi-donor trust fund to accept contributions from bilateral and other donors as well as transfers from surplus from the Bank and (ii) that both IDA and the ADB act as implementing agencies

[32] The area of civil service included a recommendation that the total number of civil servants not exceed 12,200 in the first three years, with just under 90% of these constituting teachers and health workers.

under the TFET. Resolution No. 99-8/1 and Resolution No. IDA99-5/1 amended the previous resolutions and restated TFET as a MDTF in January 2000.

30. As a framework for donor support (and not a MDTF as TFET), TSP has been established as a series of Trust Funds, one for each donor, including the Bank. As such, a Program Appraisal Document (PAD) for each TSP, that describes the Program, its implementation and administrative procedures, and establishes the Bank contribution to the TSP. The Bank was the manager of TSP. Due to the administrative complexity of the TSP, CSP was set up as a MDTF.

31. **Reviews and evaluations**: The review team was not aware of any evaluations of the UN administered CFET. TFET has had two evaluations: (i) a World Bank commissioned evaluation in 2003, part of the study on Financing and Aid Management Arrangements in Post-Conflict Situations (Schiavo-Campo 2003), and (ii) the European Commission/DC in 2004 (Phung and Bauer 2004). In addition, TFET was a case reviewed in two Bank "Conflict Prevention and Reconstruction" (CPR) studies: *The East-Timor Reconstruction Program: Successes, Problems and Tradeoffs* (Rohland and Cliffe 2002) and *The Role of the World Bank in Conflict Development* of 2001. A review of the Transition Support Program (TSP) and Appraisal of Consolidation Support Program (CSP) to Timor-Leste was conducted in 2005 (Ofstad and Bakke 2006).

32. The above evaluations and studies agree that TFET has been instrumental to the successful reconstruction of Timor-Leste. Its performance has been **satisfactory** on the World Bank evaluation scale:
    - TFET succeeded in mobilizing substantial resources for Timor-Leste reconstruction and achieved the results it set itself to achieve in the JAM.
    - TFET achieved good donor coordination, promoted strong and continued policy and sector strategy discussions among all stakeholders.
    - TFET has been an efficient funding mechanism as it used uniform procedures for project processing and implementation. The projects were well chosen, the sequencing and the intra sector allocation of funds adequate.

33. The main critique of the TFET in the literature is that it failed to significantly improve the Timorese public sector capacity, and prevented the integration of all funding sources into the national budget. Earlier efforts to strengthen the role of Timorese government structures would have increased the benefit of the strong, coordinated advance planning accomplished through TFET.

34. The review of the TSP (Ofstad and Bakke 2006) has concluded that overall the TSP has been a relatively successful post-war budget support program:
    - TSP has strengthened the Government capacity to manage future revenue streams and contributed to maintaining relatively high standards in public financial management.
    - Although TSP has had less impact in mobilizing donor funding, closing external gaps, and on sustaining the levels of imports and public expenditures, it has contributed to stabilization and peace building in the immediate post-independence situation.

- The impact of TSP on macro-economic balance and on government service delivery has been limited, except in the first year FY 2003.
- Progress on the TSP Action Matrix has been slow and uneven. Although over-optimistic, budget targets have been met, even though budget execution has been weak in some areas.
- Governance issues have dominated the agenda, with impressive progress in some areas, and slow progress in other. Employment generation and private sector development has not received enough attention.
- Gender issues were introduced in TSP II, and this has contributed to raising awareness and some real progress.
- World Bank management has been overall very satisfactory, described as being almost exemplary.
- The Government of Timor-Leste has taken strong ownership of TSP, and used TSP as a learning instrument for its own Annual Action Plans and for coordination.
- Donors have been actively involved, also non-TSP donors, resulting in TSP becoming an important forum for informal dialogue and co-ordination between the Government and donors.
- Civil society has been less involved in TSP, but interaction has been improving. Private sector has hardly been involved.

Financial Overview

35. At the Tokyo meeting, about USD 148 million were pledged for the TFET to cover the three-year period 2000-2002, including the USD 10 million from the Bank surplus. Eventually, as shown on table I.2 below, donor contributions totaled USD 169.2, which together with investment income of over USD 8.3 million made USD 177.6 million available for projects. About half of the financial aid available for Timor-Leste's reconstruction for the first three years was channeled through TFET. On average TSP received and disbursed USD 33 million annually.

36. Rohland and Cliffe (2002) note that realization of pledges has been relatively fast in Timor-Leste[33]. The Trust Fund for East Timor has realized more pledges than originally planned and, for most of its life has had sufficient funds to initiate the projects prioritized by Government and presented to the TFET donor's council.

37. Rohland and Cliffe (2002) also observe that TFET was initially constrained by the requirement to limit commitments to the amount of either cash or promissory notes received. Project preparation ran ahead of receipt of cash or promissory notes for the time until April/May 2000 creating the mistaken perception that donors were slow in realizing their pledges. The UN Trust Fund/CFET has been in surplus for most of its lifecycle, with the exception of mid-2001 when capital expenditures were delayed due to shortages in anticipated funds.

[33] Data on donor paid-in contribution dates will be compiled for the draft report.

Table I.2: TFET - Funding by donor as of February 28, 2006 (in USD '000)

Donors	Commitments	Paid in
Portugal	50.0	50.0
European Commission	50.67	50.67
Japan	27.90	27.90
Australia	12.43	12.43
UK	10.18	10.18
World Bank	10.0	10.0
Finland	3.72	3.72
Norway	2.39	2.39
USA	0.50	0.50
Ireland	0.47	0.47
IDA-PCF	0.38	0.38
New Zealand	0.36	0.36
Italy	0.21	0.21
Totals	169.23	169.23
Investment Income		8.93
Total Financing Available		***178.16***

Source: TFET Report to the Trustee, March 31, 2006

I.4 Efficiency of the Trust Fund

38. TFET has been an efficient funding mechanism as it used uniform procedures for project processing and implementation. Nonetheless, about half of the funds for aid have been provided outside of the TFET framework by donors and aid agencies using their own policies and procedures. This under-utilizes one of the mechanism's main advantages, namely rapid, simpler and more efficient project processing and implementation resulting from using the same procedures for project preparation, procurement, disbursement and monitoring.

MDTF Procedures

39. TFET was implemented under the Bank's Operational Policy (OP) 8.50, "Emergency Recovery Assistance". The guidelines for TFET were outlined in the December 1999 Amendment to the TFET, Resolution No. 99-8/1 and Resolution No. IDA99-5/1. The Bank's administration fee for was set to one percent of the Contribution Funds. In addition, in order to assist in the defrayment of the costs incurred by the Implementing Agencies with respect to the TFET, the Bank may retain an amount up to five percent of the Contribution Funds calculated over the life of the TFET. The administrative guidelines describe the Bank's administrative and financial reporting obligations to the donors, and auditing requirements.

40. According to the TFET document, the Bank shall establish and maintain appropriate records and accounts to identify the resources of the TFET, the commitments to be financed out of the TFET, and the receipts and disbursements of funds in the TFET. In addition, the Bank shall, as soon as practicable after the end of each fiscal year of the Trustee, furnish to the Executive Directors of the Association, the ADB and each of the contributors to the TFET: (a) a report on the

operations financed from the TFET; and (b) a financial statement with respect to the TFET, together with a management assertion and an attestation from the Association's external auditors on the satisfactory performance of the procedures and controls used by the Association in administering trust funds. The costs of such attestations shall be borne by the Trustee. After all commitments from the TFET shall have been fully disbursed, the Trustee shall as soon as practicable furnish to the Executive Directors of the Association, the ADB and the TFET Donors' Council a final report on the operations financed from the TFET.

41. The Operational Guidelines for TFET stipulates that Grants made by the Bank, as Implementing Agency, shall be in accordance with IDA applicable procedures while grants made by the ADB, as Implementing Agency, shall be subject to ADB own procedures. Bank's Procurement Procedures should be done in accordance with the World Bank "Guidelines for Selection and Employment of Consultants by World Bank Borrowers" and "Guidelines for Procurement under IBRD Loans and IDA Credits".

42. As budget support mechanisms, TSP and CSP are implemented by the Timorese Government. The Government has reported through Quarterly Progress Reports and Budget Execution Reports. An independent international auditing company has undertaken regular audits of the Government budget, in the absence of a national auditor-general. With the support of the CSP, a strategy is currently being prepared for the transfer of the external audit function to Timor-Leste's Court of Appeals. For each TSP, the Bank has undertaken appraisal missions, produced the Program document establishing the TSP and monitored the progress of the Action Matrix. Overall the CSP follows the same procedures, with the Bank monitoring the progress of the outputs and key performance indicators agreed in advance with CSP donors and the Government.

- **Project Preparation Procedures**

43. TFET Project preparation procedures are initiated on the basis of a Project Information Document, which is cleared by the Country Director for appraisal or pre-appraisal. The identification, preparation and pre-appraisal stages are usually combined. Including the Project Information Document review, these steps should normally be completed within five weeks (Phung & Bauer, 2004).

44. Within one month of the appraisal mission's return, the Task Manager prepares the PAD for management review, while the lawyer drafts the legal documents. Given that TFET projects do not use Bank's funds, the approval is delegated to the Bank's Regional Vice President. TFET projects' PADs and Grant Agreements are made available to the Board for information only as the Board cannot oppose a fund approved by the Regional Vice President.

45. To ensure accountability and transparency in the use of funds, projects should be designed consistent with World Bank financial management requirements and accounts are audited according with World Bank guidelines. Like other World Bank projects, TFET projects are monitored through field office and head office supervision. Progress on TFET projects are regularly reported to the donors.

46. The two previous evaluations of TFET somewhat disagree regarding Bank delays due to procedures. Schiavo-Campo (2003) asserts that TFET's first projects were prepared in near-record time and, with reliance on local communities and NGOs, and gave quick results on the ground. This contributed to preventing the gap frequently found between humanitarian and reconstruction assistance. The later, larger reconstruction projects were implemented more slowly, but not unduly so by comparison to other experiences.

47. Phung and Bauer (2004) argue that TFET experienced delays due to Bank procedures. Firstly, project processing procedures were not streamlined sufficiently as staff working on TFET had to produce full PADs for all projects, despite the relatively small size and the repetitive nature of the projects. The length of appraisal has contributed to delaying project approval and implementation.

48. However, Bank documents note that within the Bank's portfolio, project preparation time was cut from a Bank wide average of 15 months to 3.5 months (see Table I.3 below) while maintaining regular quality standards.

Table I.3: TFET Project processing time and staff inputs, first three years.

	Appraisal		Implementation Staff weeks			
Projects	Staff weeks	Time elapsed (months)	FY 2000	FY 2001	FY 2002	FY2003
TFET Wave I	24.5	2.5	13.5	26.2	17.0	5.1
TFET Wave II	32.0	5.1	N/A	N/A	7.16	14.5
All TFET	28.3	3.8	13.5	26.2	12.2	9.9

Source: Phung and Bauer (2004), provided by the World Bank

49. Again, according to Phung and Bauer, no significant simplification of procurement rules took place. Overall Bank management and procurement team in Dili did not fully use the flexibility provided by Bank procurement rules under emergency operation. The World Bank's Country Procurement Assessment Report for Timor Leste (2003) supports Phung and Bauer's assessment, stating that, in view of the emergency nature of projects in post-conflict situation, for the design of projects, the development partners should assign experienced procurement staff who are well-versed in appropriate options for streamlining and innovation within the existing rules. Such experienced staff would be able to bring in international best practices appropriate for implementation of emergency projects and provide guidance to government officials regarding procurement and project implementation issues. This expertise should be readily available at least during the initial period of project implementation.

50. The health sector has been highlighted as an exception, where flexibility in procurement was exercised. Furthermore, Rohland and Cliffe (2003) observe that TFET portfolio achieved fast results on the ground in those program components

executed through community or private sector mechanisms but larger reconstruction works lagged, largely due to difficulties in managing standard procurement procedures in a post-conflict context.

51. Under TSP and CSP, procurement bottleneck has also produced delays. As Government expenditure requirements have grown and sector ministries have been building capacities to prepare procurement processes, the Procurement Directorate of the Ministry of Planning and Finance has not been able to increase its capacities to cope with this, and a backlog has been growing.

- **Efficiency of the Budget Support Mechanisms**

52. As seen from table I.4, TSP funding has contributed the equivalent of 40-50% of total government expenditures. As noted by Ofstad and Bakke (2006), in most aid-dependent countries, this would have represented a crucial contribution to filling the budget deficit, maintaining government services and stabilizing the macro-economy. In Timor-Leste, except for the first year FY 2003, the element of bridging a financing gap has not been critical because Timor-Leste's oil revenues have grown dramatically due to world prices; the impact of the TSP budget support on the macro-economic situation and for maintaining government services was thus limited, except for the first year FY 2003.

Table I.4: Timor-Leste Budget and TSP Funding (in USD '000)

	Estimated deficit (-)	Actual expenditures	Actual surplus (+) / deficit (-)	Donor budget support	Net savings
FY 2003 (TSP I)	- 31.3 mill	71 mill	- 22.0 mill	33.0 mill	11.0 mill
FY 2004 (TSP II)	- 36.9 mill	79 mill	- 2.0 mill	34.8 mill	32.8 mill
FY 2005 (TSP III)	- 23.1 mill	79 mill	+ 197 mill	31.0 mill	228.0 mill
FY 2006 (CSP I)					

Source: Ofstad and Bakke (2006)

53. TSP budget support has nevertheless been important. The needs for additional funding for development purposes in Timor-Leste are still very high, given the high level of aid funding off-budget. As shown on table I.5 below, the combined sources budget shows that donor funding is still very much needed and relevant. The question is rather whether the government can take on more of its expenses on-budget, an issue which the CSP is confronting.

54. The Timor-Leste savings policies, which relocate oil and gas revenue to a savings account for usufruct of future generations, implies that only the sustainable "permanent income" should be spent each year. Yet the Government has not managed to spend all the "permanent income" from its oil and gas sector during FY 2005, as shown on table I.6 above. The TSP budget support has therefore been of less relevance during 2005 for the budget itself (Ofstad and Bakke 2006).

Table I.5: Combined source budget and trend, external assistance (1999 – 2005).

Type of expenditure	FY99/00	FY00/01	FY01/02	FY02/03	FY03/04	FY04/05
Development & technical assistance						
On-budget	72.3	118.1	147.0	139.3	134.6	135.8
Off-budget	7.3	29.9	33.0	31.0	29.9	18.1
Sub-total	79.6	148.0	180.1	170.3	164.5	153.9
Humanitarian assistance	82.0	29.6	11.9	3.5	3.1	1.1
Budget & commodity support	35.6	31.6	22.7	32.5	34.8	34.2
UN PKF	65.6	231.1	145.0	104.4	74.7	12.9
UN POL	33.1	51.9	45.4	26.7	15.7	5.1
Donor administrative expenses	1.1	7.0	4.9	4.6	7.5	5.2
Total assistance	297.0	499.2	410.1	341.9	300.2	212.3
Memo item:						
Development assistance per capita ($)	99	185	225	213	206	192

Source: Government of Timor-Leste (March 2006)

55. A low budget execution was identified as a potential risk in TSP program appraisal document in 2002 and it has been a continuous problem during TSP implementation. Budget execution has been uneven, with low expenditures on capital expenditures, especially in the education and road sectors and generally in rural areas. For most recurrent items, progress on budget execution has been more satisfactory in some measure because of policy dialogue made possible by bi-annual TSP/CSP review missions and their discussions with Government on improving systems and processes.

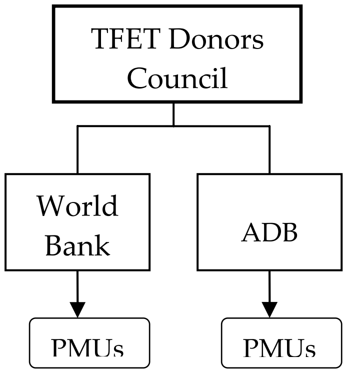
56. While the general concern has been about low expenditure levels, the World Bank's Public Expenditure Review of 2003, showed concern for overspending and insufficient budget controls for recurrent expenditures by the central ministries. As a result, the Government took a number of measures to tighten budget controls. Unfortunately, these measures also seem to have further centralized budget execution and made the task of strengthening budget execution for important investments in rural areas even more difficult (Ofstad and Bakke 2006).

I.5 Governance Structure

57. The governance structure of TFET does not provide for a mechanism to ensure Timorese participation in the decision making processes. Each contributor to the TFET is entitled to appoint a representative to the TFET Donors' Council. The Donors Council main function is to ensure the alignment of TFET with donor priorities. Semi-annually, the Bank and ADB have submitted to the Donor's Council work programs proposing projects and programs to be funded from the TFET, including costing and implementation arrangements.

58. Project Management Units (PMUs) were established to help implement each project. Most PMU staff were contracted first by UNTAET and then by the Timorese Government. According to previous assessments of TFET, integration of PMUs into ministry has been difficult, with a few exceptions, as they were

perceived as too much influenced by the World Bank and not representatives of the Timorese Government. Informants noted that there has been improvement in this regard. The PMU established in the Ministry of Education to support the Fundamental School Quality project has been integrated into the ministry as a permanent capacity under its direction.



Policy and Decision Making Structures and Processes

59. The allocation of funds between sectors and prioritization of TFET projects is decided by the Timorese Government, in coordination with the World Bank, ADB, TFET donors, and other stakeholders. This process is now facilitated by the development of the Sector Investment Programs and guided by the associated Sector Working Groups.

60. Initially decision making took place through the National Consultative Council. The Bank and ADB jointly submitted to the TFET Donors' Council, on a semi-annual basis, a work program indicating projects and programs proposed to be funded from the TFET. The work programs were subject to the approval of the TFET Donors' Council. Decisions of the TFET Donors' Council have been made by consensus. Subsequently decision making was made by the First Transitional Cabinet, then by the Council of Ministers of the 2nd Transitional Government.

61. The GOTL, donors and the World Bank made decisions about TSP policies and priorities on a six-month basis. CSP follows the same pattern.

I.6 Harmonization and Coordination

62. There were six different aid mechanisms when the reconstruction work started: (i) the UNTAET-administered CFET; (ii) the TFET with two implementing agencies financing investments; (iii) the assessed contribution budget of UNTAET financing salaries of UN staff; (iv) projects financed by UN agencies; (v) assistance provided directly by bilateral donors; and (vi) support and work done by or through NGOs. When Timor Leste became independent in May 2002, a seventh financing mechanism was added, TSP and subsequently, the CSP.

63. Assessments share the view that fragmentation of funding mechanisms rendered the overall coherence of reconstruction efforts difficult and made coordination

crucial for the success of the undertaking. Rohland and Cliffe (2002) write that these differing and complex modes of aid provision created barriers to national ownership of the reconstruction planning process in the initial period, and prevented the integration of all funding sources into the national budget. There were particular difficulties in synchronizing infrastructure rehabilitation and service delivery with the recruitment of civil servants to manage and maintain these facilities and services.

64. Government and donors largely overcame these constraints through the adoption of agreed reconstruction benchmarks, the TSP annual matrix, which covered political, administrative, economic and social reconstruction. The benchmarks, reviewed and monitored every six months, proved a useful way to maintain reconstruction momentum and ensure links between different activities. Regular multi-donor sector missions to identify gaps, duplication or new priorities have fostered coordination.

65. Close Government and donor discussions over the recurrent budget greatly improved coordination. TSP as well as non-TSP donors have been actively involved in coordination activities, resulting in TSP becoming an important forum for informal dialogue and coordination between the Timorese Government and donors. The scope and detail of the TSP and CSP and their annual matrix are partially a consequence of the programs assuming a coordinating role across a wide range of sectors.

66. On the other hand, it has also been observed that the level of detail of the annual matrix and the size number of donors participating in the joint monitoring missions have invited donors to micromanage the implementation of government policies. Furthermore, focus on certain issues within the TSP may create an imbalance, to the detriment of other and equally important sectors and actions. The TSP process runs the risk of "dominating" (or duplicating) the dialogue which should take place at the sector level and which should involve all donors contributing within a sector, not only those donors participating in the monitoring of TSP.

67. The Bank and ADB were responsible for coordination and evaluations assert that coordination between the two implementing agencies have overall been smooth. Phung & Bauer (2004) notes that the similar sector allocation of TFET and non-TFET projects seems to support the suggestion that TFET project work (including the JAM and joint donor sector missions) has influenced the allocation of non-TFET resources. This is in part due to the fact that outside donors were also TFET contributors. Donor coordination required for TFET within and outside the donors council had a spill-over effect. TFET is thus an example of how MDTFs can leverage coordination though they channel less than half of available funds. But, as observed by Rohland and Cliffe (2002), it requires specific coordination efforts such as joint donor missions to achieve this impact.

68. Whilst TFET greatly contributed to donor coordination in Timor-Leste, TSP and CSP have provided the best anchor for Government-led aid coordination. However, specific capacity building efforts need to be made early in the process

to develop a true combined sources budget process, where all donors dialogue with government, in a timeframe consistent with the budgetary cycle, on the prioritization of resources.

The World Bank and the UN

69. Informants described the current relationship between the UN system and the World Bank as cordial and constructive. Information sharing and collaboration in the current situation has been good.

70. Rohland and Cliffe (2002) state that cooperation between the Bank and UNTAET was initially hampered by UNTAET's dual role as the United Nations Mission in Timor-Leste and as the Transitional Administration in Timor-Leste. While the former implied mission structures and a role in anchoring and promoting the operations of UN agencies in Timor-Leste, the latter suggested that UNTAET – as government – should establish full governmental structures and act as a government counterpart to UN agencies, International Financial Institutions (IFIs) and donors.

71. By extension, relations between the Bank and UNTAET would be governed by their roles and mutual obligations as partners within the UN system whenever UNTAET would be seen acting as a UN mission. The usual business model between the Bank and recipient governments would prevail whenever UNTAET was seen as the "Government". For the way that the Bank does business, however, to treat UNTAET as "Government" was crucial, since IDA projects are implemented through national government counterpart structures.

72. The lack of understanding of one another's roles hampered the implementation of the reconstruction program in the early days. In particular, it made complicated Timorese involvement in the decision-making process and created ambiguities with other UN agencies.

73. UN agencies implemented TFET projects, but policies and procedures for procurement and other key operational aspects differ greatly between the World Bank and the UN, and therefore represented a barrier to easy UN agency use of TFET funding. In addition, there was a strong preference on the part of transitional Timorese leaders for government execution, and on a few occasions when the Timorese authorities declined paying UN administrative fees. After independence, the Bank implemented projects through government agencies and the Timorese government selected or approved implementing agencies for TFET projects.

MDTFs and Civil Society and Private Sector

74. TFET has projects designed in coordination with community organizations and non-profit organizations (NGOs). TFET projects have also been implemented by NGOs. As the manager of TSP and CSP, the Bank has organized consultative meetings with civil society organization. However, overall participation is hindered by weak capacity in civil society. The literature further observes that there is room for greater involvement of NGOs in Bank activities in Timor-Leste. It notes that government limited capacity to provide greater involvement of civil

society organizations limits the Bank's ability to increase NGO participation. Private sector participation has been regarded as weak.

I.7 Ownership and Capacity Development

75. At the Tokyo meeting, the donors entrusted to UNTAET the responsibility for capacity building broadly across the civil service, which was to be undertaken through UNTAET's own functioning and the UNDP-administered, bilaterally funded Development Posts programme. UNMISET, the UN successor mission that took over from UNTAET after independence, also had capacity development as part of its mandate through the Stability Posts programme. UNTAET faced a major challenge in restoring civilian state structures and was not able to support the formation of a Timorese-led public administration until late in the transition. This meant that no normal national government counterpart for reconstruction programs existed during the peak reconstruction period. Evaluations regard that both CFET and TFET did not significantly improve the country's low institutional capacity and failed to develop Timorese ownership of the reconstruction program.

76. Despite of the fact that donors gave the mandate for public sector capacity building to the UN, TFET evaluations agree that the World Bank should have discussed and agreed with UNTAET right at the start on a *modus operandi* and on a global strategy to jointly address the issue. It is noted that capacity building was tackled in a piecemeal fashion by all the institutions involved, without a clear vision and expected results.

77. Evaluations regard that both CFET and TFET did not significantly improve the country's low institutional capacity and failed to develop Timorese ownership of the reconstruction process. The health sector was a notable exception, where TFET collaborated closely with UNTAET, UNICEF and WHO in building up the capacity of the Health Ministry. After the initial phase of re-establishing essential services and alleviating the suffering of the population, mostly done through NGOs, an Interim Health Authority was established which gave priority to the establishment of a policy framework, medium term planning for the sector and institution-building. It is only when its services were strengthened and adequately staffed that the health authority, now transformed into the Ministry of Health, started to take over the financing and management of health services in the districts from NGOs, who until then were filling the gap. A less dramatic, and later, example of TFET activities leveraging capacity building came in the later phases (2004 onward) in the agriculture sector, where the PMU was absorbed into the Ministry and focused increasingly on supporting institutional development and policy discussions.

78. In Rohland and Cliffe (2002) it is noted that a key lesson emerging relates to the trade-off between speed of delivery and capacity building. In East Timor the sectors which made more progress in establishing institutions were often less strong initially in achieving physical reconstruction targets – as was the case in

the health sector. To have real national ownership of the policymaking process, a fairly long and inclusive process of policy discussion is needed.

79. TFET evaluations also point out that the high levels of (foreign) technical assistance and consulting services in many TFET-supported projects was of high concern for some government officials. They questioned the importance of the achievements, given the substantial amounts of resources which have been poured into Timor Leste over the past four years.

80. Technical assistants in the PMUs have provided on-the-job training for Timorese counterparts of international staff. On-the-job training may have been less effective than expected because of the short-term nature of international contracts and the absence of a long-term ministerial staffing/capacity building plan. Most Timorese PMU staff are temporary (consultants) and the chances for them to be absorbed in the administration are slim, not only because of the limit on the number of positions in the Ministries, but also because of the differences in salary. According to the evaluations, TFET succeeded in achieving physical reconstruction of Timor Leste, but failed to prepare the Timorese to run their own affairs.

81. Additionally, the literature points out that two other factors have contributed to weaken ownership by the government and hindered capacity development. First, there was UNTAET's position not to involve CNRT, the umbrella movement for pro-independence parties and practically the only organized group with some technical capacity. Second, the problem was exacerbated by UNTAET's decision to recruit government employees "from the bottom up" which meant that until late 2001, there were no Timorese civil servants in senior or middle management positions to take decisions on the reconstruction program being implemented.

82. TSP and CSP have supported capacity building through its dialogue on policy design and policy implementation. Most of the institutions provided for in the Constitution have now been established. The Government's capacity is much stronger in these areas today than it was at Independence in May 2002, though there continues to be a heavy reliance on international technical assistance. While these contributions to capacity building are significant, they do not address the fundamental shortage of skilled and experienced technicians and managers. Furthermore, it is clear that the transitional approach to technical assistance and capacity building has been severely flawed, failing to ensure effective transfer of skills and build up a cadre staff with the key skills to fulfill essential public administration functions. Dependence on external assistance has persisted. Neither TSP nor CSP have been able to resolve this problem.

83. At the request of Timorese Government, a multi-donor Planning and Financial Management Capacity Building Program is underway to address capacity development in a more holistic fashion. The passage of the Civil Service Act was a significant step forward. CSP supports the implementation of the provisions of the Act as well as the development of a number of additional organic laws to clarify the roles and responsibilities of particular line ministries.

84. The literature agrees that TSP has greatly contributed to strengthening Timor-Leste's public financial management (PFM). It has also been noted that TSP emphasis on public sector planning and PFM has, to some extent, happened at the expense of technical capacity building needed for implementation of key public sector programs such as education, agricultural support and employment and income generation. CSP has thus been established with the challenge of continued support to governance issues while paying more attention to sector skills for service delivery and implementation of core responsibilities.

Roles in Promoting Peace

85. Ofstad and Bakke (2006) state that in late 2002 insufficient and extremely unstable power (electricity) supply in Dili generated unrest, which might have escalated into further political instability. Norway contributed to additional generating power to Dili, despite the agreement in the TSP "on a moratorium on the expansion of generator capacity until the financial and institutional position of the power authority is resolved". As a result, and due to the totally inadequate electricity billing and payment system in place, the deficit for the national state power company increased and had to be funded by scarce budget resources, including the TSP budget support. This illustrates a dilemma between sound economic management supported by TSP; the agreement to focus budget resources on increasing services for the rural poor, as emphasized by most TSP donors – and a security-related need to fund 24-hour power supply in the capital not envisaged in the TSP. As other MDTFs in Timor-Leste, TSP was not sufficiently conflict-sensitive in this regard.

86. Schiavo-Campo noted that given the absence of serious internal cleavages, East Timor may be a case where early resolution of issues such as property rights and land claims would on balance have been desirable. Ofstad and Bakke (2006) observations regarding land property supports Schiavo-Campo observation, noting that although security issues and conflict reduction seems to be of less importance today, as a result of conscious action to move out of conflict. However, some issues are still unresolved, and may reappear if conditions otherwise deteriorate or high tensions are created. They point out that the land issue is already triggering tensions in Timor-Leste. There is potential for more serious tensions regarding land property issues. Experiences from other countries show that during transformation processes with unclear laws and weak institutions, land and property may easily become disputed if not managed well.

I.8 Thematic Areas and Beneficiaries

87. In accordance with the needs identified in the JAM and latter in the NDS, TFET has programs in agriculture, economics and institutional capacity building, education, health, small enterprise development, roads, power and petroleum sector technical assistance.

88. TSP and CSP focus in the areas of public sector capacity building (institutional and organizational capacity development), infrastructure and service delivery, private sector development; and power sector management.

I.9 Findings and Conclusions

89. Timor-Leste is in the enviable position among developing countries of having strong revenue streams, a budget surplus and a Petroleum Fund that both links revenues to development priorities and mitigates the possibility of corruption. The country has also benefited from strong international support since 1999. The form taken by that support has shifted with changes in the context; from security guarantees and transitional administration, to program support (TFET) and budget support (TSP and CSP) with a focus on policy and capacity development. In this regard, the international community and the trust fund mechanism have shown a strong ability to adapt to changing requirements, within the context of national ownership.

90. Overall performance and management of the funds appears to be satisfactory, as emerging from prior evaluations and informant statements. However, critical questions about role of international assistance must be asked in the light of Timor's current governance crisis. Weak state capacity has been cited as a cause for the crisis. While primarily in the security sector, weak budget execution and low growth in the private sector and job creation have all been identified as contributing factors. The constant critique that trust funds have had limited success in building capacity should be reviewed in this context.

91. The main ***Findings*** and ***Conclusions*** are:

   - TSP and CSP were set up to move forward the public sector capacity building agenda originally mandated to CFET. While TFET funds sector programs, TSP and CSP have complemented TFET by strengthening cohesiveness between sector policies and budgets.
   - The priority for trust funds has shifted with changes in the context. The need for TFET-style program funding has become less important as government own revenues have increased. At the same time, the government need for support in the areas of technical support and policy and capacity development remains. The CSP focuses on these areas, with its overall financial contribution to government revenues being less relevant.

92. Efficiency of the MDTFs:

   - Between 2000 and 2002, about half of the financial aid available for Timor-Leste's reconstruction was channeled through TFET. TSP funding has contributed the equivalent of 40-50 percent of total government expenditures. The relative importance of international financial assistance is in decline as petroleum revenues come on-stream.

- The TFET is now phasing out, as donors have shifted their focus to budget support. Only one donor informant noted an interest in continuing to use the TFET mechanism.
- While TFET has been an efficient funding mechanism as it used uniform procedures for project processing and implementation, thus greatly contributing to donor coordination, the TSP and CSP have provided the best anchor for Government-led aid coordination.
- TFET's first projects were prepared in near-record time and, with reliance on local communities and NGOs, and gave quick results on the ground.
- Overall Bank management and procurement team in Dili did not fully use the flexibility provided by Bank procurement rules under emergency operation.
- The impact of the TSP budget support on the macro-economic situation has been limited, although it has helped focus attention on problems with budget execution and inform policy dialog on maintaining and improving government services.
- The needs for additional funding for development purposes in Timor-Leste are still very high, given the high level of aid funding off-budget.
- Initial integration of PMUs into ministry has been difficult, with some exceptions. Informants indicated that PMUs are now being better integrated into line Ministries are permanent capacity.

93. Harmonization and Coordination:

- Fragmentation of funding mechanisms to Timor-Leste hinder the overall coherence of reconstruction efforts and created barriers to national ownership of the reconstruction planning process in the initial period.
- Close Government and donor discussions over the recurrent budget greatly improved coordination, resulting in TSP becoming an important forum for informal dialogue and coordination between the Timorese Government and donors.
- TSP's monitoring instruments and process have invited donors to micromanage the implementation of government policies and runs the risk of "dominating" the dialogue.
- Coordination between the Bank and ADB, TFET's implementing agencies, has overall been effective. TFET is regarded as an example of how MDTFs can leverage coordination even when they channel less than half of available reconstruction funds.
- Differences in key procedures on procurement and financial management between the World Bank and the UN meant that UN agencies had limited access to TFET funding.
- Although TFET has projects designed in coordination with and implemented by community organizations and non-profit organizations (NGOs), the literature observes that there is room for greater involvement of NGOs in

Bank activities in Timor-Leste. Efforts are hindered by the general weakness of civil society organizations.

- Government limited capacity and reluctance to provide greater involvement of civil society organizations limits the Bank's ability to increment NGO participation in coordination structures.

94. Ownership and Capacity Development:

- TFET and the budget support trust funds have been aligned with the Government's National Development Strategy.
- UNTAET faced a major challenge in restoring civilian state structures and was not able to support the formation of a Timorese-led public administration until late in the transition; as a result, no normal national government counterpart for reconstruction programs existed during the peak reconstruction period.
- Despite of the fact that donors gave the mandate for public sector capacity building to the UN, the political importance of the issue demanded good coordination among all institutions. Timor-Leste would have benefited from better coordination between the World Bank and the UN.
- Evaluations regard that both CFET and TFET did not greatly improve the country's low institutional capacity and failed to develop Timorese ownership of the reconstruction process. The health sector was an exception.
- The sectors which made more progress in establishing institutions were often less strong initially in achieving physical reconstruction targets – as was the case in the health sector.
- TSP and CSP have significantly supported the Timorese Government in building institutional and organizational capacities. The programs have not contributed to resolving the fundamental shortage of human resource capacity.
- TSP's emphasis on public sector planning and public financial management especially has, to some extent, happened at the expense of technical capacity building needed for implementation of key public sector.

95. Role in Promoting Peace:

- The current crisis in Timor-Leste should challenge donors to re-assess their programs. Of particular concerns should be the effectiveness of capacity development, given that weak government institutions and processes were cited by the UN investigation as key reasons why the government was not able to manage the crisis.
- The various programs financed by TFET such as the Dili Community Empowerment Project and other bilateral donors also had for objective to stabilize the country and create a favorable environment for reconstruction.
- The MDTFs have not been sufficiently conflict-sensitive in regard to power supply and land property in Timor-Leste.

ANNEX J: The West Bank and Gaza Trust Funds

1. The World Bank's relationship with West Bank and Gaza (WB&G) started in 1992, with a Bank study of the economic and development needs in the Occupied Territories.

2. The World Bank has administered a total of four Multi-donor Trust Funds (MDTFs) in the Palestinian territories as of 1993. The first one, the Technical Assistance Trust Fund aimed at bringing implementation capacity to the Occupied Territories and at strengthening Palestinian capacity to develop and implement policies. The Holst Fund, established in 1994, aimed at supporting the establishment of a Palestinian Authority (PA). The Palestinian Economic Assistance and Cooperation Expansion (the PEACE Facility) was set up to support targeted activities in the WB&G, ranging from technical assistance to projects, to help relieve the economic and social hardship caused by Israeli border closures. The Public Financial Management Reform Trust Fund ("the Reform Fund") was set up in 2004 to support PA's effort to reform the public sector.

3. This review focuses on the MDTFs set up as budget support mechanisms, albeit under different political and institutional contexts: (i) the Holst Fund, and (ii) the Reform Fund.

J.1 Trust Funds Overview

4. The Holst Fund was the first Bank-administered MDTF. Initially, it supported the establishment of the Palestine Authority, later widened to provide budget support and to finance emergency projects, including some "off-budget" civil works projects in its later years. The Reform Fund followed the basic principles of the Holst Fund in that it was to provide budget support. Unlike the Holst Fund, the Reform Fund had a clear mandate for supporting and furthering the Palestinian Authorities' reform agenda. Till now, the two Funds have provided USD 454.7 million.

Basic Facts

5. In 1992 the organizers of the Middle East Peace talks (the Madrid Conference) asked the Bank to lead a study of the economic prospects and development challenges of the Palestinians in the Occupied Territories. The results of this study was the six volume publication entitled "Developing the Occupied Territories: An Investment in Peace", published 30 August 1993.

6. Following the signature of the Declaration of Principles, the peace agreement also known as the Oslo Accords, signed by the Government of Israel and the Palestine Liberation Organization on 13 September 1993, over 40 donors pledged more than USD 2 billion for assistance at a donors' conference in Washington on 1 October 1993. The 1992 Bank study served as a base for donor pledges. During the Washington Conference, the Bank was asked to provide the framework for such large-scale assistance.

7. In 1993 the WB&G was not a sovereign state, nor a member country of the World Bank group, nor a territory for which another member country had expressed interest in acting as guarantor, thus neither IBRD nor IDA could lend to WB&G. The practical solution to this constraint was the Bank's establishment of a Multi-donor Trust Fund to WB&G. The legal basis for the Bank's ability to act as administrator for the trust funds was produced by the Bank's Legal Department.[34]
8. The Emergency Assistance Program for the Occupied Territories (EAP) provided a framework for the large donor pledges. The EAP was produced by the World Bank in close collaboration with a Palestinian Team, various UN agencies and donor agencies, and as a result of a joint mission to the Occupied Territory from 11 October to 22 November 1993. It proposed four pillars for a three year program (1994-1996) of assistance, and included sector strategy matrices in 13 areas and a detailed blue-print for the technical assistance program (102 activities were listed). The four pillars were[35]:
   - (i) Start up and recurrent expenditures for building administrative capacity (around USD 225 million);
   - (ii) Technical assistance to prepare and implement investment activities and develop policies and institutions;
   - (iii) Support for public investments in infrastructure (water and wastewater, power, municipalities, education, and transport comprised about 75% of proposed public investments), with the primary goal of providing tangible benefits quickly and efficiently (about 75% of total financial assistance); and
   - (iv) Promotion of private sector investment.
9. Subsequently, every fifteen months or so, the Bank strategy was revised for requests for Trust Fund replenishments in accordance with the areas defined above, albeit it shifted focus in response to changing circumstances, especially the border closures by Israel.
10. As of November 2005, USD 622.2 million has been allocated to the MDTFs, out of which USD 478.3 million has been disbursed.
11. In addition, from its own resources the Bank established the Trust Fund for Gaza and the West Bank in 1993, with an initial allocation of USD 50 million and five replenishments since. The purpose of the Trust Fund for Gaza and the West Bank originally was to support longer-term development, but it became the main mechanism to fund emergency projects, especially through employment

[34] World Bank's Legal Memorandum of September 30, 1993. "Legal Aspects of the World Bank's Assistance to the West Bank and the Gaza Strip" by I. Shihata, H. Abushakra, and H. Gruss in The Palestine Yearbook of International Law, Vol. II (1992/94).

[35] Between 1994 and 1996, over USD 600 million, or almost 50% of total assistance, was for short term support; only a little more than half of the EAP target for investments was disbursed (OED 2002).

generation and community development projects with focus on small-scale infrastructure. This TF generated what became standard small-scale infrastructure community projects in Bank administered post-conflict MDTFs.

Table J.1: West Bank and Gaza MDTFs (Figures in USD million).

MDTF	Purpose	Allocated	Disbursed	Donors
The Holst Fund (1994 – 2001)	Finance start up and initial recurrent costs of newly established PA.	285.72	285.72	26 bilateral donors
TA Trust Fund (1993- 1997, extended to 2001)	For TA to strengthen skills, help establish policies, provide feasibility studies for longer-term investments.	22.77	23.60	12 bilateral donors
Public Financial Management Reform Trust Fund (2004 – present)	Support improved PA PFM within broader reform agenda. The fund disburses into the Ministry of Finance Single Treasury Account and is based on the achievement of 14 benchmarks.	313.7	169.0[36]	EC, Japan, Norway, UK, Canada, Japan, Korea, Australia, France, Netherlands, Spain and the World Bank

Source: West Bank and Gaza Update, Quarterly Publication, November 2005, World Bank

12. ***The Holst Fund***[37] was set up on April 19, 1994 to finance the start up costs of the PA. In July 1995, it was amended to become a broad budget support mechanism, including emergency employment program to assist during economic crisis. With the Holst Fund the Bank set the precedent of not accepting earmarked contribution for budget support. Instead, the Bank would keep a record of each donor's "preferred" contributions, and report to the donor community on aggregate expenditure by sectors. Conditionality and benchmarking were not applied to the Fund.

13. Allocation decisions for the Holst Fund were made by the Bank in close consultation with the Palestinian Council for Development and Reconstruction (PECDAR), which was set up to manage trust fund activities. As implementing agency, PECDAR was required to maintain accounts and records consistent with sound accounting practices, retain an independent auditor acceptable to the Bank, develop internal controls and submit an annual audit report within six months of the end of the year; and provide monthly progress reports to the Bank. Due to the absence of established financial authorities and of a sound financial

[36] As of March, 2006.

[37] The Holst Fund was named after Johan Joergen Holst, the late Minister of Foreign Affairs of Norway who was instrumental in negotiations leading to the Oslo Accord.

management and control system in Palestine, an international firm was hired as Agent to monitor financial management by PECDAR as well as help develop PECDAR's own financial management capacity. PECDAR's performance as implementer of the Holst Fund was regarded satisfactory in evaluations (OED 2002, Schiavo-Campo 2003).

14. The Holst Fund was the first Bank-administered MDTF to support recurrent budget and became a model for subsequent MDTFs.

15. ***The Public Financial Management Reform Trust Fund*** was approved by the Bank's Board on 22 April 2004. The Reform Fund was envisaged as a two-year instrument, terminating on 31 December 2005. The Reform Fund is currently scheduled to close by 30 June 2006. The design of the Reform Fund was based on the successful budget support mechanisms of the European Commission, the Special Cash Facility and the Direct Budgetary Assistance Program, which disbursed funds against a series of Palestinian Authority reforms between November 2000 and December 2002.

16. Similar to the Bank's Development Policy Lending (former Structural Adjustment Loans – macro lending with policies/conditionality attached), disbursements from the Reform Fund are contingent on PA fulfillment of a number of benchmarks, the majority of which have been derived from the Bank's 2004 Country Financial Accountability Assessment (CFAA). CFAA is a "due diligence" step before the Bank provides budget support. The CFAA identified major improvements in the public financial management (PFM) system since 2002, such as the establishment of Central Treasury Account, inclusion of payroll of security service salaries through bank deposits rather than cash and the establishment of the Palestinian Investment Fund to manage PA financial assets. The main weaknesses identified by the CFAA include external audit, payroll, and control of the size of the wage bill. The CFAA rated the overall risk level in the Palestinian PFM system as significant, but it is worth noting that the Bank provides budget support to many countries in which the level of fiduciary risk is assessed as significant or high, presuming there is a strong government commitment to needed reform.

17. The objective of the Reform Program is two-fold: (i) to further improve the PA's financial management systems, within a broader national reform agenda; and (ii) to provide budgetary and fiduciary assurances to donors. The Bank as Reform Fund Administrator is responsible for monitoring and certifying compliance with the benchmarks, and making disbursement decisions accordingly. If all benchmarks are fulfilled, the Bank would release the subsequent tranche and inform the contributing donors and the Guidance Committee accordingly. In case the PA did not comply with all benchmarks, the Bank would assess the specific situation and consult with the Guidance committee and the contributing donors to seek their opinion on a possible waiver or adaptation of the respective benchmark(s). Should the Bank conclude that no waiver be granted, the release of the next tranche would be held back pending fulfillment of the benchmarks listed in question. Each tranche would likely feature several disbursements, depending on the timing of donor contributions.

18. Originally, the governance structure of the Reform fund set up a local Guidance Committee, consisting of the Bank (Chair), the IMF, and other key Reform Fund donors. However, this soon changed after the establishment of the Fund and the Guidance Committee became open to all contributing donors. The PA and the Reform Fund Guidance Committee agree twice yearly on a reform agenda to enhance transparency, accountability and balance in the budget process. The Guidance Committee attempts to make recommendations to the Bank based on consensus. One exception was for the payment of the last tranche when a few donors dissented from the majority opinion.

19. Due to the outcome of the Palestinian Legislative Council election of 25 January 2006, Reform Fund donors have postponed decision regarding whether a waiver for the end-2005 benchmarks would be granted. As a result, the end-2005 tranche of USD 63.3 million has not yet been fully disbursed. In March 2006, the Bank approved a grant payment through the Reform Fund in the amount of USD 42 million.

20. Seven joint Reform Fund supervision mission to asses progress in implementations of scheduled reforms have taken place to date. According to the February 2006 Supervision Mission Report, the PA have met 11 out of 14 benchmarks.

21. Unlike the Holst Fund, the Reform Fund did not hire a Monitoring Agent. Instead, it required that three types of audits be performed: (i) the PA's financial statements would be audited annually by the PA's emergent external auditing institution, in accordance with a new External Audit Law; (ii) an external auditor contracted by the Bank would perform annual audits of the Deposit Account at the MOF; and, (iii) the Bank would commission annual audits of its separate records and ledger accounts to verify that it has administered donor funds in accordance with the administration agreements and made disbursements against agreed activities.

Evaluations and Reviews of the MDTFs

22. The Bank has commissioned an interim assessment of the Reform Fund, but the document was not made available for this review. The Holst Fund was reviewed as part of two broader evaluations of World Bank activities in WB&G (OED 2002 and Schiavo-Campo 2003). Hadad-Zervos (World Bank 2005) also reviewed Bank activities in WB&G.

23. The policy framework paper on the Role of the World Bank in Post-conflict Reconstruction (World Bank 1997) draws heavily on the experience of the Bank in WB&G. This policy framework paper was endorsed by the Bank's Board of Directors in 1997; this was followed in January 2001 by Operational Policy (OP) and Bank Procedures (BP) 2.30 on "Development Cooperation and Conflict". It is interesting to note the parallels between the timing, scale, and approach of Bank assistance to WB&G with the subsequent guidelines (OED 2002). Recommendations that emerged in the 1997 framework paper included:

- Establishing a field presence from the beginning of the assistance;

- Using partnerships with UN and other donor agencies and international NGOs;
- Devolving decision-making to the field
- Closing the gap between relief and development support; and
- Regarding aid coordination, early agreement on respective roles of each donor and to the extent feasible, agreement on cohesive multi-donor funding strategies.

Financial Overview

24. Between 2004-2006 Palestine occupied Territories received USD 303.9 million in Humanitarian/emergency contributions (ReliefWeb/OCHA Financial Tracking Service). Thus the USD 313.7 million provided by the Reform Fund through budget support is substantial compare to available data on humanitarian assistance.

J.2 Efficiency of the Trust Funds

25. In WB&G, budget support through the Reform Fund was needed to sustain the very institutions donors had used 10 years to build, including through Holst Fund support. The Bank estimated that in 2002, some 75,000 households (half a million Palestinians, or 15 percent of the population), were paid their salaries through donor budget support, including the Holst Fund. This prevented perhaps 100,000 people from falling into poverty. Civil servants' salaries are an important part of total consumer demand for goods and services, and in 2002 accounted for 40 percent of all domestic wage income. Budget support injected in 2002 alone is estimated to represent about 15 percent of GDP.

26. While the Holst Fund built the PA, the Reform Fund helps maintain the PA as a functioning government, a continued capacity to manage the economy, the provision of basic services to the population and the maintenance of employment and livelihoods for public servants and their dependents. Linking tranche releases to the achievement of specific benchmarks under the Reform Program, the Reform Fund donors also provide the PA with an incentive to maintain the pace of the reform agenda embarked on in mid-2002. This has in turn helped address the residual weaknesses in financial accountability and help further reduce the fiduciary risks.

Efficiency and Timeframe for Establishment

27. As table J.2 shows, donor contribution to the Reform Fund has allowed the Fund to function in a predictable fashion, such that the PA has been able to maintain its cash flow.

28. Bank involvement in WB&G during the Middle East Peace talks, which led to the Bank study of the economic prospects and development challenges mission in 1993, put the Bank at the center of the aid coordination effort. This allowed the Bank to keep good implementation pace for the MDTFs and with political

developments since a strategy and framework for aid coordination became readily available – the EAP -for discussion early on.

29. The Bank’s WB&G program was the first where management was decentralized to the field. Transferring decision making and accountability to the field contributed to, among other things, the efficiency of the MDTFs operations. Evaluations point to the high level of political savvy and experience of Bank management in WB&G, which contributed significantly to support Bank staff in exercising the proper dosage of flexibility and discretion in procurement.

Table J.2: Reform Fund: Donor Commitments, Paid-in and Disbursement
(USD '000)

Donors	***Commit-ments***	***Disbursements 2004***		***Disbursements 2005***		***Tranche 5***	***Potential Total Disbursement***
		Tranche 1	***Tranche 2***	***Tranche 3***	***Tranche 4***	***End 2005***	
		Prior Actions	Mid-2004	End 2004	Mid 2005		
Australia	2.4		0.7		1.7		2.4
Canada	7.0	7.0					7.0
EC	164.8		55.8	25.0	42.0	42.0	164.8
France	6.9			3.3		3.6	6.9
Japan	40.0		10.0	30.0			40.0
Korea	0.6		0.6				0.6
Netherlands	6.0					6.0	6.0
New Zealand	0.3					0.3	0.3
Norway	33.0	12.0	5.0	16.0			33.0
Spain	2.4					2.4	2.4
UK	30.3	6.0	6.3		9.0	9.0	30.3
World Bank	20.0	20.0					20.0
Totals per tranche		**45.0**	**78.4**	**74.3**	**52.7**	**63.3**	
Totals	**313.7**	**123.4**		**127.0**			**313.7**

Source: Mission Report, Supervision Mission, February 5-15, 2006.

Disbursement Issues

30. The Holst Fund started disbursing six months after its establishment. The most cited reasons accounting for the perceived delayed establishment and disbursement of the Holst Fund are:

- The Holst Fund was set up to finance the establishment of the PA, to cover salaries and other recurrent costs. The Holst fund was the first MDTF supporting recurrent costs. Reluctance of some donors to contribute to such a novel mechanism delayed the process (OED 2002, Schiavo-Campo 2003).
- Bank procedures regulating the Holst fund had to be formulated from scratch, mostly without the benefit of precedent, and had to go through

internal clearances in the Bank as well as discussion with donors (Schiavo-Campo 2003).

- As the implementation agency for the Holst Fund, PECDAR had to build its own capacity to comply with the fiduciary safeguards set by the Holst Fund regulations. This meant hiring a monitoring agent through international procurement procedures and establishing financial management systems at PECDAR, before any disbursement could be made. Disbursement mandates for PECDAR also had to be approved. It therefore took some time for building the capacity of the implementing agency (OED 2002, Schiavo-Campo 2003).
- Lack of readiness for project implementation at the earlier years of operation. For example, the Implementation Completion Report (ICR) for the NGO I project states that "the Operational Manual was not ready by Board submission. The Manual was to have been completed by October 1997, i.e., after three months of the project's declared effectiveness. In fact, it took 15 months to complete the Operational Manual. This meant that procedures governing; (a) the application, review and awarding of grants; (b) monitoring and evaluation of sub-projects; and (c) procurement, had to be developed during the course of project implementation resulting in considerable initial delays. No prior needs assessment was conducted to determine the priority sectors to be targeted by the project" (Report No 26252, 2003). However, the same report observes that through its very close supervision of the project, the Bank was instrumental in promptly identifying, addressing and overcoming these problems, and the project was back on track and eventually even running ahead of its planned disbursement schedule.
- Unrealistic expectations by members of the international community regarding timeframe for establishment and disbursement of MDTFs. The MDTFs in WB&G experienced unanticipated shifts to short-term support at the expense of longer term development objectives. Border closure by Israel was a major reason for the shifts. While the OED study (2002) states that short-term budgetary support was required for longer than expected to bridge fiscal gaps, Bank staff interviewed observes that only a relatively small share of Holst Fund resources was used for employment generation projects. In fact, budget allocation mostly remained as planned, to pay PA salaries.
- According to the 2002 OED evaluation, the international community overestimated the speed at which tax revenues came on stream, which in turn lagged behind the unexpected speed of the transfer of territory to PA control. However, Bank staff interviewed asserted that tax revenue rose rapidly, as expected, and transfer of territory happened very slowly, also as expected.

31. The Reform Fund experienced a much more mature environment regarding management of expectation. Regarding the Reform Fund, Bank staff interviewed noted that the donors have generally not exerted much pressure on the Bank to

disburse. Focus is rather on discussions about which reform areas or steps should be included in the annual work plan. Given the history of unstable conditions in the region, donors as well as the Bank have learned that "flexibility is the name of the game". And the Reform Fund has 12 donors, with different agendas, some for the first time contributing to a MDTF and quite exceptionally, like Japan (who also contributed to the Holst Fund).

32. Bank staff observed that budget support is much quicker to disburse than projects, where it normally takes two years to get a large-scale investment project in place. But while an investment project requires a lot of engineering studies, environment appraisals, etc., budget support requires policy dialogue, and this policy dialogues can also be time intensive. What was missing in the newly established PA was a longer-term vision, so that the short-term steps made possible by budget support and the policy discussions around it made sense in the longer-term picture.

33. The Reform Fund was established on April, the first tranche being released in May, and the second in July, 2004. Disbursements are done after observation of compliance with the prior actions, and then one immediate transfer into the account is made based on only one request.

Institutional Procedures and Challenges

34. The Holst Fund was regulated by the Bank's Operational Directive (OD) 14.40, Trust Funds and Reimbursable Programs, and the Operational Memoranda: *OMS 4.40, "Trust Funds,"* of 1989, and *OD 14.40: Trust Funds and Reimbursable Programs*, of 1991. Hence the Holst Fund was administered under applicable Bank policies and procedures. Accordingly, Bank policies and procedures govern the procurement of goods, works, and services (subject to arrangements for administering tied Trust Funds). Furthermore, in the case of the West Bank and Gaza, the Bank's engagement is set out in the 20 September 1993 Memorandum of the President: "World Bank Assistance to the West Bank and Gaza Strip" (R93-163, IDA/R93-134).

35. The Reform Fund was set up under revised OP 14.40 of 1997, which maintained the requirement that trust funds be administered in accordance with applicable Bank policies and procedures. Regarding budget support, as per OP 14.40, the Reform Fund would be governed by OD 8.60 on Adjustment Lending. Under the provisions for disbursement for policy based lending, disbursements are not linked to a positive list, but rather to the standard negative list used in Bank operations, with all of its provisos.

36. Procurement procedures for purchase of equipments and materials in WB&G were in accordance with the Bank's Guidelines for Procurement (initially, the May 1992 guidelines); but, according to Schiavo-Campo, it provided for some additional flexibility and discretion. Thus, purchases for more than USD 200,000 could be made by international shopping and those for smaller amounts by national shopping. The selection of consultants was in accordance the Guidelines for the Use of Consultants by the World Bank Borrowers and by the World Bank as Executing Agency.

37. As noted by Schiavo-Campo and supported by the 2002 OED study, employing a financial monitoring agent for the Holst Fund was very effective. Accounting, disbursements, and reporting to both the Bank and the donors were carried out on a timely and efficient manner, and with controls adequate to prevent most fraud and misallocation.

Conditionality

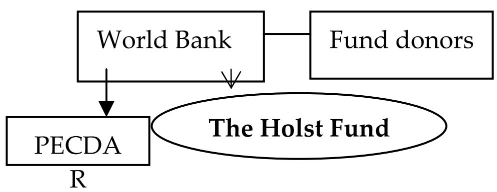
38. The literature about WB&G agrees that pressure from stakeholders and the fragility of the political process under which the Holst Fund has been immersed weakened and sometimes disabled the Bank's ability to use conditionality to promote important institutional reforms, and particularly in the case of WB&G in preventing the over expansion of civil service. Moreover, frequent and lengthier border closures forced the Bank to shift resources and attention from development issues to emergency relief, which made it difficult for the Bank to exert pressure on the PA to bring reform. Schiavo-Campo notes that nowhere was this more evident, nor more damaging in the long run, than in the Bank's failure to condition continuation of its assistance on an acceptable PA budget reflecting key economic and social priorities, which had been publicly debated and approved by the Palestinian legislature, and on limiting the excessive proliferation of governmental structures and employment.

39. In recent years the Bank has been using more leverage to push public sector reform, especially in PFM, anti-corruption measures, and changes in the legal framework for private sector. The design of the Reform Fund attaches fund disbursement to the fulfillment of benchmarks, within a broad reform agenda. More recent Bank documents clearly recommend the international community to carefully consider additional progress before additional funding is disbursed. It is important noting that prior to the establishment of the Reform Fund, the PA had over time initiated a process of reform of the public sector. The Reform Fund was therefore a result of, rather than a catalyst, PA's decision to implement a broad reform agenda. The Reform Fund was thus set up to provide further support to PA's public sector reform effort.

J.3 Governance Structures

40. Both the Holst Fund and the Reform Fund have a lean governance structure, as follows:

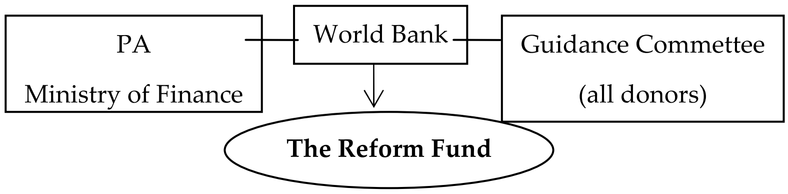
Figure J.I: Governance structure of the Holst Fund



41. Allocation decisions for the Holst Fund were made by the Bank, in consultation with PECDAR and fund donors, based on the disbursement categories specified

in the grant agreement. The literature does not refer to major issues regarding the governance structure of the Fund.

Figure J.2: Governance structure of the Reform Fund



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Policy and Decision Making Structures and Processes

42. When the Holst Fund was established, Palestine did not have its own national authority. PECDAR was the mechanism for the Palestinians to influence the flow of funds and selection of programs and projects and thus be formally linked to the Holst Fund and other TFs. According to the EAP of 1994, the PECDAR was expected to focus initially on three primary functions: (i) formulating economic policy and public expenditure priorities; (ii) coordinating and facilitating the flow of external assistance; and (iii) managing and monitoring the extensive activities financed through such assistance. PECDAR was thus set up with a clear distinction between the policy-guidance function and the managerial and fiduciary functions. This design would enable the transition of policy function to the PA at a later time.

43. PECDAR was set up in October 1994 as the implementing agency for the MDTFs, with the responsibility for organizing and guiding the reconstruction and economic development in the Occupied Territory as well as the coordination of aid by the international community.

44. As described by Schiavo-Campo (2003), PECDAR had six functional offices. The office of economic analysis was the nucleus of an eventual ministry of planning; the office of program formulation was the nucleus of an eventual ministry of finance; the aid management and technical assistance offices coordinated project aid and non-project TA, respectively; the NGO office aimed at facilitating an NGO role in project implementation but also at bringing under unified monitoring a variety of disparate organizations with different agendas; and the project management office was the operational heart of the organization. The Bank also formulated a full procedural, financial management and personnel handbook, which was adopted by PECDAR and generally followed as the basis for all of its activities.

45. Schiavo-Campo also notes that PECDAR continued to manage projects directly instead of progressively devolving responsibility to the competent line ministries. As a result, instead of putting itself out of business by end-1996 as planned, as of 2006 PECDAR still operating.

46. Decisions regarding funding allocations for the Reform Fund are made by the Bank in consultation with the PA and the Guidance Committee, based on agreed policy framework and benchmarks.

J.4 Harmonization and Coordination

47. Budget support, such as the case of both MDTFs under review, is a harmonized aid mechanism that has shown to improve coordination. Firstly, donors have to agree on one common set of procedures such as reporting, procurement and audit, which reduces transaction costs. They also have to agree on policy, then have one common list of actions, and reach consensus on what should be done. This is an enormous reduction of costs and pressures on the national authorities, a tremendous rationalization. It also increases predictability.

48. Once donors and the PA reach an agreement about a policy framework, budget support mechanisms such as the Holst and the Reform Funds prove to be instrumental in setting a stage for each and all donors to stick to harmonized actions. For example, wage containment by the PA, which is a benchmark for the Reform Fund, was performing well until August 2005. The November 2005 mission, however, identified major wage over-expenditures. Donors split over how to respond to this breach in the agreement. A non-consensual decision was made not to disburse the tranche, and donors were thus obliged to respond with a unified action.

49. The above example illustrates the fact that joint budget support may increase the risks to the partner due to harmonized donor action. This is less due to fiduciary concerns, since MDTF's safeguards measures have been robust and their applicability have consistently been assessed satisfactorily. Risks lie more heavily on the policy side.

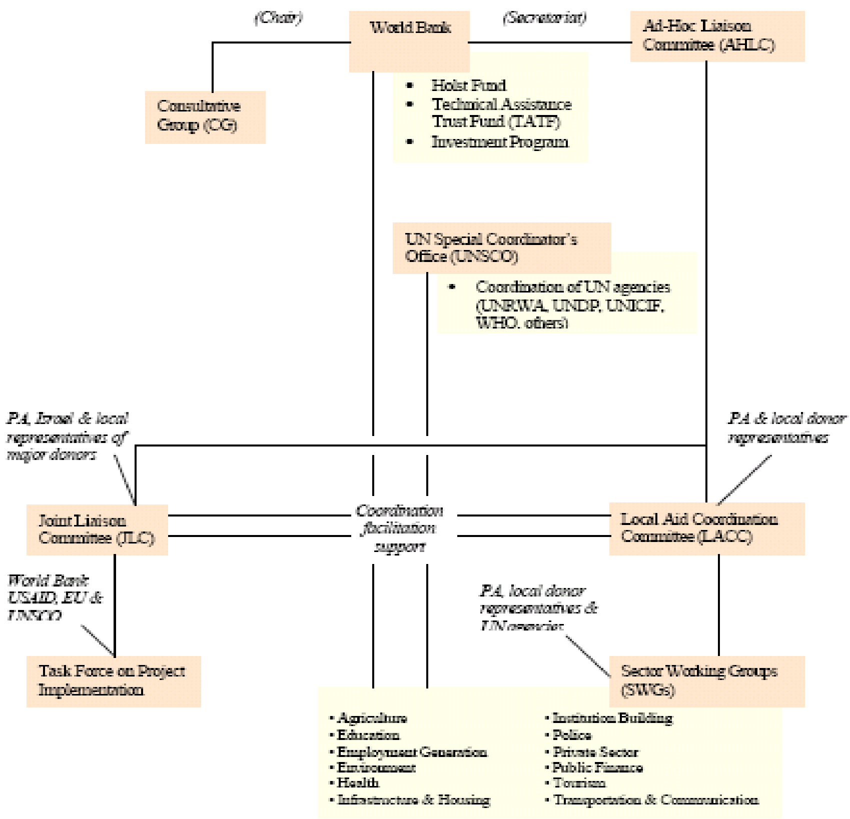
Structure for aid coordination in West Bank and Gaza

50. Soon after the Oslo accord and the pledges of assistance, the governance structure for aid coordination materialized. It is clear in the literature about the MDTFs in WB&G that Bank, donors, NGOs and UN bodies were interacting early on; but, it remains unclear the ability of different stakeholders to influence the architecture of the coordination in WB&G.

51. The structure for aid coordination in WB&G was initially was as shown in Figure J3. In 2005, a new donor structure that increases the ownership of the PA in the development process was introduced, allotting certain donors with thematic responsibilities. Under the new structure, the EC co-chairs with the PA a governance thematic group; the Bank co-chairs economic policy; USAID infrastructure development; and the UN social development and humanitarian assistance.

Figure J.3: Organizational Structure of Aid Coordination

Chart I: Organizational Structure of Aid Coordination



Source: Adapted from *The (very) Political Economy of the West Bank and Gaza*, Rex Brynen.

52. The Bank and Japan carried out an assessment of the aid coordination effort on behalf of the Ad Hoc Liaison Committee. Its main conclusions were that: (i) the overall aid coordination structure in WB&G is unique; it is also heavy, complicated, time consuming, inefficient but indispensable and somewhat effective; (ii) the PA's performance in aid coordination has improved considerably, although there is room for further improvement; and (iii) existing coordination structures provide a strong platform for future work. Donors also noted that the coordination structures, flawed as they were, often played an important role in dispelling tensions among donors and between donors and the PA. The system also allowed donors to take up issues collectively that they couldn't raise alone.

53. OED (2002) finds that, in spite of over-optimism by the Bank (and other donors) and some discomfort at playing a central role in such a highly politicized environment, the Bank has risen to the challenge of aid coordination in a difficult context.

Table J.3: Overview of Donor Coordination Mechanisms in West Bank and Gaza

Consultative Group (CG)	Chaired by the Bank and composed of major donors
Ad Hoc Liaison Committee (AHLC):	The principal policy body for the WB&G development effort. Comprised of major donors,[38] operates by consensus, and deals with high level political and economic matters. The Bank serves as secretariat.
Joint Liaison Committee (JLC)	Created by the AHLC to function as a local counterpart, it is Chaired by PA's MoP and provides a forum for key donors, the PA, and Israel to address policy questions, monitor the Tripartite Action Plan and donor-PA issues.
The Local Aid Coordination Committee (LACC)	An all-donor body which provides regular coordination at the operational level. Chaired jointly by the Bank and UNSCO and Norway and composed of representatives of donor agencies and Israeli and PA authorities.
Sector Working Groups (SWGs)	Purpose was to direct donor assistance towards PA priorities and foster information exchange. This structure of 12 groups was replaced in 1999 by four SWGs corresponding to the main sectors in the Palestinian Development Plan: infrastructure, productive sector, social sectors and institution building.

54. Schiavo-Campo finds that the Bank team had the right skills mix, and enjoyed an excellent working relation with counterparts as well as easy and frequent access to the top Palestinian leadership. Bank senior management created an enabling environment that permitted staff to take certain calculated risks and explore innovative and flexible modalities of assistance. These assets were both cause and effect of the trust placed by the international community in the Bank, and external evaluations of Bank assistance were uniformly positive. Additionally, the political importance of fostering peace in the Middle East gave the Bank an invaluable underpinning of support from the major international actors, including the US.

55. In 2005, the structure for local aid coordination changed. In the Economic Monitoring Report to the Ad Hoc Liaison Committee of December 2005 it is noted that "In previous periods of crisis or opportunity, local donors have come together more effectively than they did in 2005. Two factors influenced this outcome. First, the decision at the London Meeting of March 1 to reform local aid coordination was followed by an unnecessarily long period of deliberation before agreement was reached on the proposed structure, creating a vacuum in aid management. Second, the Quartet Special Envoy's timely initiative in compiling a *Day After Program* of quick impact projects should have been complemented by a process that ensured coordination at the operational level. Now that the new aid management structures have been agreed, it is important that donors focus on supporting the new leadership role accorded.

[38] Members included Canada, the EC, Japan, Norway, the United States, Saudi Arabia, Russia and Norway. Associated members include the PLO, Israel, Egypt, Jordan, Tunisia and the UN.

56. NGOs had no role in the implementation of the Holst or Reform funds.

J.5 Ownership and Capacity Development

57. Different views emerge from the literature regarding the state of Palestinian ownership of the reconstruction and development agenda in the early stage. Schiavo-Campo (2003) declares that PA's ownership has been and remains high. Abundance of highly capable and motivated counterparts from early on assured strong ownership of the process. The satisfactory (efficient, competent and transparent) performance of the PECDAR has been a result of strong ownership and solid human resources basis on the Palestinian side. The EAP of 1994 recognizes the Palestinian desire to drive the policy process and aid management and the ready availability of substantial capacity within the Occupied Territories to carry out the TA activities described in the report.

58. Contrary to Schiavo-Campo, the 2002 OED evaluation of the Bank assistance in WB&G asserts that PA's ownership was weak due to the initial absence of PA counterparts on the ground in the early years. Coordination was entirely donor-led. Still according to OED, although PA's performance in aid coordination has improved considerably over time, it remains relatively weak. Inter-ministerial competition and rivalries as well as inability to set development priorities in the face of donor preferences and pressures have hindered PA's ability to lead coordination.

59. Hadad-Zervos (World Bank 2005) assessment of ownership issues in Bank-financed post-conflict MDTFs agrees with the OED position, noting that PECDAR became a "super ministry" whose work, while critical and often effective, did not translate into sustainable capacity within the other ministries. Often, financial resources were not accessible to the ministries, and PECDAR's priorities competed with those of the government.

60. Our conclusion supports Hadad-Zervos (World Bank 2005) assessment. Schiavo-Campo and OED were considering capacity from different perspectives. Schiavo-Campo assessment focused on Palestine ownership of implementation while OED focused on *institutional* decision making. A strong PECDAR did not equate to strong government institutions. The Bank focus on building the capacity of PECDAR bring into question the issue of building the capacity of the right institution from a sustainable, nationally owned viewpoint.

Capacity Building

61. When the Holst Fund as well as other TFs were established in 1993 there were no Palestinian government institutions. Moreover, establishment of government institutions had to follow the agreed roadmap within the timeframe and constraints of the Oslo peace process. As Schiavo-Campo notes, the situation called for a Palestinian agency that could serve three purposes: aid management, project implementation, and proto-government. PECDAR was established with the purpose of fulfilling these roles while avoiding hampering the effective functioning of future government institutions. PECDAR was thus created with the expectation that the agency's functions and staff would progressively be

mainstreamed into regular organs of government. An explicit sunset clause predicated that the agency would be phased out in third year, by the end of 1996.

62. The MDTFs in WB&G, and the Holst Fund in particular, directly aimed at developing the capacity of the PA and, according to existing evaluations; institutional development of the PA was at the top of the Bank agenda from the beginning. The implementation of the reconstruction and development program itself was a strong driving force in the development of government institutions in WB&G.

63. But according to evaluations of World Bank activities in WB&G, capacity developments (CD) objectives and operations were undermined by three factors: (i) the political environment in WB&G, which required recurrent shifts in focus from long-term development to emergency operations; (ii) excessive centralization of decision-making by the PA; and, (iii) excessive growth of the civil service.

64. The establishment of PECDAR was a necessary step in the early phase since there was no other feasible alternative. The absence of a monitorable phase-out plan for PECDAR diminished its comparative advantage as a project implementation unit, its role in ensuring rapid and efficient completion of projects. The growth of PECDAR's autonomy in the early years evidences the absence of a public sector development strategy supported by the PA, the Bank and other donors.

65. The evaluations agree that the Bank and the donor community erred in not providing pressure for the development of transparency, participation and fiscal discipline concerning public sector employment growth at an earlier stage. According to the evaluations, greater external influence in these areas would not have undermined the political process, and would have strengthened institutional development. The Reform Fund was set up exactly to focus on public sector reform.

J.6 Thematic Areas and Beneficiaries

66. Most funds flowing through the Holst and the Reform Funds were for budget support. As such, the main direct beneficiaries were civil servants and their households through the salary payments. But most of these civil servants were in turn education and health personnel who were providing basic education and health services for the Palestinians, and especially the poor who rely mostly on public services. The MDTFs thus benefited a large section of the population, and with key public services.

67. Possibly one of the beneficiary groups receiving the least attention has been girls and women. Although cultural constraints on girls' access to education, especially at the secondary level, were recognized on the EAP, no sector strategy was developed to address the problem. Gender questions do not figure in the documents reviewed so far.

Role in Peace-building and Conflict Sensitivity

68. The nature of the WB&G situation has been highly politically charged, exacerbated by periodic economic crises, when unemployment escalated due to increased frequency and duration of border closure by Israel between 1994-1996 and subsequently. Border closures have had a tremendous impact on long-term development efforts, since they impose restrictions on the movement of goods and people and create an uncertain political climate, which discourages private sector investment. The Bank responded to the crises by shifting resources to shorter term relief measures, and especially emergency employment creation projects. The scope of the Holst Fund was expanded to address the need to finance emergency operations. Thus, as noted by OED and Schiavo-Campo, although donor assistance through the TFs fell short on support to longer-term development efforts, its reorientation was consistent with trying to sustain a positive environment for the peace process.

69. MDTFs enable the Bank to take a central role in aid coordination and in the case of WB&G, the Bank has coordinated aid in a highly inclusive fashion, one which attempted consensus between the interest of PA, Israel and of various stakeholders proved to be important at a political level. The commonly cited example is the Bank's role in reaching agreements among Israel, WB&G, and the donors through the Tripartite Action Plans.[39] Needs assessments, strategies and program implementation were carried out by diverse stakeholders including UN bodies and local and international NGOs. Additionally, the implementation design for PECDAR foresaw assistance and support for the establishment of PA and government structures in a manner conducive to promote peace in that it respected political agreements and sensitivities.

J.7 Findings and Conclusions

The main ***Findings*** and ***Conclusions*** are:

Efficiency of the MDTFs

70. In view of the total assistance to WB&G, funds flowing through the MDTF represent a small percentage of total financial aid.

71. In WB&G, budget support through the Reform Fund was needed to sustain the very institutions donors had used 10 years to build. While the Holst Fund built the PA, the Reform Fund helps maintain the PA as a functioning government.

[39] In September 1994, the CG meetings collapsed for political reasons – a Palestinian-Israeli dispute over proposed investments by Palestinians in Jerusalem. What emerged from the CG collapse was a Tripartite Action Plan, brokered by the AHLC with the Bank serving as secretariat, in which the Palestinians, Israel, and the donors all agreed to specific actions within a given timeframe. The Tripartite Action Plan was on-going at the time the peace process halted in 2000, and was monitored regularly by the AHLC/Bank. Although the Tripartite Action Plans lacked enforceability, it was a process that provided more transparency and accountability for all the parties involved, and the Bank had a major role in maintaining it (OED 2002, Schiavo-Campo 2003).

72. Tranche releases linked to the achievement of specific benchmarks provided the PA with an incentive to maintain the pace of the reform agenda embarked on in mid-2002. This also helped address the weaknesses in financial management.

73. The Bank's WB&G program was the first where management was decentralized to the field. Transferring decision making and accountability to the field contributed to, among other things, the efficiency of the MDTFs operations.

74. The Holst Fund started disbursing six months after its inception. The reasons for the perceived delays in the establishment and disbursement were: (i) reluctance of some donors to contribute to such a novel mechanism; (ii) Bank procedures had to be formulated from scratch and had to go through internal clearances in the Bank as well as discussion with donors; (iii) as the implementation agency, PECDAR had to build its own capacity to comply with the fiduciary safeguards set by the Bank; and, (iv) unrealistic expectations by the donors regarding timeframe.

75. The Reform Fund experienced more realistic expectations, where donors have not exerted much pressure on the Bank to disburse but rather focused on discussions about which reform areas or steps should be included in the annual work plan.

<u>Governance Structure</u>

76. Allocation decisions for the Holst Fund were made by the Bank, in consultation with PECDAR and fund donors, based on the disbursement categories specified in the grant agreement. The literature does not refer to major issues regarding the governance structure of the Fund.

77. Decisions regarding funding allocations for the Reform Fund are made by the Bank in consultation with the PA and the Guidance Committee, based on agreed policy framework and benchmarks.

<u>Harmonization and Coordination</u>

78. In WB&G, budget support has been regarded as an aid mechanism that improves coordination. It reduces costs and pressure on the national authorities and increases predictability. It may also increases the risks to the partner due to harmonized donor action.

79. The UN does not implement activities financed by the Holst or Reform funds. Preliminary interviews and the literature do not point to problems arising from different procedures between the World Bank and the UN in WB&G.

80. It is clear in the literature about the MDTFs in WB&G that Bank, donors, NGOs and UN bodies were interacting early on; but, it remains unclear the ability of different stakeholders to influence the architecture of the coordination in WB&G.

81. NGOs had no role in the establishment and implementation of the funds.

Ownership and Capacity Development

82. PECDAR, the project implementation unit, became a "super ministry" whose work, while critical and often effective, did not translate into sustainable institutional capacity.

83. In WB&G, institutional development was at the top of the Bank agenda from the beginning. However, capacity development objectives and operations were undermined by (i) the political environment that required shifts from long-term development to emergency operations; (ii) excessive centralization of decision-making by the PA; (iii) the excessive growth of the civil service; and (iv) the absence of a public sector development strategy supported by the PA, the Bank and other donors.

Thematic Areas and Beneficiaries

84. The main direct beneficiaries of the Holst and reform Fund are civil servants and their households through the salary payments. These civil servants are in turn education and health personnel who provide basic education and health services for the Palestinians, and especially the poor who rely mostly on public services.

85. Possibly one of the beneficiary groups receiving the least attention has been girls and women.

86. The scope of the Holst Fund was expanded to address the need to finance emergency operations; its reorientation was consistent with trying to sustain a positive environment for the peace process.

87. In WB&G the Bank has coordinated aid in a highly inclusive fashion, one which attempted consensus between the interest of PA, Israel and of various stakeholders, what has proved to be important at a political level.

88. The WB&G MDTFs have led to a number of standard procedures: (i) the Holst Fund model (support to government's recurrent costs and the use of a monitoring agent when applicable); (ii) early focus on community-based small-scale infrastructure projects; and (iii) devolving decision making and accountability to the field office.

ANNEX K: The Sierra Leone DDR Trust Fund

1. At the request of the Government of Sierra Leone (GOSL), the Multi-donor Trust Fund for Sierra Leone (MDTF) was set up and administered by the World Bank to facilitate donor support to the Disarmament, Demobilization and Reintegration (DDR) process in Sierra Leone. The MDTF became effective in March 2000 and closed in June 2003. The MDTF-SL made USD 39.5 million available to finance the national DDR agency (NCDDR), and supported partner organizations implementing DDR activities. Sierra Leone's DDR program demobilized a total of 72,490 ex-combatants (EXCs), collected 42,300 weapons and 1.2 million rounds of ammunition.

K.1 Trust Fund Overview

2. The civil war in Sierra Leone lasted more than a decade. The war caused severe destruction and human suffering, with large-scale displacement of the population: over two million people internally displaced, and 500,000 living as refugees in neighboring countries.
3. Political and social conflicts had built up in the country since the 1970s, leading to the civil war that began in March 1991. The forces of the Revolutionary United Front (RUF) initiated a guerrilla war against the government, which by 1995 had expanded to the entire country. From mid-1995 onwards, RUF suffered a series of military defeat and in March 1996 a cease-fire was agreed, followed by the signing of the Abidjan Peace Accord in November 1996.
4. The Abidjan Agreement committed the GOSL and the RUF to a DDR program. The British government provided finance and UNDP provided technical assistance to the DDR process. The Ministry for Rehabilitation, Reconstruction and Resettlement was created to manage the DDR process, and international NGOs were subcontracted to develop and implement DDR projects. The nascent program was interrupted on 25 May 1997 when the government was overthrown by an army mutiny.
5. An unsuccessful peace attempt took place in October 1997 with the Conakry agreement. It provided for disarmament and demobilization of combatants and the restoration of constitutional order, including the reinstatement of the president. However, civil rule was only restored in 1998, with the support of the Monitoring Group of the Economic Community of West African States (ECOMOG) military force.
6. In April 1998, the World Bank provided a USD 2 million Project Preparation Facility (PPF) for the DDR process. The PPF supplied the government with technical assistance to develop its DDR program. The Ministry for Rehabilitation, Reconstruction and Resettlement was transformed into the Government's National Committee on Disarmament, Demobilization and Reintegration (NCDDR) to design and oversee the DDR process. The government's framework was endorsed by the United Nations and other international donors at a special UN meeting in July 1998. The DDR process begun in July 1998 and was

implemented in three phases, following the peace process and with an interim phase in 2000, as follows:

7. **Phase I: September – December 1998:** NCDDR was responsible for executing the DDR Program, which received Bank support through the PPF. The DDR process was also assisted by the UK, the ECOMOG, the UN Observer Mission to Sierra Leone (UNOMSIL), and other UN agencies. The bulk of the caseload during Phase I of the program was Sierra Leone Army (SLA) soldiers who had surrendered to ECOMOG forces in 1998. Renewed fighting in late 1998 and the rebel invasion of Freetown in January 1999 brought Phase I of the DDR program to a halt. Around 3,200 combatants had been disarmed and demobilized, and 1,600 of those discharged.

8. **Phase II: October 1999 – April 2000:** Phase II of the DDRP program began in July 1999, following the signing of the Loma Peace Agreement. The successful implementation of the Lomé Peace Accord required the deployment of about 17,500 United Nations Peace-keeping troops, the UNAMSIL, to eventually create enabling conditions for the disarmament and demobilization program to be implemented and for the Government to begin to restore its authority throughout the country. The agreement of 1999 was violated in April-May 2000, when RUF rebels held hostage about 500 UN staff. RUF released UN staff under mounting international pressure and UK military intervention.

9. Based on Phase I, the DDRP program in Phase II was expanded to cover all combatants, irrespective of their affiliation, who surrendered prior to the conclusion of a new peace agreement, including the newly-formed Civil Defense Forces in the northern and eastern parts of Sierra Leone. During the nine months that Phase II was operational, nearly 19,000 combatants were disarmed, and approximately 17,500 were ultimately demobilized and discharged.

10. By May 2000 the security situation had greatly deteriorated; 60 percent of the country became inaccessible to the government, and the UN peacekeeping mission nearly collapsed. The DDR program came to a halt once more.

11. **Interim phase: May 2000 – 17 May 2001:** During this phase the DDRP operated at a very low level. The NCDDR used this period as an opportunity to review past experiences. The assessment was conducted in consultation with major stakeholders such as the World Bank, DFID, UNAMSIL, and other key partners in Sierra Leone. The assessment team determined that there were a number of internal and external factors to the DDR process that limited its effectiveness during Phases I and II. The institutional and financial framework for the DDR process changed in response to the lessons learned exercise as well as to adjust to a changed political environment. NCDDR assumed greater ownership of the program through taking more responsibility for the management of the DDR process. Moreover, change in RUF leadership and the deployment of British paratroopers to strengthen the security situation created a climate in which serious disarmament could take place.

12. The MDTF came into being during the Interim phase, on March 2000. MDTF funds supported the following activities of the DDR program: (i) screening,

registration and basic living provision for ex-combatant during a brief encampment period; (ii) pre-discharge orientation, discharge, and transportation of ex-combatants into communities; (iii) a traditional social safety net allowance; and (iv) general program operations, management and technical assistance.

13. **Phase III: 18 May 2001 – January 2002:** In May 2001, the warring parties agreed to a series of actions that culminated in the demobilization of all combatants by January 2002, and to the Declaration of End of War, signed by all parties to the conflict. The end of the war was marked by the successful conclusion of Presidential and Parliamentary elections on 14 May 2002.

14. Phase III of the DDRP, which was officially re-launched in Port Look on May 18, fully integrated the lessons learned from the Interim phase and flexibly adapted to programmatic changes in response to the political climate. The disarmament and demobilization were fast-tracked and in phase III around 47,800 men, women, and children were demobilized in groups. Disarmament was concluded on January 2002 and demobilization by February 2002. The capacity building activities implemented during the previous phases enabled NCDDR staff, both at headquarters and at the districts, to manage the increased volume of through-put as well as the accelerated tempo of the process. It was also during this period that the reintegration component became more active.

Basic Facts

15. **Post-Conflict Needs Assessment (PCNA):** There was no PCNA for the DDR in Sierra Leone.

16. **Transitional Support Strategy:** In March 2002, the Bank's Board approved a Transitional Support Strategy (TSS) for Sierra Leone for 2002-2004. The framework for the TSS is the Interim Poverty Reduction Strategy Paper (I-PRSP), which was prepared by GOSL in 2001. The objectives of the TSS are to help mitigate the risk of renewed conflict and lay the foundation for sustained poverty reduction and improvements in nutrition, health and education, targeting the rural population, women and children. To achieve these aims, the TSS focuses on good governance, accelerating economic growth, expanding access of the poor to social services and strengthening economic management. The TSS identifies procurement (together with financial management) as one of the areas requiring quick intervention to ensure value for money and efficiency in public expenditure

Reviews and Evaluations

17. There are several reviews and a final evaluation of the DDRP in Sierra Leone. The *Sierra Leone: Disarmament, Demobilization and Reintegration (DDR)*, the World Bank's "Good practices Info brief" (October 2002) provides information about lessons learned. In *Disarmament and Demobilization, Sierra Leone - Building the Road to Recovery* (March 2003), Thokozani Thusi and Sarah Meek analyze the implementation of the disarmament and demobilization aspects of the DDR program in Sierra Leone. The DDR Coordination Section of UNAMSIL produced a *Lessons Learned* paper (August 2003). In *Peace in Sierra Leone: Evaluating the*

Disarmament, Demobilization, and Reintegration Process, Gebreselassie Tesfamichael, Nicole Ball and Julie Nenon (2004) evaluate the DDRP program in Sierra Leone, including the general aspects of the MDTF. Some of their common findings that are pertinent to this review include:

- The DD component of the larger DDR process was successful. It is largely due to the success of DD that Sierra Leone was able to hold 'free and fair' elections in May 2002, marked by an unprecedented level of calm across the country.
- Outside support is needed in the form of technical advice and, above all, substantial donor funding.
- The Bank can play an effective role through the management of a Multi-Donor Trust Fund, and integrating the larger disbursements with more rapid and flexible procedures to meet emergency situations.
- The Bank's role, vital as it has been, could have been strengthened if the coverage of the MDTF had extended to include disarmament-related activities. Its role could also have been strengthened if the Trust Fund had come on track at the time the DDRP got under way in 1998, and if there had been more robust support for capacity-building among the implementing partners.
- Putting a DDR program on the peace agenda must take into account the financial, logistical and technical issues associated with the objectives and scale of the program, and be mindful that such objectives depend largely on the political process.
- Program and financial flexibility is key to adjust the DDR program to the political process.
- Local ownership and leadership can be provided by national coordinating institutions, capable of planning, implementing and overseeing a nationally driven D&D program.
- Government ownership is important but national ownership is fundamental for a successful implementation of the DDR process.
- In Sierra Leone implementation delays were caused by difficulties in scaling-up the DDRP to address larger than expected caseloads.
- The strong lead country support provided by the UK was essential to the DDR process in Sierra Leone.

Financial Overview

18. Around 40% of funds total aid contribution to the DDR process flowed through the MDTF.

Table K.1: Total Funding of Sierra Leone DDR Program

Table 4. Estimated Cost of DDR Program

Funding Source	US$
Government of Sierra Leone	6.3
World Bank (IDA credit through the CRRP plus PPF)	7.7
MDTF[a,b]	39.5
UK[c]	26.5
UNICEF	8.3
WFP	2.1
Human Security Fund	3.0
Germany, bilateral aid through GTZ[d]	2.9
UNAMSIL[e]	3.7
Total[f]	100.0

Source: Tesfamichael et al (2004)

19. The DDRP was financed through multiple channels: (1) government resources; (2) grants to the MDTF; (3) the World Bank (IDA credit delivered through the Community Reintegration and Rehabilitation Program and PPF); (4) peacekeeping support to disarmament and demobilization; (5) UNICEF support for child soldiers; (6) UK government support through ERT; and (7) parallel programs (CRP, HSF and GTZ).

20. The USD 100 million estimated cost incorporates the MDTF funds, resources channeled through the parallel programs, and the costs directly contributed by UN. By far the largest financial input, USD 39.5 mill, was channeled through the MDTF.

21. Tesfamichael et al (2004) state that the main trust fund was divided into two smaller trust funds: the first a government-executed fund, which became the major receptacle for most of the financial resources, and the other, a World Bank executed fund with about USD 2 mill. This split execution of the trust fund was an innovation. This special arrangement was optimal as speed was of the essence, particularly at the initial stage. The World Bank facilitated the fast procurement of critical services, such as the provision of four core consultants for the Executive Secretariat. The World Bank-executed fund also financed the studies, reviews, and evaluations that were commissioned at various stages of the program, as well as the donor meetings and pledging sessions that were organized outside of the country.

K.2 Efficiency of the Trust Fund

22. The DDR program was financed through multiple channels, with the MDTF as the main vehicle for support to the DDR process. The MDTF defined the shape and content of the process. One of the MDTF's key benefits is its ability to focus

donor contributions on the government's program and enhance national ownership and leadership. It promoted resource mobilization and reduced the administrative and financial costs of managing external resources.

23. Despite the important role of the MDTF, other funding mechanisms were established, which proved crucial in implementation success. For example, the UK provided financing outside the MDTF that gave the NCDDR and its partners needed flexibility when urgent, unforeseen needs arose that could not be financed rapidly through the trust fund.

24. Tesfamichael et al (2004) stated that the MDTF harmonized donor support around one set of program objectives. It also unified support for one set of procurement, financial, management, disbursement, and reporting arrangements. Furthermore, the Bank's mobilization capacity, and its fiduciary oversight, encouraged donors to support the DDR process.

25. The World Bank's part in the establishment of the FMPU provided the level of comfort necessary for the international community to devote adequate resources to the DDR process, in an environment otherwise characterized by a high level of corruption. In addition to administering the MDTF, the World Bank fielded personnel who were highly committed and contributed to the success of the DDR program.

26. The World Bank, when faced with the possibility of losing US funding or allowing the US Government to finance only one part of the program, set up a separate trust fund that was used exclusively for a US contribution for the payment of reinsertion benefits.

K.3 Governance Structure

27. The MDTF financed activities implemented by the GOSL through the NCDDR and its Executive Secretariat. The MDTF also required the establishment of the Financial Management and Procurement Unit (FMPU), to exercise financial management of funds. It was a mechanism to provide fiduciary safeguards and technical capacity not available locally. According to the literature, the FMPU was critically important not only for reassuring donors, but also the ex-combatants, and the Sierra Leone community at large, that money would be used for purposes intended. An international audit firm was selected through international competitive bidding process, to implement the FMPU for the government.

28. According to Bank staff, the administrative procedures for the MDTF were standard Bank procedures.

K.4 Harmonization and Coordination

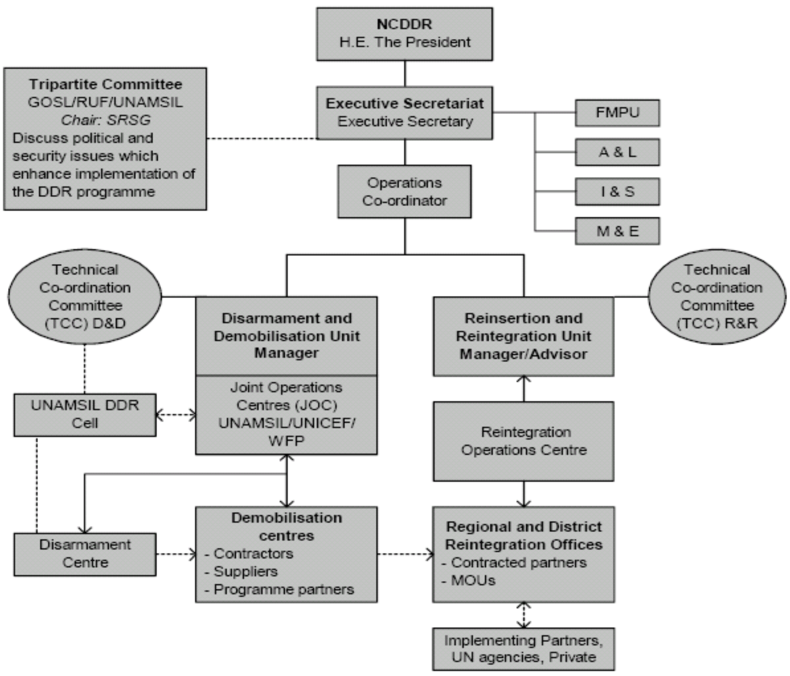
29. The literature on DDRP in Sierra Leone agrees that the successful management of the DDR process was based on robust national ownership, coupled with effective partnerships. The MDTF and FMPU, the NCDDR and its Executive Secretariat, the World Bank, various organizations of the UN system, DFID, GTZ and others

were critical institutions and vehicles that had a role in the management of these resources.

30. However, Tesfamichael et al (2004) write that one of the major lessons of previous DDR processes is that organizationally de-linking the process of disarming and demobilizing combatants from that of planning and delivering reinsertion and reintegration support creates institutional rivalries that undermine the effective and efficient delivery of DDR programs. The GOSL wisely chose to create the NCDDR and its Executive Secretariat as an autonomous body, with a mandate to provide and promote the reintegration of the former warring parties.

31. As illustrated below (Figure K.1), the framework for aid coordination in Sierra Leone was complex. In the Report for the Consultative Meeting (2002), an urgent need to strengthen and rationalize aid coordination in the country was noted. This would entail ensure better and timely information on aid flows and their use, and improve planning and monitoring of aid utilization to avoid duplication or gaps, increase aid effectiveness and reduce the transactions costs of aid management. While the Consultative Group provides a forum for high-level dialogue between the Government and its partners, the GOSL recognized the need to establish in-country coordination mechanisms that can provide more frequent opportunities for dialogue on policy issues while also providing a forum to track overall progress and facilitate coordination among donors in support of national priorities.

Figure K.1: DDR Institutional framework



Source: Tesfamichael et al (2004)

32. In order to enhance aid coordination, the GOSL proposed to establish a joint Government-donor coordination committee, chaired by senior member of the Cabinet that would meet regularly in Freetown. In addition, the sector groups that had been organized as a part of the PRSP process would be upgraded and headed at ministerial level. The joint committee would monitor the work of the sector groups to ensure coherence and consistency with the policy decisions and benchmarks that have been formulated by Government and agreed with donor partners, and will help track performance.

33. It seems safe to conclude that good working-level coordination took place in Sierra Leone during the DDRP. Interviews with Bank staff support this conclusion. The UNAMSIL lessons learned report (2003) states that early in the process there was some disagreement between UNDP and the World Bank regarding the funding mechanism for the DDR program. The GOSL opted for the MDTF, administered by the World Bank. Since UNDP was initially the main provider of technical assistance to the government, frictions arose when such role was transferred to the Bank, as the trustee of the MDTF.

K.5 Ownership and Capacity Development

34. Tesfamichael et al (2004) note that although Sierra Leone is a highly aid-dependent country, the government nonetheless made critical decisions about the shape of the DDR process from its inception. Government ownership grew with the DDR assessment during the Interim phase onwards. The DDR reflect Sierra Leone's priorities and vision. The government had been elected in free and fair elections in 1996 and enjoyed a degree of legitimacy. This provided President Kabbah, who could count on a core group of officials firmly committed to the peace process, with political leverage in negotiating with the donor community. The literature as well as interview with Bank staff confirms their view.

35. However, Tesfamichael et al (2004) also call attention to the fact that some donors would refrain from supporting the government as long as it had control of the DDR process. Most financing for the DDR came from donors, 80-90 percent, and they had a say on the program design and implementation. Furthermore, Tesfamichael et al observes that donors also supported parallel reintegration programs that did not go through the NCDDR, but were designed by donors and implemented by NGOs or international consulting firms chosen by the donors. This limited the government's ability to locate reintegration programs in areas it deemed of highest priority.

36. The level of ownership exercised by GOSL was strengthened by the creation of the Tripartite Committee once the DDR process resumed in 2001. The Tripartite Committee acted politically over the implementation of the DDR. Tesfamichael et al (2004) observe that it provided a parallel political mechanism that was important for the success of the peace process because other critical, non-DDR issues were often raised in this forum, keeping the DDR process within the context of the larger peace process. The Tripartite Committee was seen as a means of making sure that the views of all fighting forces were represented at a high level. RUF representatives took part in the meetings of the Tripartite

Committee The development of a participatory process, such as that embodied in the Tripartite Committee was fundamental in creating national ownership to the DDR process.

37. The MDTF reinforced national ownership, as well as national management, by strengthening the capacity of the NCDDR at the headquarters, regional, and district levels.

K.6 Thematic Areas and Beneficiaries

38. The MDTF supported the following activities of the DDR program: (i) screening, registration and basic living provision for ex-combatant during a brief encampment period; (ii) pre-discharge orientation, discharge, and transportation of ex-combatants into communities; (iii) a traditional social safety net allowance; and, (iv) general program operations, management and technical assistance.

K.7 Findings and Conclusions

The main ***Findings*** and ***Conclusions*** are:

Efficiency of the MDTF

39. The DDR program was financed through multiple channels, with the MDTF as the main vehicle for support to the DDR process.

40. One of the MDTF's key benefits is its ability to focus donor contributions on the government's program and enhance national ownership and leadership. It also reduced the administrative and financial costs of managing external resources.

41. The Bank's mobilization capacity, and its fiduciary oversight, encouraged donors to support the DDR process.

42. The World Bank's part in the establishment of the FMPU provided the level of comfort necessary for the international community to devote adequate resources to the DDR process, in an environment otherwise characterized by a high level of corruption. In addition to administering the MDTF, the World Bank fielded personnel who were highly committed and contributed to the success of the DDR program.

Governance Structure

43. The MDTF financed activities implemented by the GOSL through the NCDDR and its Executive Secretariat.

Harmonization and Coordination

44. A good working-level of coordination took place in Sierra Leone during the DDRP. The successful management of the DDR process was based on robust national ownership, coupled with effective partnerships.

45. Early in the process there was tension between the UNDP and the World Bank regarding the funding mechanism for the DDR program and competition in leading technical assistance provision to the Government.

Ownership and Capacity Development

46. The government was able to make critical decisions about the shape of the DDR process from its inception. Government ownership grew with the DDR assessment during the Interim phase onwards.

47. Donors also supported parallel reintegration programs that did not go through the NCDDR, limiting the government's ability to locate reintegration programs in areas it deemed of highest priority.

48. The MDTF reinforced national ownership, as well as national management, by strengthening the capacity of the NCDDR at the headquarters, regional, and district levels.

Thematic Areas and Beneficiaries

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ANNEX L: The Sri Lanka Trust Funds

1. This chapter briefly covers the attempt to establish the North East Reconstruction Fund (NERF) in Sri Lanka in connection with the cease-fire and peace negotiations in 2002-2003, and the subsequent attempt to set up the Sri Lanka Tsunami Reconstruction Fund in connection with post-tsunami reconstruction efforts in 2005.

L.1 The North East Reconstruction Fund

2. Sri Lanka has experienced decades of violent conflict, in which the nature of the state, its political culture, the institutional framework of policy, uneven development patterns and competing nationalisms between the Tamil and the Sinhalese are among the structural dimensions of the conflict.

3. By 2002, a window of opportunity for a diplomatic settlement of the conflict surfaced. This was in the context of an enduring military deadlock and deteriorating economic conditions due to prolonged drought, rapid decline in foreign investment due to the war, and collapse of the tourist industry. Negotiations for a cease-fire and peace talks were facilitated and supported by international actors. A three-phased approach to peace negotiations was adopted by the parties, which involved first ending the violence, second creating a peace dividend, and third dealing with the core political issues at the root of the conflict.

4. After cessation of hostilities was achieved on the ground, a ceasefire agreement was signed on 22 February 2002 by the Government of Sri Lanka and the Liberation Tigers of Tamil Eelam (LTTE). The formation of the Sri Lankan Monitoring Mission, a body composed of Nordic forces to monitor the ceasefire and address truce violations, was one of the provisions of the CFA.

5. Once the first phase of the approach was achieved on the ground and formally sealed, a Sub-committee on Immediate Humanitarian and Rehabilitation Needs (SIRHN) was created in November 2002 for negotiating and managing the peace dividend. This Committee, constituted by representatives from the parties in the ceasefire agreement, established the priority areas and mechanism for channeling international support of the peace process.

6. The North East Reconstruction Trust Fund, a MDTF to be administered by a multilateral organization, was submitted by the SIRHN to development partners in a meeting with bilateral donors in Oslo on November 2002, and endorsed in the third round of talks in Oslo in December. On February 2003, proposals for managing the NERF were solicited from and submitted by the World Bank, the United Nations Development Programme (UNDP) and the African Development Bank. The government of Sri Lanka and the LTTE agreed on the selection of the World Bank as the trustee for the NERF. A pledging conference took place in Tokyo in June 2003, where donors pledged USD 4.5 billion in reconstruction and development aid. However, post-conflict funding was tied to conditionalities and benchmarks in the peace process.

7. According to the Bank proposal of March 2003, the NERF would fund the following areas: (i) community development and capacity building; (ii) voluntary rehabilitation of internally displaced persons (IDPs), co-financing with government and IDA credits[40]; (iii) mine clearance, also with IDA co-financing[41]; and, (iv) project management. NERF would not accept earmarked contributions from donors.

8. A three-tier governance structure was proposed, composed of the SIRHN Secretariat, contributing donors and the Administrator, with the following role division: SIRHN would ensure management and funding allocations, the Bank would take administrative and fiduciary roles, contributing donors would provide strategic guidance and monitor NERF performance. Annual reviews of the governance structure as well as NERF performance were foreseen. The procurement of a monitoring agent was required.

9. Donor pledges to the reconstruction and development aid in Sri Lanka in 2003 was tied to progress in the peace process. Donors and Bank staff involved in the design of the NERF agree that one lesson to be learned from Sri Lanka is that peace conditionalities do not work in the absence of a peace process to which the parties in the conflict and donors are strongly committed. Moreover, a mechanism to monitor compliance with peace conditionalities was not developed, hence weakening possible effects. Conflict assessments done in Sri Lanka further add that international actors expected that aid could influence the negotiations of core political issues much more than it in fact did. Instead, the peace conditionality ended up creating incentives contrary to those intended: "Where the two main recipient actors were concerned, the LTTE, not a participant in Tokyo, believed that conditionalities were yet another form of punitive action that undermined them; whereas nationalist elements in the South used conditionalities as a pretext to launch a tirade against international involvement in the peace process, articulating them as a threat to national sovereignty" (CPR 2006, p. 2)[42].

10. In April 2003, the LTTE withdrew from negotiations. This closed the possibility for the NERF to be implemented since the LTTE was part of the governance structure. While this withdrawal undermined the peace conditionality that the NERF had rested on, the LTTE in fact maintained the cease-fire it had negotiated

[40]Government financed cash-grant schemes for internally displaced persons (IDPs) through budget allocation. In November 2002, the Bank Board approved an amendment to the NERF Program that finances among other things cash-grants to returning IDPs. The cash-grant scheme is implemented by the United Nations High Commissioner for Refugees.

[41] Landmine Action Project implemented by UNDP.

[42] The LTTE had been blocked from participating in a previous consultative meeting on Sri Lanka in Washington because of the US anti-terrorist ban on the organization. Only one of the parties of the peace accord, the Government, was thus able to participate in Washington, where issues of conditionalities were discussed. The LTTE refused to participate at the Tokyo meeting, where conditionality was officially announced in connection with the donor pledges.

as part of the NERF package. – Although the MDTF Agreement was not signed by the parties, NERF had already received contributions from Norway and Germany. These funds were therefore subsequently returned.

L.2 The Sri Lanka Tsunami Reconstruction Fund (SLTRF)

11. The *tsunami* that struck on 26 December 2004 claimed the life of over 31,000 people on Sri Lanka. While all regions of the country were affected, the North and East regions were especially hard-hit. This compounded the suffering of a population already affected by decades of civil war. In the aftermath of the *tsunami*, the Bank was asked informally by the government of Sri Lanka and LTTE to prepare for an MDTF for the post-tsunami reconstruction of the North and East regions. The MDTF would be supported by various bilateral donors, the European Union being the largest.

12. Discussions were assisted by international facilitators between the Government and the LTTE for community representation on regional allocation boards of resources for the post-tsunami reconstruction in the North and East. The Post-Tsunami Operational Management Structure (P-TOMS) was established on 24 June 2005 with the purpose of coordinating reconstruction efforts in all tsunami-affected coastal areas of Sri Lanka. The MDTF would work within the framework of the P-TOMS, where the LTTE would participate in resource allocation decisions at the Regional Committee level.

13. The P-TOMS had a three-tier structure: (i) The High-level Committee, which had policy, advisory and monitoring roles, and was constituted by three representatives, each nominated by the Government of Sri Lanka, the LTTE, and the Muslim parties with a rotating chair, and two international observers; (ii) a Regional Committee, constituted by ten members nominated by the Government, LTTE and Muslim parties, with strategic guidance, funding allocation, management and monitoring roles; (iii) District Committees, the already existing and functioning Post-Tsunami Coastal Reconstruction Committees, responsible for identifying and prioritizing needs and project proposals.

14. While decision on funding prioritization and allocation would take place within the framework of the P-TOMS, the Sri Lanka Tsunami Reconstruction Fund would have a Secretariat managed by the Bank and an Advisory Board, chaired by the United Nations Resident Coordinator, and constituted by MDTF donors. No conditionality was applied to the Sri Lanka Tsunami Reconstruction Fund, except that the LTTE would not be an eligible beneficiary since it is not an implementation agency and it would not handle any resources directly.

15. The MDTF was created amidst increased political tensions and hostilities, which eventually impeded its implementation. The signing of the P-TOMS and the participation of the LTTE in its structures was met with some scepticism from Muslim politicians and strong opposition from the JVP, a Sinhalese left wing nationalist party. The question about the legality of the P-TOMS was taken to the Supreme Court, which delayed its ruling. The subsequent assassination of Mr. Lakshman Kadirgamar, the Sri Lankan Foreign Minister, on 12 August 2005

further increased tensions. The LTTE was accused of being behind the assassination, which it denied. On 26 September the EU announced that its member states would no longer receive LTTE delegations because of the assassination of the Foreign Minister. The Sri Lanka Tsunami Reconstruction Fund was thus caught in the escalating political tensions. The presidential candidate that won the November 2005 election had run on a platform partly against the P-TOMS. A final decision from the Supreme Court regarding the legality of the P-TOMS was subsequently postponed indefinitely.

16. One intention of the MDTF was to promote collaboration among parties to the conflict. The Fund was an instrument to promote peace through joint decision making. Yet once again the absence of a strong peace process meant that the MDTF was not viable, showing that aid as an instrument to promote peace by itself is insufficient.

Published on behalf of the Steering Committee by

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Norwegian Agency for Development Cooperation

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ISBN 978-82-7548-185-4