

**MEMORANDUM OF THE PRESIDENT  
OF THE  
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT  
TO THE EXECUTIVE DIRECTORS  
ON A PROPOSAL FOR  
THE WORLD BANK TO ADMINISTER  
TWO MULTIDONOR TRUST FUNDS  
FOR SUDAN**

**March 17, 2005**

**Country Department 6  
Africa Region**

## **Abbreviations and Acronyms**

<b>AA</b>	<b>Administration Agreement</b>
<b>CBTF</b>	<b>Capacity Building Trust Fund</b>
<b>CCG</b>	<b>Core Coordination Group</b>
<b>CPA</b>	<b>Comprehensive Peace Agreement</b>
<b>DDR</b>	<b>Disarmament, Demobilization, and Reintegration</b>
<b>GA</b>	<b>Grant Agreement</b>
<b>NG</b>	<b>National Government</b>
<b>GoS</b>	<b>Government of Sudan</b>
<b>GoSS</b>	<b>Government of South Sudan</b>
<b>IDPs</b>	<b>Internally Displaced Persons</b>
<b>JAM</b>	<b>Joint Assessment Mission</b>
<b>JTF</b>	<b>Joint Transition Fund</b>
<b>MA</b>	<b>Monitoring Agent</b>
<b>MDTF</b>	<b>Multi Donor Trust Fund</b>
<b>MoFEP</b>	<b>Ministry of Finance and Economic Planning</b>
<b>NG</b>	<b>National Government</b>
<b>OC</b>	<b>Oversight Committee</b>
<b>PIA</b>	<b>Program Implementation Agency</b>
<b>PIM</b>	<b>Project Implementation Manual</b>
<b>SC</b>	<b>Sudan Consortium</b>
<b>SPLM</b>	<b>Sudanese People's Liberation Movement</b>
<b>TS</b>	<b>Technical Secretariat</b>
<b>UN</b>	<b>United Nations</b>

**PROPOSAL FOR THE WORLD BANK TO ADMINISTER MULTIDONOR  
TRUST FUNDS FOR SUDAN**

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# PROPOSAL FOR THE WORLD BANK TO ADMINISTER MULTIDONOR TRUST FUNDS FOR SUDAN

## I. INTRODUCTION

1. Sudan's reconstruction and development present extraordinary challenges for the people and government of Sudan, and for the international community which has pledged to support the reconstruction effort. Several parts of the country have been devastated by decades of conflict, destruction of physical and human resources, and erosion of institutions and social capital. The historic Comprehensive Peace Agreement (CPA) signed in Nairobi on January 9, 2005, between the Government of Sudan (GoS) and the Sudanese People's Liberation Movement (SPLM) marks the end of decades of civil war and is the culmination of a 2 ½ year negotiation which includes a set of protocols covering, *inter alia*, power and wealth sharing agreements. The signing of the CPA marked the beginning of a Pre-Interim period of six months during which a new Government of National Unity (herein referred to as the National Government or NG) will be established, followed by a six year Interim Period, leading to a referendum where the people of Southern Sudan will vote whether to secede or remain within the Republic of Sudan. In addition, a key feature of the CPA is the establishment of the Government of Southern Sudan (GoSS) which will have extensive autonomy. The CPA also includes special provisions for Abyei, Southern Kordofan and Blue Nile (also referred to as the Three Areas).
2. Darfur remains a large-scale humanitarian emergency, with a high toll of displacement and loss of life. While peace talks between the Government of Sudan and the Darfurian rebel groups continue under the auspices of the African Union, the United Nations and NGOs provide humanitarian relief. Grievances in Darfur are similar to those elsewhere in Sudan, namely political and economic inequalities. The elements of the CPA can be used in the formulation of a political settlement for Darfur and to ensure a fairer distribution of public resources and a concerted development effort. Clearly, Darfur presents a major development challenge, beyond the current humanitarian emergency, that will need to be addressed as soon as conditions allow.
3. The challenges of Sudan's reconstruction call for an unprecedented response by the international community, both in terms of funding and in terms of coordination of the reconstruction effort. In a succession of donor meetings over the last two years, the need for advance planning for, and effective coordination of, the reconstruction process has been recognized, as has the primacy of the overall leadership of the GoS and the SPLM in driving the process. To this end, a Core Coordination Group (CCG), comprising the GoS and the SPLM, and representatives of the main donors, has been active for over a year, guiding the needs assessment process and providing strategic guidance.

## **A. FRAMEWORK FOR SUSTAINED PEACE, RECONSTRUCTION AND POVERTY ERADICATION**

4. In December 2003, the World Bank and UN were asked to coordinate a Joint Assessment Mission (JAM) to determine the needs of Sudan over the six-year Interim Period and to develop with the authorities a framework for reconstruction and development. The JAM outlines the shared vision, strategic objectives, and operational implications for the realization of a peaceful and unified Sudan. Over the past year, the JAM has been the key vehicle for multi-sectoral collaborative work in technical and policy analysis and building consensus, and for developing projections of Sudan's financing needs. Moreover, the scope of the JAM extends beyond an external financing request. The JAM's output has therefore emerged as a "Framework for Sustained Peace, Development and Poverty Eradication," with strong domestic ownership, and with clear commitments and monitoring indicators which will be supported by domestic efforts and resources, as well as development partners, in addressing underlying structural causes of conflict and underdevelopment.<sup>1</sup>

5. Implementing the peace agreement and making sustained progress on the priorities outlined in the Framework will entail substantial commitments on the parts of the NG and GOSS, but also will require support from the international community. This effort will shift over time from the current focus on humanitarian assistance, to a recovery phase during 2005-2007 (Phase I), which would focus on the consolidation and extension of peace, proceeding to a development phase (Phase II) which should allow Sudan to reach most of the MDG targets by 2015. The JAM places special focus on the critical first two years, and on the poorest and most disadvantaged parts of the country—in particular Southern Sudan, Southern Kordofan, Blue Nile and Abyei, and other zones seriously affected by decades of conflict and underdevelopment. The JAM does not provide an assessment of the impact of the Darfur conflict.

6. The National Government (NG) will face several major challenges. Chief among these is improving governance and creating the decentralized governmental system envisioned in the CPA that allows for community-driven recovery and an important role for a vibrant civil society including independent media. In turn, more equitable distribution of the national wealth and public resources will enable state and local governments to fulfil their service delivery responsibilities, and lead to better education, healthcare, and water and sanitation access in underdeveloped regions. This requires an ongoing shift in the prioritization of public spending toward programs and investments that facilitate broad-based economic growth, including via increased traditional agricultural and livestock productivity along with support for private sector development. The NG has additional responsibilities related to guaranteeing the special status of and enabling development in the Three Areas. These goals will be pursued while maintaining macro-economic stability.

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<sup>1</sup> The Framework overview document has been circulated separately (IDA/SecM2005-0114).

7. The SPLM which will constitute the future Government of Southern Sudan (GoSS) has a vision of equitable development and poverty eradication, but will start from a much lower level in terms of institutional capacity and socio-economic development. Key education and health indicators, such as child and maternal mortality and primary enrolment, are among the worst in the world. Infrastructure is virtually non-existent, with no paved roads outside the main urban centres, and a civil service and structures for service delivery must be created essentially from scratch. Many internally displaced persons (IDPs) are expected to return to the South, compounding the challenges. The strategy is to promote rural development through a big push on basic infrastructure to support intraregional, North-South, and international trade linkages, and based around market towns, services to promote the productivity of agriculture, and expanded access to basic social services. Through the CPA, the GoSS will have access to substantial domestically-generated revenue (largely from oil), but additional resources will be needed to enable the realization of development objectives.

8. A snapshot of the needs in different regions of the country and their relative size has been estimated by the JAM (Table 1). Overall, for the first 2 ½ years close to \$8.0 billion will be needed; however it is expected that a large share in both the North and South will come from their own resources. For Northern Sudan, the financing needs (including the Three Areas) for 2005-07 amounts to about \$1.2 billion. For Southern Sudan, the resulting financing needs are projected to total about \$1.4 billion for 2005-2007.

**Table 1 – Summary of JAM Needs and External Financing Needs, Phase I (US \$ billions)**

	<b>Total JAM needs</b>	<b>Financing needs</b>
<b>Northern Sudan</b>	<b>4.3</b>	<b>1.2</b>
<b>of which: Three Areas</b>	<b>0.7</b>	
<b>Southern Sudan</b>	<b>3.6</b>	<b>1.4</b>
<b>Total</b>	<b>7.9</b>	<b>2.6</b>

9. Beyond the costs of the recovery and development programs identified under the JAM, the financial requirements of supporting the peace agreement will be substantial and include: costs of mounting a large UN peacekeeping force; continued humanitarian relief (especially in Darfur); the costs of recovery and reconstruction in Darfur; fully fledged Disarmament, Demobilization, and Reintegration (DDR) programs, and last but not least, funds for arrears clearance and debt relief.

#### **B. OSLO DONORS CONFERENCE**

10. A Donors' Pledging Conference is planned for April 11-12, 2005 in Oslo, Norway. The JAM overview document, "Framework for Sustained Peace, Development and Poverty Eradication", will be presented along with separate cluster reports as a basis for pledging donor support.

11. In order to enable effective coordination and harmonization (see also Section III), to preserve scarce capacity, and to enable key programs to be launched, the GoS and the SPLM have thus requested donors to provide support through pooled trust funds. More specifically, the Wealth Sharing Protocol underlying the CPA specified that there would be two Multi-Donor Trust Funds (MDTFs) into which donors can pledge—one for the new NG for war-affected areas in the North and the Three Areas, and one for South Sudan. After considering different options, the World Bank was requested by the GoS and the SPLM to be the Administrator of both MDTFs.<sup>2</sup> A variety of implementing entities for MDTF-financed activities are envisaged: government entities (including local government); UN agencies; NGOs; and the private sector. During the life of the MDTFs, donors will be regularly informed about allocations by type of implementing entity.

12. Although the size of the Trust Funds has not yet been determined, pending the Oslo Donors Conference, several key donors have already indicated their intention of contributing to the Trust Funds. The MDTFs will complement other pledging options available to donors wishing to contribute to the reconstruction of Sudan, which include direct funding to the NG or GoSS, UN agencies, and NGOs, as well as separate, bilateral projects.

13. The remainder of this paper lays out the coverage, objectives and principles, governance structure and operations of the proposed trust funds, together with the respective roles of the various stakeholders, including the proposed role of the World Bank as Administrator for the two Funds. The paper is written in generic terms and will be specifically adapted for the NG and GoSS and reflected in the respective Administration Agreements (to be signed between the Bank and the respective donors) once Executive Directors have approved the proposed role for the Bank as Administrator.

## **II. THE SUDAN MULTI DONOR TRUST FUNDS**

### **A. COVERAGE AND DURATION**

14. In order to ensure ownership, MDTF expenditures would be initially structured to reflect the eight cluster groupings of the JAM. These eight clusters include:

- institutional development and capacity building
- rule of law and governance
- economic policy and management
- productive sectors (i.e. rural and private sector development)
- basic social services (health, education, water and sanitation)
- infrastructure
- livelihoods and social protection
- information/statistics

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<sup>2</sup> Wealth Sharing Protocol, January 2004, Clause 15.5; Implementation Modalities of the Wealth Sharing Agreement, January 7, 2005.

In addition, the JAM also focussed on several cross-cutting themes which have been integrated throughout the JAM-proposed programs and include: HIV/AIDS, gender, conflict prevention, and the environment.

15. Thereafter, as part of the respective government's budget process, the MDTF program would be reviewed and updated as needed, ideally based on a future PRSP. To the extent possible, the development of sector wide programs, and geographic area-based interventions (rather than smaller projects) would be encouraged. It is expected that the MDTF would often co-finance activities with the NG and GOSS and with non-MDTF donors.

16. The MDTF can be used to pay for priority activities identified in the "Framework for Sustained Peace, Reconstruction and Poverty Eradication" and/or subsequent reconstruction and development activities contained in government budgets to which contributing donors agree. Special procedures applying to expenditures for activities outside the World Bank's mandate, such as law enforcement (e.g. police and prisons) would be adopted to allow the MDTF to finance agreed security-related expenditures (e.g. office rehabilitation costs and equipment purchase for police forces and judges entrusted with law enforcement); an organization competent in these areas would be designated to oversee these expenditures. In Southern Sudan, given capacity limitations and the need to establish GoSS administrative structures, the proposed MDTF may in the initial period finance GoSS recurrent costs in addition to investment and other reconstruction costs. The MDTF would not, however, finance humanitarian relief or peace-keepers.

17. **Duration of the Sudan MDTFs.** Unless otherwise agreed by the NG, GoSS, donors and the Bank, the MDTF arrangement is expected to be operational through the six years of the Interim Period, and cease operating thereafter. The MDTFs would become effective on the receipt of the first contribution. Substantial upfront contributions would enable it to start disbursing funds, and should be followed by regular continuing contributions to ensure the smooth functioning and effective role of the MDTFs. Over this period, it is expected that: (i) an increasing share of Sudan's development needs would be met through domestic resources; and (ii) there would be a gradual transfer of execution functions to line ministries as capacity is developed. The governance and implementation of the MDTF are structured so as to support these longer term objectives.

18. **Existing trust fund modalities** provided for in the Pre-Interim Period, namely the Joint Transition Fund (JTF) and the Capacity Building Trust Fund (CBTF), will not be terminated until such time as their resources have been fully expended or the new MDTF structures become operational, whichever date comes first.

## **B. OPERATING PRINCIPLES**

19. In terms of financing arrangements, a key objective of establishing a pooled donor fund is to simplify flows of external financing and facilitate aid management. The

international experience on public expenditure management and international assistance points strongly to the desirability of a pooled funding mechanism, with the maximum flexibility required by the fluid circumstances of post-conflict situations and the need for coherence with national budgets. All funding flowing through the MDTF would be ‘on-budget’, included in the NG or GoSS budget, and all flows of funds would be reported to the Central Bank of Sudan.

20. In addition to meeting the above objectives, there are seven key principles that guided the design of the Sudan MDTFs: (i) recognition of the **ownership** and leadership of the NG/GoSS in the context of a comprehensive reconstruction and development framework; (ii) with full **transparency** and openness in the process; (iii) **mutual accountability** between the NG/GoSS and the donors, as well as trust between the NG and GoSS; (iv) a recognition of the need to build the **capacity** of the NG/GoSS while recognizing the delivery of immediate transition needs through UN agencies, civil society organizations and the private sector; (v) effective **donor coordination** within the context of broader aid management structures in order to reduce transaction/duplication costs; provide consistent policy advice; provide common fora for dialogue; (vi) support the **peace process** (i.e. through economic and social programs that are complementary to other efforts which together are critical to consolidating the peace throughout Sudan and address the root causes of Sudan’s conflicts); and (vii) solid **financial management** and accountability standards that provide an example and a benchmark for the healthy development of local governance structures.

### C. GOVERNANCE STRUCTURE

21. Based on the above principles, a three-tier governance structure is proposed for the MDTFs. The World Bank would be the Administrator of the MDTFs managing a **Technical Secretariat** (TS) which would receive and review proposals and make recommendations to the Oversight Committee regarding allocation of resources. An **Oversight Committee** (OC) would exercise the programmatic and allocational responsibility for MDTF operations. Finally, a **Sudan Consortium** (SC) would meet once or twice a year during which past performance as well as future priorities and funding needs would be discussed. The Consortium would comprise *all* donors, the NG/GoSS and representatives of civil society and the private sector. The **proposed governance arrangements** are depicted in Figure 1 and described below.

22. The **Technical Secretariat** of each MDTF, under the administration of the World Bank, would be appropriately staffed and located in Khartoum for the North, and in Nairobi and Rumbek for the South. It would work jointly with the respective government to receive and review proposals to ensure consistency with the Framework and undertake technical appraisals. In order to further capacity building objectives, up to two secondees from the respective governments would join the Secretariat. UN staff could also be seconded to the TS, and inter-alia coordinate the appraisal of programs/projects that are implemented by UN agencies, under the direction of the Administrator. Donors will be encouraged to participate in appraising projects/programs in their areas of preferences. The Technical Secretariat will report and present regular assessments against agreed benchmarks to the Oversight Committee.

23. As **Administrator**, the World Bank carries the sole fiduciary responsibility. All programs and projects that are proposed would be subject to technical appraisal and review. Criteria for the approval of programs and projects will be elaborated by the Oversight Committee and would include: conformity with the Framework (as updated over time); costs versus benefits; capacity building of national and local entities; and feasibility based on demonstrated capacity of the implementing agency.

24. The **Oversight Committee** will comprise representatives of the World Bank, the UN, the respective government (with the other government sitting as observer), the two largest contributing donors, a rotating representative of other donors, and possibly, the main IFIs. The OC would elect its chair. It would exercise jointly the programmatic and allocational responsibility for MDTF operations.<sup>3</sup> The Oversight Committee would have the authority to approve proposals for funding out of the MDTF, but will delegate approval authority to the Technical Secretariat for proposals below a certain financial ceiling. In addition, the OC would provide guidance on all other matters that affect the efficiency, effectiveness, and economic and financial sustainability of the MDTF. The Committee would meet on a regular basis (e.g. monthly or quarterly) and decisions would be taken by consensus. The responsibility of the Oversight Committee would, *inter alia*, include to: (i) approve proposals for funding; (ii) set/revise general guidelines for MDTF operations (e.g. criteria for allocation of funds); (iii) decide on a ceiling beneath which allocation responsibility may be delegated to the Technical Secretariat; (iv) review decisions in cases where allocation has been delegated to the Technical Secretariat; (v) review results on the ground and discuss major issues emanating from MDTF operations; (vi) 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.

25. **Sudan Consortium.** As noted above, the MDTF would be embedded in a Sudan Consortium that would bring together on a regular basis (e.g. twice a year) *all* donors, joined by the NG/GoSS, and representatives of civil society and private sector,<sup>4</sup> at which past performance, as well as future priorities and directions would be discussed.<sup>5</sup> This would help provide transparency and coordination regarding the use of all national and international resources (oil revenues, taxation, and international aid). The Sudan Consortium will be a forum for consultations focussing on social and economic development, as well as for renewing of donor pledges. A key role of the Consortium

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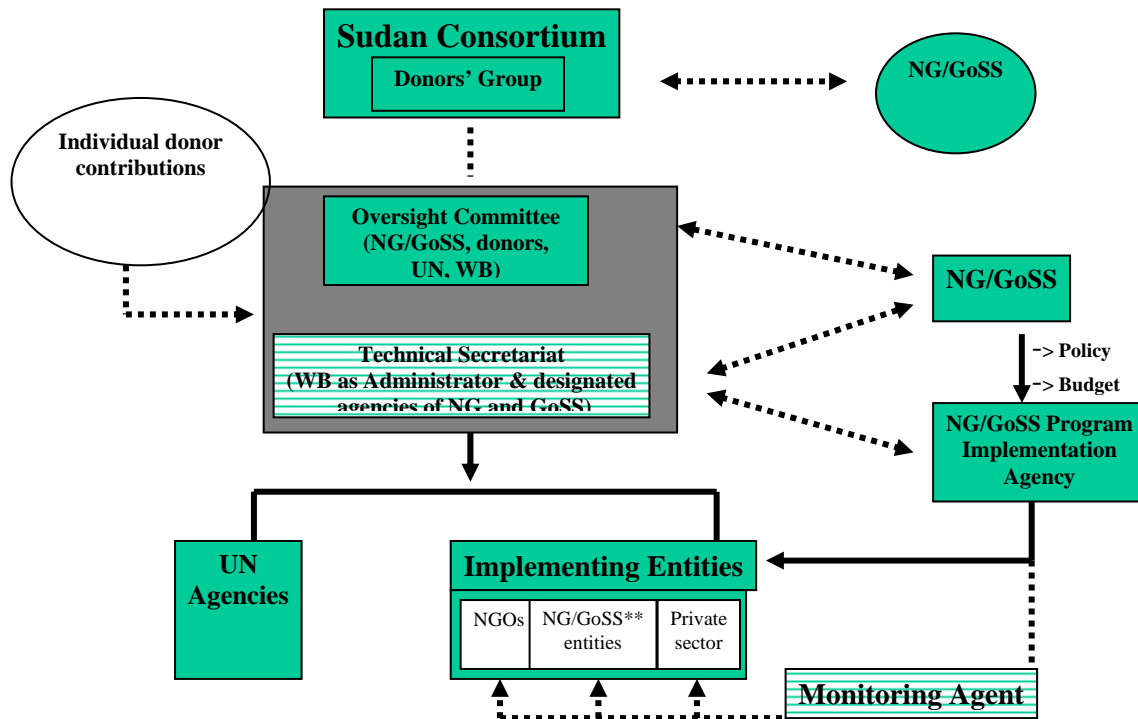
<sup>3</sup> While the Bank has administrative and fiduciary responsibility, the proposed governance structure laid out above includes an effective mechanism for programmatic guidance and oversight, which can and should be exercised in appropriate joint fashion. In particular, in the Oversight Committee, no particular partner will dominate the others. Indeed, a robust donor consensus is critical to the effectiveness of international assistance in general, and close partnership between the World Bank, UN and principal donors is therefore necessary.

<sup>4</sup> The criteria for the selection of civil society representatives (including local CSOs) will be worked out between the Government and donors.

<sup>5</sup> The reporting of expenditures under the MDTF would be classified along the same lines as for the JAM/Framework, as well as along the functional classifications of the NG/GOSS budget in order to assure consistency with the domestic budget(s).

would be to jointly, with the respective Government, assess progress against explicit benchmarks, in particular those being developed in the “Framework for Sustained Peace, Development, and Poverty Eradication” through the JAM. Given that successful implementation of MDTF-financed activities depends on a stable environment, progress on security and meeting the commitments in the CPA as presented to other appropriate bodies (in particular the Assessment and Evaluation Commission) would form part of the background information for Consortium meetings.

**Figure 1: Illustrative Structure of an MDTF for NG/GoSS**



\* This chart relates only to the governance outline of the MDTF. A suitable advisory body to the NG/GoSS, as well as the broader links to the government program and budget, are assumed but not included in this chart.

\*\* Including line ministries and local governments

26. **Involvement of MDTF Donors.** Donors contributing to the MDTFs would be represented on the Oversight Committee as noted above and participate in the Sudan Consortium. In addition, as specified in the Implementation Modalities of the Framework on Wealth Sharing (January 7, 2005), an MDTF Donors Group would be constituted. It would meet separately in advance of the Consortium meetings to solicit contributing donors’ views.

27. **Role of Sudanese Authorities.** As mentioned above, the GoS/SPLM have played an integral role in the JAM and the development of the “Framework for Sustained Peace, Development and Poverty Reduction” and are committed to mechanisms that enable strong ownership. In terms of the MDTF, the NG and GoSS would be part of the OC, but it would also play a key role in submitting to the MDTFs those proposals that it

considers consistent with national priorities as reflected in the Framework and embodied in the budget. Only proposals endorsed in this manner by the NG/GoSS, in consultation with the Technical Secretariat, would be eligible for MDTF funding. The NG/GoSS would also propose implementing agencies for the different projects/programs it submits to the MDTFs. Contract arrangements with implementing entities would be undertaken by the Administrator in consultation with the NG/GoSS. Finally, in terms of MDTF implementation (para. 28), it is expected that activities should be implemented as much as possible by the Sudanese, with the aim to help strengthen or develop over time sustainable local and civil society capacities, effective and accountable government structures, and a strong and transparent budget management framework.

#### **D. PROGRAM IMPLEMENTATION MODALITIES**

28. After submission to and approval by the Oversight Committee, successful proposals would result in a Grant Agreement between the implementing entity and the World Bank, co-signed by the NG/GOSS. Recognizing both government capacity constraints and the need to ensure that the immediate transition needs of Sudan are met, eligible *implementing entities*, in addition to government, would include: NGOs, UN agencies, and other entities that have a legal personality, civil society organizations, and the private sector. Consistent with emerging structures of decentralized governance and the locus of service delivery responsibilities, local levels of government should be able to access financing as implementing entities. Where appropriate, implementation arrangements could involve local governments being twinned with NGOs to help build capacity while meeting immediate needs. Implementing entities would be responsible for implementing activities in accordance with procedures acceptable to the Bank and detailed in a Project Implementation Manual (PIM)<sup>6</sup>.

##### **i. Role of the United Nations in MDTF Implementation**

29. Recognizing the special role of UN agencies and programs in Sudan's recovery efforts, staff have concluded that there are strong arguments for allowing those agencies and programs to use their own procurement and fiduciary policies. Under a Financial Management framework agreement being negotiated between the Bank and the UN-wide system, it is proposed that UN financial regulations and rules would apply to those activities under the MDTF for which they will be responsible for implementing.

##### **ii. National Institutions and Capacity**

30. In anticipation of the aid flows and the work volumes, the ongoing capacity building trust funds being channeled through UNICEF in the south, and UNDP in the North, as well as the recently approved Bank LICUS trust fund, would help to build the basic capacity for management of public funds, including MDTF implementation and aid management more generally. Given the existing limited capacity of line agencies and other regular public organs, especially in the South, it is expected that the NG/GoSS will each establish, on a transitional basis, modalities for interfacing with the MDTF as outlined in Box 1. In view of the documented negative impact of donor-funded program

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<sup>6</sup> UN agencies/programs would apply their own procedures.

implementation units on national capacity development and intra-governmental cohesion, extreme care would be exercised to ensure that any unit set up to implement MDTF-financed projects offered a model that could be replicated with national funds, with a clear exit strategy and timeline for establishing a functioning national system for the management of public resources.

Box 1: Implementing the JAM Program through the MDTFs

**GoSS.** A *Program Implementation Agency (PIA)* would serve as the GoSS focal point for interaction with the MDTF on all matters of program implementation and performance. It would have no policy role, nor implement projects directly, but would work closely with the MDTF Technical Secretariat, oversee the implementation of the MDTF-financed program at the national level, cooperate with the MDTF in selecting implementing entities and monitoring their performance, and generally help create an enabling environment for efficient management of projects to be funded out of the MDTF. It is expected that the PIA would be formally part of the Ministry of Finance and Economic Planning (MoFEP).

The PIA would work closely with: (i) a “Policy Unit” to be established in the MoFEP, which would coordinate and guide the policy making and decision process; (ii) a “Capacity Building Unit” in charge of developing an overall capacity building strategy and framework and to manage cross-cutting capacity building activities, including those associated with decentralization; and (iii) an “Aid Facilitation Unit” that would be established in the financial side of the MoFEP to regulate donor relations and facilitate donor contacts with GoSS agencies. With support from the MDTF Administrator, the PIA would also define the procedures that sectoral ministries and other technical agencies would follow to prepare and present proposals for consideration and financing under the MDTF.

**National Government.** Implementation of the program financed by the MDTF in the North would be coordinated and guided by a high-level inter-ministerial committee which would serve as the principal interlocutor(s) of the MDTF Technical Secretariat and the Oversight Committee. Given the Government’s limited experience with MDTF type administrative and fiduciary procedures, it has decided to initially concentrate implementation responsibilities of large projects with a Project Implementation Unit in the Ministry of Finance, which would temporarily pull skills from relevant ministries on a secondment basis. The NG is considering developing a mechanism to finance community development using local authorities and communities as the main implementing units, and seeking financing from the MDTF for community projects on a priority basis.

In both the GoSS and the NG, the envisaged new implementation structures would be strictly transitional entities, with sunset provisions – as their goals are to address the immediate program implementation needs while helping to build implementation and management capacity within regular government agencies. They would be dissolved at a predetermined future time, and their functions absorbed by the regular ministries.

### III. DONOR COORDINATION

31. The expected inflows of aid pose major management challenges for the NG and GoSS as well as multilateral and development partners. This has several dimensions: at the domestic level, to deliver on the ground on the JAM commitments, and to deal effectively with partners; and for the donors, to ensure that funds are spent in ways that support peace and development, in addition to ensuring coordination among donors.

Given current low levels of official development assistance, however, Sudan is in an opportune position to draw on lessons and best practices in aid management and donor coordination. Those lessons revolve around providing assistance to country-owned strategies through predictable and harmonized means. Managing for results and ensuring donors and recipients have mutual accountability for achieving those results are also strongly endorsed principles.

32. In the case of Sudan, building on the positive experience of the JAM, there is commitment on the part of partners to re-engage in Sudan in ways that are well-coordinated and which minimize fragmentation and unnecessary transaction costs. Donor coordination will be based on principles of country ownership (i.e. the Framework), alongside transparent and accountable mechanisms for aid management and information sharing. The Sudan Consortium (para. 25) and the proposed results monitoring mechanism (paras. 35-37) support the principle of mutual accountability.

33. In addition to the Sudan Consortium at the apex of donor coordination, steps are underway to formalize additional donor coordination mechanisms. These include joint offices, and more regular donor coordination fora (e.g. local Development Assistance Groups and thematic groups at sector levels). Discussion is also underway to designate lead donors working with JAM clusters which would help to ensure an effective division of labor in sectors and/or geographic areas. Joint analytical and sector work is also being explored.

34. Last, but not least, the MDTFs themselves should be seen as an instrument to make aid more effective by reducing transaction/duplication costs not only for activities directly financed by the pooled funds, but also by cofinancing activities of other non-MDTF donors.

#### IV. MONITORING AND EVALUATION

35. Monitoring of the JAM Framework and policy implementation is being designed to ensure efficient use of resources and to cultivate a results-based culture of accountability. The Monitoring Framework is a process-oriented instrument aimed at improving decision-making. It can also promote dialogue within Sudan, between Sudan and donors, and among donors.

36. In designing the Monitoring Framework, several core principles were followed: simplicity; selectivity; national ownership; and sufficient donor buy-in. Several levels of monitoring are envisaged. At the **cluster level**, each team developed matrices which include actions, indicators and responsible agencies to monitor progress over time. The indicators have also been selected to allow for disaggregation along gender, geographical regions, and disadvantaged groups. To complement the cluster matrices, an overall **Summary Monitoring Framework** has also been developed and agreed upon by the GoS and SPLM. The main criterion for identifying the priority actions for the Summary Monitoring Framework (contained in the Attachment) was to flag the crucial areas, including security and donor support, where lack of progress would risk reversal in the

recovery process. In Sudan's case, minimum actions to maintain the peace momentum would be to: meet the obligations of the CPA; show visible progress on national reconciliation and DDR; re-establish security and public safety; achieve a minimal level of functioning public finance systems and improvements in basic service delivery, along with economic recovery, and initiate efforts to make decentralization work, with larger shares of the budget flowing to the regions. The monitoring framework and processes agreed upon with the GoS and SPLM seeks to ensure coordination among the various entities undertaking monitoring and evaluation functions (including for example the Assessment and Evaluation Committee).<sup>7</sup> Finally, individual **program/project** level indicators will be agreed upon and reflected in individual Grant Agreements.

37. Under the aid management arrangements envisaged for Sudan, donors and the NG/GoSS would discuss progress against the agreed targets twice annually during the Sudan Consortium, and revise those targets where appropriate. It is recognized by the governments that, while all concerned will understand if some specific actions lag, failure to make progress across the program as a whole will risk future financial support. Over time, the "Framework for Sustained Peace, Development and Poverty Eradication" is expected to become a central part of the Poverty Eradication Strategy. The Monitoring Framework has thus been designed to operate as a basic national development framework – a post-conflict application of Poverty Reduction Strategy (PRSP) principles - helping to prioritize and harmonize assistance in ways that support peace and development.

## V. MODALITIES OF ADMINISTRATION

### A. DONOR CONTRIBUTIONS

38. As a multi-donor trust fund, the MDTF would commingle all donors' contributions into a common pool. The administration of the funds would be in accordance with World Bank trust fund procedures.

39. Because earmarked contributions complicate the budgeting process and reduce country ownership for their development plans, contributions earmarked for specific components, activity, or program will not be accepted. However, donors can designate their preference that their contribution be matched against a broad category of expenditure (e.g. JAM clusters). Such preferences will be recorded by the World Bank.<sup>8</sup> However, the Bank cannot guarantee that the total spending with respect to the said category will match or exceed the level of the contribution in connection with which a preference will have been stated. The Bank as Administrator would report the amount of spending from the broad sectors concerned to the Oversight Committee and to the Sudan Consortium.

40. Contributions to the MDTF will be held in trust by the Bank and, pending disbursement, invested in accordance with the Bank's practices on investment of Bank-

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<sup>7</sup> For further details see the Framework, Volumes I-III at: [www.unsudanig.org/jam](http://www.unsudanig.org/jam), password: oslo.

<sup>8</sup> As a transitional measure, it will also be possible to explore, on a case by case basis, the "adoption" by the MDTF of projects and programs that are already being appraised by particular donors, in case of interest by both the donor and the Government.

administered funds. Income earned on those funds will be credited to the parent account of the MDTF, thus increasing its commitment authority. As and when the MDTF is closed, any undisbursed balance will be returned to donors, in proportion to their aggregate contribution to the MDTF.

## **B. ROLE OF THE ADMINISTRATOR**

41. As MDTF Administrator, the World Bank holds fiduciary responsibility for donor resources, a responsibility that cannot be exercised jointly, and that requires procedures and safeguards to ensure that the resources are not misappropriated, misallocated or misused. The terms and conditions on which the World Bank would act as administrator of the MDTF will be contained in MDTF Administration Agreements to be entered into between the World Bank and each of the relevant donors in due course.

42. The Bank will be responsible for establishing and maintaining appropriate records and accounts to identify contributions, the commitments to be financed out of the contributions, and the receipt and disbursement of funds. The Bank will carry out this responsibility through Technical Secretariats located in Khartoum and initially Nairobi, with support from Washington.

43. As Administrator, the Bank will have the authority to deny MDTF funding to any activity where doubts arise as to whether the funds concerned will be effectively utilized for the agreed purpose. The Administrator will regularly monitor the utilization of funds and supervise the work of the Monitoring Agent, a specialized international firm that will assist the Bank in discharging its fiduciary responsibility.

## **C. MONITORING AGENT**

44. The Monitoring Agent will have responsibility for recommending withdrawal applications, monitoring the procurement of goods, works and services, and monitor 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. The Agent will also provide technical assistance to the NG/GoSS to help build its own capacity in the procurement and financial management areas.

45. The Monitoring Agent will report to the Bank and be responsible for: (i) pre-screening and supporting the Bank in monitoring the procurement of goods, works and services ; (ii) pre-screening and recommending withdrawal applications for the Bank's approval and payment and ensuring that reimbursements claimed are consistent with the Grant Agreement and eligibility criteria; (iii) supporting the Bank in monitoring all expenditures financed from the MDTFs and ensuring that funds are disbursed for the purposes provided; (iv) pre-screening the financial management capacity of potential grant recipients; and (v) monitoring the progress of the grant recipients in achieving fiduciary benchmarks. The Monitoring Agent's role vis-à-vis the United Nations agencies/programs will be separately specified and be in accordance with the framework agreement being negotiated between the Bank and the UN.

46. The Monitoring Agent will be selected and retained by the Bank on the basis of terms of reference acceptable to the Bank/MDTF Administrator. The selection and recruitment of the Monitoring Agent by the Bank, and the procurement of goods and services to be used by the Monitoring Agent in the performance of its obligations, will take place in accordance with the Bank's applicable policies.

47. The Bank will have the authority to change the terms of reference of the Monitoring Agent and, where justified, to replace the Monitoring Agent with another firm or agency. The contract of the Monitoring Agent will also provide for scaling down or phasing out services as and when conditions in Sudan allow. The Bank will inform the Oversight Committee and the donors of changes in the terms of reference of the work of the Monitoring Agent. Upon completion of the activities financed under the MDTF, an independent review of the performance of the Monitoring Agent will be conducted and report of its findings provided to donors.

48. Funds from the MDTF will be used by the Bank to: (i) pay the reasonable fees, travel, and other reimbursable costs of the Monitoring Agent; and (ii) pay the cost of goods, services and other items of expenditure to carry out the terms of reference.

#### **D. SUPERVISION**

49. The Bank, as Administrator, will supervise the MDTF operations in accordance with the Bank's applicable policies and procedures. Program Implementation Manuals (PIMs) for individual programs and projects would include results-based plans for supervision.

#### **E. TERMS AND CONDITIONS OF MDTF GRANTS**

50. Activities financed from the MDTFs would be carried out in accordance with Operations Policy 8.50 and other applicable Bank policies. Terms and conditions pursuant to which funds will be made available to the recipient entities that will be set out in Grant Agreements will include, without limitation, requirements related to procurement, environmental and social safeguards, financial management, reporting and monitoring.

51. **Procurement.** In the interest of expeditious assistance, procurement provisions will be as flexible as possible with due consideration for economy and efficiency while maintaining safeguard measures to ensure that funds are used only for the purposes specified in the respective Grant Agreements. Except for funds allocated to UN-led activities, the procurement of goods, works and services will be made in accordance with the "Guidelines for Procurement under IBRD Loans and IDA Credits" and "Guidelines for the Selection and Employment of Consultants by World Bank Borrowers," as may be amended from time to time. UN agencies/programs will follow their own procurement rules and procedures.

52. **Disbursements.** Disbursements for activities to be financed from the MDTF will be made in accordance with the appropriate policies and procedures. Disbursements

related to recipient-executed MDTF grants will be made using the most appropriate Bank mechanisms, taking into consideration the nature of the projects and the related risks. Such disbursement mechanisms may include making direct payments to suppliers or contractors, providing Special Commitments to support letters of credit, reimbursement of expenditures made from the recipient's own funds, or by making Special Account advances to enable expenditures to be paid by recipients. In accordance with Bank procedures, the recipient will need to provide documentation to support the expenditures. With the exception of activities executed by UN agencies, the Monitoring Agent would also pre-screen all withdrawal applications before sending them to the Bank.

53. **Financial Management.** As required under regular Bank lending operations, a Grant Agreement with a recipient will require the recipient to maintain an adequate financial management system; prepare financial statements in accordance with acceptable accounting standards; and have the financial statements audited in accordance with acceptable standards and by an independent auditor acceptable to the MDTF Administrator. Under the Financial Management framework agreement currently being negotiated between the World Bank and the UN, it is proposed that UN agencies/programs would be responsible for financial management of MDTF resources in accordance with UN financial regulations and rules.

## **F. REPORTING**

54. The Bank will maintain separate records and ledger accounts in respect of funds deposited by the donors with the Bank under the MDTFs. Within ninety days of each March 31, June 30, September 30, and December 31, the Bank will prepare on a cash basis, an unaudited statement of receipts, disbursements, and fund balance with respect to each MDTF and forward a copy to each MDTF donor.

55. The Bank will furnish the MDTF donors:

- (a) on a semi-annual basis, a consolidated report describing the operations of the MDTF (including contributions, disbursements, and implementation progress) in the preceding six months; and,
- (b) every two years, a management assertion, together with an attestation from the Bank's external auditors, concerning the adequacy of internal control over cash-based financial reporting for the trust funds as a whole.

56. The Bank will cause a financial statement audit of the MDTFs to be performed by the Bank's external auditors every two years. The costs of such an audit, including the internal costs of the Bank with respect to such an audit, will be charged to the Trust Fund.

57. Within six months of the completion of the activities, or of full disbursement of the contributions, whichever comes first, the Bank will provide a final progress report to each donor, together with a copy of the independent review of the performance of the Monitoring Agent. Upon request by any donor, the Bank will send to such donor the draft and final reports received by the Bank from the Monitoring Agent on the activities financed by the contributions to the MDTFs.

## **G. BANK'S COST RECOVERY**

58. The World Bank as Administrator will strive for maximum efficiency and effectiveness in administering the funds while promoting sound financial management and accountability. To ensure that all required fiduciary and administrative responsibilities are adequately funded, the World Bank will seek reimbursement from the MDTFs of the following charges:

- i. costs of the World Bank's Monitoring Agency, which vary depending on the eventual size of the trust fund; and the final independent review of the Agent;
- ii. administrative costs of the implementing entities (if other than NG/GoSS);
- iii. cost of an independent auditor of the Fund's financial statements; and,
- iv. costs borne by the World Bank as the MDTF Administrator (e.g. running costs associated with the MDTF Technical Secretariats, Oversight Committee, Sudan Consortium, as well as costs pertaining to the appraisal/supervision of MDTF programs).

59. Depending on the size and nature of the MDTF, these fees can either be based on a fixed percentage and/or actual costs. It is proposed that, given the expected size of the Funds (i.e. in excess of \$30 million), most of the charges would be on an actual cost basis, with the exception of a 0.4% administration fee to cover the portion of the Administration costs for the World Bank's central units (i.e. auditing, disbursements, legal and trust fund operations).

## **H. RETROACTIVE FINANCING**

60. Retroactive financing for programs and projects will be considered on a case-by-case basis where appropriate and warranted, with the normal criteria for retroactive financing used by the World Bank serving as a model. Decisions on whether to permit retroactive financing, and to what extent, will be made by the Oversight Committee at the time when the proposals are reviewed.

61. Retroactive expenditures for administration costs of establishing and operationalizing the Trust Funds and to undertake preliminary program appraisal for MDTF-financed activities will be allowable as from February 9, 2005.

## **VI. BENEFITS & RISKS**

### **A. BENEFITS**

62. The process underpinning the Sudan JAM, and hence the MDTFs, has in many ways been unique relative to typical post-conflict assessments. It was coordinated by the

World Bank and the United Nations with strong ownership by the GoS and the SPLM, and received substantial input from Sudanese civil society and international development partners. Running for nearly a year, in parallel to the peace process, the JAM lasted much longer than a typical rapid field assessment, and had a strong focus on policy dialogue and capacity building. Because of this, the MDTF will have multiple benefits. MDTF-financed activities will support priority interventions in support of peace and poverty reduction identified and endorsed by the Sudanese authorities. In addition, the governance structure of the MDTFs will promote donor coordination and ensure the transparency of the use of trust funds. Last, but not least, the MDTFs will seek to strengthen the aid management capacity of the NG and the GoSS through pooling of funds, secondments to the Technical Secretariats and activities of the Monitoring Agents.

## **B. RISKS**

63. First and foremost, peace is fragile and consolidating peace throughout Sudan will be a challenge. The continuing crisis in the Darfur region, in particular, could undermine the Comprehensive Peace Agreement reached between the GoS and the SPLM. Experiences in other countries have also demonstrated the risks of underestimating the chance that conflict could resume. In response, continuous consultation and information sharing among different stakeholders will be essential in order to avoid potential disengagement of international partners. Moreover, appropriate international partners will need to vigorously support the current efforts to bring a just peace to the Darfur region. Finally, the JAM was prepared with a conflict analysis framework of Sudan in mind to ensure that proposed JAM activities do not in themselves trigger renewed conflict.

64. Second, the current situation in Sudan, like many post-conflict countries poses risks for operations. Through the auspices of the UN peace-keeping mission in Sudan, it will be crucial to establish and maintain security in order to implement projects and protect assets created by MDTF instruments. In return, visible peace dividends generated through MDTF programs (e.g. DDR and IDP programs), can help to ease security tensions.

65. A third risk relates to implementation delays and disbursement lags due to the weak (or non-existent) capacity. In the short term, it is expected that institutions with existing capacity and experience in Sudan, such as UN agencies, would execute emergency projects. To bolster their capacity rapidly, and while recognizing the drawbacks of program/project implementation units, both the NG and the GoSS intend to establish temporary PIA arrangements to deal with implementation weaknesses while line ministries are strengthened. Regular interaction with the Technical Secretariats and the Monitoring Agents will help ensure that recipient-executed activities are progressing.

66. A final set of risks revolves around fiduciary aspects of project implementation. The GoS has not been actively involved in Bank operational procedures since the mid-1990s and the soon-to-be formed GoSS has virtually no experience in dealing with Bank operations. As mentioned above, the LICUS Trust Fund grant and other capacity

building trust funds are aimed at strengthening aid management processes and practices. It is also expected that the NG and the GoSS would retain the services of procurement and financial management specialists in order to provide short-term technical assistance and build local capacity to undertake these activities.

## VII. RECOMMENDATION AND NEXT STEPS

67. This paper recommends that Executive Directors approve the proposed role for the World Bank as administrator of two multi donor trust funds for Sudan, as described in the previous paragraphs.

68. Upon approval by the Bank's Board of Executive Directors, the MDTFs would be formally established and the World Bank would then proceed to operationalise the Funds through:

- selecting and locating staff in the respective locations to administer the MDTFs;
- entering into *Administration Agreements* with each interested donor;
- establishing a master account for each MDTF, from which funds would be released in accordance with specific *Grant Agreements* to be negotiated between the Bank and individual recipients; and,
- selecting a specialized international firm to act as the MDTF Monitoring Agent for procurement monitoring, accounting and financial reporting for each MDTF.