

Operations Evaluation Department

African Development Bank Group

2013

Trust Fund Management at the African Development Bank **AN INDEPENDENT EVALUATION**



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Evaluation Team: Detlev Puetz, Chief Evaluator, OPEV; and Jeffrey Gutman, Consultant.



AFRICAN DEVELOPMENT BANK GROUP

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About OPEV

The mission of the Operations Evaluation Department is to enhance the development effectiveness of AfDB initiatives in its regional member countries through independent and instrumental evaluations and partnerships for sharing knowledge.

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ACCRONYMS & ABBREVIATIONS

ADF/ADB	African Development Fund/African Development Bank (Funding Windows)	OPEV	Operations Evaluation Department, AfDB
AfDB	African Development Bank	ORMU	Resources Mobilization Unit
AsDB	Asian Development Bank	ORRU	Partnerships and Cooperation Unit
AWF	African Water Facility	ORPC	Operational Resources and Policies Department, AfDB
BETF	Bank Executed Trust Fund	ORPF	Procurement and Fiduciary Services Department, AfDB
CBFF	Congo Basin Forestry Fund	ORPC	Operational Resources and Policies Department, AfDB
CFO	Chief Financial Office(r)	ORQR	Quality Assurance and Results Department, AfDB
CIF	Climate Investment Funds	OSAN	Agriculture and Agro-industry Department, AfDB
CODE	Committee on Operations and Development Effectiveness	OSVP	Complex Operations II, Sector Operations at the African Development Bank
COBS	Programming and Budget Department	OSUS	Gender, Climate & Sustainable Development Unit, AfDB
COO	Chief Operating Officer (1st Vice President)	PCR	Project Completion Report
CSO	Civil Society Organization	RETF	Recipient Executed Trust Fund
CSP	Country Strategy Paper	RMC	Regional Member Countries
DAM	Delegation of Authority Matrix	RWSSI	Rural Water Supply and Sanitation Initiative
DfID (UK)	Department for International Development (United Kingdom)	SAP	System of Applications and Products (Basis for Electronic Management at AfDB)
FAPA	Fund for African Private Sector Assistance	SEA	Strategic Environmental Assessment
FFCO	Financial Control Department	SMCC	Senior Management Coordinating Committee
FFMA	Financial Management Department	TCA	Technical Cooperation Agreement
FPF	(Trust) Fund Platforms	UA	Unit of Account
GECL	General Counsel & Legal Services Department	UNRA	Uganda National Roads Authority
GEF	Global Environmental Facility	VP	Vice-President
IADB	Inter-American Development Bank	WB	World Bank
IDA	International Development Association (World Bank)		
MDB	Multilateral Development Bank		
NEPAD	New Partnership for Africa's Development		
NGO	Non-Governmental Organization		
OIVP	Complex Operations III, Infrastructure, Private Sector & Regional Integration		

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EXECUTIVE SUMMARY

Purpose, Scope and Methodology of the Evaluation

During the past decade, the development community has seen an evolution in the establishment and use of trust funds as an additional technical and financial instrument for cooperation and support, complementing traditional lending and donor aid. Today, trust funds are an important source of financing for pre-investment studies, enhanced project cycle work, capacity building and analytical studies. After having been treated as a “side” or “non-core” activity by the Multilateral Development Banks (MDBs), there has been recognition of the need to ensure that such funds and their utilization are aligned with the specific strategic priorities of the MDBs and are integrated into the policies, processes and general operations and systems of the institutions.

The African Development Bank (AfDB), like its sister institutions, recognizing the potential benefits of trust funds and the need to develop a more formalized framework for the design and application of such funds, approved a framework as set forth in the 2006 Proposal for Technical Cooperation Fund Reform. Subsequent reviews have monitored progress on the reforms culminating in the 2011 Task Force Report to the SMCC, “Actions to Improve Strategic Alignment and Management of Trust Funds and Other Initiatives with External Partners” that recommended further reforms focusing on operational processes and procedures, monitoring and reporting, relationship management and institutional structure.

Despite the reforms being implemented since 2006, donors and recipients are voicing persistent concerns about an apparent lack of disbursements and slow processing times with potentially serious implications for future funding and reduced credibility of the Bank. OPEV conducted a quick-turnaround evaluation focusing on the issues related to the establishment and implementation of the 28 bilateral and thematic trust funds monitored and partly administered by ORRU, excluding global funds such as the Global Environmental Facility (GEF) or the Climate Investment Fund (CIF) in which AfDB is an executing agency but not a trustee. This evaluation does not address issues of development effectiveness or impact of the funds but rather the procedural effectiveness of their implementation. The Evaluation attempts: to set forth the scope and scale of the procedural issues; to distinguish at what stage in the process problems are most critical; and what the key factors are behind the problems and the implications for policy, process, organizational structure and human resource reforms.

The methodological approach was based on a combination of: data regarding trust fund transfers, approvals and disbursements; interviews with a range of trust fund managers and task managers; prior reviews of the portfolio and individual trust funds; and a comparator analysis with other relevant MDBs. In lieu of interviewing donor agencies, meetings were held with relevant members of the Board. No discussions were held with recipients or client countries.

Disbursements, Processing Times and Costs

Since the 2006 report, the scale and scope of the AfDB trust fund portfolio has changed substantially. In 2006, the portfolio mainly consisted of bilateral funds. Annual contributions to the funds were about UA40 million and disbursements about UA6.5 million. By 2011, annual contributions rose to about UA85 million and disbursements increased to UA40 million, 75% from thematic funds. The 2006 reforms were formulated in a different context from today and were primarily directed at bilateral trust fund issues. Thematic trust funds have raised a different set of challenges requiring rethinking by Management as indicated by the findings of this Evaluation.

Disbursements. Although the AfDB Trust Fund portfolio has grown rapidly, it still represents less than 1 percent of ADB/ADF lending levels and is well below the number of trust funds and disbursement levels of other MDBs. AfDB is the lowest with an equivalent of US\$61 million of disbursements compared with US\$3.2 billion for the World Bank (equivalent to over 10% of lending), US\$150 million for the AsDB and US\$100 million for the IADB (both equivalent to less than 1% of lending). Still, the reputational risks of trust funds to the AfDB are greater than their relative level of resources. A key criticism heard inside and outside the AfDB is that trust funds are not disbursing fast enough. However, this Evaluation finds that the perception of pervasive low disbursements is not justified and that the indicators for the overall portfolio appear reasonable in terms of the types of activities funded and the mode of execution compared with investment lending.

The negative perception seems to be a result of three factors: (i) a consistently overambitious set of expectations at the time of trust fund establishment; (ii) a number of high profile trust funds which have experienced problems specific to those funds; and (iii) a lack of data and a lack of clarity in the indicators measured and provided by ORRU. Despite this finding, the Evaluation has identified a number of critical issues that, if not addressed, will jeopardize the effectiveness and credibility of AfDB Trust Fund management and increase the reputational risks of the current and future funds.

Applying a calculation of the annual disbursement rates based on the approach used for ADB/ADF lending results in a disbursement rate for 2011 of 31% for thematic funds and 40% for bilateral funds. This compares with the ADB and ADF investment lending disbursement rates in the same year of 15% and 18% respectively. While one would expect trust funds with a primary focus on technical assistance to disburse faster than investment lending, the actual rate is reasonable. There are individual trust funds with slow disbursements for reasons specific to those funds. The Congo Basin Forestry Fund (CBFF) has faced challenges because of the execution through non-traditional partners, NGOs. The Rural Water Supply and Sanitation Initiative (RWSSI) was disbursing against capital investments for which lending type disbursement results could be expected. Without those two funds, the disbursement rate for thematic funds would rise to a very credible 45%. Similarly the bilateral fund indicators appear reasonable with an overall disbursement rate of 40% though there is a range of variation among individual funds.

Processing Times. The reforms of 2006 were directed at standardizing and simplifying processes related to the vetting of trust fund project proposals, mainly related to bilateral trust funds. A “bulk” approach to calling for and vetting proposed projects to be funded was established and target timelines were set. Unfortunately the timelines have not been monitored but interviews with staff and trust fund managers indicate that the process still faces problems.

A key effort was directed at gaining greater delegation of authority where donors delegate approval to the Bank for projects less than US\$100,000. This is a particular problem for bilateral funds. The lack of progress in this regard has resulted in delays and uncertainty by trust fund and task managers and a relatively high rejection rate in some cases. Staff also complain about the lack of information and advance warning about calls for proposals. There is a tendency to shop around and many get discouraged. Trust fund managers complain that many donors take more than the allotted three weeks to respond and delays on individual decisions can be extensive.

Since 2006, the growth of thematic funds has raised different processing issues. By their nature, multi-donor funds require more time to negotiate their establishment. More critical are the delays between approval and effectiveness and between effectiveness and first disbursements for trust funded projects which can double the implementation time of a project.

Costs. A serious information gap is the lack of cost data for the management of trust funds and project implementation. There are many

alternative trust fund models being used by the Bank with a range of management structures. Some have extensive staffing and related support while others are poorly resourced. This Evaluation has identified the need for greater resources to be devoted to trust fund management and implementation but a detailed cost analysis is essential. The analysis should focus on the cost of Bank staff and related consultants involved in establishing a fund, administering the fund and designing and implementing approved projects.

Key Issues

Setting Expectations. As discussed above the perceptions about disbursements can often be traced to the setting of expectations. The critical time to set expectations is at the time of the Fund’s establishment to avoid excessively ambitious targets. The process by which decisions are made to establish a fund comes into question based on some recent examples. It is crucial that implementation issues and related arrangements and the potential reputational risks be put on the table. The SMCC Task Force Report correctly focused on the decision-making at this stage in the process and it is hoped that the establishment of a Standing Committee on Partnerships will provide the opportunity to ask fundamental questions and take hard decisions on new funds.

Overlapping Trust Funds. As the portfolio grows, there is evidence of overlap in the types of activities funded. With the scale of funds being highly variable, many of the smaller funds do not have enough resources to ensure support to approved projects and recipients, lacking the necessary economies of scale. Many of the bilateral trust funds support activities that would

qualify under the South-South Partnership. The three water-related trust funds offer opportunities for greater synergies. The private sector oriented nature of the Fund for Africa Private Sector Assistance (FAPA), the Migration and Development Trust Fund and the Microfinance Capacity Building Trust Fund require similar expertise but are managed by different Vice Presidencies. Other MDBs have made efforts to provide a framework or platform by which related trust funds are strategically coordinated with the various funding sources while distinct governance arrangements are maintained for individual funding windows on the platform. Moreover, such arrangements can help provide economies of scale for support services to the trust funds on the platform.

Issues at Stage of Implementation. Clearly the greatest gap in terms of Bank trust fund policy, process and human and financial resources is implementation. While the reforms and subsequent reviews have focused on the establishment and activity vetting stages of trust funds, the issues of implementation have been largely ignored. Although disbursements appear reasonable, a range of serious concerns regarding trust funded activity execution are increasingly evident, especially with the thematic funds and a shift to more recipient-executed activities including non-traditional recipients. There are three key areas to be addressed: applicability of fiduciary policies; partnering with NGOs; and getting incentives right.

i. **Applicability of Fiduciary Policies.** Donors consistently claim that Bank procedures for financial management and procurement are too cumbersome and slow. Reviews of

individual trust funds have repeated this call for simplification and streamlining. The criticism is not limited to the AfDB but affects all MDBs whose policies and procedures are largely consistent. It is important to first recognize that donors place their funding with the Bank because of its fiduciary policies and it is unclear if they are willing to accept the heightened risks of allowing greater flexibility. But there is a question as to whether there is a need for policy reform or improvements in the application of policies. The CBFF and Zimbabwe Fund have applied innovative approaches to procurement and disbursement that would require policy reforms if they are to be extended. The lessons of those initiatives should inform Bank Board and Management on potential changes. But for the most part, the issue is more in the application of policies. Bank procurement policy, for example, offers options when standard practices are impractical. The challenge is whether the task manager has the capability and confidence to make such a judgment or has access to effective support to help in such a decision. With almost half of task managers having less than four years of experience in the Bank, the issue of mandatory training is critical, especially taking into account the recent changes to the Delegation of Authority Matrix (DAM). In addition, the ability to get required support from trained staff is uneven with some trust funds well-resourced to ensure such support but others lacking sufficient resources.

ii. **Partnering with NGOs.** One of the advantages of trust funds is their flexibility in

providing funds to NGOs and other parties who are not eligible for traditional lending by the Bank. However, this opportunity raises challenges in adapting Bank policies and practices to these non-traditional partners. While many trust funds have not experienced difficulties in working with NGOs, the challenges have been most evident with CBFF. The most recent effort to address concerns of donors and NGOs under CBFF detailed a number of financial management, disbursement and procurement difficulties. Most only required a clarification on how to handle issues but not a change to policy. However, the experience makes it clear that the Bank will have to provide more “on the ground” support to such NGOs with serious resource and time implications. The recent Framework for Enhanced Engagement with Civil Society Organizations and the related Action Plan offers an opportunity to address these issues but trust funds are not mentioned in the Framework.

- iii. **Getting Incentives Right.** Since trust funds represent a small percentage of financial support to clients by the AfDB compared with lending, task managers tend to consider them as a secondary priority. Getting the incentives right requires actions on three elements: (i) resources; (ii) positive feedback for good performance; and (iii) monitoring and response to lack of progress. ORRU has focused on the third element by targeting inactive activities and pursuing cancellation that has had success in cleaning-up the portfolio. But it is the first element, resources, that is the most crucial. Trust funded activities have

high transaction costs for a task manager; but there are no additional resources provided for managing such activities. Without a detailed assessment of the administrative costs of alternative trust fund models, the Bank is traveling blind on this crucial issue. Calls for incorporating related key performance indicators for task managers will not be easy given all the other measures and tasks the staff face. What should be emphasized, however, is that such indicators for task managers will not be effective if related indicators are not included for managers and even at Vice President Complex level. Without addressing incentives up the chain of command, the signals become obscure further down the line.

The Role of ORRU

ORRU’s future role and institutional placement is still undecided despite the recommendations of the SMCC Task Force. This Evaluation sees a clear need for a unit such as ORRU to oversee, monitor and report to Management on the bilateral and thematic trust funds, provide trust fund management support, assess policy gaps and interact with donors as well as manage bilateral trust funds. ORRU currently is not set up to fulfill such a role and has little credibility with thematic fund managers. Without clear authority ORRU is not able to effectively carry out its function. In addition, ORRU’s placement in an operational vice presidency represents a potential conflict of interest. At present, ORRU remains in an uncertain state. But it should be emphasized that the Sector Departments are principally responsible for actual trust fund implementation, especially for thematic funds.

Defining Appropriate Indicators

Despite ORRU's quarterly reporting and the setting of targets by the Bank, there is very little data compiled in a manner that is consistent and reliable. There is much confusion over the data that are available and there is a great lack of understanding of the meaning and applicability of the various measures reported. There is also limited cooperation by the thematic fund managers in providing information to ORRU. This Evaluation has set forth a number of indicators that should provide a basis for discussion between the various stakeholders to determine which are most critical to their needs. The joint effort to agree on such indicators and targets will be important for enhancing understanding and commitment on all sides.

Recommendations

Policy and institutional issues for enhancing synergies and strategic alignment of Trust Funds

Clarify the future role of trust funds in terms of scale and scope and focus on resolving issues highlighted by the evaluation. A new policy on trust funds could be useful to address the changing size and composition of the portfolio. But crafting a policy at this time would be premature and this Evaluation suggests waiting for about two years. Instead the AfDB should clarify the future role of trust funds in terms of scale and scope. Moreover it should focus on resolving the specific issues indicated in this Evaluation and on reviewing experience with the range of trust funds and the arrangements that are now being applied (such as in CBFF and the Zimbabwe Fund). In the interim, the Bank should be open to

a range of trust fund options. While preference could be given to thematic funds, this should not preclude the option of bilateral funds that provide important flexibility outside the chosen themes where important financing gaps are identified. Also, the Bank should be open to the option of a country trust fund (as per Zimbabwe) as a means of addressing funding and coordination on the ground in fragile states

Test the "platform" approach to related trust funds similar to those applied by the

AsDB and World Bank. Initial opportunities for piloting such an approach are: the water-related trust funds, the South-South Facility and related Bilateral funds; and/or FAPA, Migration and Microfinance Trust Funds. The pilot should be designed to achieve benefits in terms of overall strategic framework, coordination and potential economies of scale in providing support and management services while respecting, to the extent possible, the governance requirements of the various donors.

The ongoing review of CSO partnership experience should incorporate a review of trust fund experience with NGOs.

It should result into the preparation of specific guidelines for task managers in assessing NGO capability and in alternative fiduciary and disbursement procedures that should be discussed with regional and international NGOs. The review and guidelines provide an important opportunity for the Bank to engage with NGOs and raise the level of mutual trust and support.

The status and role of ORRU should be finalized. The Evaluation findings underscore the

critical role that ORRU should play but it requires a substantial change to its functions, even beyond the specifications of the SMCC Task Force, and a clear statement of support from Management. Once finalized, there will be a need to prepare a staffing strategy, including training for existing staff, and to estimate resource requirements. The finalization of the role of ORRU should then be consistent with its placement within the institution. The SMCC Task Force analysis is supported by this Evaluation. It is important to recognize the important resource mobilization relationship between ORRU and ORMU. Besides considering that the two units report to the COO, another option is for the two units to report to the CFO, as in some other MDBs.

Rationalizing processes, procedures, timelines and costs, and strengthening reporting

Ensure progress on delegation of authority in the approval of trust-funded projects, replace the setting of arbitrary thresholds and enhance annual reporting including on processing times under the various trust funds. Bank Management should set a policy that after the first one or two years of a fund (mainly pertaining to bilateral funds), there should be full delegation of authority to the Bank as both the Bank and the donor gain understanding and trust. This would replace the setting of arbitrary thresholds.

Clarify the implementation modality, management structure and resources required with a realistic timeline for disbursements. The newly instituted review process adopted by the SMCC should ensure that it is adequately taking into consideration implementation and

resource issues. In particular, proposals should be clear about the implementation modality, management structure and resources required with a realistic estimate of the timeline for disbursements. Specifically the implementation arrangements and resource requirements for the Migration and Development Fund and the Micro-Finance Facility should be reviewed.

The process should be monitored over the next year to ensure that it is meeting its objectives and adequately setting expectations.

A costing analysis should be conducted to inform Management of the Bank's costs incurred in the management and execution of trust funds and approved projects.

While implementation of the ATRS is in its early stages, the analysis could be conducted by taking different types of funds (bilateral vs. thematic; recipient vs. bank executed; investment vs. technical assistance) and selecting a sample for a detailed analysis. This analysis should inform Bank policy on trust fund fees.

Key Performance Indicators proposed in the Task Force report to the SMCC should be revised taking into consideration the analysis and indicators prepared in this Evaluation.

The Key Performance Indicators proposed in the Task Force report to the SMCC should be revised taking into consideration the analysis and indicators (Annex 5) prepared in this evaluation. A process of consultation should be followed with the Board, Management and staff to enhance understanding and commitment. The results should lead to a reformulation of ORRU's reporting to Management and the Board.

Revamp ORRU’s website to make it user-friendly and informative. This should include providing the necessary information on individual trust fund requirements and a calendar of upcoming calls for proposals.

Strengthening Operational Capacity

Develop an action plan to enhance the procurement capabilities and support to trust funds and related activities. The Action Plan should: incorporate a mandatory training program for task managers in consultant procurement:

preparation of clear and succinct guidance notes including examples; and an assessment of options for providing more support in a timely manner to trust fund managers and task managers through direct assignment of procurement staff to individual funds and/or placing capacity in ORRU. As part of this effort, an e-learning course should be prepared for management of trust fund projects. This should be mandatory for task managers of trust fund projects to successfully complete the course. The World Bank program could serve as an example and a useful starting point.

African Development Bank Management Response

Management welcomes OPEV's evaluation of the Trust Fund Management. The evaluation recognises progress made in managing trust funds and identifies areas where the Bank could use resources more effectively, efficiently and strategically. Management notes with interest that trust fund disbursement rates are found to be reasonable. It also readily acknowledges that certain aspects of trust fund management can be improved in particular through better institutional arrangements. In this connection, further consideration should be given to the Partnerships and Cooperation Unit's (ORRU) role and institutional placement within the Bank. ORRU needs to be in a better position to support, oversee, monitor and report to Management on the bilateral and thematic funds entrusted to the Bank.

In recent years, the scale and scope of trust funds has considerably expanded with disbursements increasing more than six fold, rising from UA 6.5 million in 2006 to almost UA 40 million in 2011. Increasingly, trust funds provide the Bank with additional technical and financial instruments that complement traditional lending. They provide grant financing to support analytical and knowledge work, capacity building and project preparation vital to the Bank's operations. Thematic funds, in particular, have grown fast, representing almost 75% of portfolio disbursements.

Recognising the benefits of trust funds and the need to develop a more formalised framework to guide their implementation, the Bank approved in 2006 a

Proposal for Technical Cooperation Fund Reform.¹ ("Trust Fund Policy"). The reform introduced a series of policies and processes to standardise and simplify the Bank's trust fund management system.

Recent reviews of the Trust Fund Policy have shown significant progress in implementing trust funds. These include, *inter alia*, the promotion of multi-donor thematic trust funds, the phasing out of tied trust funds, the introduction of a standard administrative fee and the establishment of minimum thresholds for new funds. However, a number of persistent challenges remain.

The most recent Management review of trust fund management was the 2012 FNVP Task Force Report to SMCC entitled: *Actions to Improve Strategic Alignment and Management of Trust Funds and Other Initiatives*. The report recommended further reforms focusing on operational processes and procedures, monitoring and reporting, relationship management and institutional structure. The report led to the establishment in June 2012 of a Standing Committee on Partnerships (SCP) designed to assess and review proposals relating to the establishment of new partnerships with external parties, including trust funds and special initiatives. One of its key objectives is to rationalise trust funds while securing better strategic relevance with the Bank's priorities, strategies and policies.²

1 ADB/BD/WP/2005/113/Rev.3

2 The SCP is comprised of: ORRU (Chair and Secretariat), ORMU (Alternate Chair), a representative designated by (ORVP) and senior staff from GECL, COBS, ORQR, STRG and FFCO.

Disbursements

Management notes with interest that trust fund disbursement rates are found to be reasonable and in line with other multilateral development banks. As the evaluation rightly points out, oft-raised concerns about the Bank's slow disbursements have created a reputational risk.³ The evaluation finds, however, that the Bank's disbursement performance is good considering the types of activities funded. That being said, Management also recognises that it needs to pay increased attention to individual trust funds with slow disbursement rates. It agrees with OPEV on the need to set and manage very carefully expectations with donors from the outset. The Standing Committee provides Management with a useful platform for addressing some of these issues and taking appropriate action.

Processing Times and Thresholds

Management agrees that long processing times and low approval thresholds are hampering trust fund management. Achieving greater delegation of authority for Board approval is one of the key recommendations made by the FNVP Task Force to decrease processing time.

The 2006 Trust Fund Policy was, in part, designed to simplify and standardise the policies and procedures of trust fund administration. The Policy set pre-approval thresholds for Bank commitment without prior approval from the respective donors—\$100,000 for single donor funds and \$500,000 for multi-donor funds. Implementation of these thresholds would contribute to a reduction of

processing time. In addition, further engagement will be required to encourage donor partners to remain within the prescribed standardised processes.

Costs and Fee Structure

Management readily acknowledges the need to better understand the costs for the Bank of administering trust funds. To defray the costs of administering the trust funds, the Bank currently charges a minimum 5% fee. More often than not, this flat fee does not cover the Bank's actual expenses in administering technical co-operation funds.

Management recognises the need to conduct a detailed cost analysis of trust funds. This should cover the cost of establishing a trust fund, administering the fund including designing and implementing approved projects. This will inform further reforms required to improve Trust Fund Management. To this end, Management has commissioned a study to define the framework that will guide the technical implementation of the Cost Accounting system (CAS) which includes Trust Funds. This system will depend, in part, on the effective implementation of the Activity Time Recording System (ATRS).

Furthermore, in order to charge donors fees that are commensurate with the costs incurred to the Bank, the FNVP Task Force report recommended establishing a new fee structure:

- A set-up cost—a one-time charge to cover the cost of establishing the trust fund: e.g. UA 20 000 for a single-donor trust fund and UA 35 000 for multi-donor trust funds.
- Annual administrative fees—this might amount to 5% of funds under management

³ The fact that Management was not in a position to dispel these misperception about low disbursements is in itself a noteworthy finding.

for trust fund with contributions with less than UA 10 million.

- Direct charges—for the specific costs that are directly chargeable to the fund or initiative: secretariat costs, consultants etc.

Synergies Between Trust Funds

Management agrees that, as the portfolio expands, the scope for unnecessary overlap between trust funds has increased, creating the risk for confusion and ineffective management. There is clearly a need to ensure greater rationalisation within the portfolio of trust funds. With the scale of funds being highly variable, many of the smaller funds do not have enough resources to ensure support for approved projects and recipients, lacking the necessary economies of scale. The newly instituted review process for the establishment of new initiatives adopted by the SMCC will help address these concerns.

Management recognises that OPEV's recommendation for applying a "platform" approach to related trust funds is, in principle, consistent with Bank's approach and could be part of a more structured approach to fund-raising. It shall be noted that a platform approach is being tested for water-related funds and possible new synergies are being explored. Nevertheless, the practical application of this approach needs to be evaluated, and a decision made as to whether such an approach would work better than existing thematic trust funds.

Institutional Arrangements

As a way of improving the Bank's engagement in Trust Funds and donor's relationships, OPEV

invites Management to reconsider current the organisational arrangements and organisational location of Partnerships and Cooperation Unit (ORRU).

At present, the Resource Mobilisation and Allocation Unit (ORMU) and the Partnerships and Cooperation Unit (ORRU) are the primary organisational units tasked with resource mobilisation in the Bank. Both Units report to the Vice President, Country & Regional Programs and Policy (ORVP). ORMU leads the Bank's resource mobilisation for ADF, including coordination of the three-yearly replenishment process. While ORRU leads the non-ADF resource mobilisation and partnerships management of the Bank, other units in the Bank also have staff partly or fully dedicated to resource mobilisation and partnerships activities.

Management agrees with the recommendation that the role of ORRU should be adjusted to focus on creating and disseminating the policies and business processes of the Trust Funds. ORRU has continued to develop and manage the Bank's partnerships and trust funds and serve as a liaison between external and internal clients on strategy, policy, program management and best practices, in close cooperation with ORMU. A new mandate will need to be defined to enable ORRU play a more strategic role.

Conclusion

Management will refer to the evaluation's recommendations to implement an action plan to manage trust funds in a more integrated and results-focused manner, that advances the Bank's broader strategic objectives and meets the needs of AfDB regional member countries.

MANAGEMENT ACTION RECORD

Recommendation

Management response

Policy and institutional issues for enhancing synergies and strategic alignment of Trust Funds

Recommendation 1: Clarify the future role of trust funds in terms of scale and scope

The Bank should clarify the future role of trust funds in terms of scale and scope and focus on resolving issues highlighted by the evaluation. Crafting a policy at this time would be premature and therefore the evaluation suggests waiting for about two years. Instead the AfDB should clarify the future role of trust funds in terms of scale and scope. In addition, the Bank should be open to a range of trust fund options. While preference could be given to thematic funds, this should not preclude the option of bilateral funds that provide important flexibility outside the chosen themes where important financing gaps are identified. Also, the Bank should be open to the option of a country trust fund (as per Zimbabwe) as a means of addressing funding and coordination on the ground in fragile states.

AGREED. Management agrees defer the development of a new Trust Fund Reform. Many of the reforms proposed in 2006 and the reviews that followed are still being implemented and are having an impact on the management of trust funds. Nonetheless, it is important that the Bank identifies priority areas and scope for future Trust Funds, to complement Bank's core operations in alignment with the 10-Year Strategy.

Actions:

- ORRU in collaboration with relevant departments will undertake a review of the Trust Fund Policy in 2015 that will clarify the future role of trust funds in terms of scale and scope.

Recommendation 2: The Bank needs to test the "platform" approach to related trust funds similar to those applied by sister institutions.

A pilot should be established to test the potential for applying a "platform" approach to related trust funds similar to those of the World Bank and the AsDB. Initial opportunities for such an approach are: the water-related trust funds, the South-South Facility and related Bilateral funds; and/or FAPA, Migration and Microfinance Trust Funds. The pilot should be designed to achieve benefits in terms of overall strategic framework, coordination and potential economies of scale in providing support and management services while respecting, to the extent possible, the governance requirements of the various donors.

AGREED IN PART. Management appreciates new and innovative ideas to test the structures and synergies between Trust Funds. The efficacy of the platform approach will be examined in terms of institutional arrangements, efficiency gains, human resource requirements and possible effects on individual trust funds.

Actions:

- ORRU in collaboration with relevant departments shall review existing structures and propose possible new synergies by Q4 2013.

Recommendation 3: The ongoing review of CSO partnership experience should incorporate a review of trust fund experience with NGOs.

This should result into the preparation of specific guidelines for task managers in assessing NGO capability and in alternative fiduciary and disbursement procedures that should be discussed with regional and international NGOs. The review and guidelines provide an important opportunity for the Bank to engage with NGOs and raise the level of mutual trust and support.

AGREED IN PART. Management agrees on the need to review the guidelines for engagement with CSOs.

Actions:

- ORQR in consultation with relevant departments shall develop specific guidelines for CSO participation including Trust Funds by Q2 2014. This will be incorporated into the Trust Fund Policy Review in 2015.

MANAGEMENT ACTION RECORD

Recommendation

Management response

Recommendation 4: The status and role of ORRU should be finalised.

The Evaluation findings underscore the critical role that ORRU should play but it requires a substantial change to its functions, even beyond the specifications of the SMCC Task Force, and a clear statement of support from Management. Once finalised, there will be a need to prepare a staffing strategy, including training for existing staff, and to estimate resource requirements. The finalisation of the role of ORRU should then be consistent with its placement within the institution.

AGREED. Management will review ORRU's mandate and agree on its location within the organisation, with a view to strengthening Trust Fund and Resource Mobilisation effectiveness. Management agrees with the recommendation that the role of ORRU should be adjusted to focus on policies and business processes of Trust Funds and management of partnerships.

Actions:

- Management will propose a new organisational structure for Trust Fund management for consideration by the Board.

Efficient Trust Fund Management: Rationalizing processes, procedures, timelines and costs, and strengthening reporting

Recommendation 5: Ensure progress on delegation of authority in the approval of trust-funded projects and enhance annual reporting including on processing times under the various trust funds.

Bank Management should set a policy that after the first one or two years of a fund (mainly pertaining to bilateral funds), there should be full delegation of authority to the Bank as both the Bank and the donor gain understanding and trust. This would replace the setting of arbitrary thresholds.

AGREED IN PART. Management agrees to start by increasing its approval authority for trust fund projects and may explore full delegation in the future. Currently pre-approval thresholds for Bank commitment without prior approval from the respective donors—\$100,000 for single donor funds and \$500,000 for multi-donor funds. Management will also work towards the enhancement of annual reporting.

Actions:

- ORRU shall present a proposal on the delegation of authority to Senior Management by Q4 2013 and upon its adoption negotiate the new arrangements with donors as necessary.

MANAGEMENT ACTION RECORD

Recommendation

Management response

Recommendation 6: Clarify the implementation modality, management structure and resources required with a realistic timeline for disbursements.

The newly instituted review process adopted by the SMCC should ensure that it is adequately taking into consideration implementation and resource issues. In particular, proposals should be clear about the implementation modality, management structure and resources required with a realistic estimate of the timeline for disbursements. Specifically the implementation arrangements and resource requirements for the Migration and Development Fund and the Micro-Finance Facility should be reviewed.

The process should be monitored over the next year to ensure that it is meeting its objectives and adequately setting expectations.

AGREED IN PART. Management will continue to review all new initiatives and request each VPU/department to clarify expectations, set realistic timelines and express clearly how decision making mechanisms are to be set when submitting new proposals. Departments and Units will ensure that consistency and conformity with Bank priorities, strategic relevance and complementarity with other initiatives can be demonstrated. The placement of Migration and Development Fund and the Micro-Finance Fund is deemed to be appropriate given that the objective of the two Trust Funds is fully in line with the core business of OSHD.

Actions:

- ORRU will continue to guide departments and screen new proposals prior to their submission to SCP.
- ORRU will review with OSHD the performance of these funds and propose actions for their possible improvement.

Recommendation 7: A costing analysis should be conducted to inform Management of the Bank's costs incurred in the management and execution of trust funds and approved projects.

A costing analysis should be conducted which will help inform Management of the Bank's costs incurred in the management and execution of trust funds and approved projects. While implementation of the ATRS is in its early stages, the analysis could be conducted by taking different types of funds (bilateral vs. thematic; recipient vs. bank executed; investment vs. technical assistance) and selecting a sample for a detailed analysis. This analysis should inform Bank policy on trust fund fees.

AGREED. Management agrees on the need for a costing analysis. This analysis shall inform Bank policy on trust fund fees.

Actions:

- COBS in collaboration with ORRU and FFCO are reviewing the Cost Accounting System.

Recommendation 8: Key Performance Indicators proposed in the Task Force report to the SMCC should be revised taking into consideration the analysis and indicators prepared in this Evaluation.

The Key Performance Indicators proposed in the Task Force report to the SMCC should be revised taking into consideration the analysis and indicators (Annex 5) prepared in this evaluation. A process of consultation should be followed with the Board, Management and staff to enhance understanding and commitment. The results should lead to a reformulation of ORRU's reporting to Management and the Board.

AGREED. Management agrees on the need to revise KPIs which guide ORRU's reporting to Management. To this end, there is a need to establish clear reporting modalities from Trust Fund managers to ORRU and need to strengthen/clarify its mandate and institutional set up.

Actions:

- Management will agree on new KPIs for 2014.

MANAGEMENT ACTION RECORD

Recommendation

Management response

Recommendation 9: Revamp ORRU's website to make it user-friendly and informative

ORRU should revamp its website to make it user-friendly and informative providing the necessary information on individual trust fund requirements and a calendar of upcoming calls for proposals.

AGREED IN PART. Management agrees on the need to revamp the ORRU page on the Intranet.

Actions:

- ORRU in collaboration with ERCU will work on the update of the Intranet by Q4 2013.

Strengthening operational capacity

Recommendation 10: Develop an action plan to enhance the procurement capabilities and support to trust funds and related activities.

The Action Plan should: incorporate a mandatory training program for task managers in consultant procurement: preparation of clear and succinct guidance notes including examples; and an assessment of options for providing more support in a timely manner to trust fund managers and task managers through direct assignment of procurement staff to individual funds and/or placing capacity in ORRU. As part of this effort, an e-learning course should be mandatory for task managers of trust fund projects to successfully complete the course. The World Bank program could serve as an example and a useful starting point.

AGREED IN PART. Management agrees on the need to increase procurement capacities of Bank's task managers and on the need to have an e-learning course. ORRU started to develop an e-learning programme on the management of Trust Fund and will continue to work with CHRM to design training modules and an accreditation course that equips staff involved in the management of Trust Funds with adequate knowledge and skills. However, while this is an important capacity for all Bank staff, direct assignment of procurement staff to individual funds and/or placing capacity in ORRU may not be the best model. The Delegation of Authority Matrix on procurement matters defines the level of approval authority and is also applicable to Trust Funds.

Actions:

- ORPF shall continue to expand its procurement training and accreditation programmes for task managers. The first in a series of training modules will take place by Q4, 2013.
- ORRU will work with relevant organisational units including FFCCO and GECL to get their input for the training. This training shall be complemented by other Bank's trainings.

Chairperson's Summary—Committee on Development Effectiveness

CODE committee discussed the Independent Evaluation of Trust Fund Management conducted by OPEV. The committee welcomed the report and saw it as an opportunity to have adequate answers related to the chronic challenge of low disbursement rates and its potential implication for the reputation of the Bank.

OPEV carried out an evaluation focusing on the establishment and implementation of 28 thematic and bilateral trust funds. The outcome of that evaluation revealed that the perception about the low level of disbursement of Trust Funds is not justified. Nevertheless, OPEV identified and made recommendations regarding three series of actions to strengthen the procedural effectiveness of establishing and implementing Trust Funds, namely: the policy and institutional issues for enhancing synergies and strategic alignment of Trust Funds, efficient Trust Fund management and strengthening operational capacity.

CODE members commended OPEV for the quality of its evaluation and the relevance of the results presented. However, the Executive Directors' deliberations focused on certain issues that could be highlighted as follows:

- (i) The weaknesses of the methodology used and the need for clarification of the variables that were really compared.
 - (ii) The evaluation did not go beyond mere factual observations. Members would have wanted Management to take a position on the Trust Fund policy and strategy.
 - (iii) OPEV did not take the opportunity to evaluate the effectiveness of the Trust Fund as a financing instrument and look into the developmental impacts of those trust funds.
 - (iv) Concern related to the role of ORRU which is currently not set up to oversee, monitor and report to management on the bilateral and thematic Trust Funds, provide TF management support, assess policy gaps and interact with donors.
 - (v) Information should have been provided on the reasons for the long delay in finalizing loan agreements, recommendations on remittances funds and micro funds.
- OPEV adequately explained to the committee that evaluating the levels of disbursement of Trust Funds was the main task of the TOR of the evaluation. OPEV also assured the committee that the disbursement rate is calculated the same way for Bank operations. CODE members congratulated OPEV on the evaluation. However, they underscored the need for follow-up and requested further details on the action plan for the implementation of the recommendations.



The Evaluation Report

CHAPTER 1: INTRODUCTION

During the past decade, the development community has seen an evolution in the establishment and use of trust funds as an additional technical and financial instrument for cooperation and support complementing traditional lending and donor aid. Through this evolution, the purpose, scope and scale of trust funds has expanded with a growing range of bilateral and multi-donor models focusing on single countries, regions/sub-regions or themes. Similarly the contributions to these trust funds are coming from increasingly diverse sources including “traditional” and “emerging” donors as well as from non-governmental entities and foundations. In addition, the recipients of such funds often go beyond government entities and include non-governmental organizations (NGOs) and the private sector. Today trust funds are seen as an important source of financing for pre-investment studies, enhanced project cycle work, capacity building and analytical studies.

After having been treated as a “side” or “non-core” activity by the Multilateral Development Banks (MDBs), there has been a recognition of the need to ensure that such funds and their utilization are aligned with the specific strategic priorities of the MDBs and are integrated into the policies, processes and general operations and systems of the institutions. The African Development Bank (AfDB), like its sister institutions, has recognized the potential benefits of trust funds as a complementary instrument and the need to develop a more formalized framework for the design and application of such funds. The primary guidance

for the management of such funds at the AfDB is set forth in the 2006 Proposal for Technical Cooperation Fund Reform.¹ Subsequent reviews have monitored progress on the 2006 reforms culminating in the 2011 Task Force Report to the SMCC², “Actions to Improve Strategic Alignment and Management of Trust Funds and Other Initiatives with External Partners”, which recommended further reforms, focusing on operational processes and procedures, monitoring and reporting, relationship management and institutional structure (Annex 1 for summary of recommendations).

Since the 2006 report, the scale and the scope of the AfDB trust fund portfolio has changed substantively. At the time of the report, AfDB was disbursing UA6.5 million/year mainly from bilateral funds compared with a disbursement of almost UA40 million in 2011 with over 75% from thematic funds. While certain issues addressed in the 2006 report remain relevant for today’s portfolio of thematic and bilateral funds, such as the call for simplification, reform of Bank processes and more effective results monitoring, other issues identified in 2006 such as “tied” funds and “delegation of decision-making”, which characterize bilateral funds, are less significant for thematic funds. Thus, although this Evaluation covers similar issues to

1 A Proposal for Technical Cooperation Fund Reform at the African Development Bank-revised, Partnership and Technical Cooperation Unit (ORRU), ADF/BD/WP/2005/113/Rev. 3.

2 Actions to Improve Strategic Alignment and Management of Trust Funds and Other Initiatives with External Partners, Report of the Task Force to the SMCC, AfDB, 2011.s

previous reports and is designed “to assess the effectiveness and efficiency of trust funds with a particular focus on disbursements and fiduciary factors”, the nature of the portfolio represents a very different context than in previous efforts.

The impetus for the Evaluation is based on the concerns expressed by donors, the Bank’s Board of Directors, Management and staff about perceived delays in the processing and implementation of trust funds and related activities. These have led to a substantial reputational risk in terms of confidence in the Bank and future contributions. As the Bank is considering organizational options for management of trust funds and future directions for resource mobilization in addition to addressing the current issues, the timing of the Evaluation should provide key inputs to these decisions. The focus of this Evaluation is on the establishment and implementation issues of the 28 bilateral and thematic trust funds (Annex 2) monitored and partly administered by ORRU. These funds represent the main trust funds provided by donors to the AfDB covered by the 2006 reforms. Global Funds such as the Global Environmental Facility (GEF) and the Climate Investment Facility (CIF), in which AfDB is an executing agency but not a trustee, are excluded.

The Evaluation is directed at procedural effectiveness and does not address issues of development effectiveness or impact of the funds; though procedural effectiveness has implications on development impact. The key questions to be answered are:

- a. What is the scope and scale of the procedural issues? Do these issues vary according to type

of trust fund (bilateral vs. thematic); or by type of execution (Bank vs. recipient-executed); or by type of recipient (Government vs. Non-Governmental Organization)?

- b. At what stage in the process are problems most critical? Do the key problems occur during the establishment of a trust fund, at the stage of vetting trust fund activities or during the actual implementation of the activities?
- c. What are the key factors behind the specific implementation problems? What combination of policy, process, organizational structure and/or human resource reforms is required to address the issues?

The methodological approach being followed for this evaluation is based on a combination of data regarding trust fund transfers, approvals and disbursements, interviews with a range of trust fund managers and task managers and a comparator analysis with other relevant MDBs (Annex 3). In lieu of interviewing donor agencies, meetings were held with relevant members of the Board. No discussions were held with trust fund recipients or client countries. As with earlier assessments of trust funds, however, it must be noted that there is a lack of data compiled in a consistent manner across trust funds. Thus, the interview process and the review of existing reports, including detailed operational reviews of specific funds, has served as the main basis for the analysis.

The report is organized around four chapters including the introduction. Chapter 2 is focused on disbursements, processing times and costs.

It sets forth the types of indicators that are important in assessing procedural effectiveness. Chapter 3 then sets forth the main issues that

need to be addressed. Chapter 4 provides the conclusions and the recommendations of the Evaluation.



CHAPTER 2: DISBURSEMENTS, PROCESSING TIMES AND COSTS

The charts in Figures 1-3, show the trend in annual trust fund transfers, commitments (approved activities) and disbursements for thematic versus bilateral trust funds from 2005 through 2011. They show very clearly the changing nature of the portfolio with the growth of thematic funds. The picture for bilateral funds indicates a flat or somewhat diminished level of annual contributions leading to a similarly flat level of commitments and disbursements, with the latter holding at just below UA10 million per year. In contrast, the picture for thematic trust funds illustrates a growing portfolio with annual disbursements rising to UA31 million. Annual transfers for the total trust fund portfolio have grown from just under UA30 million per year in 2005 to 2007 to about UA85 million in 2011. Similarly, disbursements have grown with an understandable lag from less than UA1 million in 2006 to UA40 million. It should be noted, however, that even at present levels equivalent to US\$61 million, AfDB trust fund disbursement levels are small by comparison with those of the World Bank (\$3.2 billion, representing over 10% of lending) and other regional banks (IADB, \$100 million; AsDB, \$150 million both representing under 1% of lending). AfDB Trust Fund disbursements represent less than 1 percent equivalent of annual ADB/ADF lending.

Despite the reforms since 2006 (Annex 4), there are persistent complaints that trust fund utilization is still extremely low and that the processes for establishing and processing activity requests and for project implementation are extremely slow and cumbersome. The challenge for this

Evaluation is to verify the perceptions and determine whether these issues are systemic or are particular to specific funds or types of funds.

To verify the problems, it is critical to select relevant indicators. The present system in the AfDB does not facilitate such data compilation in a consistent manner across trust funds. Moreover, there is a lack of clarity and agreement on appropriate indicators. The Task Force Report to the SMCC, 2011, included a draft scorecard of key performance indicators.³ This Evaluation raises questions on the appropriateness of the proposed indicators. It seeks to clarify the various types of indicators and propose a typology of indicators for use in future monitoring and analysis. Box 1 defines key terms applied in the following discussion.

Disbursements

The Disbursement Rate. A key indicator is the “disbursement rate”. In the case of ADB/ADF lending, disbursement rates are calculated as the amount of disbursements in a given year divided by the amount of undisbursed commitments (for approved projects) at the beginning of that year which provides an indication on the pace of disbursements in that year. The AfDB disbursement rates for ADB/ and ADF investment lending in 2011 were 15% and 18% respectively compared with a target of 20%.⁴ If one applies the ADB/

3 Actions to Improve Strategic Alignment and Management of Trust Funds and Other Initiatives with External Partners, op. cit., Annex 5.

4 2011 Annual Portfolio Performance Review, Results Reporting Division (ORQR), AfDB, September, 2012.

Box 1. Key Terms

- Pledge:** The amount a donor or donors promise to a trust fund.
- Transfer:** The amount a donor or donors actually deposit with the Bank for a trust fund
- Commitment:** The amount approved for specifically proposed “projects”
- Disbursement:** The amount spent for the various activities of an approved project

Figure 1: Transfers

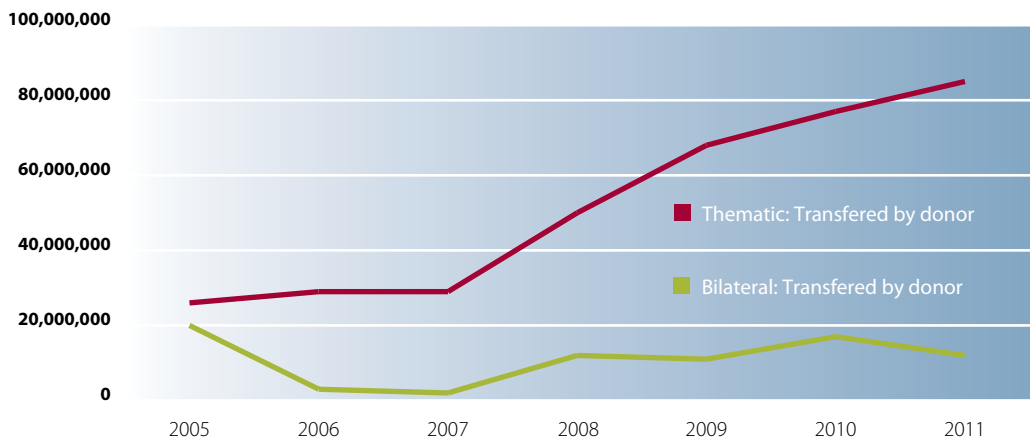


Figure 2: Approved

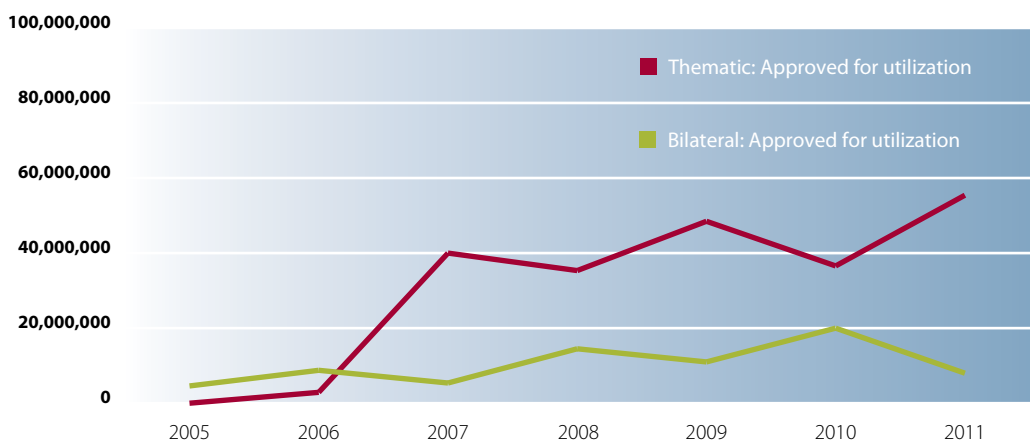
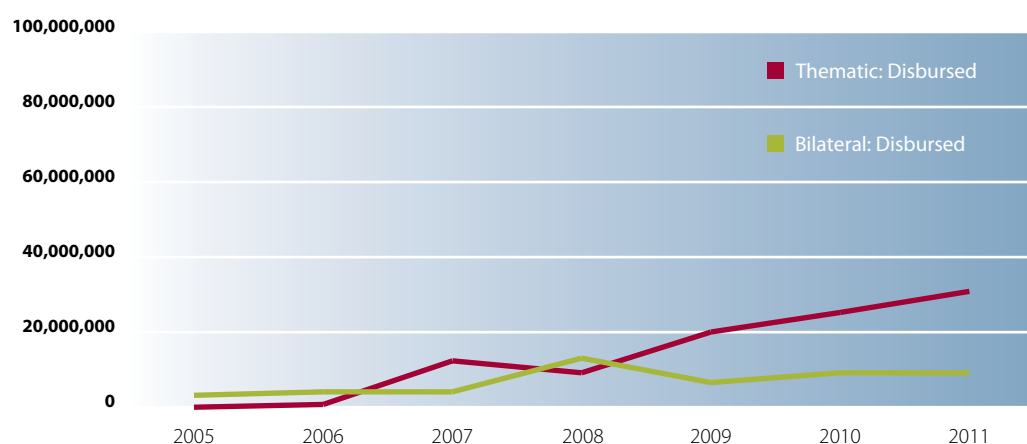


Figure 3: Disbursements



ADF calculation to the trust fund portfolio, the disbursement rate for 2011 was 31% for thematic funds and 40% for bilateral funds which suggests an average 2-3 year time-frame for implementing approved projects. This indicator is a useful measure for the overall portfolio but is not as applicable to individual trust funds because individual funds will have varying rates depending on the age of the fund such that the IPPF would be expected to have a higher disbursement rate than the newer Migration Trust Fund. Newer funds have an initial lag until start-up arrangements and procurement are in place as under ADB/ADF lending.

Cumulative Disbursement Percentage. In its annual and quarterly reporting, ORRU calculates what it refers to as a disbursement rate. Its calculation, however, is not consistent with how the rate is described above and how it is calculated for ADB/ADF lending. ORRU divides the cumulative disbursements of a trust fund by the cumulative commitments (for approved projects) made under that trust fund. To avoid confusion, this indicator could be referred to as

the cumulative disbursement percentage and represents the overall ability of the Bank to implement activities under the portfolio but not the pace of disbursements. It will indicate the overall utilization of a fund but is not easy for setting targets for the overall portfolio. As of end 2011, the cumulative disbursement rate was 44% for thematic funds and 72% for bilateral funds.

Actual Versus Projected Disbursements. Both the cumulative disbursement percentage and the annual disbursement rate are difficult to interpret for individual trust funds because the number will vary depending on the maturity of the fund and whether it finances technical assistance or capital investment, capital investment requiring a longer time-frame. An indicator being proposed by the African Water Facility (AWF) is to compare actual with projected disbursements to measure whether the work is proceeding according to the expectations agreed by the task managers for their activities. This is useful as long as such projections are seriously prepared. This will require time to develop as task managers recognize that

this will be monitored; but it is the most direct way of monitoring actual implementation against the expectations originally set by the donors and Management.

Cumulative Commitment Percentage.

Another useful indicator is the cumulative commitment percentage. This is the amount committed for approved projects divided by the cumulative transfers from donors and indicates the ability of the Bank to commit the funds that have been transferred. It alerts donors as well as staff to the relative level of funds remaining for new project proposals. Applying this calculation results in a cumulative commitment of 59% for thematic funds and 75% for bilateral funds. This is an appropriate indicator at both the portfolio level as well as the level of the individual fund, although it can vary across funds depending on the mode of replenishment established by the donor. Some transfer a multi-year sum while others transfer in annual tranches or as funds are committed.

Combined Analysis. Combining a view of the disbursement rate, cumulative disbursement percentage and cumulative commitment percentage, the overall portfolio indicators appear to be reasonable, indicating a two to three year implementation period for approved projects and related activities. The continuing negative perception of slow disbursements appear to be a result of overambitious expectations set during fund establishment, issues specific to individual funds, and a lack of adequate data and clear indicators. When one drills down into the rates, it becomes clear that there are issues with specific trust funds, such as the Congo Basin Forest Facility (CBFF) and to a less extent the Rural

Water Supply and Sanitation Initiative (RWSSI). These two trust funds represented 43% of donor transfers to thematic funds in 2010 and 40% of commitments for approved projects. But they only represented 26% of disbursements. Table 1 presents the various indicators for the thematic and bilateral portfolios as well as for five of the major thematic funds. The African Water Facility (AWF), NEPAD Infrastructure Project Preparation Facility (IPPF) and Fund for Africa Private Sector Assistance (FAPA) show very strong progress on all three indicators. CBFF shows a high cumulative commitment percentage but a very low cumulative disbursement percentage.⁵ Finally, RWSSI shows a very low disbursement rate that appears to be due to the financing of capital investment with longer implementation timeframes compared with the more usual consultant activities financed by trust funds (see para 41). The table also shows how the indicators for the thematic portfolio improve significantly if the two trust funds are excluded with the disbursement rate rising to 45% and the cumulative disbursement percentage to 66%.

The indicators for overall bilateral trust fund portfolio also appear very positive, but there is some bias in the statistics because of some funds that are closing or almost fully disbursed. The impact of many of the reforms in 2006 and the focus on cancellation of non-performing or non-disbursing activities seem to have had a positive effect.⁶ One

5 The high disbursement rate is due to the fact that the level of undisbursed commitments at the beginning of 2011 were low. Substantial increases in commitments during 2011 could be expected to result in a much lower disbursement rate for 2012.

6 Guidelines on Cancellation of Activities Financed by ORRU-Managed Trust Funds, Partnership and Technical Cooperation Unit (ORRU), April 2012.

difficulty in interpreting the bilateral trust fund data is that these funds are sometimes used for other purposes in exceptional circumstances such as to support specific investment projects or to clear arrears in which the fund is a convenient mechanism to transfer donor resources. While this doesn't occur often, the sums are relatively large and distort trend lines.

Processing Times

Besides the perception of slow disbursements, there are concerns about the processing time for trust funds. To analyze the issue of processing, it is important to distinguish among the different transaction points in the trust fund cycle from establishment of the trust fund, to approval of proposed activities to actual first disbursement and actual implementation. Again there are no consistently maintained statistics regarding processing times nor monitoring of processing timelines except for some of the funds (eg, AWF). Targets were established in the 2006 reforms for processing activity approvals.⁷ The Bank did standardize and simplify processes and documentation and instituted a proposal review process that consolidated the calls for proposals for individual trust funds. It also pressed for greater delegation of decision-making by donors in approving activities. What is evident is that these issues and reforms are very much directed at bilateral trust funds. Delays due to approval processes and lack of delegation continue to raise uncertainties for Trust Fund Managers and Task Managers. The most significant delays are apparent in the process of approval of project proposals in which the proposals must be vetted by the donor and where

delegation of authority has not been granted to the Bank. These issues, however, are less relevant for thematic funds (though some thematic funds dependent mainly on one donor can face similar delays).

The Report of the Task Force to the SMCC, in 2011, recommended a process and timeline for new initiatives with external partners.⁸ This is more relevant for thematic trust funds whose multi-donor nature adds additional complexities and time requirements to the final negotiation and decision in setting forth a new fund. It also clarified who within the Bank is responsible for what aspects in the process. Since much of the process ultimately depends on the donors, the actual timing outside the control of the Bank can be significant and require several months or longer.

While the reforms have tried to address key delays at both the point of establishment of the trust fund and the approval of activities, there has been less attention to issues arising in the arrangements for the actual project agreements with recipients and for the implementation of the activities. The concerns that have arisen in the last several years, particularly with thematic funds, indicate that this is a considerable gap. The AWF estimates that the average time it takes from approval to effectiveness is 7.5 months plus another 5.7 months from effectiveness to first disbursement.⁹ This has a considerable impact on the time required for implementing projects.

7 A Proposal for Technical Cooperation Fund Reform at the African Development Bank-revised, op. cit., para. 4.10.

8 Actions to Improve Strategic Alignment and Management of Trust Funds and Other Initiatives with External Partners, op. cit., Chart 1.

9 Data provided by AWF Coordinator.

Table 1: Disbursement/Commitment Indicators for 2011

Fund	Annual Disbursement Rate	Cumulative Disbursement Percentage	Cumulative Commitment Percentage
(percent)			
African Water Facility Fund (AWF)	35	67	56
Congo Basin Forest Funds (CBFF)	67 *	18	72
Fund for Africa Private Sector Assistance (FAPA)	37	59	57
NEPAD Infrastructure Preparation Programme (IPPF)	41	63	76
Rural Water Supply and Sanitation Initiative (RWSSI)	16	27	79
Total for All Thematic Funds	31	44	59
Total Thematic w/o CBFF/RWSSI	45	66	48
Total for All Bilateral Funds	40	72	75

* High disbursement rate is due to low level of commitments at beginning of 2011. During 2011, there was a significant increase in commitments with only limited disbursements so that the cumulative disbursement percentage at end-2011 was low.

Costs

20. Another serious information gap is the lack of cost data for the management of trust funds and project implementation. The SMCC Task Force was not able to compile the necessary information nor was it possible within the scope of this evaluation. There are many alternative trust fund models being used by the Bank with a range of management structures. The AWF has an extensive management infrastructure with eleven staff while funds like the Microfinance Capacity Building Trust Fund and Migration and Development Trust Fund have only two staff for managing both. Some trust funds have their own

task managers and others depend on task managers in the operational units. The implementation issues of thematic funds discussed in Chapter 3 illustrate the importance of enhancing support to trust fund managers and task managers and finding economies of scale that facilitate the allocation of support resources to trust fund managers and task managers. This requires, however, a detailed cost analysis of alternative management models which focuses on the cost of Bank staff and related consultants involved in establishment of a fund, administering the fund and designing and implementing approved projects.

CHAPTER 3: KEY ISSUES

The evaluation has identified a number of key issues that are considered fundamental to the credible and efficient utilization of trust fund resources and related activity implementation. The issues were identified mainly through the wide range of interviews, previous assessments of the overall portfolio and individual trust funds and the observations of the OPEV evaluation team. They have been organized generally according to the stage in the trust fund cycle in which they occur.

Issues at Stage of Trust Fund Establishment

Setting Expectations. The problems and concerns that have arisen in a number of high profile trust funds, such as RWSSI and CBFF, raise questions as to whether these issues were sufficiently raised at the time when the trust funds were established. Looking back, it would seem that a trust fund dealing with a challenging sector such as forestry in a challenging geographic area and through non-traditional partners, would indicate considerable risk flags. Similarly, it is not surprising that RWSSI is disbursing slowly when it finances capital investments equivalent to an AfDB/ADF loan. Looking ahead at the newer trust funds, ie. Migration and Microfinance, the Evaluation questions the institutional placement of these facilities and the type of expertise required to implement them successfully. Bilateral funds are also affected by not clearly stating their purpose and objectives at inception. Unlike Thematic Funds, Bilateral Funds, by their nature, have a less well-defined set of criteria for project selection and approval. Often objectives are set at too general a level.

In the case of the U.K.'s DFID-AfDB Technical Cooperation Agreement (TCA) 2009-2013, a draft assessment indicates a lack of realism and clarity in the original purpose leading to divergent views on what should be funded.¹⁰ The result is a high degree of uncertainty for task managers making proposals and extended processing times for obtaining approvals when authority is not delegated to the AfDB.

The critical time to set expectations is at the time of the Fund's establishment. The process by which decisions are made to establish a fund comes into question as to whether important issues of implementation are discussed and whether the right people are in the room to help avoid excessive and unrealistic expectations which place the trust fund manager at a disadvantage before approving the first activity. It is difficult for an MDB to reject a trust fund and there is not much incentive amongst vice-presidents nor amongst Board members to reject someone else's proposal. However, experience has shown that trust funds pose a significant reputational risk well beyond their level of resources. The euphoria of an agreement to address a critical issue through a specific trust fund, quickly dissipates as the implementation challenges arise. The Task Force report to the SMCC, 2011, correctly focused on the decision-making at the time of establishment of trust funds. The establishment of a Standing Committee on Partnerships offers an opportunity to raise important questions regarding

¹⁰ Evaluation of the DFID-AfDB Technical Cooperation Agreement (TCA) 2009-2013, (Draft Report), Roger Maconick, December, 2012.

newly proposed funds and will test the ability to make the hard choices. But it is too soon to assess whether this arrangement will resolve these concerns.

Overlapping Trust Funds. As new funds enter the portfolio, there is the potential for overlap in the types of activities each one supports causing issues in terms of consistency and coordination as well as cost inefficiencies. The only distinction is the funding source. Many of the bilateral funded activities, for example those of the Indian and Nigerian Trust Funds, appear to be equivalent to those undertaken through the South-South Partnership funded by Brazil. One could also ask how many of the governance-related initiatives under the UK DFID TCA Trust Fund are not equivalent to those under the Governance Trust Fund. Similarly, a number of thematic funds are related to each other such as the three water facilities (AWF, RWSSI, and the Multi-Donor Water Partnership Programme, MDWPP). While they are institutionally under a single Vice-Presidency, it would seem to be important to have an overarching strategy that ensures the potential synergies of three major support mechanisms to the water sector and provides economies of scale in terms of institutional support. A similar question arises with regard to the type of expertise required to manage FAPA, the Migration Fund and the Microfinance Fund in which private sector expertise is critical to their successful implementation; yet the latter two funds are under OSVP while FAPA is under the OIVP. Other MDBs are beginning to address this issue through the establishment of “platforms” (AsDB) or “umbrella funds” (WB) that attempt to coordinate a family of trust funds as a group, providing consistent strategic direction without

distorting the governance and funding set-up of the individual funds of which it is comprised. These individual funds, then, become windows of a broader fund structure (Box 2).

Issues at Stage of Preparing and Vetting Activity Proposals

Communications. With a growing portfolio of funds and increasing demand by staff and clients, a systematic communications/information flow is essential to reach the widest audience possible and to avoid continuous churning as task managers shop around for resources. This issue will become even more critical as the AfDB increases its decentralization efforts. Despite efforts by ORRU to increase communications on the availability of trust funds, especially through periodic emails, and the identification of trust fund coordinators under each of the Vice Presidencies, there are still complaints from staff that there is inadequate information on the types of eligible activities; notification of trust fund availability and call for proposals are insufficient; and reasoning for rejection of proposals is not always offered. ORRU staff does respond to ad hoc requests for guidance and have increased email notifications; but that may be inadequate to reach the typical task manager. The website, which is the most appropriate mode of communication, includes a lot of information but is not easy to navigate nor is the information presented in an easily digestible format. A user-friendly website and a calendar of calls could enhance communications especially as the AfDB implements operational decentralization. It would also give Task Managers more notice for preparation of proposals. Presently the three-week period established for submitting

BOX 2: Trust Fund Platform Approach Financing Partnership Facilities Asian Development Bank

In 2006-2007 the AsDB established the first of three Trust Fund Platforms (FPFs). The FPFs are operational “platforms” for multi-partner cooperation linking various forms of assistance focused on key sector or thematic priorities. Although originally conceived to include various financing modes including trust funds, cofinancing and other cooperation arrangements, the original FPFs have been mainly directed at trust funds. FPFs were seen as a means of better coordinating and strategically guiding a number of single donor and multidonor trust funds funding similar types of activities for the same purposes.

The first three FPFs were: the Water Financing Partnership Facility; the Regional Cooperation and Integration Financing Partnership Facility and the Clean Energy Financing Partnership Facility. The key feature is that the platform is comprised of a number of windows that permit single donors or groups of donors to target their funding within an overall strategic framework.

The assessment prepared by the AsDB Independent Evaluation Department in 2010 was generally positive with a “successful” rating, but identified weaknesses in terms of transaction costs and implementation. The former are mainly due to the issue of lack of delegation under some financing windows to the AsDB. On implementation, the issues are related to operational challenges more generally than to the FPFs specifically.

proposals puts traveling staff at a disadvantage. Other MDBs have applied different approaches to accommodate task managers either through continuous acceptance and review of proposals (IADB) or through a rolling two-month acceptance and review schedule for proposals (AsDB). This is more predictable compared with the AfDB’s approach that varies between funds. However, the AfDB model, at least theoretically, should allow for a more strategic selection of projects which is less feasible with a continuous vetting system. It also helps to concentrate management’s time and inputs.

Donor Delegation of Authority. The process by which proposed activities must be vetted by

donors can add months to the approval cycle and can cause a level of uncertainty, especially to the affected task managers. This is mainly an issue for bilateral trust funds and the 2006 reforms called for more delegation of decision-making authority to the Bank in vetting proposals with a threshold of \$100,000 to determine when to send proposals to the donor. The Task Force to the SMCC proposed to increase this threshold to \$200,000. Although there is a target timeframe for donor response of three weeks, in practice the experience is mixed with delays of more than one month. Even with funds that have a long history, changes in staffing on the donor’s end can cause delays either by changing the process on the donor side or by not giving the fund equivalent

priority compared with the previous responsible donor staff. It would seem that after the first one or two years, there would be an increase in the Bank's understanding of what qualifies for funding and in the level of comfort by the donor to foster more delegation, perhaps by incrementally increasing the threshold. Other MDBs are dealing with the same issue but it should be noted that some donors deal differently depending on the specific MDB.

Task Manager Capability. While staff raised the issue of communications, trust fund managers, donors and support units (Legal and Fiduciary units) raised the issue of staff preparedness to manage and process trust funds. The issue cuts across different measures of the quality of activity proposals: but, for the most part, are directed at the administrative rather than the substantive aspects. For example, in preparing an agreement, has the Task Manager clearly delineated whether this is recipient or Bank executed and, if it is the recipient, the details of that arrangement. In addressing this issue, it is important to distinguish between the processing and administration of trust funds versus more technical skills related to financial management and procurement (see para 44). The World Bank did address the issue of task manager capability by mandating that all staff who manage trust funds must be accredited by passing an e-learning training exam. Together with a series of process and policy simplifications, the automation of restrictions on trust fund use and ongoing integration and mainstreaming into the World Bank's budget or operational resource transfers, this has led to fewer compliance issues with trust funds. Other MDBs are considering similar training.

Issues at the Stage of Implementation

Clearly the greatest gap in terms of Bank trust fund policy, process and human and financial resources is implementation. Many of the issues parallel similar implementation concerns under AfDB/ADF lending which is understandable given that trust funds operate under the same rules for procurement and financial management. However there are important differences such as the wider range of traditional and non-traditional recipients of the trust funds. There is also an expectation, somewhat overestimated, that trust funds can be handled with greater speed without cumbersome rules. Moreover, trust fund activities, as "non-core" services, do not get the same attention and oversight resources as lending. The present typology of trust funds basically distinguishes the different funds by type of funding, bilateral or thematic, and by the nature of its approval, with Special Funds approved by the Board of Governors (AWF, IPPF). A more robust typology or delineation of trust funds would take into account the nature of implementation such as whether funding involves capital investment or technical assistance and whether it involves Bank or Recipient-execution.

Investment versus Technical Assistance.

The first important distinction is whether the trust fund will finance investment or technical assistance, mainly consultancies. While most funds focus on technical assistance, there are funds that support investments. The Zimbabwe Trust Fund, which is the AfDB's only country-focused fund and is treated as an anomaly in terms of institutional responsibility, is mainly financing large infrastructure contracts. RWSSI was disbursing

against investments in rural water supply projects. The time and supervision resources required in such cases are equivalent to that of lending.

Bank Executed versus Recipient Executed.

As the trust fund portfolio shifted from bilateral to thematic funds, there was a substantial shift to recipient-executed activities. At the time of the 2006 reforms, the AfDB reported that all activities were Bank-executed (BETFs). Today the situation has significantly reversed. The shift to recipient-executed trust funds (RETFs) raises the issue of the capability of the recipient and the level of support that should be provided by the Bank. However, the Bank does not clearly recognize and monitor such distinctions and their implications for implementation and resources. Moreover, unlike AfDB/ADF lending, some trust fund recipients are not traditional partners in Bank financing such as nongovernmental organizations (NGOs).

Applicability of Fiduciary Policies. Donors consistently argue that Bank procedures for financial management and procurement are too cumbersome and slow and there are expectations that some simplifications should be applied to streamline the process. Previous reviews of the IPPF, AWF, RWSSI and CBFF¹¹ all raised the demand for greater flexibility, delegation and less bureaucracy. This complaint is experienced by other MDBs as well. A key question is whether the problem is one

of policy or is it more a problem of application of policy. If it is policy, is there a basis for change and reform to better adapt policies for the purpose of trust funded activities? The dilemma is that many of the donors place their funding with the Bank because of its fiduciary policies. Experiences in other MDBs further illustrate the sensitivity of donors when leakage or corruption is reported with negative reputational impact squarely on the MDB. Flexibility is great as long as the risks are minimal. In this time of greater attention to fraud and corruption, however, the risk tolerance of the donor community is unclear. The Zimbabwe Fund and the CBFF have instituted innovative approaches with donors seemingly accepting higher risk. The Zimbabwe Fund has instituted a hybrid form of procurement management that can be characterized as a combined Bank and recipient executed approach. The CBFF has also proposed a results-based approach to disbursements for non-policy based funding instead of linking disbursements to specific contracts. These initiatives should be carefully monitored and the lessons disseminated with implications for policy reform.

Reviewing the kinds of problems that have arisen in most trust fund projects and through discussions with staff responsible for policy oversight, the issue seems to be more in the application than in the actual policies. The procurement of consultant services is the most significant example. Bank procurement policy is consistent with the other MDBs. The policy offers options to apply alternative approaches when standard practice is not feasible or is impractical. The challenge is whether the task manager has the capability and confidence to make such a judgment or has access

11 Review of the NEPAD Infrastructure Project Preparation Fund (IPPF), Oxford Policy Management, July 2010; Review Report on the Rural Water Supply and Sanitation Initiative, IWEL in association with itAD, January, 2012; An Internal Assessment of the Rural Water Supply and Sanitation Initiative (2003-2009), Water and Sanitation Department (OWAS), 2011; Discussions with Congo Basin Forestry Facility staff, November, 2012.

to effective support to help make that decision. This requires staff to be knowledgeable about this type of procurement. With high turnover in operational staff and no requirement for mandatory training, there is a low probability that this capability is widespread. Excluding managers and non-operational office staff, there are about 331 task managers in the Bank. Almost half have less than four years of experience in the Bank while around one quarter of task managers have less than 2 years in the Bank.¹² With such turnover, basic procurement training should be mandatory and an accreditation process adopted. While this applies broadly across ADB/ADF lending as well as Trust Funds, there is a critical need in the case of Trust Funds for mandatory training on consultant procurement, the key implementation responsibility for Task Managers. This is even more critical under the new Delegation of Authority Matrix¹³ that empowers task managers and resident representative to take on such responsibilities more broadly. If this training gap is not filled quickly, the risks of such delegation are very high.

With task manager capabilities limited, there is a need for support to teams from procurement staff and from financial management staff. For lending there are more established practices for obtaining support. Trust Fund Task Managers, however, have had to develop different strategies for getting help, mainly depending on informal ad hoc processes if they are to avoid significant delays. Unless the trust fund is established with the requisite support infrastructure and budget (such as with the AWF), resources are not sufficient and the lack

of economies of scale doesn't justify each trust fund getting its own dedicated support. Finding options for gaining critical mass for ensuring such support is an immediate challenge for the Bank.

Partnering with NGOs. One of the benefits of trust funds is their flexibility in providing funds to NGOs and other parties who are not eligible for traditional lending. But this opportunity also raises challenges in adapting Bank policies and practices to these non-traditional partners. While some trust funds have not experienced difficulties in working with NGOs (FAPA, AWF), the challenges have been most evident in the experience with the CBFF. Clearly the term NGO applies to a wide range of organizations of varying size and operational capability. There is a vetting procedure to ensure that the NGO has the financial and legal capacity to execute the activity. But some NGOs face challenges in meeting specific AfDB procedural requirements. The most recent effort to address concerns of donors and NGOs under CBFF detailed a number of financial management, disbursement and procurement difficulties. Most issues just required a clarification on how to handle but not a change to policy.¹⁴ It is an issue of applying judgment and clear communications. However, the experience indicates that the Bank will have to provide more "on the ground" support to such NGOs with serious budgetary implications. This issue relates to the broader effort by the Bank to enhance its engagement with civil society organizations (CSOs); but the recent Framework for Enhanced Engagement with Civil

12 Data provided by ORPF, December, 2012.

13 Delegation of Authority Matrices 2012, Presidential Directive No. 06/2012, AfDB.

14 See Table of Specific Issues Experienced by CBFF Operations in Fiduciary areas based on dialogue between recipients, donors and AfDB staff, November, 2012.

Society Organizations¹⁵ does not refer directly to trust funded activities and there is a disconnect between ORRU, CBFF and ORQR.

Getting the Incentives Right. The treatment of trust funds as a “non-core” activity by both staff and management is a serious problem facing all the MDBs, but especially the regional banks. Since trust funds represent a small percentage of support to clients by the AfDB compared with lending, task managers tend to consider them as a secondary priority. Getting the incentives right requires actions on various elements to trigger the desired response by staff and managers. The elements include: resources; feedback for good performance; and monitoring and response to lack of progress. The focus of ORRU has been on the third element by focusing on inactive activities. The new cancellation policy provides an important stick and has succeeded in eliminating non-performing activities. But this policy needs to be wielded carefully after its initial housecleaning. Six months without disbursements as a criterion/trigger for cancellation may not be a reasonable time frame and may result in harassing task managers and causing perverse incentives to disburse rather than awaiting the ultimate results of a consultant contract.

The resource element is critical. The transaction costs, especially regarding consultant procurement for Bank-executed trust funds, are high relative to the actual resources. A high level task manager can find himself/herself, involved

in managing multiple consultant contracts under one activity, their selection, their monitoring and payment processing, consuming a substantial amount of time. If the activity is seen as an added task without compensatory resources to deliver, the results are delays in follow-up to approved activities and reduced oversight. There is debate in the AfDB and other MDBs as to whether units should receive a portion of the fee revenue received. Other MDBs have not made specific outlays of trust fund fees but have incorporated the fees into the total budget, depending instead on normal work program and budgetary processes to allocate the necessary resources. With zero budget growth, however, there is little scope for increasing resources for trust fund activities. This makes the need for a costing exercise a very high priority to facilitate appropriate budgetary decisions.

The third element in the incentive paradigm is to incorporate trust funds into the key performance indicators for staff. With a considerable load of indicators measuring the performance of the task manager, it is hard to imagine adding further indicators with any substantive impact except for the disbursement indicator mentioned above in addition to the monitoring of the results compared with original expectations/objectives. What is important is that any performance indicator should begin with the managers, including at the Vice President Complex. Without addressing incentives up the chain of command, the signals become obscure further down the line. Managers and Vice President’s front offices should take responsibility for the portfolio of trust funds/projects entrusted to their units.

¹⁵ Framework for Enhanced Engagement with Civil Society Organizations-revised, ORQR, ADF/BD/WP/2012/24/REV.1, 2012.

The Role of ORRU

A cross-cutting issue which is still unresolved is the role of ORRU, its staffing and its position within the organization. ORRU's description of the responsibilities of ORRU Funds Managers (May 2012) emphasizes the unit's role in managing ORRU-administered Trust Funds. Its broader responsibilities with regard to the oversight of Thematic/Multidonor Funds managed by other Departments and its reporting role for the overall trust fund portfolio appear as secondary priorities. The substantial change in the portfolio since 2006 and the types of issues raised in this Evaluation support the critical need for ORRU but with a major shift in relative responsibilities. The Task Force's report to the SMCC recommended the creation of a new, comprehensive Resource Mobilization and Partnerships Department to oversee and coordinate all resource mobilization and partnerships activities of the Bank (including ORRU and the Resources Mobilization Unit (ORMU)). The emphasis is on coordinated interaction with donors. The issues raised in this Evaluation indicate a need for ORRU to also focus on policy and process, especially as they relate to implementation of trust-funded projects. In addition, the Evaluation's finding on the need for greater support to trust fund managers and task managers raises the possibility of ORRU providing more operational support. This will require a review of staffing of ORRU and training to fulfill these responsibilities effectively. Box 3 presents the responsibilities of the Global Partnership and Trust Fund Operations department at the World Bank. It should be emphasized, however, that the Sector Departments are principally responsible for trust fund management and implementation, especially for thematic funds.

The next issue relates to the position of ORRU within the organization. As stated above, the Task Force report to the SMCC recommended that the Bank establish a comprehensive Resource Mobilization and Partnerships Department headed by a Director. The Task Force recognized the importance of keeping ORRU and ORMU within the same Department and that placing the new Department under the COO would strengthen ORRU's ability to better monitor, coordinate and report on the trust fund portfolio, including those that it does not manage. This would also minimize potential conflicts of interest by not reporting to a Vice President who is also a beneficiary of the trust funds. Another option that could be considered would be to place the new Department under the CFO given its responsibilities for resource mobilization (similar to the World Bank). Other MDBs face similar challenges of where to institutionally place their trust fund units to better fulfill the mobilization, monitoring and oversight roles. Recent changes at the IADB and AsDB, however, do not offer much guidance except for attempting to move oversight responsibility from operational units and avoid conflicts of interest. While the WB's unit remains under the CFO and within the same vice presidential unit responsible for concessional resources (IDA), the IADB has moved its unit from under the VP for Countries to an office reporting directly to the President. The AsDB has moved the unit from the VP for Knowledge to the VP for Private Sector and Co-financing while the concessional resource unit (ADF) is under the Strategy and Policy Department reporting directly to the President.

BOX 3: Roles and responsibilities of global partnership and trust fund operations department World Bank

“The Global Partnership & Trust Fund Operations department (CTFPO) is responsible for creating and disseminating the policies and business processes of the Bank-administered Trust Funds. It also helps in developing and managing the Bank’s partnerships and trust funds business operations by serving as a liaison between external and internal clients on strategy, policy, program management and best practices. Additionally the department provides training and support to trust fund users and managers.

As the department responsible for developing and monitoring the Bank’s policies and procedures on Global Programs and Partnerships (GPPs) and Trust Funds (TFs), CFPTO ensures complete oversight of the Bank’s Partnership and Trust Fund operations. The departments is also in charge of advising the Bank’s senior management, the Board and donors about every aspect of GPP and TF business, including portfolio performance, policies and strategies, as well as current business practices.”

Defining Appropriate Indicators

Despite ORRU’s quarterly reporting and the setting of targets by the Bank, there is very little data compiled in a manner that is consistent and reliable. There is much confusion over the data that are available and there is a great lack of understanding of the meaning and applicability of the various measures

reported. There is also limited cooperation by the thematic fund managers in providing information to ORRU. This Evaluation has set forth a number of indicators (Annex 5) that should provide a basis for discussion between the various stakeholders to determine which are most critical to their needs. The joint effort to agree on such indicators and targets will be important for enhancing understanding and commitment on all sides.

CHAPTER 4: CONCLUSIONS AND RECOMMENDATIONS

Conclusions

The scale and scope of the AfDB trust fund portfolio has increased substantially (disbursements rising from UA6.5 million/year in 2006 to almost UA40 million/year in 2011). Its composition has also changed significantly since the reform efforts of 2006. The relative dramatic growth of thematic funds, that now represent almost 75% of the portfolio disbursements compared to bilateral funds six years earlier, has significant implications for the types of issues that have arisen. While many of the issues raised in 2006 are still valid and the earlier reforms are having an impact, there are a range of new issues that need to be addressed. It raises an obvious question as to whether a new policy should be prepared which takes these changes into consideration. This evaluation does not recommend that a new policy be prepared at this time; but rather that the experiences and lessons be reviewed over the next few years before entering into a new policy.

The perception of pervasive low disbursements is not justified and that the indicators for the overall portfolio appear reasonable. The perception seems to be a result of two factors: a consistently overambitious set of expectations at the time of trust fund establishment; and a number of high profile trust funds which have experienced problems specific to those funds. Despite this finding, the Evaluation has identified a number of critical issues that, if not addressed, will jeopardize the effectiveness and credibility of AfDB Trust Fund management and increase the reputational risks of the current and future funds.

There were critical gaps in earlier trust fund reviews surrounding implementation. These issues have grown in importance as the volume of thematic funds has increased. Thematic funds are predominantly recipient-executed with similar if not greater capacity challenges faced by lending. In addition, many of the recipients are not traditional partners for the Bank and are not familiar with Bank procedures. Several require more up front support. Thus, while the reforms of 2006 and subsequent efforts to standardize, simplify and rationalize trust funds have had a significant effect, the portfolio today faces new challenges.

There is a critical need for ORRU to coordinate both externally and internally on trust fund issues and to monitor, advise and report. This represents a greatly expanded role for ORRU. At present, however, ORRU is not prepared to fulfill that role. Its information systems are weak at best, its staffing mainly directed at managing bilateral funds, and its institutional placement hampers its legitimacy and efficiency.

Recommendations

It is important to reiterate that the focus of this evaluation is directed at the procedural effectiveness of the establishment and implementation of trust funds. While procedural effectiveness has implications for the ability of a trust fund to meet its development objectives, this evaluation does not touch upon the actual development impact and results and the related monitoring. Thus, it is important to qualify the conclusions

and recommendations and to caution against an over-emphasis on process issues.

Policy and Institutional Issues for Enhancing Synergies and Strategic Alignment of Trust Funds

Issue. The 2006 Reform paper that has guided trust fund management since that time does not address the issues that have arisen as the portfolio has increased and its composition has changed.

Recommendation: Clarify the future role of trust funds in terms of scale and scope before developing a new policy. Although there is a need for a new policy, this Evaluation believes that crafting a policy at this time would be premature and suggests waiting for about two years.

Instead the AfDB should clarify the future role of trust funds in terms of scale and scope. Moreover, it should focus on resolving the specific issues indicated in this evaluation and on reviewing experiences with the range of trust funds and the arrangements that are currently being applied (such as in CBFF and the Zimbabwe Fund). In the interim, the Bank should be open to a range of trust fund options. While preference could be given to thematic funds, this should not preclude the option of bilateral funds that provide important flexibility outside the chosen themes where important financing gaps are identified. Also, the Bank should be open to the option of a country trust fund (as per Zimbabwe) as a means of addressing funding and coordination on the ground in fragile states.

Issue. As the number of trust funds increases there is a significant overlapping or interrelationship between the various funds and a potential lack of consistency or synergy. Moreover, with the scale of funds being highly variable, many of the smaller funds do not have enough resources to ensure support to approved projects and recipients, lacking the necessary economies of scale.

Recommendation: Test the “platform” approach to related trust funds similar to those applied the AsDB and World Bank.

Initial opportunities for piloting such an approach are: the water-related trust funds, the South-South Facility and related Bilateral funds; and/or FAPA, Migration and Microfinance Trust Funds. The pilot should be designed to achieve benefits in terms of overall strategic framework, coordination and potential economies of scale in providing support and management services while respecting, to the extent possible, the governance requirements of the various donors.

Issue. Although trust funds serve as a primary source for providing funding to non-governmental organizations, there is little guidance on how to apply Bank policies for working with such organizations that has led to protracted difficulties.

Recommendation: The ongoing review of CSO partnership experience should incorporate a review of trust fund experience with NGOs. It should result into the preparation of specific guidelines for task managers in assessing NGO capability

and in alternative fiduciary and disbursement procedures that should be discussed with regional and international NGOs. The review and guidelines provide an important opportunity for the Bank to engage with NGOs and raise the level of mutual trust and support.

Issue. There continues to be uncertainty regarding the role and organizational placement of ORRU. Although this Evaluation sees a clear need for a unit such as ORRU to oversee, monitor and report on bilateral and thematic trust funds, provide trust fund management support, assess policy gaps and interact with donors as well as manage bilateral trust funds, ORRU currently is not set up to fulfill such a role and has little credibility with thematic fund managers. In addition, ORRU's placement in an operational vice presidency represents a potential conflict of interest.

Recommendation: The status and role of ORRU should be finalized. The Evaluation findings underscore the critical role that ORRU should play but it requires a substantial change to its functions, even beyond the specifications of the SMCC Task Force, and a clear statement of support from Management. Once finalized, there will be a need to prepare a staffing strategy, including training for existing staff, and to estimate resource requirements. The finalization of the role of ORRU should then be consistent with its placement within the institution. The SMCC Task Force analysis is supported by this Evaluation. It is important to recognize the important resource mobilization relationship between ORRU and ORMU.

Besides considering that the two units report to the COO, another option is for the two units to report to the CFO, as in some other MDBs.

Efficient Trust Fund Management

Rationalizing processes, procedures, timelines and costs, and strengthening reporting

Issue. Since 2006, the Bank has pressed for greater delegation of authority in the approval of trust-funded projects and for funding to be untied to firms or individuals from the donor country. This is a particular problem for bilateral funds. The lack of progress in this regard has resulted in delays and uncertainty by trust fund and task managers and a relatively high rejection rate in some cases.

Recommendation: Ensure progress on delegation of authority in the approval of trust-funded projects, replace the setting of arbitrary thresholds and enhance annual reporting including on processing times under the various trust funds. Bank Management should set a policy that after the first one or two years of a fund (mainly pertaining to bilateral funds), there should be full delegation of authority to the Bank as both the Bank and the donor gain understanding and trust. This would replace the setting of arbitrary thresholds.

Issue. Critical implementation issues and resource implications are not adequately addressed at the time of fund establishment despite their inclusion in the standardized proposal forms that leads to overambitious expectations and serious reputational risks for the AfDB.

Recommendation: Clarify the implementation modality, management structure and resources required with a realistic timeline for disbursements. The newly instituted review process adopted by the SMCC should ensure that it is adequately taking into consideration implementation and resource issues. In particular, proposals should be clear about the implementation modality, management structure and resources required with a realistic estimate of the timeline for disbursements. Specifically the implementation arrangements and resource requirements for the Migration and Development Fund and the Micro-Finance Facility should be reviewed.

The process should be monitored over the next year to ensure that it is meeting its objectives and adequately setting expectations.

Issue. There is a serious lack of consistent data and information compiled for the trust fund portfolio relating to disbursements, processing times and costs. Moreover there is a substantial amount of confusion regarding the measurement and meaning of indicators for monitoring disbursements which are reported to the Board.

Recommendation: A costing analysis should be conducted to inform Management of the Bank's costs incurred in the management and execution of trust funds and approved projects. While implementation of the ATRS is in its early stages, the analysis could be conducted by taking different types of funds (bilateral vs. thematic;

recipient vs. bank executed; investment vs. technical assistance) and selecting a sample for a detailed analysis. This analysis should inform Bank policy on trust fund fees.

Recommendation: Key Performance Indicators proposed in the Task Force report to the SMCC should be revised taking into consideration the analysis and indicators prepared in this Evaluation. The Key Performance Indicators proposed in the Task Force report to the SMCC should be revised taking into consideration the analysis and indicators (Annex 5) prepared in this evaluation. A process of consultation should be followed with the Board, Management and staff to enhance understanding and commitment. The results should lead to a reformulation of ORRU's reporting to Management and the Board.

Recommendation: Revamp ORRU's website to make it user-friendly and informative. This should include providing the necessary information on individual trust fund requirements and a calendar of upcoming calls for proposals.

Strengthening Operational Capacity

Issue. With the high turnover of operational staff and the high percentage of task managers who have been in the Bank a short time, there is a need to enhance the skills of these staff in the area of trust fund management and consultant procurement. There is also an urgent need to provide greater support to trust fund and task managers especially in the area of procurement.

Recommendation: Develop an action plan to enhance the procurement capabilities and support to trust funds and related activities.

The Action Plan should: incorporate a mandatory training program for task managers in consultant procurement: preparation of clear and succinct guidance notes including examples; and an assessment of options for providing more support in a timely manner to trust

fund managers and task managers through direct assignment of procurement staff to individual funds and/or placing capacity in ORRU. As part of this effort, an e-learning course should be prepared for management of trust fund projects. This should be mandatory for task managers of trust fund projects to successfully complete the course. The World Bank program could serve as an example and a useful starting point.

ANNEX 1 RECOMMENDATIONS OF TASK FORCE TO SMCC

Actions to improve strategic alignment and management of trust funds and other initiative with external partners

Inadequate Procedures for Establishing New initiatives

- Application of a uniform process to screen and approve all new initiatives.
- New initiatives will be assessed by an inter-departmental technical level Standing Committee before submission to the SMCC.
- Processing time should require 3-4 months plus negotiation time with donors and partners.
- Use of standardized submission instruments: Requests will be submitted via a standardized concept note along with a Scorecard. The documents will take into account cost-effectiveness, value-addition and risk factors.

Inefficiency in the Management, Use and Reporting of Initiatives

- Establishment of a new fee structure.
- Screening of existing initiatives with Scorecard to determine what should be renegotiated, discontinued, restructured.
- Regular information on available Trust Fund funding should be provided by ORRU including details on status and requirements.

- Integration of initiatives into staff objectives and departmental annual workprogram/ budget and KPIs.
- Each Complex should designate a Focal Point to follow up and report on use of Trust Funds and Initiatives.
- Increase threshold of Bank approvals and minimum size of Trust Funds.
- The threshold of Bank approval authority of activities financed by bilateral trust funds should be increased from \$100k to \$300k. Trust Funds and Initiatives should have a minimum value of UA2 million equivalent.
- Develop more appropriate assessment tools to track implementation of Activities and disbursement performance.
- Use of a standard reporting format for all initiatives.

Absence of a Comprehensive and Well-Coordinated Resource Mobilization Strategy

- Development of a Resource Mobilization and Partnerships Strategy 2012-2015.

Suboptimal Institutional Arrangements

- Establish a comprehensive Resource Mobilization and Partnerships Department to be headed by a Director. The Department would be best located under the supervision

of the Vice President and Chief Operating Officer (COO).

- Establish and ensure coordination. While recognizing that contacts with external donors

and partners will continue to take place at different levels, ensure regular information sharing and collaboration.



ANNEX 2 List Of Trust Funds—Cumulative Transfers, Project Commitments and Disbursements as of December 31, 2011

Bilateral Trust Funds (by year of start, latest first)

Donor	Start of Trust Fund (most recent phase for multiple phase TFs)	Currency	Cumulative Transfers as of December 31, 2011	Cumulative Project Commitments as of December 31, 2011	Disbursements as of December 31, 2011 (FFCO)	UA/Local Currency
1 India	2011	USD	4,112,843.96	1,647,384.00	161,691.30	0.66
2 Norway	2010	NOK	13,003,791.00	9,145,949.43	1,127,099.00	0.11
3 Finnish Consultancy Trust Fund	2010	EUR	7,908,039.17	7,572,534.85	2,502,502.51	0.81
4 Portugal III	2009	EUR	2,336,235.00	1,702,392.76	491,058.00	0.81
5 Canada Technical Cooperation Arrangement	2008	CAD	4,000,000.00	3,485,059.88	2,125,013.00	0.66
6 Korea - KOAFEC	2007	USD	27,463,301.49	15,028,887.28	10,716,443.00	0.66
7 United Kingdom DFID	2007	GBP	13,000,000.00	12,263,612.83	12,619,322.00	1.04
8 Nigeria NITCF	2004	USD	25,000,000.00	5,501,176.35	2,836,630.00	0.66
9 France	2000	EUR	3,479,241.16	3,718,141.69	2,496,179.56	0.81
10 Spain	1999	EUR	1,433,928.88	1,700,029.92	1,693,264.00	0.81
11 Italy	1998	EUR	3,106,129.42	3,276,096.54	916,794.63	0.81
12 Swedish Trust Fund for Consultancy Services	1998	SEK	47,543,711.00	49,863,128.71	49,010,662.00	0.10
13 Switzerland	1998	CHF	5,076,413.16	4,822,733.22	4,743,163.00	0.68
14 China	1996	USD	2,000,000.00	1,399,434.11	1,299,940.33	0.66
15 Japan (PHRDG)	1994	JPY	2,289,968,691.00	2,125,682,745.55	1,952,200,149.00	0.008

Thematic Trust Funds (by year of start, latest first)

	Start of Trust Fund	Currency	Cumulative Transfers as of December 31, 2011	Cumulative Project Commitments as of December 31, 2011	Cumulative Disbursements as of December 31, 2011 [FFCO]	Disbursements 2011	
1	New Partnership for Africa Development - Infrastructure Preparation Programme (NEPAD-IPPF)	2004	UA	29,975,424.53	22,750,467.96	14,135,136.49	3,957,488.69
2	African Water Facility Fund (AWF)	2005	UA	106,372,719.94	59,306,282.73	39,743,212.13	8,978,848.48
3	Rural Water Supply and Sanitation Initiative (RWSSI)	2005	UA	87,437,362.81	69,422,313.60	18,587,052.97	8,315,738.11
4	Fund for Africa Private Sector Assistance (FAPA)	2006	UA	31,253,453.40	17,747,933.94	10,542,450.12	4,244,260.16
5	Multi-Donor Water Partnership Programme (MDWPP)	2006	UA	4,323,675.15	?	2,747,355.39	403,812.80
6	Congo Basin Forest Funds	2009	UA	63,453,510.16	45,206,223.93	8,137,578.57	4,863,705.48
7	Migration and Development Funds	2009	UA	4,212,000.00	1,172,304.90	0.00	0.00
8	Micro-Finance Trust Funds	2010	UA	4,050,000.00	0.00	0.00	0.00
9	Governance	2011	UA	2,997,861.55	1,537,712.88	183,450.38	183,450.38
10	South-South	2011	UA	660,000.00	268,595.65	0.00	0.00
11	SEFA	2011	UA	30,060,614.41	4,822,733.22	4,743,163.00	93,215.00
12	Zimbabwe	2011	UA	?	?	?	?
13	African Trade Funds	2011	UA	0.00	0.00	0.00	0.00

ANNEX 3: EXPERIENCE OF OTHER MDBs

As with the AfDB, other MDBs have been managing trust funds for a long time; but it is only recently that trust funds have been considered as a distinct line of business and a means of leveraging financing for initiatives that are considered less appropriate for lending. While the scale and scope of trust funds varies by institution, the issues that have arisen are similar. The following summarizes the findings of a review of trust fund experience by the World Bank (WB), the Inter-American Development Bank (IADB) and the Asian Development Bank (AsDB) and offers a means of examining the performance of the AfDB and some ideas for addressing the key issues.

Comparing performance and related issues and efforts across institutions is difficult due to different terminology and categorization of trust funds and a general lack of specific comparable data. Clearly the scale and scope of the World Bank's portfolio is well beyond those of the Regional Banks (with annual disbursements above \$3bn compared with those of the three Regional Banks ranging from over \$50million for the AfDB to around \$150million for the AsDB). Yet, the main donors are similar in each case. Discussions with key staff involved in managing trust funds and a review of the results of recent evaluations by the Evaluation Departments (World Bank, 2011; IADB, 2010; AsDB, 2010) (footnote) offer a good basis for assessing cross-cutting issues. Moreover, the Trust Fund units have been collaborating continuously with annual meetings to exchange views.

The three overarching issues raised by the three MDBs can be summarized as follows:

- A perceived need to rationalize the apparent proliferation of individual trust funds and to ensure a more strategic, rather than opportunistic, approach that is more efficient and that is “monitorable” in terms of results;
- The persistent complaint from donors and recipients as well as Bank staff and Management of the time required for gaining approval and agreement for activities and then for implementation of those activities; and
- A need to better integrate the business of trust funds into the standard systems of the MDBs to ensure efficiency as well as to enhance synergies with lending and other services.

Approach to New Trust Funds. There is a consistent preference to move away from stand-alone bilateral funds towards multi-donor thematic, country or project oriented forms of financing. The AsDB and the World Bank are establishing “platforms” (Financing Partnership Facilities at the AsDB and “Umbrella” funds at the WB) that would consolidate related funds into an overall program while maintaining options for separate donor windows to serve donor preferences, such as country targeting. The objective is to provide an overall strategic framework more amenable to results setting and monitoring and also providing scale economies for fund management. The IADB has not proposed such a platform but the Evaluation Department called for a more aggregated program approach which would

provide a similar benefit. In addition, the Evaluation Department proposed that trust funds should be initially established using the Bank's own funds in order to test a concept before inviting donor contributions. This would avoid the reputational issues as a new fund deals with teething problems.

Regarding the use of country trust funds, there is a clear distinction between the practices of the World Bank and the other Regional Banks. The WB has used such funds more extensively. This is partially due to its efforts on fragile states and emergency responses and also due to its decentralization. The Evaluation Department confirms that such funds have been effective at focusing on a country's priorities and on donor coordination on the ground. The IADB and the AsDB, like the AfDB, have been more reluctant to approve country funds except in special cases such as Haiti for the IADB and Afghanistan for the AsDB.

Preparing and Vetting Proposals. The three MDBs have attempted to rationalize and standardize procedures: clarifying processes; introducing standardized templates; and improving IT systems. As at the AfDB, there have been attempts to eliminate "tied" funding and to promote more delegation of authority. The results have been mixed and will clearly require more time. The MDBs have tried to establish service standards for each step of the clearance process with norms set in their trust fund guidelines. The issue of lack of delegation of authority and the need for donor vetting of proposals raises uncertainties in processing and adds an inordinate amount of time.

There are variations on the approach for calling for proposals. The IADB has a continuous process with the Trust Fund unit acting as a single window to determine the most appropriate funding source and a Committee meets once a week to approve proposals. The AsDB works on a two month rolling call for proposals. Each MDB has exceptions to these processes and the WB has a combination of approaches depending on the trust fund.

Task Manager Capability. A major concern is the capability of staff to handle the trust funds in accordance with MDB procedures. The most extensive initiative has been that of the WB which established an e-learning accreditation program in which all staff that manage trust funds had to pass. A second version is about to be launched. Fiduciary units at the MDBs assert that financial management and procurement policies are sufficiently flexible but are concerned about staff capability in this area as well. The WB procurement unit is designing programs to prepare and accredit staff for different levels of procurement. Related to trust funds a special training program on consultant procurement has been initiated, especially targeting staff who don't have a lot of operational experience.

Bank versus Recipient Execution. There is a variation among MDBs in the attention paid to the distinction between Bank vs. recipient executed trust funds. The WB and the IADB are rigorous in ensuring and monitoring recipient execution unless it is an activity clearly for internal use or support to the bank in carrying out its responsibilities. On an exceptional basis, if the recipient is not capable of applying procedures

credibly, Bank execution is permitted. This does not appear to be a concern for the AsDB.

Partnering with NGOs. While the issue of NGOs as recipients is recognized by each of the three MDBs reviewed; none of them has a systematic policy to guide staff. This is a growing concern. There are issues of procurement capability as well as financial management and disbursement rules. Moreover, there is an issue of liability in the case of misused funds and the limited potential for the recovery of funds.

Budget and Work Program Integration.

The AsDB and IADB have set policy such that all trust fund fee revenue goes to the general budget and is then allocated in accordance with normal budget rules. The WB is in the process of considering adoption of that policy with the exception of global funds or where significant investments are involved. There is still a wide variation in how trust fund activities are integrated into annual work programs. In the WB, the importance of integration is clear given the scale of recipient-executed trust funds relative to lending and, even more importantly, the scale of Bank-executed trust funds relative to the administrative budget. In all cases, however, the

MDBs see this as critical to ensuring appropriate incentives and accountability.

Trust Fund Indicators and Scorecards. The monitoring of aggregate indicators for the trust fund portfolio is highly variable. Neither the AsDB nor the IADB produce annual reports equivalent to the AFDB. Nor do they have scorecards. They do have norms for different stages in the processing and implementation of funds which appear to be in line with the targets set by the AFDB. The most extensive practice is the WB that incorporates a number of indicators in its institutional scorecard.

Institutional Responsibility for Trust Funds.

The IADB and AsDB have recently reorganized and moved institutional responsibility for their trust fund oversight units. While the WB's unit remains under the CFO and within the same department responsible for concessional resources (IDA), the IADB has moved its unit from under the VP for countries to an office reporting directly to the President. The AsDB has moved the unit from the VP for Knowledge to the VP for Private Sector and Cofinancing while the concessional resource unit (ADF) is under the Strategy and Policy Department reporting directly to the President.

ANNEX 4: 2006 TRUST FUND REFORM PROGRAM

In September 2006 the Board of Directors approved the Trust Fund Reform Program which aims to untie, standardize, simplify and align its Trust Funds with those of other Multilateral Development Banks. The new policy is being implemented during a three-year period through a series of policy and process reforms. New Trust Funds or replenishments of existing agreements negotiated as from 1 January 2007 will be

completely untied. Multi-Donor Thematic Trust Funds will be encouraged. Emerging strategic themes and areas of priority for promoting Multi-Donor Trust Funds at the Bank include: Higher Education/Science & Technology, Knowledge Management, Capacity Development for Regional Economic Communities (RECs) in Infrastructure, Governance, Private Sector Development and Climate Change.

Comparison between the Old and the New Trust Funds Policies

Feature	Former Policy	New Policy
1. Terms & Conditions	Multiplicity of terms and conditions of various funds: mostly tied nature; diversity in legal frameworks	The Bank provides a standardized legal framework. New Funds and replenishments negotiated as from 1 January 2007 will be completely untied.
2. Administrative Fees	Random determination and charge of administrative fees (between 0 and 5%)	Introduction of a cost recovery policy: Standard minimum administrative fee of 5% will be applicable to all new Funds.
3. Thresholds & Approval Periods	Varied thresholds (from US\$ 250,000 to US\$ 25 million), ad hoc allocation system of resources The Bank's Pre-Approval Authority ranging from US\$ 10,000 to US\$ 100,000 Approval periods ranging from 3 to 6 weeks	Minimum Thresholds: <i>Single Donor TF:</i> US\$ 1 million <i>Multi Donor TF:</i> US\$ 2 million The Bank's Pre-Approval Authority <i>Single Donor TCF:</i> US\$ 100,000 [In case Donors cannot grant a pre-approval authority to the Bank, proposals shall be approved on a non-objection basis within 10 working days.] <i>Multi Donor TCF:</i> US\$ 500,000 TCF exceeding US\$ 1 million to be approved by the Board of Directors on a lapse-of-time-basis
4. Reporting & Administration	Diversity in reporting due to diversified agreements	Introduction of a standard reporting system based on RBM; establishment of an M&E system; IT-based resource management; TC Fund Handbook under updating.

ANNEX 5: TRUST FUND INDICATORS

Indicator	Measure	Interpretation	Primary User
Annual Transfers	UA	Funding Mobilization Trend	Board/ Management
Annual Approvals	UA	Commitment Trends	Board/ Management
Annual Disbursements	UA	Disbursement Trends	Board/ Management
Cumulative Commitment %	As % of cumulative transfers	Ability to Commit Resources	Board/ Management/ Donors
Cumulative Disbursement %	As % of cumulative commitments	Ability to Disburse and Execute Commitments	Board/ Management/ Donors
Annual Disbursement Rate	Disbursement in given year as % of undisbursed Commitments at beginning of year	Rate of Disbursement in a given year	Board/ Management/ Donors/Staff
Actual Annual Disbursement as % of Planned Disbursements	Actual Disbursements as % of Planned Disbursements by Activity Task Managers	Disbursement against Expectations	Board/ Management/ Staff/Donors
Overhead Cost Ratio	OH Expenditure in a given year as % of annual TF commitments	Administrative cost of TFs	Board/ Management/ Donors
Bank-Executed Trust Funds Ratio	BETF Annual Disbursements as % of net administrative budget	Relative importance of BETF's to Unit Budgets	Board/ Management
Recipient-Executed Trust Funds Ratio	RETF Annual Disbursements as % of lending disbursements plus TF/grant support	Relative importance of RETF's to resource transfers	Board/ Management
Processing Times for Approvals	# of months from receipt of proposal to approval	Efficiency of Approval Process	Board/ Management/ Staff/Donors
Time Required for Initial Execution	# of months from approval to first disbursement	Efficiency of Mobilization Process	Board/ Management/ Staff/Donors

ANNEX 6: DESCRIPTION OF PLATFORM CONCEPT

Background

In an effort to gain greater synergies among the growing portfolio of thematic and bilateral trust funds, several MDB's are applying a "platform" or "umbrella" approach which enhances coordination and strengthens the strategic synergies between related or overlapping funds without jeopardizing the specific governance requirements of each donor or group of donors. The ASDB is the most advanced having started a number of platform facilities since 2006 and conducting an extensive review by its evaluation department. The World Bank is also pursuing this concept and the IADB also sees this as having important potential.

Defining the Platform Concept

The Platform provides a framework by which several single or multi-donor funds with similar or overlapping objectives are linked administratively in terms of Bank oversight.

The objectives are to better coordinate uses of these funds and enhance their impact. They differ from the concept of a Thematic Fund in that they allow for combining a number of funds without demanding a change in the legal governance of each fund. The platform is directed at a key strategic initiative of the Bank and the funding can include Bank funds as well as trust funds. A second potential benefit of the platform is to provide greater economies of scale for the provision of support services including overall management as well as legal and fiduciary support.

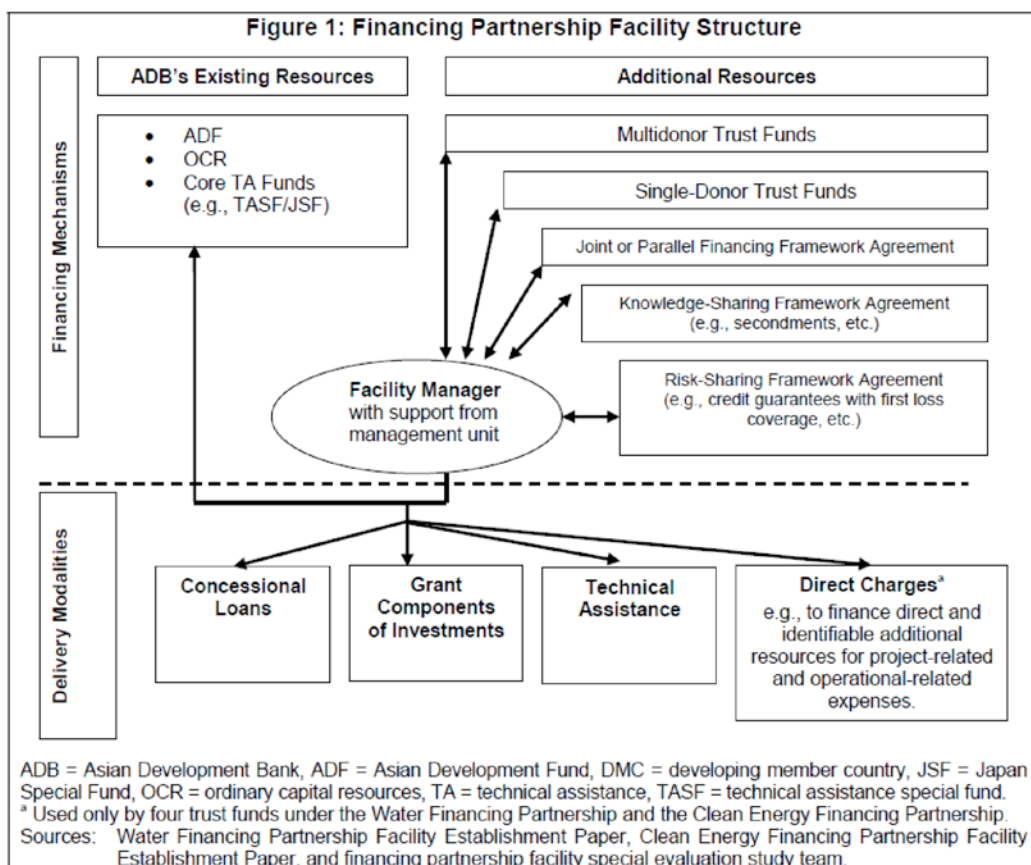
The AsDB's Experience

The ASDB between 2006-2010 started three platforms (which they refer as Financing Partnership Facilities - FPFs): Water Financing Partnership Facility which included a Multidonor Water Trust Fund with four donors and a bilateral trust fund; Regional Cooperation and Integration Financing Partnership Facility which included a Bank funded facility and a bilateral fund; and the Clean Energy Financing Partnership Facility which included a multidonor fund with four donors, two bilateral funds. The Independent Review in 2010 found that the initial effort had been positive but more could be done to achieve the benefits.

The FPFs are defined as operational "platforms" for strategic, long-term, and multipartner cooperation with development partners, linking various forms of assistance in a coordinated manner for well-defined purposes. FPFs are focused on ADBs key sector/thematic priorities linked to their Strategy 2020 and may include seed funding from ADB. Subprojects or components may be fully financed by cofinanciers on a standalone basis, but linked to an established ADB program or facility, and be supported through ADB's administration services.

The intended advantage of FPFs is that they are better platforms for coordinated financing of agreed-upon objectives in a more sustained and mutually beneficial manner, compared with what was possible previously with just single-donor and multidonor trust funds.

The structure of the FPFs is set out in each of the FPFs' respective establishment papers, but



generally follows the same form. The figure below shows the basic structure of the PPF platform in terms of financing mechanisms and delivery modalities.

Financing mechanisms. The PPFs were designed to bring together under a common “umbrella” a number of financing mechanisms, including (i) trust funds (single or multidonor), (ii) loan cofinancing through framework agreements (joint or parallel), (iii) cooperation arrangements for knowledge provision and exchange, and (iv) any other form of cooperation that the financing partners and ADB may agree upon for a defined program of activities.

Delivery modalities. The PPFs originally offered three forms of delivery modality: (i) concessional loans, (ii) grant components of investment projects, and (iii) technical assistance (TA, both standalone and accompanying). To date, the PPFs have made use of only two of these modalities (grants and TA). The unused modality is “concessional loans” due to donors not having yet provided sector or thematic framework agreements and resources for loan cofinancing. A new modality, the direct charge to project costs (for additional rather than regular planned activities) was introduced by four of the seven PPF trust funds as a means of providing a faster response mechanism to emerging needs and making funding available for small, standalone

activities such as workshops, short studies, and knowledge product development.

FPF Implementation and Administrative Arrangements

Each of the FPFs has detailed implementation arrangements setting out the roles and responsibilities of each of the parties involved. The financing partners are expected to provide strategic direction to the FPFs; attend annual consultation meetings; and review progress reports and annual work programs. The FPF steering committees provide strategic direction to the FPFs, approve FPF policies and procedures, and approve allocation of funds to projects.

These are determined by the governance structures included in the respective FPF establishment papers. In the case of some FPFs, the respective sector/thematic working group also plays a role in reviewing and endorsing project proposals and advising the steering committee on strategic issues. Each of the FPF has a secretariat and they oversee the FPFs' day-to-day operations, vet project proposals for compliance with eligibility criteria, prepare the annual work program and progress reports, and serve as focal points for technical matters.

The FPFs have specific administrative arrangements in terms of degree of fund delegation, service charges, and replenishment. In terms of fund delegation, all multidonor funds are fully delegated in terms of screening and allocation of funds to projects, whereas only two of four single-donor funds are fully delegated. In terms of service charges, ADB charges a service fee to

cover its incremental costs for administration, management, supervision, and operation of the facility and funds. The service fee is 5% of the amount disbursed for TA. For grant components of loan projects, the service fee is 5% for grants up to \$5 million, or 2% with a minimum of \$250,000 (whichever is greater) for grants above \$5 million.⁴ The FPFs do not have any formal replenishment schedule, but this is normally done on an "as needed" basis.

FPF Processing Cycles

The application and allocation processes for both delegated and nondelegated funds are discussed below.

Delegated processing. The five delegated FPF funds have an extra six steps vis-à-vis the standard ADB processing cycle, as follows:

- i. A project concept paper is appended to the facility application and forwarded to the respective FPF secretariat.
- ii. The secretariat vets the application in terms of eligibility with FPF and fund criteria and technical quality. Any application that is ineligible is rejected.
- iii. If necessary, the project team leader revises project concept paper.
- iv. Eligible applications are presented to the sector/thematic working group for their consideration. In considering the application, the sector working group reviews technical quality, eligibility, fund rationing, and contribution to the outcomes and impacts for the

facility as defined in the facility design and monitoring framework (DMF). The sector working group then endorses the application or rejects it.

- v. Endorsed applications are forwarded to the respective FPF steering committee for their review and approval. The steering committee approves allocation of funds to the project.
- vi. The project team leaders are informed of the fund allocation to their project and proceed to finalize their project document.

These extra steps are usually undertaken in parallel with the normal ADB project processing steps.

Nondelegated processing. In the case where a project is proposed for funding from either of the two nondelegated FPF funds, there is no delegation to ADB to approve the allocation of funds to the project. Instead, a further process is undertaken to seek approval from the financing partner government. This involves submission of the application and concept paper to the financing partner embassy in the respective country (or countries in the case of regional TA) for their comments and endorsement. After this review, the application and concept paper are forwarded to the donor government via three intermediaries consisting of the FPF Secretariat, the ADB Office of Cofinancing Operations (OCO), and the ADB Executive Director's Office. The donor government reviews the proposal and either approves it or provides comments on it. In the latter case, the comments are sent back to the project team leader via the same three intermediaries for incorporation. The above additional

steps are estimated to add an additional 14 steps compared with the delegated approval procedure and 19 steps (some of them in parallel) compared with the normal ADB procedure.

(Source: ADB *Financing Partnership Facilities* Reference Number: SES: OTH 2010-74 Special Evaluation Study December 2010)

Application to AfDB

The OPEV Evaluation identified two issues that indicate a potential application of the Platform concept for the AfDB. There are a number of related or overlapping funds in terms of their objectives which could benefit from greater coordination. In addition, there are a number of funds with substantial resources for internal management and support while other funds have no economy of scale (procurement support being a key element). Among the possibilities are the three water-related trust funds (AWF, RWSSI, MDWPP), the private finance related funds (FAPA, Migration and Microfinance) and the South-South funds (the thematic fund plus a number of bilateral funds).

It would require putting the related funds under one operational vice-president for overall strategic coordination and management, integrating the strategies guiding the various funds, rationalizing governance where and if necessary, and providing more coordinated support services such as fiduciary and legal. It should not require much if any changes to legal agreements and thus could be superimposed on existing trust funds. It could also provide a more strategic link with Bank operations.

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Trust Fund Management at the African Development Bank

AN INDEPENDENT EVALUATION

This evaluation reviews the establishment and implementation of 28 bilateral and thematic trust funds monitored and partly administered by the Bank's Partnerships and Cooperation Unit (ORRU).

It assesses the procedural effectiveness of the implementation of the Trust Funds: it attempts to set forth the scope and scale of the procedural issues; distinguish at what stage in the process problems are most critical; and identify the key factors behind the problems and the implications for policy, process, organizational structure and human resource reforms.

About the AfDB: The overarching objective of the African Development Bank Group is to spur sustainable economic development and social progress in its regional member countries (RMCs), thus contributing to poverty reduction. The Bank Group achieves this objective by mobilizing and allocating resources for investment in RMCs; and providing policy advice and technical assistance to support development efforts.

The mission of the Operations Evaluation Department is to enhance the development effectiveness of AfDB initiatives in its regional member countries through independent and instrumental evaluations and partnerships for sharing knowledge.

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