

FROM: Vice President and Corporate Secretary

**Reform Of World Bank-Administered Trust Funds:
The Way Forward**

1. Attached is a report entitled “Reform Of World Bank-Administered Trust Funds: The Way Forward”, dated July 1, 2004, which will be discussed at a meeting of Executive Directors to be held on **Tuesday, July 27, 2004**.
2. Questions on this document may be addressed to Mr. Zulfiqar (ext. 35943) or Mr. Toulmin (ext. 81747).

Distribution:

Executive Directors and Alternates
President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
Directors and Department Heads, Bank, IFC and MIGA

JAMES D. WOLFENSOHN
President

July 1, 2004

MEMORANDUM TO THE EXECUTIVE DIRECTORS

Reform of World Bank-Administered Trust Funds: The Way Forward

1. This paper follows on from one entitled “An Update on Reform of World Bank-Administered Trust Funds: Strengthening a Major Instrument of Development Assistance” (SecM2004-0053), of February 17, 2004, which provided an update on reforms to World Bank-administered Trust Funds. It responds to Executive Directors’ request that Management consult donors about the proposed reforms in that paper, report back on their views, and submit final proposals for the Board’s consideration. The proposals in the earlier paper were directed to encourage current trends in moving trust fund resources toward multi-donor, programmatic instruments; promote a transition away from trust funds allowing tied procurement; and continue streamlining, strengthening, and making more transparent the management of the Bank’s trust-funded activities, including through a revised statement of operational policy on trust funds. Specifically, that paper proposed to wind down the Consultant Trust Fund (CTF) program.

2. In follow-up consultations during and since a Donor Forum on March 15-16, 2004, donors have broadly agreed with the Bank’s main objectives in administering trust funds, and with the overall direction of change. Many donors have also strongly supported the proposed winding down of the CTF program, although some have expressed reservations about its rationale and timing. Accordingly, Management has spent several months in intensive dialogue and analysis to reassess all the arguments for and against this change. While taking account of the weight of some donors’ reservations, Management continues to believe that the essential arguments for untied procurement under trust funds, and therefore for ending CTFs, remain compelling. At the same time, Management and donors have a shared concern to ensure that implementing this change does not affect negatively the support which donors provide through other partnerships with the Bank, nor undermine our shared interest in drawing on as diverse a range of expertise as possible. This paper therefore proposes refinements to the phase-out arrangements as originally set forth, and outlines a variety of additional measures aimed at promoting the diversification of opportunities for donor nationals, and others, to contribute to the Bank’s development work.

3. Specifically, this paper requests Executive Directors to approve the proposal that the World Bank's policy be no longer to accept trust funds that impose nationality restrictions on procurement.

4. As tying of procurement is an essential element of CTFs, agreement to the proposed policy change would require that the CTF program be wound down. Executive Directors are therefore also requested to approve the arrangements for doing so, as set out in this paper, including measures to diversify opportunities for participation in Bank work, and a phased approach to winding down the CTF program.

5. It is intended to make the report publicly available after Board consideration.

Recommendation:

6. I recommend that the Executive Directors approve the proposals set out in paragraph 4.03 of the attached report.

James D. Wolfensohn
President
by Jeffrey A. Goldstein

**REFORM OF WORLD BANK-ADMINISTERED
TRUST FUNDS:**

THE WAY FORWARD

July 1, 2004

Concessional Finance and Global Partnerships
Vice Presidency

Abbreviations and Acronyms

CFP	Concessional Finance and Global Partnerships Vice Presidency
CTF	Consultant Trust Fund
ETC	Extended-term Consultant
GPP	Global Program or Partnership
HR	Human Resources
IAD	Internal Auditing Department
IFC	International Finance Corporation
JPO	Junior Professional Officer
MIGA	Multilateral Investment Guarantee Agency
ODA	Official Development Assistance
OED	Operational Evaluation Department
OP	Operational Policy
PSLO	Private Sector Liaison Officer
SEP	Staff Exchange Program
STC	Short-term Consultant
VPU	Vice Presidential Unit

REFORM OF WORLD BANK-ADMINISTERED TRUST FUNDS: THE WAY FORWARD

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REFORM OF WORLD BANK-ADMINISTERED TRUST FUNDS:

THE WAY FORWARD

INTRODUCTION

At an informal meeting on March 2, 2004, Executive Directors discussed Management's proposals for reform of World Bank-administered trust funds, including a proposal that the Consultant Trust Fund (CTF) program be wound down.¹

Purpose of the Paper. This paper responds to Executive Directors' request that Management consult with donors about the proposed reforms, report back on their views, and submit final proposals for the Board's consideration.

Structure of the Paper. Section I summarizes Management's original proposals. Section II outlines the salient features of a meeting with trust fund donors on March 15-16, 2004 in Paris. Section III explains how Management proposes to address the various concerns raised through clarifications and revisions to the earlier proposals. Section IV asks Executive Directors formally to approve the proposals, as amended in this paper.

I. FUTURE DIRECTIONS FOR TRUST FUND REFORM

1.01 The paper discussed at an informal meeting of Executive Directors on March 2, 2004 provided an update on the current status of the World Bank's trust fund business, progress of trust fund reforms, and the strategic role for trust funds in the future². The portfolio of trust funds has been expanding and they now constitute a key means to support clients in achieving development results at the global, regional, and country level. In consultation with donor partners, clients and Executive Directors -- and responding to concerns about increasing complexity and risks -- Management has been engaged in a thorough review and reform of trust funds over the past three years. The initial agenda of trust fund reform -- aimed primarily at alignment, process simplification, strengthened controls, and improving relations with donors -- has been substantially completed. Trust funds are now better linked with clients' priorities. Management has put in place better

¹ *An Update on Reform of World Bank-Administered Trust Funds: Strengthening a Major Instrument of Development Assistance* (SecM2004-0053), February 17, 2004.

² Additional background is available in *Trust Funds Reform – An Interim Report* (SecM2003-0006), January 8, 2003; *World Bank-Administered Trust Funds: Proposals for Reform of Selected Trust Fund Programs* (R2002-0015), February 5, 2002; and *World Bank Administered Trust funds: Towards a New Framework for Improved Management and Effectiveness – Discussion Draft* (SecM2001-0605), October 17, 2001.

controls and enhanced systems, based in part on recommendations from audits carried out by the Internal Auditing Department (IAD).

1.02 Both Management and donors are keen to use trust funds proactively to achieve greater strategic alignment of development efforts between the Bank and its partners, and to strengthen the development community's focus on managing for results. To this end, donors are increasingly concentrating their trust fund resources in multi-donor and programmatic instruments, which increase the scope and impact of the Bank's operational activities in support of client countries. Management welcomes this direction, which also reflects trends in the international community toward coordinated action at the country level and collaborative arrangements at the global level in pursuit of specific development and global public goods objectives.

1.03 Against this background, the paper discussed informally by Executive Directors in March 2004 laid out Management's proposals for moving forward by:

- Strongly encouraging current donor trends to move trust fund resources toward multi-donor, programmatic instruments. Single-donor programmatic trust funds (for example, Japan's Policy and Human Resource Development Fund) would continue to be important instruments for supporting the Bank's work with client countries. Single-purpose trust funds set up with individual donors would also continue to be vehicles for development at the country level.
- A transition away from tied trust funds supporting aspects of Bank work, which are seen as inconsistent with the international community's emphasis on development effectiveness, simplification and harmonization. To this end, the Bank would work with donor partners to arrange an orderly transition from the tied CTF program to other trust fund opportunities, which could include untied trust funds financing the use of consultants.
- Further guidelines on the establishment and management of global programs and partnerships (GPP) in ways that support the Bank's strategic priorities and promote selectivity, harmonization, and efficient management.
- Continuing to strengthen management of the Bank's trust-funded activities through: systems' enhancements that streamline processes; standardizing legal arrangements; promoting transparency, including better monitoring and evaluation; and further refining policies for the effective financial management of trust funds.
- Revising operational policy (OP) 14.40 to reflect the change of policy on trust funds that impose nationality restrictions on procurement, including the CTF program. In all other respects, the existing policy framework for trust funds would remain the same. As part of the Bank's ongoing effort to update and simplify the Operational Manual, Management would ensure that the revised OP provides greater clarity on that policy framework.

II. CONSULTATION WITH PARTNERS

2.01 At the informal Board discussion of Management's proposals in March 2004, Executive Directors welcomed the progress already made on trust fund reforms and noted the steps taken to strengthen controls, enhance transparency, and streamline trust fund management processes. They supported a focus on aligning trust funds more closely with the Bank's strategic priorities and the trend toward multi-donor and programmatic arrangements, while noting the continuing role of single-purpose trust funds especially at the country level. At the same time, Executive Directors asked that Management have more detailed discussions with donors about the proposal to wind down the CTF program, at the forum of trust fund donors on March 15-16, 2004 in Paris. Management agreed to revert to Executive Directors thereafter, at a formal meeting, with a specific proposal on future reform.

2.02 At the Donor Forum, donors broadly agreed that the overall objective for the Bank's administration of trust funds should be to enhance effective support for development outcomes in its client countries. There was also broad consensus around the overall direction of change. The overwhelming majority of donors welcomed the Bank's commitment to increased transparency in the provision and use of trust funds, offering a more systematic range of trust fund instruments, and efforts to improve efficiency and effectiveness through the streamlining of policies and procedures.

2.03 Donors also generally agreed that procurement through such development resources should be untied by country of origin. This principle has been followed to a lesser or greater extent by virtually all donors in their bilateral aid programs, and is considered a key element in support of harmonization, partnership, and improved development outcomes. Many donors supported the proposed phase-out of CTFs, emphasizing the importance of untied procurement for enhancing the effectiveness of development assistance. Indeed, some of them were in favor of an even shorter transition period for winding down the program than the two years proposed by the Bank. A few donors also asked Management to consider setting up a fully untied multi-donor CTF pool that could be used to hire consultants for Bank work in specific priority areas agreed with the contributing donors.

2.04 At the same time, other donors expressed strong reservations about the proposal to wind down the CTF program, cautioning the Bank to examine carefully the possible impacts of the proposal before going ahead. They argued that the tied nature of their CTF contributions had helped greatly in mobilizing their domestic political support for development assistance, and that the proposal to wind down the CTF program could impact negatively on the resources they were able to contribute for other programs at the Bank. There was also concern about the possible adverse impact of this proposal on the Bank's operational work. Some donors noted that they had only recently entered into substantial new financial commitments for the CTF program, and that they needed more time to allocate and ensure good use of those commitments. To this end, they asked that, at a minimum, the CTF phase-out period be extended beyond two years.

2.05 In this context, a number of donors also recalled that one of the original purposes of CTFs was to increase the opportunities for consultants from donor countries to participate in the Bank's lending and non-lending operations. They asked the Bank to expand its efforts to promote a more level playing field and ensure greater transparency of procurement opportunities for consultants from all countries. They also asked the Bank to refine its procedures for externally-funded staff programs in order to encourage diversification of opportunities for nationals from a broader range of countries to participate in the Bank's development work.

III. MOVING FORWARD

3.01 Management welcomes the broad support for the proposed direction of trust fund reforms as reflected in discussions at the Donor Forum, and, in particular, shares donors' commitment to working in partnership at all levels. However at the Forum, while some donors were keen to move forward with phasing out the CTF program, others clearly continued to have concerns about this change. Since then, Management has spent several months in intensive dialogue and analysis, to ensure that we fully understand key donor issues and requirements, and to generate and analyze various options for addressing them as effectively as possible. The objective has been to confirm that we have fully thought through both sides of the argument for and against winding down the CTF program, as well as alternative approaches to its implementation. Based on this understanding, Management is now able to make recommendations on moving forward which, in our judgment, offer a pragmatic approach that brings together the best elements of both sides, and respects the broad directions being pursued by the international community. Our proposals, as set out below, also reflect significant internal consultation on each element, designed to ensure that these ideas are feasible and command broad support across the Bank.

3.02 Based on our consultations with donors, Management believes that the essential arguments for phasing out trust funds that allow for tied procurement remain compelling.³ These arguments relate primarily to the commitments made by the international donor community to improve development outcomes by untying procurement under their ODA funds to developing countries, and the control risks associated with tied procurement of consulting services. While recognizing the validity of these arguments, Management and donors also share two other important objectives. First, we are all keen to create opportunities for nationals from a more diverse range of countries (particularly certain donor countries) to participate in the Bank's work once the CTF program ends. Second, we want to ensure that the arrangements for winding down the CTF program are phased in a way, and to a timeline, that will allow sufficient flexibility to enable effective use of resources already committed by donors to their CTFs.

³ The arguments were spelled out in detail in paragraphs 3.07-3.08 of the paper: *An Update on Reform of World Bank-Administered Trust Funds: Strengthening a Major Instrument of Development Assistance* (SecM2004-0053), February 17, 2004.

3.03 While taking concrete actions in support of these objectives (as set out in paragraphs 3.04 ff below), Management recommends that Executive Directors approve the proposal that the World Bank's policy be no longer to accept trust funds that impose nationality restrictions on procurement. Since tying of procurement is an essential element of CTFs, agreement to this proposal would require that the CTF program be wound down in a phased manner. Thus, Management also recommends that Executive Directors approve the proposed approach to phasing out the CTF program that is set out in this paper. This proposal, while reflecting the overall policy direction of the Bank, represents a change from the existing policy on trust funds. The current policy has required untied procurement for recipient activities but, hitherto, has allowed for tied procurement under trust funds that support Bank activities. If Executive Directors approve the proposed change in policy, Management will revise OP14.40, the operational policy statement on trust funds, to reflect this change.

Diversifying Opportunities for Participation in Bank Work

3.04 Management believes that the effectiveness of partnerships with donors can be enhanced if the Bank and client countries are able to draw on the full range of available expertise in development issues. This type of partnership has burgeoned at the country level in recent years. Examples include staff and consultants from several agencies working on joint missions, and exchanging project documentation. The current focus on harmonization is further encouraging all partners to move in this direction. For trust funds, the challenge is to ensure that the future direction of reform fits into this paradigm, including by encouraging a broader range of experts to gain exposure to the Bank (and *vice versa*). Such exposure is essential for a diverse, multinational institution to respond effectively to the widely varying challenges of development. Management's commitment to this goal is shown by the increasing involvement in Bank work of local consultants in developing countries, which is leading to much greater diversity in the consultants used for operational work than would be possible through HQ-centric hiring alone.

3.05 More broadly, the objective of diversifying the range of expertise available to the Bank can be furthered by providing better information and access to potential engagements for all consultants (whether individuals or firms, and of whatever nationality), and streamlining the current range of externally-funded staff programs at the Bank. While primary responsibility for competing effectively -- being aware of, and responding to, consultancy opportunities -- remains with individual consultants or consulting firms, their capacity to do so can sometimes be uneven, and linked to nationality. Management has therefore been putting in place the elements of an overall strategy to help correct asymmetry of information and access, thus making it easier for a more diverse range of consultants (and staff) to participate in the Bank's development work, as described below.

A. Promoting a Level Playing Field

3.06 As a key plank of the strategy of promoting a level playing field for consultants from all countries, a new **e-Procurement system** was launched in April this year, designed specifically to improve the transparency of procurement by task team leaders. This system lists consulting opportunities on a real-time basis, ensuring easy access to

procurement notices through the internet. This will help ensure that information on consulting opportunities at the Bank reaches consultants in time for them to participate in the bidding. It also provides an easy one-stop-shop for firms to manage all their submissions in response to procurement opportunities that are advertised by the Bank. Management is currently designing a systematic communication program to help educate consulting firms on making effective use of this facility.

B. Improving Knowledge and Access

3.07 As part of the diversification effort, Management has also identified a number of ways to further supplement and expand knowledge of, and access to, opportunities in Bank work for nationals from a broader range of countries. Some of these are already being supported by several countries, but there is considerable scope for other countries also to explore them. Three initiatives in particular offer potential in this regard:

- ***Expanded Outreach Efforts.*** There have been several successful examples recently of Bank operational staff working with donor agencies to raise awareness, both within the Bank and in their country, of opportunities for collaboration, through targeted missions to donor countries. Some missions have had a sectoral focus, while others have been region-specific. With due regard for the requirements of transparency and equality of opportunity, Management believes that this model could usefully be replicated for other donors, regions, and sectors.
- ***Private Sector Liaison Officers' (PSLO) Network.*** This network currently operates in 17 European countries and Canada. It was launched in January 1999 as a joint initiative of the European offices of the Bank, IFC and MIGA, but individual country offices depend on local sponsorship. PSLOs help companies in the country where they are based understand how to gain access to Bank products and services; disseminate information to them about the Bank and its business opportunities; and facilitate contacts with Bank staff. PSLOs can also help consultants in writing effective proposals and marketing their services. They have detailed knowledge about their national consulting industry because they are supported by, and based at, national, private-sector, intermediary organizations. At the same time, they are very familiar with the Bank's procurement opportunities as a result of their training and continuous interaction with Bank staff. PSLOs are selected through a consultative process between the Bank and the hosting organization. At the Donor Forum, it was agreed that the PSLO Network could be an effective means for improving access for consultants interested in doing business with the Bank. To this end, and in close collaboration with interested donors, the Bank will:
 - provide support to PSLOs for their outreach to the private sector;
 - update PSLOs on the broader trust fund reform agenda;
 - provide Washington-based support for the PSLO Network;
 - develop learning and training courses that respond to the specific learning needs of PSLOs; and

- increase the visibility of the PSLO Network, including by inviting PSLOs to join periodic Bank consultations with the governments of their respective countries.
- ***Business Promotion Initiatives.*** Improving its knowledge of, and access to, the Bank is primarily the responsibility of business itself. Some countries' consulting industries have already demonstrated that they are well-equipped to play a proactive role in this regard. In certain cases, they have business associations with arrangements to support these efforts. In other cases, business has looked to government for such support. In either instance, there are some quite specific ways in which donors can potentially facilitate more effective contact between their consultants and the Bank, to complement existing promotion activities. Two such measures could be particularly helpful:
 - (i) A Business Information Office in Washington, D.C. as a counterpart to any in-country, Private Sector Liaison Officer (PSLO). Its functions could be to:
 - establish and maintain a network of contacts throughout the Bank;
 - explain Bank procurement policies and procedures to their consultants;
 - facilitate the real-time flow of information and contacts between the Bank and their national consulting industry;
 - assist contacts between consultants and relevant task managers in the Bank;
 - know when opportunities of interest to their consultants are coming up; and
 - organize visits to the Bank for delegations from their private sector.
 - (ii) A National Consultant Database, or other readily available directory of consulting companies and consultants, in fields related to the Bank's development work, makes it much easier for task team leaders who so wish to diversify their hiring choices. A number of such country Consultant Databases already exist. However, in some cases the databases have limited information, are only partially completed, are not regularly up-dated, or have information that is not readily accessible for task team leaders -- for example, in a language with which they are familiar. Establishing or enhancing such consultant databases, and ensuring that Bank staff are aware of them, would greatly help task team leaders find consultants from a broader range of countries.

Any Business Promotion Initiative would necessarily need to be implemented by the business or Government concerned. However, the Bank can also support such initiatives in ways that promote transparency and ensure real and effective competition from a diverse range of consultants. To this end, Bank staff can work with the relevant personnel to bring them up-to-speed quickly and assist them to:

- have training that orients them on the Bank's systems for procurement and other core operations;
- ensure task team leaders are aware of directories of consultants;
- maximize the convenience and accessibility of consultants' directories; and
- identify the more relevant task managers for their consultancy industry.

C. Streamlining Externally-Funded Staff Programs

3.08 As a complement to the above measures to promote a level playing field and improve knowledge and access to opportunities for consultants, Management has also reviewed the framework for the external funding of staff and consultants with the aim of streamlining current arrangements. Such arrangements have provided an opportunity for donor national consultants and staff to participate in the Bank's operational work and policy research, and enhanced the Bank's capacity to achieve its development objectives in areas of shared interest. By promoting a range of nationalities, such support has been an element contributing to the multinational nature of the organization. Some of these arrangements have a clear overall structure and rationale, while in other cases, positions have been filled on an *ad hoc* basis as and when an opportunity has arisen. The result has been a diverse mix of arrangements, which are complex and therefore costly to manage and control. Moreover, while these assignments may well have short-term benefits, it has not always been clear that the overall result is consistent with the broader objectives of partnership between donors and the World Bank.

3.09 In an effort to streamline the variety of arrangements that have evolved over the years, Management has identified a common set of principles as the basis for a menu of standardized approaches that will be simple to administer and provide enhanced assurance on controls for both donors and the Bank. These principles are:

- the primary purpose for external financing of consultants and staff should be to support the Bank's mission and the international development agenda;
- arrangements for the external financing of consultants and staff need to be consistent with Bank policies on both trust funds and human resources (HR);
- procedures need to be transparent and consistent across donors;
- arrangements should be established programmatically, rather than case by case;
- to ensure that assignments are linked to Bank priorities, the receiving managing units should be expected to support associated overhead and operational costs; and
- to ensure a simple and standard approach, the trust fund should normally be expected to cover 100% of salary and benefits.

3.10 To give effect to these principles, the Bank is bringing together both existing schemes and newly standardized arrangements for areas currently handled in an *ad hoc* manner. Compliance with HR and trust fund policies and processes will remain the hiring manager's responsibility, while consistency with broader recruitment and personnel policies overall will reside with the HR vice-presidency. Responsibility for trust fund policy aspects of this framework will lie with the Concessional Finance and Global Partnerships (CFP) vice-presidency.

3.11 In the past, the CTF program was one arrangement that enabled the external financing of short-term consultants (STCs) -- both individuals and firms. Going forward,

this program will not be part of the future framework. Instead, trust fund opportunities will be focused on the three options outlined below⁴:

- ***Trust Fund for Development Objectives, financing Consultant/Staff Costs.*** In some cases, achieving the outcomes for which a trust fund has been established requires the financing of consultant or staff costs. If so, and where agreed with the relevant donor, extended-term consultants (ETCs)⁵ and/or staff can charge to the trust fund any time which they spend working on, or in support of, activities which the trust fund is supporting. As STC appointments are assignment-specific, the issue of how they charge their time does not arise. In addition, if so agreed with the donor, the Bank may engage additional consultants (STCs or ETCs) or staff to work on the trust-funded activities. In all cases, consultants and staff would be recruited in accordance with normal Bank recruitment processes, without nationality restrictions. Any appointment would be time-limited to be, at most, coterminous with the availability of funding.
- ***Donor Development Professionals Program.*** This would provide a long-term structured mechanism to support the employment of donor professionals as Bank staff on coterminous appointments, for specific terms. Donors have differing sectoral expertise, which complements the skills already within the Bank, in their public sector organizations, technical institutions, and the private sector (including consulting firms). Donors could set up programs enabling the Bank to hire such mid-career professionals to work in Washington or in a country office for one to two years. In addition, several private firms are already assigning their employees to spend time in Bank staff positions, using the Staff Exchange Program (SEP)⁶. Making donor resources available to cover all or part of the firm's costs of participating might increase the private sector's incentive to deploy experienced staff to the Bank.
- ***Junior Professional Officers (JPO) Program.*** The Bank has established JPO Programs with several donor countries⁷ to enable their nationals to spend time in entry-level positions at the Bank. CTFs currently often support the hiring of individual consultants at the research assistant level, which role is similar to the work that JPOs often undertake. Compared to CTFs, the JPO scheme has the advantage of offering staff appointments, providing a guarantee of employment for a longer duration, and often providing the opportunity for a wider range of work experiences than is possible on a relatively short CTF-financed consultancy assignment. Such a scheme could specifically target priority institutions for the donor, whether consulting firms, national universities or other institutes, providing

⁴ These options would be in addition to other, non-trust funded arrangements such as special assignments of donor officials (paid directly by an external agency), the Staff Exchange Program with private sector firms and other organizations, and reimbursable arrangements for partial funding of consultants or staff in support of the specific achievement of a short-term output.

⁵ An extended-term consultant works full time for the Bank, for a minimum of one year and a maximum of two years.

⁶ There are 196 SEP global partners, in 46 countries, from both public and private sectors, including banks, engineering firms, utilities, UN agencies, Government departments, NGOs, and foundations.

⁷ Currently Denmark, Finland, Germany and Sweden.

a visible opportunity for young researchers and other professionals to gain first-hand experience at the Bank.

Phasing out the CTF Program

3.12 Based on the broadly shared objective of assuring a smooth process for winding down the CTF program, and on the issues identified in discussion with donors, Management proposes to refine the arrangements for phasing out CTFs that were outlined in paragraphs 3.09-3.11 of the paper discussed informally by Executive Directors in March 2004⁸, as follows:

- ***The last year for the Bank to accept new trust fund contributions that impose nationality restrictions on procurement*** would remain FY05.
- ***The timetable for drawing down funds from existing CTFs would be extended.*** Recognizing the impact of differing legislative requirements and fiscal timetables, it appears that for a number of donors the originally-proposed closing date of June 30, 2006 would leave large unspent balances in their CTFs. Management therefore proposes to extend the general deadline for disbursements under the CTF program by a year, to June 30, 2007.
- ***Undisbursed CTF balances at June 30, 2007*** would then be treated as follows. All CTFs with a remaining undisbursed balance of less than \$1 million would be closed, and the uncommitted balance returned to the donor or transferred to other untied trust funds, as agreed with the donor. For any CTF with a remaining balance larger than \$1 million on June 30, 2007, the donor would be invited to review with Management how to use the uncommitted balance. The donor could either reclaim or re-deploy the balance, or ask the Bank to continue to use its CTF resources for agreed purposes until such time as the remaining undisbursed amount falls below \$1 million (at which point the uncommitted remainder would be returned to the donor or transferred to other untied trust funds, as agreed).

3.13 Management has also been working on alternative arrangements to proactively reinforce the effective use of CTF balances during the phase-out period. The resulting proposals are intended to promote discussion between the Bank and trust fund donors, with the aim of designing targeted programs or activities that maximize their development impact, while also meeting specific needs for tied funds.

- ***Streamlining CTFs.*** Donors clearly have the option of continuing to support CTFs under current legal agreements. Management will encourage all CTF donors to explore the following ways to streamline usage of their funds, before signing their FY05 notice of contribution:
 - i) **Eliminate or reduce restrictions** on the use of their contributions to expedite their use. It has been the experience of both donors and the Bank that such

⁸ *An Update on Reform of World Bank-Administered Trust Funds: Strengthening a Major Instrument of Development Assistance* (SecM2004-0053), February 17, 2004.

restrictions can lead to undue complexity in allocation, fragmentation into a myriad of small allocations for individual managing units, and difficulties in effective use of available funds.

- ii) Design **targeted programs in support of specific development objectives**, within a specific, but limited, set of restrictions, so that CTF funds are channeled where most needed and where donor nationals are likely to be in highest demand. Besides ensuring that those funds are effectively used, this could also help firms build stronger track records that will stand them in good stead when competing for contracts with the Bank or its borrowers after the phase-out of CTFs.
- iii) For any donor in a position to maintain its CTF after July 1, 2007, explore **radical simplification of the program's use**, on the basis that all restrictions except tying would be eliminated -- including pre-approval by donors of assignments larger than \$100,000.
- **Multi-donor, Untied Funds.** Building on donor comments in Paris about the use of funding pools, Management will encourage donors to consider transferring some or all of their remaining CTF balances to untied, multi-donor trust funds for Bank or recipient work. Management is also developing proposals for two new trust funds which we expect will be of interest to donors. These funds would support work on capacity enhancement and infrastructure -- two important areas underpinning growth and the Millennium Development Goals, and on which client countries have asked the Bank to focus more attention. In both cases the funds would anchor enhanced dialogue between the Bank and donors on the topics each one covers. This might usefully include periodic meetings or seminars, either in a donor capital or in selected developing countries, at which Bank staff and a cross-section of stakeholders from donor countries can exchange views, experience, and learning. As part of this process, the Bank and donors would agree on the broad uses for the trust funds, within which parameters there would be an allocation mechanism run by the Bank. All Bank managing units would be eligible to apply for an allocation of these funds for operational work with clients. Being untied, they would allow for support to eligible Bank activities as well as for recipients to hire consultants to support client work, including technical assistance and training.

IV. CONCLUSION AND RECOMMENDATION

4.01 This paper reconfirms the proposed future role for World Bank-administered trust funds, as identified in the paper discussed informally at a meeting of Executive Directors in March 2004. That role has been made possible by the progress achieved in the reform of the policies and management of the Bank's trust fund business over the past three years, and the strengthened control framework now in place. Sustaining the momentum of the reform process will be important to ensure that such trust funds continue to realize

their potential in leveraging the strategic strengths and resources of donors and the Bank, the better to support efforts to address key challenges of development.

4.02 To ensure the reform momentum is sustained, Management proposes to pursue the reforms set out in the Board paper discussed in March and broadly supported by Executive Directors, including:

- a stronger and more systematic alignment of trust funds with the strategic objectives which the Bank has agreed with its shareholders and development partners;
- further evolution of trust funds toward multi-donor and programmatic approaches, while retaining a role, where appropriate, for single-donor and single-purpose trust funds; and
- a managed transition of the current portfolio of trust funds in the above direction, with a stress on simplification, untying, and continued improvements in trust fund management, information and learning.

4.03 **Recommendation.** Specifically, Management recommends that Executive Directors approve:

- That the World Bank's policy be no longer to accept trust funds that impose nationality restrictions on procurement; and
- That this decision be implemented along the following lines:
 1. **Diversifying opportunities for participation in Bank work** by:
 - promoting a level playing field, through the new e-Procurement system;
 - improving knowledge of, and access to, consultancy opportunities at the Bank through: (i) expanded outreach efforts; (ii) the PSLO Network; and (iii) various business promotion initiatives; and
 - streamlining and standardizing externally-funded staff programs.
 2. **A phased approach to winding down the CTF Program** as follows:
 - the last year for the Bank to accept new trust fund contributions that impose nationality restrictions on procurement would be FY05;
 - the timetable for drawing down funds from existing CTFs would be extended to June 30, 2007; and
 - the Bank and donors would agree on arrangements for the use of substantial undisbursed CTF balances at June 30, 2007, including a streamlined process for disbursing remaining CTF balances, and exploration of opportunities to transfer CTF balances to existing or new multi-donor, untied trust funds.

If Directors so agree, a revised OP 14.40 would be issued, incorporating the above change to policy on tied procurement under trust funds.