

LOW-INCOME COUNTRIES UNDER STRESS

IMPLEMENTATION TRUST FUND

OPERATIONS POLICY AND COUNTRY SERVICES
DECEMBER 2003

ABBREVIATION AND ACRONYMS

CAS	Country Assistance Strategy
CPIA	Country Policy and Institutional Assessment
CPR	Conflict Prevention and Reconstruction
CRN	Country Re-engagement Note
DAC	Development Assistance Committee
DEC	Development Economics
DFID	Department for International Development
ESSD	Environmentally and Socially Sustainable Development
FRM	Resource Mobilization Department
GFATM	Global Fund for AIDS, Tuberculosis, and Malaria
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IDF	Institutional Development Fund
IFC	International Finance Corporation
IMF	International Monetary Fund
LAP	Learning and Advisory Process
LICUS	Low-Income Countries under Stress
MDG	Millennium Development Goals
OECD	Organisation for Economic Co-operation and Development
OPCS	Operations Policy and Country Services
PCF	Post-Conflict Fund
PCPI	Post-Conflict Progress Indicators
PREM	Poverty Reduction and Economic Management
PRSP	Poverty Reduction Strategy Paper
UN	United Nations

PROPOSED LICUS IMPLEMENTATION TRUST FUND

CONTENTS

I. Introduction	1
Objectives.....	1
Timing	1
II. Rationale	1
Bank Actions to Date.....	2
Regional Focus	2
Supporting Early Reform Strategies	2
Strengthening Service Delivery, particularly for HIV/AIDS	3
Limitations of Other Financial Instruments	3
Bilateral financing	4
III. Trust Fund Design	4
A. Activities	4
Eligible Activities.....	4
Selectivity.....	4
B. Recipients.....	5
Range of Recipients	5
C. Funding Requirements and Term	5
Term	5
Availability of Surplus	6
D. Governance	6
E. Outcomes	7
Impact.....	7
Risks.....	7

Attachment A
Annex A

Attachment B

PROPOSED LICUS IMPLEMENTATION TRUST FUND

I. INTRODUCTION

1. This note outlines a proposal to establish a Trust Fund to assist Low-Income Countries under Stress (LICUS). Subject to the approval of the attached resolution by the Board of Governors, the Trust Fund would be financed by a US\$25 million transfer from the Bank's surplus and would operate until December 31, 2007.

2. **Objectives.** The proposed Trust Fund would assist LICUS with the most severe conflict and institutional problems to implement the reforms necessary for re-engagement with the international community and address urgent social needs such as HIV-AIDs through a coordinated multi-donor approach. Specifically, the trust fund will target LICUS in non-accrual status, , and will aim to:

- (i) support the implementation of early policy and institutional reforms¹ to improve performance and facilitate reengagement with the international community;
- (ii) develop resilient systems for social service delivery, including HIV/AIDS programs, that can continue to operate effectively and mobilize multidonor support even in situations of political instability;
- (iii) develop harmonized multidonor approaches that combine scarce resources behind a selective strategy for reform.

3. **Timing.** Addressing the needs of severe LICUS, , is very timely one year into implementation of the LICUS initiative. There is growing international concern over the spillover effects of instability in LICUS countries, in terms of conflict, migration, organized crime and the spread of epidemic diseases. Several LICUS in non-accrual status are attempting to undertake national reconciliation or political transition efforts which will improve the prospects of international re-engagement, but these initiatives are fragile and require careful, sequenced international support. Many donors are now showing interest in supporting a common approach, but they look to the Bank to provide some initial funding. The Bank is actively seeking to reengage in a number of countries, but it has limited financial tools to support early reform efforts, particularly in states that are in non-accrual status. The ability to provide modest financing in support of early reforms in these countries would take advantage of a small but positive window of opportunity for change, and facilitate more effective donor engagement in pursuit of a common agenda.

II. RATIONALE

4. There is growing concern in the international community regarding lack of progress in those countries with the weakest policy and institutional environments, many of them conflict-affected. Citizens of these countries are disproportionately likely to be poor — and in contrast to their stronger-performing neighbors, they have seen a deterioration in their social and economic welfare in recent years. Neglect of the failing institutional environment in these countries also

¹ Specifically actions which relate to performance indicators in the CPIA and or PCPI in advance of arrears clearance.

creates potential for negative regional and global spillovers, since epidemic diseases, conflict, and organized crime easily across national borders.

5. ***Bank Actions to Date.*** In response to these concerns, the Bank set up a special Task Force on Low-Income Countries Under Stress to recommend ways to help these countries return to a path of sustained growth and poverty reduction. The work of the Task Force was complemented by research under way by other donors, including the OECD DAC, the European Commission, the United Nations Development Programme and bilateral donors. In 2002, the Task Force recommended that the Bank and other donors maintain a more consistent engagement in LICUS countries, but also engage in a different way: increasing the quality of political and economic analysis, promoting domestic demand and capacity for positive change, supporting simple and feasible entry-level reforms, and exploring innovative mechanisms for social service delivery.² To date, the Board has discussed three LICUS reengagement strategies (Haiti, Somalia, and Sudan) and two transitional support or country assistance strategies incorporating LICUS principles (Angola, Tajikistan).

6. ***Regional Focus.*** Eight of twelve severe LICUS (i.e., those with CPIA < 2.5) are located in Sub-Saharan Africa. Several LICUS would also be eligible for the Highly Indebted Poor Countries (HIPC) initiative, but have failed to meet the criteria for entry or have seen HIPC programs thrown off track by political instability. There are some positive developments in these countries, with several (including Liberia and Sudan) reaching a form of political transition in the last year, but these achievements are fragile and liable to be reversed if the societies are unable to establish more robust institutions to support long-term development. Others of the most severe LICUS remain mired in political impasse at the national level, with growing interest from donor partners to work together on new approaches to facilitate national reconciliation, improve governance and strengthen basic service delivery. Because of rising international concern about and interest in these countries, now is an appropriate opportunity for the Bank to work more actively with other donor partners to develop new approaches to help them recover the path to sustained development, debt relief, and poverty reduction. The Trust Fund will target African LICUS, but will be accessible to severe LICUS in non-accrual in other regions. The Trust Fund will not give specific priority to Africa, but the majority of funds are likely to flow to Africa given its high share of non-accrual LICUS.

7. ***Supporting early reform strategies.*** Many LICUS have domestic stakeholders who are attempting to initiate basic reforms. Domestic reformers in these countries are often politically weak: they require modest but timely international support to build momentum for reform efforts. This is particularly critical in LICUS countries where efforts at national reconciliation or political transition are underway: it is crucial that economic and governance improvements take place during such transitional periods, both to prevent a return to political instability and to strengthen policies and institutions in readiness for more comprehensive engagement by the international community. The Bank has at present only limited means to support LICUS countries during these transitional periods. This is particularly true of LICUS countries with arrears to IBRD and/or IDA, since these countries cannot borrow while they remain in non-accrual status and before they have an agreed arrears clearance plan.³ The proposed trust fund

² See *Report of the Task Force on Low Income Countries under Stress*, September 2002. <http://www1.worldbank.org/operations/licus/documents/licus.pdf>

³ IDA post-conflict grants, which may be awarded before arrears clearance, require a structured arrears clearance plan for all creditors to be in place. Such a plan can take significant time to negotiate and, of course, many LICUS are not post-conflict status.

would allow the Bank to provide modest support to these countries, that would assist them as they initiate the kinds of reforms that would set the stage for arrears clearance and subsequent access to IDA financing and debt relief, on the basis of a robust track record.

8. ***Strengthening Service Delivery, particularly for HIV/AIDS.*** Drawing on the analysis of the LICUS report, strengthening service delivery mechanisms offers one possibility to show short-term performance improvements in the most severe LICUS. Basic service delivery is often an area that can attract domestic political consensus for action despite ongoing conflict or impasse at the political or electoral levels. Effective institutions for service delivery can deliver visible benefits to the population, acting to recreate hope in accountable and collective public action. Well-designed service delivery programs can also be resilient to fluctuations in the political situation, and they provide a more cost-effective option for social protection than repeated waves of humanitarian aid. In some cases, Bank engagement in this area, in particular on institutional and expenditure issues, may also facilitate a coordinated approach among donors. An emerging model for such engagement is a small multidonor grant-based program to support reform in the service delivery area, which also acts to facilitate a coordinated donor approach. At present the Bank lacks the instruments, in the case of non-accrual countries, to contribute to such a coordinated effort.

9. A particular gap exists with regard to service delivery in the HIV/AIDS sector in nonaccrual countries. These countries cannot access IDA HIV/AIDS grants. They do not appear to face severe funding gaps for health services and drugs to fight HIV/AIDS, as they have significant allocations from the Global Fund for AIDS, Tuberculosis, and Malaria (GFATM). However, the GFATM is positioned as a financial mechanism with low overhead, and is not itself able to provide the assistance needed to strengthen institutions responsible for developing proposals. The Global Fund has, therefore, lately stressed the need for development partners, such as the UN agencies, the MDBs and others, to assist recipients with institutional capacity-building.⁴ The majority of Africa LICUS countries in non-accrual have had difficulties in accessing and implementing GFATM programs, with adverse effects on their own populations and on efforts to control the disease in neighboring countries.

10. ***Limitations of Other Financing Instruments.*** Since FY03, the Bank has continued to provide LICUS countries with modestly higher levels of financing from the administrative budget. The administrative budget can assist the Bank in better analyzing these countries, but it cannot be the driver for change on the ground, and cannot under Bank policy cover recipient activities. The Post-Conflict Fund (PCF) has provided critical support for LICUS capacity-building, service delivery, and HIV/AIDS prevention only in conflict-affected countries. For example, it has provided selective financing for projects within the Haiti, Somalia, and Sudan LICUS reengagement strategies. However, the PCF is designed to finance discrete interventions only in conflict-prone countries and is not available for more intensive programs of transitional support.⁵ The Institutional Development Fund (IDF) is not currently available to countries in

⁴ The point was underscored by the Global Fund's Executive Director in his opening speech at the January 2003 Board meeting: "And it is our development partners - including WHO, UNAIDS, the World Bank and bilaterals — which must build capacity, support monitoring and evaluation, and provide the technical and operational assistance necessary to effectively utilize the substantial sums of money that the Fund is making available. Only through these efforts can the Fund achieve the results that matter: progress in the fight against AIDS, TB and malaria in communities living with and affected by these epidemics."

⁵ The PCF had a total global annual budget of US\$8.7 million in FY04, and faces many other demands for assistance.

non-accrual; management intends to bring a proposal to Board endorsing the provision of IDF grants in non-accrual countries, in respect to areas of focus of the IDF facility. However, the IDF faces many other demands and is designed to support small governance capacity-building programs, complementary to a larger IDA-financed effort: it has insufficient resources to fill the gap in capacity needs where it is the sole instrument for Bank assistance.

11. ***Bilateral financing.*** LICUS in Africa that are not in post-conflict status have also experienced disproportionate difficulties in mobilizing donor cofinancing for development activities. For example, between 2000-2003, severe LICUS countries mobilized an average of US\$ 0.4 million per annum in bilateral co-financing of World Bank activities, while non-LICUS countries mobilized an average of US\$ 8.0 million per annum. There are also strong regional differences: LICUS outside Africa mobilized an average of US\$2.7 million in donor cofinancing per annum in Bank activities, while severe LICUS in Africa mobilized an average US\$0.2 million. Post-conflict LICUS mobilized an average US\$32.2 million per annum.

III. TRUST FUND DESIGN

A. Activities

12. Activities financed under the Trust Fund would be targeted to supporting early entry points for reform, primarily through capacity building and delivery of basic social services.

13. ***Eligible Activities.*** Among the activities eligible for funding would be, *inter alia*:

- ***Capacity building to support governance reform.*** This would include supporting dialogue between national stakeholders on economic, social and governance issues; supporting dialogue between national stakeholders and the donor community; technical assistance to design and implement basic civil service, public finance or judicial reforms; training for leadership and technical counterparts; data collection and analysis to support key reforms, and; information campaigns on key reform areas.
- ***Strengthening social service delivery, including the fight against HIV/AIDS.*** This would focus on preparation of capacity needs assessments; supporting reform of policies and institutions; establishing and equipping effective service delivery institutions. In most cases we expect that this would involve participating in multidonor transitional programs for service delivery in the social sectors, through governmental and nongovernmental mechanisms.

14. ***Selectivity.*** Activities will be recipient-executed and will not duplicate or substitute for activities carried out under the Bank's administrative budget. In general, the Trust Fund will finance integrated programs outlined in a country reengagement note rather than discrete activities, although discrete proposals will be permitted in order to respond to evolving conditions and priorities on the ground. Priority will be given to activities that form part of a multidonor strategy, and grant proposals will be required to provide evidence of actual or potential donor cofinancing to encourage harmonization of efforts.

B. Recipients

15. The Trust Fund would target the most marginalized LICUS in non-accrual, that cannot use IDA funds for basic reforms or capacity building.⁶ Under exceptional circumstances, it would also permit a Bank contribution to an agreed multidonor strategy in an active IDA LICUS, where existing IDA funds are inappropriate for this purpose,⁷ and Executive Directors have endorsed such a cofinancing program in the country strategy document.⁸ LICUS classified as post-conflict by the Resource Mobilization Department (FRM) would not be eligible for support under the trust fund, once they meet the criteria for IDA post-conflict grants.

16. *Range of Recipients.* As in the case of the Post Conflict Fund, grant recipients may include member countries, their agencies or instrumentalities, nongovernmental organizations, or agencies and instrumentalities of the United Nations. If requested by the grant recipient, IDA may act as executing agency for the recipient in carrying out the activities to be financed by the grant.

C. Funding Requirements and Term

17. Funding is proposed at US\$25 million for the life of the Trust Fund. This is based on recent experience showing that LICUS reengagement strategies typically project an annual cost of \$2-4 million, which is within the absorptive capacity for these countries, provided the funds are used in line with LICUS principles. After allowing for continued limited funding from the PCF and IDF, the proposed \$25 million provides an indicative allocation in the US\$1-3 million range per annum for all current non-accrual LICUS.

18. *Term.* It is estimated that commitments will be made within two years after the establishment of the Trust Fund, and disbursements would be completed within three years after establishment of the Trust Fund. Needs for LICUS engagement will not disappear entirely after this period. However, the exceptional one-off allocation is justified because (a) there are a large number of non-accrual LICUS at present, , which cannot be served through existing grant facilities; (b) the next three years provide a strong opportunity for concerted engagement in these countries, in response to growing donor interest in coordinated approaches and the need to accelerate progress for the remaining HIPC-eligible clients. Based on speed of disbursement and quality of results under this Trust Fund, Management may return to Board to discuss further needs for transitional LICUS support. At the end of three years, undisbursed funds would be returned to the Association.

⁶ At the time of this report, Central African Republic, Haiti, Liberia, Myanmar, Somalia, Sudan, Togo, Zimbabwe. If the Executive Directors approve the establishment of the LICUS Implementation TF, OP13.40, Suspension of Disbursements, which currently provides for suspension of disbursements of all loans, credits and grants to countries in arrears, would be updated to clarify that grants under this TF could nevertheless be made to such countries.

⁷ For example, because the multi-donor program is grant-based, constituted of small grant co-financing and to be rapidly launched, conditions which would preclude the use of a full IDA credit.

⁸ Includes country assistance strategies, transitional support strategies, country re-engagement notes and Board updates of strategy documents.

19. **Availability of Surplus.** At the time of the FY03 net income allocation paper,⁹ Management recommended and the Board of Governors approved an addition of \$100 million to surplus out of FY03 net income. That allocation brought the surplus account to \$200 million.

20. According to the principles for the use of surplus, the first priority in the use of surplus is the maintenance of an adequate level of reserves.¹⁰ In this regard, Management noted during the end-FY03 discussions that the IBRD had the financial capacity to make this allocation to surplus in light of the magnitude of FY03 allocable income, the large proposed FY03 allocation to reserve, and the improved position and outlook for the IBRD's equity-to-loans ratio. As discussed in the net income allocation paper, while the IBRD did not meet its income-based stress test target at the end of FY03, it is important, in assessing the IBRD's financial position, to consider the results of the stress test together with the increase in the level of the IBRD's equity-to-loans ratio. Moreover, it was noted in discussion that this modest boost to the surplus account would not make a material difference to the IBRD's performance under the stress test and would enable the Bank to consider the use of surplus for a number of urgent priorities in FY04, including a forthcoming request for West Bank and Gaza, where the Bank would not otherwise be able to provide assistance.

21. Since July, no unusual changes in external or internal events have occurred that would materially affect the Bank's financial capacity.¹¹ It is therefore Management's opinion that the IBRD continues to have adequate financial capacity to afford the judicious use of its augmented surplus for the high priority needs noted above. The transfers will not affect the IBRD's equity-to-loans ratio.

D. Governance

22. Management recommends that this Trust Fund be administered by IDA, drawing on the PCF approval system, documentation, and procedures.¹² This is justified by the PCF's proven track record in administering grants in LICUS, including for recent LICUS strategies (e.g., Afghanistan, Haiti, Somalia, and Sudan).¹³ The PCF is an established financing mechanism with simplified procedures for quick disbursement and the flexibility to adapt to changing country circumstances—attributes that are critical to support of early reform efforts. It has a successful history of partnerships with international organizations, including with the UN agencies, which are often best placed to implement projects in LICUS. In addition, the PCF has a well-functioning approval system, with a Bankwide Management Committee to provide a broad perspective and ensure attention to corporate risk factors. Finally, it has an established system for reviewing project quality and consulting with external shareholders to ensure relevance and

⁹ R2003-0144 dated July 24, 2003, "Allocation of FY03 Net Income and Waivers of Loans Charges for FY04."

¹⁰ JAC93-14 dated March 1993, "Principles for the Use of Bank Surplus."

¹¹ The latest year-to-date update on the Bank's financial results was in the September 2003 Monthly Financial Report, where, inter-alia, it was reported that the net income outlook for FY04, at \$1,257 million, was projected to be \$77 million higher than originally projected in July.

¹² The Post-Conflict Trust Fund is financed by the Development Grant Facility and is managed by the Conflict Prevention and Reconstruction Unit in ESSD. See Development Grant Facility: A Proposal, R97-185, July 29, 1997 and DGF/Post Conflict Trust Fund, Resolution No. IDA 99-114. See also PCF guidelines and procedures at <http://lnweb18.worldbank.org/ESSD/sdvext.nsf/67ByDocName/ThePostConflictFund>, which would be adapted for these funds.

¹³ See Independent Evaluation of the Post Conflict Trust Fund at: [http://wbIn0018.worldbank.org/Networks/ESSD/icdb.nsf/D4856F112E805DF4852566C9007C27A6/78A3515FAAFB5AF285256C6F007EBB95/\\$FILE/IndependentEvaluationFinalDAI.pdf](http://wbIn0018.worldbank.org/Networks/ESSD/icdb.nsf/D4856F112E805DF4852566C9007C27A6/78A3515FAAFB5AF285256C6F007EBB95/$FILE/IndependentEvaluationFinalDAI.pdf)

effective coordination. Day-to-day management of the Trust Fund would be handled by the Conflict Prevention and Reconstruction (CPR) Team in the Environmentally and Socially Sustainable Development Vice Presidency (ESSD), the group that currently manages the PCF. Approval of grant allocations over US\$ 1 million would rest with the Regional Vice President.

E. Outcomes

23. The potential gains to the membership from Bank support of early reform efforts are large. Countries abandoned by the international community rarely show signs of autonomous recovery and their populations suffer severe deprivation. Such countries are at grave risk of “state failure,” with its attendant adverse effects, both regional and global. These potential spillover effects from LICUS also threaten IDA’s work in neighboring region, putting decades of IDA investment at risk. The provision of modest resources to maintain engagement and undertake a concerted effort with other donors to improve governance in these situations is thus in the interest of all IDA members.

24. **Impact.** Reformers in LICUS are often overwhelmed by external pressures and have difficulty in sustaining momentum for change. Early engagement and support for reforms is critical to slowing deterioration of social indicators, improving governance, and spurring domestic demand for reform. Modest Bank financing could have a large impact which could gradually lead to tangible improvements in performance indicators (such as the CPIA), paving the way for resumption of regular programs, access to HIPC funds, and reengagement with the international community.

25. **Risks and Results.** As the LICUS Task Force cautioned, continued engagement in LICUS is not without risk. Intensified engagement with LICUS countries could carry reputational risks for the Bank, though based on past experience with the PCF it is expected that this risk is small. Careful attention to the timing and selection of projects to be funded from the trust fund as well as strong oversight during implementation will reduce this risk further. The unstable nature of most LICUS means there will be setbacks and even failures, but the risk of disengagement is larger than the risk of unsatisfactory implementation of a percentage of grants. Board and management should expect that not all of the most severe LICUS will make satisfactory progress over the lifetime of the trust fund: solid progress in 50 percent of cases would constitute a favorable outcome. A variety of indicators will be tracked to provide a basis for structured evaluation of results. These are summarized in Table 1 below.

Table 1: Results indicators.

1	50 per cent of LICUS countries in non-accrual show improved policies and institutions within 3 years (CPIA/PCPI)
2	At least 25 per cent of 2004 non-accrual countries re-engage with international donors through a structured arrears clearance process within 3 years
3	75 per cent of non-accrual countries have agreed multi-donor approaches in place within three years*
4	At least a 1:1 ratio of co-financing or parallel financing of Bank assistance strategies from other donors

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

REPORT OF THE EXECUTIVE DIRECTORS

Transfer from Surplus to Low-Income Countries under Stress
Implementation Trust Fund

1. In view of the needs for assistance for Low-Income Countries under Stress (LICUS) and in order to promote the purpose of the International Bank for Reconstruction and Development (the “IBRD”) and the International Development Association (the “Association”) in these circumstances, the Executive Directors consider that a trust fund should be established forthwith to assist those countries as an initiative for the benefit of the members of the IBRD and of the Association. The Executive Directors recommend that the Board of Governors authorize the immediate transfer from surplus of \$25 million to the LICUS Implementation Trust Fund.

2. Accordingly, the Executive Directors recommend that the Board of Governors adopt the draft resolution attached as Annex A to this Attachment.

Attachment A—Annex A
Draft Resolution of the Board of Governors

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

RESOLUTION No. 2003-_____

RESOLVED THAT:

The Bank transfer from surplus \$25 million as of the effective date of this resolution to the LICUS Implementation Trust Fund (the ‘Trust Fund’), established by the International Development Association (the ‘Association’), such transfer to be drawn down by the Association immediately and used in accordance with the resolution establishing the Trust Fund.

Attachment B
[Draft Resolution of
the Board of Directors of IBRD and IDA]

**INTERNATIONAL BANK FOR RECONSTRUCTION
AND DEVELOPMENT**

INTERNATIONAL DEVELOPMENT ASSOCIATION

RESOLUTION NO. _____

RESOLUTION NO. IDA _____

**ESTABLISHMENT OF A TRUST FUND FOR LOW-INCOME
COUNTRIES UNDER STRESS**

WHEREAS:

(A) the Executive Directors of the International Bank for Reconstruction and Development (the “Bank”) and the Executive Directors of the International Development Association (the “Association”) agree that it is desirable to promote the purposes of the Association by establishing an Low-Income Countries Under Stress Trust Fund (the “Trust Fund”), administered by the Association, in order to improve the provision of grant funding by the Association for low-income countries under stress (“LICUS”) that are member countries of the Association and that meet the requirements stated below;

(B) the Executive Directors of the Bank have proposed to the Board of Governors of the Bank to adopt a resolution authorizing the transfer from surplus, by way of grant, of \$25 million to the Trust Fund; and

(C) the Association is prepared to establish the Trust Fund, to be trustee thereof and administer it on the terms and conditions set forth in this Resolution;

NOW THEREFORE it is hereby resolved that:

1. The Trust Fund is hereby established as a trust fund of the Association, constituted of the funds which shall from time to time be contributed in accordance with the provisions of this Resolution, and any other assets and receipts of the Trust Fund.

2. The Association shall hold and administer such funds, assets and receipts in trust (in such capacity, the “Trustee”) for the benefit of the member countries of the Association that are LICUS and that are either in non-accrual status with the Association or where otherwise funds

from the Association cannot be used to finance a multi-donor supported reform program. The Trustee shall manage and use such funds, assets and receipts only for the purpose of, and the provisions of this Resolution and, except as otherwise provided in this Resolution, in accordance with the policies and procedures of the Association and the provisions of this Resolution, keeping them separate and apart from all other accounts and assets of the Association, but the Trustee may commingle them with other trust fund assets maintained by the Association. The privileges and immunities accorded to the Association shall apply to the property, assets, archives, operations and transactions of the Trust Fund.

3. All amounts credited to the Trust Fund shall be used exclusively for the purpose of providing grants for activities in countries described in paragraph 2 above to:

- (i) support the implementation of early policy and institutional reform to improve performance (as defined in the PCPI and CPIA systems) and facilitate reengagement with the international community;
- (ii) develop resilient systems for social service delivery, including HIV/AIDS programs, that can continue to operate effectively and mobilize multidonor support even in situations of political instability;
- (iii) develop harmonized multidonor approaches that combine scarce resources behind a selective strategy for reform.

The Trustee shall enter into grant agreements with recipients of the grants that will provide the terms and conditions on which such grants shall be provided. Grant recipients may include member countries, their agencies of instrumentalities, non-governmental organizations, or agencies of instrumentalities of the United Nations. Upon the written request of the grant recipient, the Association may act as executing agency for the recipient in carrying out the activities to be financed by the grant.

4. The Trustee shall establish and maintain appropriate records and accounts to identify the resources of the Trust Fund, the commitments to be financed out of the Trust Fund, and the receipts and disbursements of funds in the Trust Fund.

5. Pending the disbursement of funds from the Trust Fund, the Trustee shall invest funds held in the Trust Fund in such manner as the Trustee may decide, in accordance with the criteria for the investment of trust funds administered by the Association. All the income from such investment shall be credited to, and used exclusively for the purposes of, the Trust Fund. The Association shall not be entitled to any compensation for acting as Trustee.

6. On the termination of the Trust Fund pursuant to paragraph 8 of this Resolution, surplus assets of the Trust fund shall be forthwith transferred to the Association.

7. The Trustee shall, as soon as practical after the end of each fiscal year of the Association, furnish to the Executive Directors of the Bank and the Association: (i) a report on the activities financed from the Trust Fund; and (ii) an unaudited cash-based statement of receipts, disbursement and fund balance for the Trust Fund, accompanied by a management assertion and an attestation from the Association's external auditors concerning the adequacy of internal

control over cash-based financial reporting for trust funds administered by the Bank and/or the Association as a whole.

8. The Trustee may make commitments under the Trust Fund up and until June 30, 2006 and may allow disbursements to be made under the Trust Fund up and until June 30, 2007. The functions of the Association as Trustee shall terminate, except for action necessary for winding up the activities of the Trust Fund in an orderly and expeditious manner, on December 31, 2007 after the date of the Resolution.