

## **Poverty Reduction Strategies Trust Fund**

### **Standard Provisions Applicable to Grants to the Trust Fund**

The following provisions (the “Standard Provisions”) will be applicable to all agreements entered into between the Bank and donor countries and/or organizations (“Donors”) that provide grants (“Contributions”) to the Bank for the Poverty Reduction Strategies Trust Fund (the “Trust Fund”).

#### 1. Purpose and objective

The Trust Fund is created to assist countries in preparing and implementing Poverty Reduction Strategy Papers (PRSPs), which apply Comprehensive Development Framework (CDF) principles in low-income countries. The Trust Fund will support and strengthen the capacity of Governments and non governmental organizations (NGO) involved in the PRSP process to (1) facilitate the process of PRSP preparation, for example through stakeholder consultations, measurement and analysis of poverty, improved public expenditure management; and costing of programs; (2) develop and institutionalize participatory processes with local NGOs and communities; and (3) implement poverty reduction strategies and PRSP programs, for example through improved monitoring and evaluation of policies and programs. It will do so by financing local and external consultants, training of local staff, and secondments to institutions with expertise in poverty reduction; missions between PRSP countries; and preparation and translation of related documents.

#### 2. Eligible Technical Assistance activities

Activities supported by the Trust Fund will primarily address the following key priority:

providing technical assistance, institution-building and training to governments and NGOs for PRSP preparation and participation, and implementation of poverty reduction strategies.

These descriptions are not intended to be an exhaustive list or limit the range of activities authorized.

#### 3. Country eligibility

Eligible countries are those participating in the PRSP process and eligible to borrow from IDA.

#### 4. Use of funds

The Trust Fund funds will be used to:

- (i) provide grants to recipient governments (the “Recipient”), NGOs, educational institutions and other partners, as determined by the Bank in consultation with the Recipient, for the purpose of financing activities eligible to be supported by the Trust Fund; and
- (ii) compensate the Bank for administration and related expenses arising in connection with the Trust Fund, in accordance with the provisions of paragraph 6.

#### 5. Administration of Trust Fund resources

All contributions made available as grants to the Trust Fund (collectively the “Trust Fund funds”) will be accounted for as a single Trust Fund, and be held in US dollars. The Trust Fund funds may be commingled with other trust fund assets maintained by the Bank, but shall be kept separate and apart from the funds of the IBRD and the IDA, and shall be accounted for separately. The Trust Fund funds may be freely exchanged by the Bank into other currencies as may facilitate their disbursement.

The Bank may invest and reinvest the Trust Fund funds pending their disbursement in any instrument in which the Bank is authorized to invest its own funds. The Bank shall credit all investment income arising from the Trust Fund funds to the Trust Fund to be used for the same purposes as the Contributions.

#### 6. Administrative cost recovery arrangements

In order to assist in the defrayment of the costs of administration, including design, management and supervision costs, and other expenses incurred by the Bank with respect to the Contribution, the Bank may deduct upon receipt five percent (5%) of the amount of the Contribution for its own account.

#### 7. Liability

The Bank will exercise the same care in the discharge of the functions described in the Letter of Agreement (of which these Standard Provisions form an integral part) as it exercises with respect to the administration and management of its own affairs and shall have no greater responsibility to the Donor in respect thereof.

Otherwise than for failure to perform its obligations set forth in this Agreement, the Donor will not under any circumstances whatever be liable for damages caused either to the Bank or third parties during the performance of this Agreement. No claim can be submitted to the Donor for compensation or for restoration of any such damage or loss.

8. Procurement

The selection and recruitment of consultants and experts, and the procurement and financing of expenditures for related goods and services shall be done in accordance with normal Bank procedures applicable to such activities.

9. Procedures to govern Bank grants

In the event that the Bank provides Trust Fund funds to a Recipient or another entity pursuant to paragraph 4(i), the Bank, as administrator of the Trust Fund, shall enter into a grant agreement with the Recipient or such other entity, and do any and all such acts and things as may be necessary or appropriate to accomplish fully the foregoing. The grant agreement shall provide that the Contribution shall be used by the Recipient or such other entity to finance expenditures for technical assistance and training services and related costs, as the case may be, in accordance with the Bank's Guidelines on "Procurement under IBRD Loans and IDA Credits" and on the "Use of Consultants by World Bank Borrowers and by the World Bank as Executing Agency", as in effect at the date of the grant agreement, and disbursed in a manner consistent with the Bank's procedures for disbursements. The grant agreement shall further provide that no amount of the grant funds may be used for the payment of taxes levied by or in the territory of the Recipient country.

10. Planning and reporting

Proposals for activities to be financed under paragraph 4 (i) with respect to an eligible country will be reviewed by a steering committee (the "Steering Committee") for the Trust Fund for such country. Such Steering Committee will be comprised of the Bank's Country Director or Resident Representative for such country, the United Nations Resident Coordinator for such country, a representative from the government of such country, and Donors or its representatives. If a Donor is not represented in a specific country, the Donor may designate the Bank's Country Director or Resident Representative to act on its behalf. The Steering Committee will decide whether to recommend the proposal for funding from the Trust Fund. In order to do so, the proposal must be approved by a majority of the members of the Steering Committee including the Bank's Country Director or Resident Representative and the United Nations Resident Coordinator and all the donors or their representatives. If the Steering Committee decides to recommend the proposal for funding, it will forward the proposal and its recommendation to the Director, Poverty Reduction Strategy, of the Bank. If the amount recommended by the Steering Committee is \$500,000 or more, approval by the Donors will also be needed. Such approval will be sought on a no-objection basis, and funding for the activity shall require the approval of all the Donors..

11. Advisory Board

The Bank will establish an advisory board (the "Advisory Board") to provide advice and guidance to the Bank on the Trust Fund. The Advisory Board will consist of representatives from the Bank, the International Monetary Fund, the United Nations Development Group, and the Donors. If the foregoing agree, representatives of civil society may also be invited to participate in the activities of the Advisory Board. The Advisory Board will provide advice and guidance to the Bank on the allocation of Trust Fund funds. The Advisory Board will also review periodically the operation of the Trust Fund, and provide annual reports to donors. It is expected that the Advisory Board will meet on a quarterly basis.

12. Auditing

In addition to any specific auditing requirements referred to in the agreements with each Donor, the Bank will provide to Donors, within six months following the end of each Bank fiscal year, a management assertion together with an attestation from the Bank's external auditors on the satisfactory performance of the procedures and controls used by the Bank in administering trust funds. The cost of such attestation shall be borne by the Bank.

The Bank will maintain separate records and ledger accounts in respect of the aggregate Trust Fund funds for the agreed activities and disbursements made therefrom. Within 90 days of each March 31, June 30, September 30 and December 31, for as long as any Trust Fund funds remain with the Bank, the Bank shall prepare an unaudited financial statement with respect to the Trust Fund funds and forward a copy to Donors. Such consolidated reports will be prepared in United States dollars.

13. Commencement and duration

Operation of the Trust Fund shall commence as soon as the first Donor has made its contribution. Unless the parties hereto agree in writing on a different course of action, commitments under the Trust Fund shall cease four years thereafter, with disbursements extending for a further 18 months after that date. On the assumption that operations commence on October 1, 2001, commitments are foreseen to cease on December 31, 2005, and disbursements to cease on April 30, 2006.

14. Termination

The Trust Fund arrangement covered by this Arrangement shall terminate on June 30, 2006, unless otherwise agreed in writing between the Bank and the Donors. At that time:

- a) any remaining Trust Fund funds, including accrued investment income, shall be returned to the Donors, on a pro rata basis, within one month following termination; and
- b) within three months following termination, the Bank shall furnish to the Donors a final audited financial statement in United States dollars with respect to the aggregate amount contributed by all Donors, together with a final accomplishment report, summarizing the activities and achievements of the Trust Fund, together with particular lessons learned in its implementation.

In the event of early termination, and subject to consultation among the parties hereto, any agreement already entered into between the Bank and third parties shall not be affected.

Upon the return of remaining Trust Fund funds, the provision of the final financial statement and of the final accomplishment report, the Bank's functions pursuant hereto shall be considered terminated.

15. Privileges and Immunities

Nothing in these Standard Provisions shall be interpreted as a waiver of any privileges or immunities accorded to the Bank by its Articles of Agreement or international law.

## Poverty Reduction Strategies Trust Fund

### Summary

The World Bank has established a multi-donor Poverty Reduction Strategies Trust Fund (PRSTF) -- effective as of the date of signature of the agreement with the first donor, to strengthen the capacity of Governments (and the NGOs supporting them) to develop Poverty Reduction Strategies. The PRSTF will support a wide range of activities, (according to country demand), such as the measurement and analysis of poverty, poverty and social impact analysis of policy reforms, management of public expenditure, costing and evaluation of programs, and institutionalization of participatory processes. An important objective of the PRSTF is that it strengthen collaboration between donors supporting the PRSP process, in particular between the Bank and the UN. To that end, the PRSTF will be jointly managed by the UN, the IMF, contributing donors, and the World Bank, (which formally will have fiduciary responsibility). The principal decision making authority will be the specially created steering committees comprising the UN Resident Coordinator, the World Bank Resident Representative, a government representative, and Embassy officials from contributing donors or their representatives. Staff from the World Bank Trust Fund and Poverty Reduction teams will provide central oversight. In addition, the PRSTF will be overseen by an inter-agency Advisory Board.

#### 1. Rationale for a Multi-Donor Trust Fund

The PRSP program was launched by the international community in September 1999 to ensure effective use of HIPC Initiative debt relief, and more generally to accelerate global progress in poverty reduction. Any country seeking HIPC Initiative debt relief or concessional assistance from the Bank and Fund will produce a PRSP. At the heart of the program is the principles of the CDF. These stress the importance of country ownership, a comprehensive policy approach, and a focus on results as a prerequisite to effective poverty reduction.

Early experience suggests that developing and implementing effective poverty reduction strategies will be enormously challenging for many countries, and require additional support to strengthen their capacity. Several donors are already providing resources for technical assistance on a bilateral basis, including through trust funds, (such as that supporting the Paris 21 Initiative for statistical capacity building). However, there is scope to improve and expand existing funding mechanisms. Existing trust funds tend to support limited areas of PRSP development, (such as poverty diagnostics), which do not always coincide with country priorities. Also, the proliferation of funding channels carries with it high transaction costs both for recipient and donor countries.

Several donors have expressed an interest in providing greater support to countries' poverty reduction efforts through a multi-donor mechanism, as a means to both lowering costs, and reinforcing the partnership principle of the PRSP program. The World Bank,

therefore, has established a multi-donor trust fund to build capacity for PRSP-related work. All possible efforts will be made to ensure that some of the trust funds currently supporting aspects of PRSP development will be consolidated within the PRSTF. Target funding for the PRSTF is \$15 million a year. Promised contributions to date should enable the PRSTF to become operational before end CY-2001.

## 2. Scope of the PRSTF

### (i) Beneficiaries

Funding will be available to countries engaged in the PRSP process. Governments (both the executive and parliamentary branches) and civil society organizations (CSOs), including NGOs, research institutes and private sector organizations) will be eligible to apply. In preparing requests for funding, applicants will be expected to draw on the advice of other partners involved in the PRSP process. Successful applicants will be free to appoint another executing agency, such as an NGO or specialized institute, to carry out the activities for which funding is sought. However, the World Bank will not be eligible to act as an executor.

### (ii) Eligible activities

For the PRSTF to be effective, the activities it supports need to be country-specific, demand-led and reflect the interests of broader society. The trust fund will, therefore, support activities which applicants can demonstrate will effectively strengthen capacity to strengthen their poverty reduction strategies, be it through improved preparation, implementation or participation. Early experience of the PRSP process suggests that such activities will encompass: the establishment and management of the PRSP process, studies and diagnostic analysis to define national poverty issues and remedies, public expenditure tracking and accountability, poverty and social impact analysis of policy reforms, provision of services to facilitate local participation (including through strengthening community capacity), costing of public programs, establishment and adjustment of poverty benchmarks or targets; monitoring and evaluation of PRSP implementation; and translation and dissemination of PRSP documents. However, this is not a prescriptive or exhaustive list: new country priorities are likely to emerge as the PRSP program matures.

In addition to funding traditional technical assistance from external consultants, the PRSTF will be available to strengthen directly the skills of local people, e.g., through hiring of local consultants, funding country-to-country missions, staff secondments to institutions with expertise in poverty, and high-level training courses.

(iii) Funding Allocations

Initially, countries will be eligible to apply for a maximum of \$500,000 over two years, to ensure that a substantial number of countries may benefit from the trust fund. A PRSTF Advisory Board – see below – will have responsibility for reviewing (and revising, as necessary) funding allocations to countries.

3. Governance of the Trust Fund

The management of the PRSTF will be a partnership arrangement between the World Bank, IMF, and other donors – notably the UN. The principal decision-making process will be located at country level, which will be overseen centrally by an advisory board. Specific details are provided below.

(i) Country-based management

Steering committees will be established at the country level to review funding requests. Their membership will comprise the UN Resident Coordinator, the Bank's Resident Representative (or Country Director), a Government representative, and Donors or their representatives. If a Donor is not represented in a specific country, the Donor may designate the Bank's Country Director or Resident Representative to act on its behalf. Representatives of national groups may be invited on an ad hoc basis. The committees will decide which Government/NGO funding requests should be supported. For a funding request to be approved, it will need the majority support of the committee, the agreement of all donors or their representatives, and also the assent of the Bank's Resident Representative (or Country Director), and the UN Resident Coordinator. In coming to a view, the Bank Resident Representative (or Country Director) will be expected to consult sectoral colleagues, as necessary. For requests above a certain threshold –\$500,000 over two years<sup>1</sup> - the local representatives from contributing donors may need to seek the approval (on a no objection basis) of their authorities.

(ii) Central Oversight

Before financing may be made available, the steering committee will be required to submit locally approved requests to the Bank's central Trust Fund and Poverty Reduction departments in Washington, D.C. to verify that the Bank's fiduciary, legal and other obligations have been and will be fulfilled. For daily and operational issues concerning the central oversight of the PRSTF, donors may choose to designate their World Bank Executive Director's office and a relevant Ministry as the responsible offices.

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<sup>1</sup> The precise level of the threshold will be determined by available financing, and the views of contributors to the PRSTF.

(iii) Advisory Board

An Advisory Board will have strategic oversight of the PRSTF. It will comprise representatives from the Bank, IMF, the UN Development Group (representing the UN system), and the contributors to the PRSTF. Other representatives may be invited to attend on an *ad hoc* basis. The Advisory Board will be responsible for determining funding allocation rules, reviewing periodically the operations of the Trust Fund, providing regular reports to the donors, and ensuring coordination with other related trust funds such as Paris 21. The Board is expected to meet semi-annually.