

# MULTI-DONOR GOVERNANCE TRUST FUND

## I. Introduction

1.1 Governance is becoming a more prominent area of focus for many African countries and development partners. Good governance and anti-corruption have been clearly highlighted in the Paris Declaration on Aid Effectiveness<sup>1</sup> as areas where more support to country efforts and coordination is needed, in order to improve development performance. For the Bank, these development challenges are articulated in the 2008-2012 Governance Strategic Directions and Action Plan (GAP)<sup>2</sup>.

1.2 In order to meet the complex governance needs of the continent, the Bank has provided a variety of tools, including policy based lending, institutional support, policy dialogue and economic and sector work. In so doing, the Bank has greatly benefited from the use of the Nordic Trust Fund for Governance (NTFG) in 2002-2008 supported by Denmark, Finland, Norway and Sweden, which promoted governance activities and contributed towards the establishment of the Governance, Economic and Financial Reforms Department (OSGE) in 2006.

1.3 Building on the positive outcomes of NTFG, the Bank has developed a new proposal for a multi-donor Governance Trust Fund (GTF). The new Fund was designed based on the recommendations of an evaluation of the NTFG conducted in 2008<sup>3</sup>. The Governments of Norway and Switzerland have confirmed their intention to contribute to the Fund to be administered by ORRU in line with the Technical Cooperation Fund Reform Program approved by the Board of Directors in September 2006. Norway has pledged 6.4 million NOK (approx USD 1.113 million) and Switzerland has pledged CHF 3 million (approx. USD 2.99 million). The Fund resources will be untied.

## II. Objectives

2.1 The GTF's objective is to assist the Bank's Regional Member Countries (RMCs) to build capable and responsive States by strengthening transparency and accountability in the management of public resources. Specifically, the GTF will support innovative ideas in the field of economic and financial governance that demonstrate potential to promote change and achieve results within the context of the GAP.

2.2 Activities financed under this Multi-Donor Trust Fund will (i) directly assist RMCs to improve transparency and accountability in the use of public resources (Recipient-executed) or (ii) improve the Bank's own internal capacity to deliver the GAP (Bank-executed).

2.3 Funded activities shall focus on one or more of the following areas:

- Measures to analyze and improve governance and reduce corruption, including the promotion of credible audit, accountability mechanisms and oversight institutions;
- Good financial management, including public procurement, tax and non-tax revenues administration and debt management;
- Support to investment climate and business environment; and

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<sup>1</sup> Paris Declaration on Aid Effectiveness, Paris, March 2<sup>nd</sup>, 2005

<sup>2</sup> African Development Bank, Governance Strategic Directions and Action Plan, Tunis, April 17<sup>th</sup>, 2008

<sup>3</sup> Nylund, A, Evaluation of Nordic Trust Fund for Governance, Final Report, African Development Bank, August 2008

- Sector governance, particularly in high risk areas, e.g. Extractive Industries Transparency Initiative (EITI and EITI++) and participatory development;

Within the priority areas outlined above, GTF financed activities will fall under one or more of the following levels of interventions of the Bank's GAP:

- **At the *Country level***, the GTF will focus on helping RMC strengthen country systems for managing public resources, with an emphasis on oversight institutions and accountability systems. At this level, activities may include: country governance diagnostics, support to legislative process on access to information and whistle blower law, capacity building and information and civil education programs, participatory budgeting and community score cards;
- **At the *Sector level***, the GTF will concentrate on improving governance and promoting integrity, particularly in high-risk sectors such as infrastructure. Activities in this area may include: sector governance reviews such as risk mapping, cost benchmarking, sector governance guidelines, stakeholder consultations, sector public expenditure tracking surveys and technical assistance to sector ministries; and
- **At the *Regional level***, the GTF will support regional and sub-regional initiatives that promote standards and codes of good economic and financial governance. This includes: cross-country governance diagnostics and benchmarking, best practice and legislative compendia, support to regional networks of senior budget officers, accountant-generals and auditor-generals, regional training and lesson sharing events.

Through the calls for proposals and the specific operational guidelines, a more detailed set of activities will be defined, including the possibility to focus on certain themes of interest for each call for proposals. The proposed interventions will have to demonstrate the potential to achieve concrete results, by specifying the desired level of change given the context of intervention, as described below:

- **Phase I: *Opening Spaces***. The GTF's basic strategy is to open space for alternative voices and views or specific topics to have a more prominent role in the development agenda;
- **Phase II: *Incubating Innovation***. The GTF will aim to activate or support the initial stages of genuinely transformative approaches that challenge the boundaries of conventional development practice, to promote experiments and to allow them to grow and demonstrate their full potential to make an impact on governance;
- **Phase III: *Embedding Change***. The GTF will seek to enable people and institutions to recognize, re-define, and use existing and emerging spaces, as well as instruments to demand and deliver concrete/realistic governance reforms; and
- **Phase IV: *Transforming Institutions***. The GTF aims to pave the way for productive collaboration between citizens and government agencies, leading to organic improvements in service delivery.

### III. Target Beneficiaries:

The following will benefit from the grants under the GTF:

- **Bank's Organizational Units (Bank - executed)**, including sector departments, regional departments and field offices;
- **Public Institutions and their Collective Representations (Recipient - executed)**, including: local, provincial, and central government institutions; parliaments; institutions created due to regional

integration agreements; networks of government officials; African chapters of international networks of government officials and regional organizations; and

- **Civil Society Organizations (Recipient - executed)**, including: consumer associations, peasant associations, neighborhood associations, parent associations, student unions, labor unions, ethnic communities, interest groups, non-governmental organizations and media.

#### **IV. Fund Administration and Management:**

4.1 The Fund resources will be administered in accordance with Bank procedures, rules and policy guidelines. The Partnerships and Cooperation Unit (ORRU) will be responsible for managing the Fund, carry out all communications and reporting to donors, and provide fiduciary oversight. OSGE will be responsible for the technical aspects of the Fund, including those related to the implementation of operational activities. Under the Arrangement, the Bank Technical Committee (TC) will examine and approve all projects for amounts equivalent to or below USD 500,000. Operations involving between USD 500,000 and USD 1 million will be approved by the Oversight Committee (OC), while those exceeding USD 1 million will be submitted for the approval of the Bank's Board of Directors. The Bank will designate from amongst its staff a Coordinator who will process the financing requests and oversee the execution process. This Coordinator, who will report to the Head of ORRU, will organize the TC meetings and run the OC secretariat.

4.2 The OC will be composed of representatives of contributors to the Fund and representatives of the Bank Management. The Committee will be responsible for overall governance of the Fund. The OC will meet at least once a year to: (i) set policy, (ii) undertake annual reviews and (iii) approve proposals above US\$500,000.

4.3 The TC to be chaired by OSGE will be composed of representatives from Bank departments, including, but not limited to, Governance, Economic & Financial Reforms (OSGE)<sup>4</sup>, ORRU (Partnerships and Cooperation Unit), General Counsel & Legal Services (GECL) and Financial Control (FFCO). After every call for proposals, the TC will meet to carry out a technical review. The Committee will also ensure that financed projects are geographically distributed and fully aligned with the Bank's governance strategy and GTF priorities. OSGE will provide advice on the technical feasibility of each proposal at the TC.

4.4 The Bank's field offices in RMCs will progressively play an important role in the implementation of the GTF. They will raise awareness about the Fund, provide basic technical assistance to beneficiaries and assist in monitoring and supervision.

4.5 The Bank will charge a five per cent (5%) minimum management and administration fee.

#### **V. Conclusion**

5.1 The Multi-donor Arrangement for the Governance Trust Fund translates the partners' recognition of the key role played by the Bank in supporting good governance in RMCs. Notably in the face of the current financial crisis, this Trust Fund recognizes the importance of promoting a more transparent and accountable use of public resources.

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<sup>4</sup> For proposals from OSGE, the Chair and the OSGE representative will abstain from voting.

5.2 The Board of Directors is therefore invited to:

- i) Approve the proposal for the Multi-donor Arrangement; and
- ii) Authorize the President to sign the proposed Arrangement establishing a Governance Trust Fund with Norway and Switzerland, as well as any other governments or entities wishing to contribute to the Governance Trust Fund in the future.

**MULTI-DONOR ARRANGEMENT**

**FOR THE**

**AFRICAN DEVELOPMENT BANK**

**GOVERNANCE TRUST FUND**

**MULTI-DONOR ARRANGEMENT FOR THE AFRICAN DEVELOPMENT BANK  
GOVERNANCE TRUST FUND**

**THIS MULTI-DONOR ARRANGEMENT** (hereinafter referred to as the or this "Multi-donor Arrangement" or "Arrangement") entered into by and among the African Development Bank (the "Bank"), the African Development Fund (the "Fund"), the Governments of Norway, Switzerland, and any other Government or entity that becomes a signatory to this Arrangement (collectively referred to as the "Donors"), for the purpose of providing the terms which will govern the contribution, as well as the administration and utilization by the Bank, of the contributions to be made available by the Donors for purposes of financing activities under the Governance Trust Fund (the "GTF");

**WHEREAS** the Bank is an international financial institution established by Agreement by and among its member states to contribute to the sustainable social and economic development of its regional member countries (the "Regional Members");

**WHEREAS** the Fund was established by Agreement by and between the Bank and certain State participants for the purpose of assisting the Bank in fulfilling its mandate;

**WHEREAS** the Bank and the Fund<sup>5</sup> towards fulfilling their respective mandates, are establishing the GTF to support the Bank's Governance Strategy;

**WHEREAS** each of the Donors has indicated its willingness to support the Bank in the implementation of the Bank's Governance Strategy;

**WHEREAS** the Bank is willing and able to accept the administration and management of the contributions from Donors for the purposes of the GTF and desires that such contributions be administered and managed in accordance with the common terms set forth in this Multi-donor Arrangement;

**NOW THEREFORE** the Donors and the Bank agree as follows:

**ARTICLE I**

**PURPOSE - ELIGIBLE ACTIVITIES**

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<sup>5</sup> Subsequent references to "the Bank" throughout this Arrangement are understood to include the African Development Fund unless the context requires a distinction between the African Development Bank and the African Development Fund.

The purpose of the GTF is to provide financing to support the implementation of the Bank's Governance Strategy, as approved and amended from time to time by the Board of Directors. Specifically, the GTF provides untied grants (the "Grant(s)") to support innovative ideas to promote good economic and financial governance, transparency and accountability in the use of public funds for the benefit of the Regional Members through consulting services and technical assistance in the support of project cycle activities, policy and sector studies, training, capacity building and institutional support to improve the Bank's effectiveness in the area of governance.

## **ARTICLE II**

### **CONTRIBUTIONS**

1. Any State eligible to become a member of the Bank or any entity acceptable to the Bank may become a Donor.
2. Each Donor hereby agrees to participate in and contribute to GTF, and accepts that this Multi-donor Arrangement will govern:
  - (i) its participation in and contribution to the GTF; and
  - (ii) the administration of its Contribution(s) by the Bank for purposes of the GTF.
3. Each Donor will donate funds in the form of grants (the "Contribution(s)") for the GTF, in a specified amount to be made available in one or more tranches corresponding to the work programme of the GTF. The amount of each Contribution, and the payment schedule will be agreed with each Donor and set out in a Contribution Payment Schedule signed by the Donor.
4. Each Donor will on the specific dates agreed with the Bank deposit its Contribution payment in a special account to be opened by the Bank for the purpose of receiving Contributions (hereinafter referred to as the "GTF Account").
5. The Contributions will be administered and utilized by the Bank in accordance with the terms of this Multi-donor Arrangement exclusively to finance activities under the GTF, in conformity with the objectives herein and in accordance with the Bank's rules and regulations.
6. All Contributions to the GTF will be administered as untied resources.

7. The Bank will be entitled to draw on the proceeds of the Contributions for financing the fees and other reimbursable costs of the activities to be financed pursuant to Articles II and III hereof in accordance with the Bank's applicable procedures. The proceeds of the Contributions may be freely exchanged by the Bank into other currencies as may facilitate the utilization and administration of the Contribution resources.
8. The Contributions may be commingled with other trust fund assets held by the Bank but will be kept separate and apart from the Bank's own resources.
9. The Bank will have no obligation to repay any Donor, proportionally or otherwise, the amount of resources already committed or disbursed to meet the cost of activities financed by the Trust Fund in accordance with the terms of this Arrangement.
10. The Bank may invest and reinvest the proceeds of the Contributions, including accrued interest, pending their application for the purposes provided hereunder. The income from such investment or reinvestment will be retained in the GTF Account for use for the same purposes as provided herein.
11. Disbursements of proceeds of the Contributions will be in accordance with the terms of this Arrangement.

### **ARTICLE III**

#### **CONSIDERATION OF REQUESTS FOR FINANCING**

1. Consideration of requests for financing from the Trust Fund shall be on the basis of documentation including the following information:
  - (i) objectives and expected results of the proposed activity;
  - (ii) terms of reference of the study/consultancy service or general description of the activity;
  - (iii) cost estimates; and
  - (iv) implementation schedule.

2. The Bank may consider and approve requests for financing from the proceeds of the Contributions for any amounts not exceeding the equivalent of US\$500,000. Any request for financing above the equivalent of US\$500,000 but not exceeding the equivalent of US\$1,000,000, will be submitted for the consideration and approval of an Oversight Committee established by the Bank, and constituted by representatives of the Bank and Donors (the "Oversight Committee"). The Oversight Committee shall determine its decision making methods and procedures. All requests for financing for an amount exceeding the equivalent of US\$1,000,000 will be submitted for the consideration and approval of the Board of Directors of the Bank. All requests for financing of activities of the Bank by the GTF shall be approved by the Oversight Committee either under the work programme or individually.

## **ARTICLE IV**

### **ADMINISTRATION OF THE CONTRIBUTIONS**

1. The Bank will, in accordance with its rules, regulations and policy guidelines, administer the Contributions through its own organization, services, officers and staff. The Bank designates its Partnerships and Cooperation Unit as the organizational unit responsible for general communications and reporting concerning the implementation of the Bank's obligations and the financial management and administration of the Contributions and Grants. The Governance, Economic and Financial Reforms Department will be responsible for the implementation of the Bank's obligations with regard to the execution of the activities and related technical matters.
2. The Contributions will be administered, in accordance with the terms of this Arrangement, and the common understanding of the parties as expressed in a document titled "*Multi-Donor Governance Trust Fund*" approved by the Board of Directors of the Bank, as may be modified or replaced from time to time by the mutual consent of the Donors and the Bank.
3. The Bank shall be responsible only for performing those functions specifically set forth in this Arrangement and shall not be subject to any other duties or responsibilities to the Donors, including, without limitation, any duties or obligations that might otherwise apply to a fiduciary or trustee under general principles of trust or fiduciary law. Nothing in this Arrangement shall be considered a waiver of any privileges or immunities of the Bank and Fund under their respective Agreements of establishment or any applicable law, all of which are expressly reserved.

4. The Oversight Committee will meet at least once a year, to review the progress made during the year and examine the annual work programme and objectives of the GTF for the coming year. The Bank may also consult with the Donors whenever it identifies a major change of scope in relation to activities financed or to be financed under the GTF. The Bank will provide the venue for meetings, and may extend invitations to representatives of recipient Regional Members and organizations to attend the meetings of the Oversight Committee, as observers.
5. In administering the Contributions, the Bank will exercise the same care in the discharge of its functions under this Multi-donor Arrangement as it exercises with respect to the administration and management of its own resources and affairs, and will have no further liability to any of the Donors in respect thereof.
6. When making payments, Donors will instruct their relevant service/financial intermediary to advise the Treasury Department of the Bank by SWIFT as to the amount of each payment into the GTF Account, the name and other relevant particulars of the Donor making payment, and the date of such payment.
7. All financial accounts and statements prepared in relation to the GTF will be expressed in US Dollars or any other convertible currency selected by the Bank.
8. The management of the Contributions will be subject to the usual internal financial control procedures of the Bank.
9. The Bank will maintain separate records and ledger accounts in respect of the Contributions and disbursements thereof.
10. In the discharge of its operational functions, the Bank will:
  - (a) to the extent applicable, use the methods it employs to control disbursement of its own resources; and
  - (b) ensure that payments from the Trust Fund resources are made for the purposes of the Trust Fund.
11. The selection and engagement of consultants and the procurement of goods and services financed by the Trust Fund shall be carried out in accordance with the Bank's Rules and Procedures for the Use of Consultants and the Bank's Rules and Procedures for Procurement of Goods and Works, as amended from time to time.
12. The Bank will deduct five per cent (5%) of each Contribution upon receipt, and shall apply the amount deducted towards meeting the costs and expenses of administering the Contributions. The Bank may in

consultation with the Donors, deduct a higher amount to meet the costs and expenses of administering the GTF.

## **ARTICLE V**

### **REPORTING AND CONSULTATION**

1. The Bank will, in accordance with its usual procedures, keep and maintain separate records of account of the proceeds of the Contributions and activities financed under this Arrangement.
2. The Bank will furnish all Donors to the GTF with the following documents, reports and financial statements:
  - i) an Implementation Plan for the GTF and a Performance Monitoring Framework;
  - ii) annual progress and financial reports on the use of the Contributions and the implementation of the GTF, which shall be submitted as part of the annual updates regarding the use of donor resources;
  - iii) quarterly and annual financial statements of Contributions received and Grants disbursed;
  - iv) upon request by the Donors, audited financial statements, the cost of which shall be charged to the GTF Account;
  - v) an electronic copy of the final version of the project completion report for each activity financed under the GTF; and
  - vi) a final progress and financial report, to be submitted within one (1) year of the end of the three-year work period of this Multi-donor Arrangement; if the parties agree to the extension of this Arrangement for further work periods, such a report shall be submitted for each three-year or other work period agreed by the parties; in all cases, the report shall include audited financial statements, summarizing activities funded under the GTF results achieved, lessons learned and overall Bank comments as to the results of the GTF.
3. Prior to the expiration of this Multi-donor Arrangement, the parties will review the results achieved and consult with each other, with a view to deciding whether additional Contributions should be provided.
4. Upon the request of a simple majority of the Donors, the Bank will cause the account and records of any completed project, programme or activity

financed under this Arrangement to be audited. The costs of the external audit will be paid from the GTF Account.

5. Upon the request of a simple majority of the Donors, the Bank will conduct an external evaluation of the Trust Fund's operations and/or any activities financed under this Agreement. The Bank shall fully cooperate with the Donors in evaluating the GTF at such times as may be agreed upon among the parties. The evaluation shall focus on the results achieved, efficiency, effectiveness of implementation and quality of financial and programme administration in respect of the GTF by the Bank. The expenses and costs of such evaluation shall be paid from the resources of the GTF Account.

## **ARTICLE VI**

### **ACKNOWLEDGEMENTS**

The Bank may, where and to the extent it considers appropriate, acknowledge the Contributions in any reference made by it with respect to the GTF in publications, speeches, press releases and other similar media.

## **ARTICLE VII**

### **TERMINATION OF THE ARRANGEMENT**

1. If, at any time, the Bank determines that the purposes of the Arrangement can no longer be effectively or appropriately carried out, it may terminate the Arrangement by giving the Donors not less than six (6) months' prior written notice to this effect.
2. Upon termination of the Multi-donor Arrangement, and unless the parties otherwise agree, any agreement entered into between the Bank, any consultant, and/or any third party prior to the effective date of the termination of this Arrangement will not be affected by the termination and the Bank will be entitled to continue to receive and disburse the proceeds of the Contributions in respect of such agreements to the extent necessary in order to fulfil the Bank's obligations under such agreements as if the Arrangement had not been terminated. Except as otherwise agreed by each Donor, upon termination of the Arrangement, and following disbursements for the cost of activities financed under the GTF as well as any other related costs of administering the Contributions, the Bank will return to each Donor a pro rata portion of the funds in the GTF Account.

3. A Donor may decide not to continue its participation in the GTF by giving written notice of not less than six (6) months to the Bank and, upon the expiration of the notice period, ceasing to make future grants to the Bank for purposes of the GTF. The decision not to make future Contributions will, however, not release such Donor from full payment to the Bank of any Contributions previously committed to the Bank.

## **ARTICLE VIII**

### **EFFECTIVE DATE OF THE ARRANGEMENT**

This Arrangement will become effective, and operational upon its signature by the Bank and any two (2) Donors.

## **ARTICLE IX**

### **AMENDMENT**

This Arrangement may be modified by the written consent of the Bank and a simple majority of the Donors, each of which will give full consideration to any proposal to amend the Arrangement. Amendments, however, will not be inconsistent with the scope and objectives of GTF as approved by the Board of Directors.

## **ARTICLE X**

### **NOTICE**

Any notice to be given to the Bank in respect of this Arrangement will be effectively given if delivered or sent by letter or fax addressed to the Bank at the address given below or other new address provided in writing by the Bank to the Donors:

**Any notice to the Bank will be addressed to:**

Head  
Partnerships and Cooperation Unit  
African Development Bank

Temporary Relocation Agency  
15, Avenue du Ghana  
B.P. 323  
1002 TUNIS BELVEDERE  
Tunisia  
Tel. (216-71) 10 21 34  
Fax: (216-71) 83 01 72

Any notice to a Donor or the Bank will be effectively given if delivered or sent by letter or fax to the address and telecopy number provided at the time of signature of this Arrangement, or any new address provided in writing by such Donor.

## **ARTICLE XI**

### **DISPUTE RESOLUTION**

Any dispute arising out of or in connection with this Arrangement, including disputes concerning the interpretation or application of any provision herein contained will be settled amicably by the Parties.

## **ARTICLE XII**

### **GENERAL PROVISIONS**

1. This Arrangement will not be assigned by the Bank without the prior consent of the Donors.
2. This Arrangement is not an international treaty. It is an administrative Arrangement by and among the Donors and the Bank.
3. The operations of the GTF shall be subject to the Sanctions and Information Disclosure Policies of the Bank and the Fund.
4. In the event that the approval of the Donors is sought by the Bank on any matter, such matter will be deemed approved by a Donor if it shall not have communicated its concurrence or objection to such matter within fifteen (15) working days from the date of receipt of the request.

5. No offer, gift, payment, consideration or benefit of any kind which constitutes an illegal or corrupt practice will be made to anyone, either directly or indirectly, as an inducement or reward for the signing of this Arrangement. Any such practice may be grounds for terminating this Arrangement or suspending payments under this Arrangement, and may lead to other measures in accordance with applicable laws.

A party may terminate its participation in this Arrangement or have the right to demand cancellation of, or as the case may be, cancel, subject to its terms, any contract financed under this Arrangement, with immediate effect if it determines, with respect to any contract to be financed under this Arrangement, that corrupt or fraudulent practices were engaged in by the representative(s) of a party or of a beneficiary of the proceeds of the Grants during procurement or during the execution of the contract without such party having taken timely and appropriate action to remedy the situation.

6. This Arrangement shall be effective for a period of three (3) years from its effective date, unless extended by mutual agreement of at least two (2) Donors.

**IN WITNESS WHEREOF**, the Undersigned, being duly authorized, has signed the present Arrangement in two original counterparts.

**FOR THE AFRICAN DEVELOPMENT BANK**

**AND**

**THE AFRICAN DEVELOPMENT FUND**

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**By:** [       ]

**Title:** [       ]

**Date:**

**FOR THE GOVERNMENT OF SWITZERLAND**

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**By:** Hansjürg Ambühl

**Title:** Head of West Africa Department, Directorate of Development and Cooperation, Federal Department of Foreign Affairs

**Date:**

**FOR THE GOVERNMENT OF NORWAY**

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**By:** Henrik Harboe

**Title:** Deputy Director General, Multilateral Bank and Finance Section, Royal Norwegian Ministry of Foreign Affairs

**Date:**