

**NEW GUIDELINES ON THE MIDDLE INCOME COUNTRY TECHNICAL
ASSISTANCE FUND**

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1. INTRODUCTION

1.1 With reference to the above the MIC TAF working group, set up in 2009, has revised the MIC TAF guidelines with a view to address the Board's concerns, expressed during the seminar on 8 March 2011, about the relatively modest utilization of the resources, the persistent lack of knowledge about the Fund, the need to improve the reporting structure and the difficulty in ensuring timely implementation of grants. This followed a much wider consultative process in which the views of MICs were taken on board, including through field visits, and feedback from the SMCC.

1.2 As a result Bank management has established the New Guidelines for the Administration and Utilization of the Middle Income Country Technical Assistance Fund (November 2011) with the aim to ensure continued relevance to the priorities of Middle Income Countries and alignment with the Bank's overall strategies for MICs. It is proposed that the Revised Guidelines of November 2011 replace those of October 2005.

1.3 Following a brief description of the context and background of the MIC TA Fund, this note (i) presents the status of utilization of the Fund, (ii) discusses key issues emanating from implementation experiences and consultations with Bank staff and officials in MICs, and (iii) sets out a number of recommendations regarding the objectives, use, and administration of the Fund as well as the business processes and institutional framework associated with its utilization. The Revised Guidelines of November 2011, have already incorporated these recommendations, and are being presented with this note for due consideration and approval.

2. CONTEXT AND BACKGROUND

2.1 The MIC TA Fund is an integral part of the Bank Group's commitment and strategic thrust to enhance the quality, development effectiveness, volume and competitiveness of its operations in its regional member Middle Income Countries (MICs). Since 1995, several task forces were established over the years to reflect on the constraints, challenges and prospects for Bank operations and to make recommendations regarding the most effective strategies to boost the Fund's relevance to MICs.

2.2 The MIC TA fund was set up in 2001 with the accompanying Guidelines for its administration and utilization established in 2002 with the objective to provide grant resources for capacity building, economic and sector work and project preparation in MICs. In view of this, the menu of activities supported by the MIC TA Fund was expanded and the Revised Guidelines for its use and administration were approved by the Board in October 2005. The 2005 Revised Guidelines established four priority areas: (i) project preparation, (ii) technical assistance/capacity and institution building, (iii) economic and sector work (and other country analytical work), and (iv) activities that promote the private sector. In addition to an expansion of the priority areas, the 2005 Revised Guidelines also increased the maximum grant amount per operation (from UA100,000 to UA600,000) and established an exceptional Delegation of Authority Matrix for grant approvals.

UTILIZATION STATUS AND CHALLENGES

Table I: MIC TA Fund Summary Statistics (as of Dec. 2011)		
<u>Status of Utilization:</u>	<u>No</u>	<u>UA'000</u>
Grants Approved	91	39,424.6
Grants Committed	75	31,163.0
Grants Disbursing	44	11,772.0
Grants Cancelled	13	2,042.5
<i>Average Size of Grant</i>		243.9
<u>Implementation Indicators:</u>	<u>No of days/years</u>	
Average time, approval to signature (in <u>days</u>)	>100	
Average time, signature to 1 st disbursement (in <u>days</u>)	>470	
Average age of ongoing portfolio (in <u>years</u>)	2.2	

2.3 As of Dec. 2011, about UA37.68 million remains uncommitted of the UA66.2 million that has been made available to the Fund from the ADB net income allocations since 2001. The average time from approval to signature is greater than 100 days, while the average time from signature to disbursement is well beyond a year. Annex IV shows the MIC TAF grant approvals by country as of Dec. 2011 with Annex V showing the grants by year of approval, commitment and first disbursement. Finally Annex VI shows the grants approved by country and by sector as of Dec. 2011.

2.4 Governments face difficulties in putting in place an adequate institutional set-up, which is often reflected in long (or unsuccessful) recruitment processes of consultants, at the start of any given MIC-TAF operation. In addition, Governments do not seem to devote adequate resources in the form of dedicated staff and authority to ensure seamless implementation. The high transaction costs (or perceived high costs) may also partly explain the relatively high number of cancellations. Five of the 91 grants approved hereto have been cancelled without any disbursement. The project ceiling of UA600,000 is also reported to effectively limit the utility of the MIC TA Fund in the larger MICs, particularly for capacity and institution building purposes and for project preparation, i.e. for feasibility and technical studies—thus conceivably curtailing demand from those countries. The Bank's Rules and Procedures for Procurement of Goods and Works as well as for the Use of Consultants will continue to apply. Furthermore, use of national systems for National Competitive Bidding (NCB) procedures in the beneficiary country, will be encouraged based on ORPF's prior review and endorsement.

2.5 Recurrent complaints from MIC counterparts, echoed by Bank task managers, also suggest that the requirements for grant requests are exacting and cumbersome, thus, dissuading an otherwise significant need for MIC TA grants. However, when explored further, these complaints often reflect issues related to the application of established processes and requirements including notably insufficient information at staff level (and, by extension, at the level of government counterparts) in terms of how to present and process eligible proposals combined with the absence of standard project presentations and/or templates.

2.6 Currently, there is no Bank-wide systematic monitoring of implementation of grants from the Fund, nor is there a clear reporting mechanism in place for assessing the impact of completed grants. In addition, user departments have little incentive to prepare a MIC TAF grant and oversee its implementation post-approval unless it is attached or associated to a lending operation. The department concerned is obliged to devote staff resources and administrative budget to prepare the grant, but receives little commensurate recognition for this. One way to create this incentive would be to consider the preparation of MIC TAF grants as a key performance indicator (KPI) for all users (sector and regional departments) so that adequate staffing and resources can be planned in advance.

3. AREAS OF ENHANCEMENT

3.1 As a result, the recommendations below seek to address the above-mentioned challenges in fund usage and management:

Appointment of a Bank-wide Focal Point

3.1.1 The presence of an institutional focal point, to actively champion the MIC TA Fund, function as a depository for information and developer of best-practices, provide guidance and active assistance in the preparation and processing of requests and assess issues hindering disbursement, could decisively facilitate this task. The MIC focal point would further strengthen the awareness of the Fund and thus significantly facilitate demand for grants by ensuring a more proactive stance on the promotion of the use of the funds available as well as the information and training dissemination workshops on the Fund in favor of beneficiary countries. Furthermore, a focal point could provide streamlined support for the processing of grant requests from the point of initiation through approval, signing and implementation—arguably the most critical obstacle to a sizable and swift utilization of the funds available. Organizationally, such a focal point could be located in the ORVP complex to provide a strategic focus for all MICs (see annex 4 for the Terms of References in the attached New 2011 Guidelines).

Regional Integration

3.1.2 Consultations undertaken over the past year in the context of the Bank's efforts to develop Regional Integration Strategy Papers (RISPs) have evoked the fundamental issue of the lack of Bank instruments to decisively encourage MICs to undertake regional projects and investments. In order to respond to this desire for enhanced regional focus, the promotion of regional integration as an explicit new theme for financing under the MIC-TAF

is critical. This new area would target regional activities, within the broad confines of the Bank's regional integration strategy, with Regional Economic Communities (RECs) also being able to avail grants.

Monitoring and evaluation

3.1.3 There is a compelling need to ensure the utilization and management of the MIC TA Fund is in line with the Trust Funds at the Bank and to ensure their alignment with the Bank's current 2008-2012 Medium Term Strategy (MTS). As such, Bank Management is proposing new reporting arrangements in the form of quarterly reports targeting a pre-established results-based framework, as well as supervision and auditing mechanisms, in the form of project completion reports, in order to measure the impact of grants after approval.

Raising grant ceilings for beneficiaries of the Fund

3.1.4 The UA 600,000 ceiling per grant established by the October 2005 MIC TAF Guidelines has become increasingly inadequate for studies, compelling some MICs to seek other sources of funding. In order to respond to the continued demand for grant resources from MICs, it has become necessary to consider an increase in the funding ceiling by raising it to a maximum of UA 1,200,000 per grant, with the minimum remaining at UA 100,000. To date, there is no appetite amongst the MICs to set a target by country on the number of grants it shall qualify for per annum. The principle argument in favor of setting no limits is that it depends on the absorption capacity of each country.

Approval thresholds

3.1.5 Senior Management recommends that the levels of authority outlined in the October 2005 Guidelines should be raised such that Vice Presidents will approve requests below UA 400,000 whilst for requests between UA 400,000 and UA 800,000, approval will be by the President and for requests above UA 800,000 approval will be by the Board, on a lapse-of-time basis. This will enable the MIC TA Fund to respond to requests for support in a timely fashion and thus operate as a quick-access facility.

4. INFORMAL BOARD DISCUSSION OF 8 MARCH 2011

4.1 Apart from the areas of enhancement of the MIC TAF, which have been incorporated into the attached new Guidelines, management sought the views of the Board through an informal session on 8 March 2011. The Board's comments have been incorporated into the new Guidelines as shown in Annex I. Bank management is also seeking to undertake the following:

- Ensure the introduction of relevant key performance indicators (KPIs) so that the respective user departments can better plan their resources and follow up on implementation.

- Assign an ORVP staff as the MIC TA Fund focal point. (the Terms of Reference for this position are in Annex III)

5. RECOMMENDATIONS

The areas of enhancement of the MIC TAF, which have been incorporated into the attached new Guidelines for the Administration and Utilization of the Middle Income Country Technical Assistance Fund (November 2011) are outlined below. They are reflected in Annex II which shows the proposed changes in response to the working group's findings.

1. In addition to the four already established activities eligible for grants, the MIC TA Fund will finance activities in support of regional integration and Regional Economic Communities (RECs) will also be able to avail of grants;
2. Increase the ceiling per grant, for each priority area, from UA600,000 to UA1.2 million. The current Delegation of Authority Matrix for grant approvals under the MIC TA Fund should be maintained but the approval thresholds will be raised such that Operations Vice Presidents will be authorized to approve requests for MIC TA grants below UA 400,000 the President will approve requests between UA 400,000 and UA 800,000. For amounts above UA 800,000 approval will be by the Board on a lapse-of-time basis.
3. Simplify and expedite disbursement by encouraging use of special accounts and direct payment, and encouraging the adoption of a single tranche release disbursement structure, where deemed appropriate. All funds will be disbursed according to an agreed work schedule based on the underlying results-based logical framework with grants being systematically cancelled if they fail to disburse within twelve months of their approval.
4. Raise the threshold of procurement of equipment to UA 200,000 or 1/6 of the total grant amount, which is lower.
5. Allow the MIC TAF beneficiary to recruit a Procurement Agent (PA) to where it lacks the necessary capacity and experience. The PA will follow all the rules approved by the Bank, on the beneficiary's behalf. In certain cases the Bank may require the use of a PA by the grant beneficiary.
6. Delegate to national field offices, where possible, the responsibility of overseeing and monitoring current MIC TA operations and helping their respective countries to formulate new requests and obtain approval in a timely manner.
7. The project proposal and the approval memo will be collapsed into one step. Proposals should thus be submitted for review and approval under a simple (one-page) transmittal memorandum that merely indicates the context and objectives of the proposed grant along with an abbreviated project description, not exceeding 10

pages (excluding annexes). A new results-based logical framework and reporting requirements are outlined in the attached New 2011 Guidelines.

8. For grant resources of the MIC TA Fund, which can explicitly target private sector entities, there will be a need for a letter of non-objection from the corresponding country accompanying the request from the concerned entity. This letter of non-objection can be assumed to be given after a 60 day lapse-of-time basis in the event that the country does not respond with an explicit non objection.

Annex I: Summary of Proposed Updates based on feedback from the informal Board of 8 March 2011

Theme	Comments from the Board	Proposed changes to 2011 MIC TAF Guidelines*
Scope	Although the scope is sufficiently broad already it is important to assess why no private sector operations have been approved to date	The new guidelines allow for a more streamlined preparation and approval process including the introduction, on a lapse of time basis, for Government to approve private sector requests (para. 4.1.2). This has been a key impediment in the past.
Strategy	MIC TAF should help transition RMCs from ADF to blend to ADB	The areas of coverage, including the newly introduced regional integration area (para. 2.3.7) are all aimed at helping MICs to make this transition however MIC TAF grants will continue to be available only to MIC and blend countries and not ones that are ADF only.
Monitoring & Evaluation	There is no M&E on the impact of grants and a new results framework is needed to improve Q at E	The new guidelines have introduced a results-based logical framework (Annex 2) which each proposal will need to be held accountable against to measure its impact. In addition a completion report (para. 4.3.1) will be done to capture the key lessons learnt for future grants.
Implementation	<p>i) There is no coordination authority to oversee the MIC TAF and how can implementation be simplified?</p> <p>ii) Why are there so many grants that are approved but not disbursing and how can raising the grant size help in this regard?</p>	<p>i) The introduction of a MIC TAF focal point (para. 4.3.2) and the explicit use of procurement agents (para. 3.4.1) will help in improving implementation of grants.</p> <p>ii) The lack of a specific MIC TAF focal point has restricted the active follow up of grant operations holistically across the Bank. Raising the grant's size will help in meeting the increase in costs related to undertaking studies currently.</p>
Grant threshold and approval limits	Adjust the threshold and limits but justify it.	The need to tackle a rise in costs/inflation has meant that the UA 600k threshold is not sufficient to cover costs especially as it has remained unchanged since 2005. As a result the grant threshold will be doubled (para. 3.2.1) and the approval limits adjusted conservatively and not in proportion.
Eligibility	<p>i) All RMCs should have access to the Fund and it should be aligned with the Bank's MTS.</p> <p>ii) Is Zimbabwe eligible and why are Nigeria, Zimbabwe and South Africa not accessing this fund?</p>	<p>i) The MIC TAF remains a TA fund for MIC and blend countries for now and its areas of coverage are closely aligned with the Bank's MTS.</p> <p>ii) Zimbabwe is no longer eligible as it was classified as ADF only (Dec. 2011) and countries not currently accessing the Fund are mostly unaware of it. The new MIC TAF focal point will help alleviate this weakness.</p>

** refers to paragraph numbering from the November 2011 MIC TAF revised Guidelines*

Annex II: Summary of Proposed Updates to the 2005 October MIC TAF Guidelines

Theme	2005 October MIC TAF Guidelines	Proposed changes to 2011 MIC TAF Guidelines*
MIC Countries coverage	15 countries	16 countries (Cape Verde now included), see para. 2.2.1)
Coverage of the MIC TF	1) Capacity Building 2) Technical Assistance and project preparation 3) Private Sector development 4) Promotion of ESW	Widen the coverage to also include Regional integration and Regional Economic Communities (see para. 2.3.7)
Size of each grant (maximum)	UA 600,000	UA 1,200,000. (see para. 3.2.1)
Procurement of Equipment	UA 100,000 threshold per grant	UA 200,000 threshold per grant or 1/6 of total whichever is lower (see para. 3.4.1)
Disbursement	All 4 Bank methods allowed	1) All 4 Bank methods allowed (see para. 3.6.1 and 3.6.2) 2) Cancellation of grants not disbursing within a period of twelve months following approval date (see para 3.6.3)
Procurement Agent (PA)	Not explicitly allowed	Use of a PA is an option (and may be required by the Bank) where the capacity and experience of the recipient is thought to be weak and or inadequate. (see para. 3.4.1)
Approval Process for private sector requests	No specification for private sector requests being approved by Govt,	Dispute Resolution Clause in the Letter of Agreement (see para. 3.7.2) and a 60 day lapse-of-time basis for private sector requests to be approved by Govt. (see para. 4.1.2)
Approval Process review	No mention of the country team process	Inclusion of the country team's role in the review process and setting of a 10 page maximum limit on proposals (see para. 4.2.1)
Delegation of Authority	VP < UA 300k UA 300k < President < UA 500k Board > UA 500k	VP < UA 400k UA 400k < President < UA 800k Board > UA 800k (see para. 4.2.2)
Focal point	None proposed	ORVP will have a MIC TAF focal point (see para. 4.3.2)
Annexes	Annex 1	Remove mention of Permanent Secretary and Ministry of Finance signature
	Annex 2	The Results-based logical framework included into the Request for Approval memo
	Annex 3	Include mention of OSVP, OIVP and ORVP as signatories
	Annex 4	Terms of Reference for the ORVP Middle Income Country Focal Point

* refers to paragraph numbering from the November 2011 MIC TAF revised Guidelines

Annex III: MIDDLE INCOME COUNTRY TECHNICAL ASSISTANCE FUND TERMS OF REFERENCE FOR FOCAL POINT

The incumbent's duties and responsibilities will be as follows:

- 1) Provide overall leadership and coordination of matters related to the MIC TA Fund across the sector and regional departments.
- 2) Develop and proactively ensure regular dissemination—inside and outside the Bank—of information material on the MIC TA Fund and its objectives as well as processes for accessing it and modalities for implementation of grants. Such dissemination should be in collaboration with the Bank's FOs and particularly targeted towards MICs who have sparingly used the Fund.
- 3) Continuously distill and disseminate best practices in design, delivery and implementation of grants.
- 4) Actively assist and guide staff and government counterparts in developing and designing grant requests and proposals.
- 5) Facilitate an expediting role in Bank-internal approval processing and assess issues hindering disbursement of grant funding
- 6) Ensure continued monitoring of grants under implementation and provide the Board of Directors with an annual assessment of grant approvals and utilization.
- 7) Establish and periodically update rolling annual program of requests for grants under the MIC TA Fund (based on input from different complexes).
- 8) Act as a point of reference for ad hoc queries on the Fund from both within and outside the Bank.

Annex IV: MIC TA Fund Approvals (and ADB lending) by Country as of 31 Dec, 2011

Country	MIC TA Fund Grant Approvals a/			ADB Loan Approvals
	No.	UA million	in %	2004-2008 b/ in %
Algeria	3	1,6	4	0
Bostwana	13	5,4	14	2
Cape Verde	1	0,3	1	
Egypt	9	5,0	13	27
Eq. Guinea	2	0,7	2	1
Gabon	6	2,5	6	7
Libya	2	1,1	3	0
Mauritius	7	2,6	7	1
Morocco	12	5,9	15	25
Namibia	5	2,0	5	1
Nigeria	0	0,0	0	5
Seychelles	5	2,3	6	0
South Africa	1	0,5	1	14
Swaziland	7	2,9	7	0
Tunisia	13	4,9	12	15
Zimbabwe	0	0,0	0	0
Multinational	5	1,8	5	4
Total	91	39,5	100	100

a/ As of Dec, 2011 - SAP by FFCO

b/ ADB 2008 Annual Report

**Annex V: MIC TA Fund Grants by Year for Approval, Commitment and 1st Disbursement
(As of Dec. 2011)**

<u>Year</u>	Approved		Committed <u>1/</u>		Disbursing <u>2/</u>	
	<i>No</i>	<i>UA</i>	<i>No</i>	<i>UA</i>	<i>No</i>	<i>UA</i>
2002						
2003						
2004	4	375,16	3	249,937	3	249,937
2005	1	100	2	99,191	1	99,191
2006	8	3,319,173	6	2,757,740	6	2,537,731
2007	12	5,009,664	8	3,207,499	7	1,936,516
2008	5	1,846,990	7	2,282,665	5	1,198,389
2009	23	11,179,234	6	2,606,573	5	1,558,040
2010	19	8,234,030	24	11,027,706	12	2,839,336
2011	19	9,360,384	19	8,931,702	5	1,352,826
Total	91	39,424,635	75	31,163,013	44	11,771,967

1/ Number of grants committed and their total approved amounts

2/ Number of grants disbursing and disbursed amounts

Annex VI: MIC TA-Fund by Category and by Sector (as of Dec. 2011)

Sectors:	Project Preparation		Capacity Building		ESW		Private Sector		TOTAL		
	No	UA '000	No	UA '000	No	UA '000	No	UA '000	No	UA '000	% of total approvals
Water	1	460	1	600	5	2,780	-	-	7	3,840	10%
Finance	1	465	2	795	1	480	-	-	4	1,740	4%
Agriculture	5	1,532	6	2,590	3	1,696	-	-	14	5,818	15%
Social	1	600	12	6,131	10	3,950	-	-	23	10,681	27%
Transport	2	954	1	600	3	1,519	-	-	6	3,073	8%
IT	1	600	2	794	1	292	-	-	4	1,686	4%
Power	-	-	-	-	1	600	-	-	1	600	2%
Multi-sector	3	1,378	23	9,227	6	1,382	-	-	32	11,987	30%
TOTAL	14	5,989	47	20,737	30	12,699	-	-	91	39,425	100%
Total in %	15%		53%		32%		0%				

AFRICAN DEVELOPMENT BANK



THE REVISED GUIDELINES FOR THE ADMINISTRATION AND UTILIZATION OF THE MIDDLE INCOME COUNTRY TECHNICAL ASSISTANCE FUND

November, 2011

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1. INTRODUCTION

1.1 Background

1.1.1 Since 1995, Senior Management has dedicated increased attention to enhancing the quality, development effectiveness, volume and competitiveness of the Bank Group's operations in Middle Income Regional Member Countries (MICs)¹. Over the years, Task Forces were established to reflect on the constraints, challenges and prospects for Bank operations in the MICs and make recommendations on the appropriate and most effective strategies to boost the operations. In this context, the Task Force appointed in 2001 recommended the establishment of a Technical Assistance (TA) Fund to finance non-lending activities in MICs - activities which Low Income Countries (LICs) have various concessional windows to finance them from.

1.1.2 Created in 2002, the MIC TA Fund and the accompanying Guidelines for its administration and utilization were established with the objective of providing grant resources for capacity building, technical assistance, economic and sector work and project preparation in MICs. In view of this, the menu of activities supported by the MIC TA Fund was expanded and revised guidelines for its use and administration were approved by the Board in October 2005 (the *Revised Guidelines*)². These Revised Guidelines outlined rules and procedures to guide Bank staff and beneficiaries in regards to the objectives of the MIC TA Fund, its funding, preparation and processing of applications for utilization, approval procedures, and implementation arrangements.

1.1.3 Four priority areas were established by the October 2005 Revised Guidelines: (i) project preparation, (ii) technical assistance/capacity and institution building, (iii) economic and sector work (and other country analytical work), and (iv) activities that promote the private sector. In addition to an expansion of the priority areas for financing under the TA-Fund, the Revised Guidelines also increased the maximum grant amount per operation (from UA100,000 to UA600,000) and established an exceptional Delegation of Authority Matrix for grant approvals under the MIC TA Fund³.

1.2 Strategic Framework for Enhancing Bank Group support to MICs

1.2.1 To reflect ongoing Senior Management interest in the MICs a "*Strategic Framework for Enhancing Bank Group Support to Middle Income Countries*" was developed and discussed by the Board in April 2008.⁴ Building on various MIC task force reports and extensive consultations with MICs, bilateral donors and other MDBs, the Strategic Framework advocated (i) clear guiding principles, (ii)

¹ Pursuant to the Credit Policy of the Bank, and as set out in para 1.1.1 above, MICs comprise the Category C countries, which are eligible for financing from only the non-concessional ADB lending window, as well as Category B countries, which are eligible for a blend of resources from the ADF concessional lending window and the ADB non-concessional lending window.

² Revised Guidelines for the Administration and Utilization of the Technical Assistance Fund for Middle Income Countries, ADB/BD/WP/90/Rev.1/Approved, November 2005.

³ The exceptional Delegation of Authority Matrix for the MIC Trust Fund enables Vice Presidents to approve requests up to UA 300,000; for requests between UA 300,000 and 500,000, approval is by the President while for requests above UA 500,000 approval it is by the Board on lapse of time basis.

⁴ ADF/BD/WP/2008/41, 25 April 2008.

sharpened sector and thematic priorities, (iii) enhanced financial products and pricing, (iv) strengthened business processes (to improve delivery), (v) stronger partnerships, and (vi) better dissemination of information. The Strategic Framework was complemented, in June 2008, by a “*Report of the Presidential Working Group on Enhancing Bank Support to MICs*”, which provides operational recommendations in each of these areas and sets out a concrete action plan to ensure follow-through and implementation.

1.2.2 Concerns about the MIC TAF have included the relatively modest utilization of the resources, the persistent lack of knowledge about the Fund and the difficulty in ensuring timely implementation of grants. As a result Bank management established a MIC TA Fund Working Group (MIC-TAF WG), in April 2009, to review the use and guiding principles of the Fund. These Guidelines reflect the findings of the MIC-TAF WG Work and are based on extensive consultations with the Board and MICs.

2. OBJECTIVES AND APPLICATION OF THE RESOURCES OF THE MIC Technical Assistance FUND

2.1 Objectives of the MIC TA Fund

2.1.1 The evolving development needs of MICs continue to demand innovation and improvement in delivery on the part of the Bank. For many MICs, the effective utilization of the financial resources available to them is becoming as important as the provision of the resources themselves. The MIC TA Fund will continue to fund i) Project Preparation work, ii) technical assistance, advisory services and project cycle activities, iii) the training of Government officials and capacity building work and iv) support for activities promoting the development of the private sector and the importance of building country knowledge through intensification of ESW and other country analytical work.

2.1.2 A new area of focus, which the MIC TAF will be eligible to finance, includes activities promoting regional integration. Where this concerns a group of countries which are MIC and non-MIC the grant beneficiary shall always be a MIC as per the eligibility criteria of the Fund.

2.2 Eligible Countries and Operational Activities of the MIC TA Fund

2.2.1 The resources of the MIC TA Fund⁵ will be used to finance activities in Category C countries, which are only eligible to receive financing from the non-concessional ADB window (namely, Algeria, Botswana, Egypt, Equatorial Guinea, Gabon, Libya, Mauritius, Morocco, Namibia, Seychelles, South Africa, Swaziland and Tunisia). The use of the Bank’s net income allocation will be limited to activities in Category C countries. Other resources of the MIC TA Fund, such as matching grants from bilateral donors, will be available to fund activities in both Category B countries, otherwise known as blend countries, and Category C countries. Blend countries are eligible to receive financing from both the non-concessional ADB window and the concessional ADF window (namely Angola, Cape Verde and

⁵ MICs under sanctions will continue to access the MIC TAF to facilitate re-engagement between the Bank Group and the sanctioned country after the sanctions are eventually lifted.

Nigeria). It is noted that the countries in each category may change from time to time hence the eligible countries will always be those that are in Category B and C at any given moment in time. Financing of the MIC TA Fund will remain in line with Resolution B/BG/2002/03, adopted by the Board of Governors on 28 May 2002.

2.3 Operational Activities of the MIC TA Fund

2.3.1 In choosing the activities that can be financed from the resources of the MIC TA Fund, primary consideration will remain focused on activities which fall within the priorities articulated in the respective MIC's Country Strategy Paper. The following priority activities are currently eligible for financing from the resources of the MIC TA Fund.

Project Preparation Activities

2.3.2 The MIC TA Fund resources will finance all project/programme preparation activities both in the public and private domains. These will also include preparation/upgrading of project engineering designs, technical specifications, the undertaking of environmental impact assessments and the preparation of environmental management plans. In addition, the MIC TA Fund will also be used to finance studies. In this regard, care will be taken to ensure that Fund's resources are not utilized to duplicate studies which other institutions or the country have already undertaken. In all cases, the activities financed must be related to projects/programs that are of priority to the country concerned and activities that will lead to new business opportunities for the Bank in the MICs.

Capacity and Institutional Building Activities/Technical Assistance

2.3.3 The resources of the Fund will finance capacity building and institutional strengthening activities in eligible member countries. Such capacity building and technical assistance activities should aim at enhancing the preparation and implementation capacity for the Bank Group portfolio, the building of efficient country systems to foster the harmonization agenda as well as capacity support for good governance, debt management and policy formulation. Examples include supporting parliamentary committees on public accounts, budget, audit and finance. These activities would include the training of Government officials, and members of Chambers of Commerce and other Business Associations responsible for the preparation and management of Bank-financed projects. In all cases, the training activities would be limited to short-term targeted skills-upgrading training, and no long-term formal training would be undertaken from the resources of the MIC TA Fund.

2.3.4 The MIC TA Fund resources will finance institutional strengthening and advisory activities. These activities would include the provision of limited numbers of goods for beneficiaries, such as IT equipment and software, photocopiers, IT infrastructure such as email/internet services, etc. The resources of the Fund would however not be used for the purchase of vehicles or the construction of buildings⁶.

⁶ Note that the list of ineligible items is not exhaustive

ESW and other Country Analytical work

2.3.5 The MIC TA Fund resources would also be used to finance ESW and other country analytical work such as core diagnostic reports, sector reviews, country governance profiles and topical analysis which are becoming an integral part of the Bank Group's work programme. The Fund could also be used to finance studies related to the achievement of the Millennium Development Goals as they relate to poverty reduction efforts in the MICs. These activities are critical in allowing the Bank to form a sound knowledge base for building a viable pipeline and long term policy dialogue with the MICs. In undertaking ESW/country analytical work, the Bank will explore possibilities for cost-sharing with sister institutions.

Activities that Promote the Private Sector

2.3.6 The private sector is an important growth engine in MICs. The MIC TA Fund could be used to assist MICs to build efficient financial systems with the institutional and legal framework for well functioning domestic capital markets and better corporate governance, so as to maximize the benefits of private sector development. Other activities which could contribute to strengthening the functioning of the private sector could also be supported under the Fund. The aim is to strengthen the private sector project pipeline and assist the MICs in creating and sustaining a conducive environment for private sector investments and growth.

Activities that Promote Regional Integration

2.3.7 To buttress the Bank's desire for an enhanced regional focus the promotion of regional integration as an explicit new theme for financing under the MIC-TAF is critical. This new area would target regional activities within the broad confines of the Bank's regional integration strategy, such as capacity development and technical assistance for regional economic communities/regional agencies, and regional economic and sector work as well as providing grant funding to blend with ADB-financed regional development operations. Under this criterion, MIC TA grants can be availed by Regional Economic Communities (RECs). For all non-MIC countries participating in a regional operation, their participation will be guided by the Bank's Strategic and Operational Framework for Regional Operations.

3. MODALITIES FOR THE IMPLEMENTATION OF THE MIC TA FUND

3.1 Funding of the MIC TA Fund

3.1.1 The initial allocation of UA 1 million provided the seed money for the MIC TA Fund. The Board will continue to make annual incremental allocations from the ADB net income based on adequate need and justification. Possible future replenishments of the Fund from the Bank's net income may be considered, on the recommendation of the Board of Directors. The Bank will also seek additional contributions into the MIC TA Fund from bilateral donors and other development partners in order to leverage its own contribution into the Fund.

3.2 Ceilings for Beneficiaries of the MIC TA Fund

3.2.1 The October 2005 MIC TAF Guidelines raised the ceiling per grant from UA 100,000 to UA 600,000. This amount has become increasingly inadequate for studies with some MICs having to turn to other co-financiers in order to bridge the funding gap. In view of the continued demand for grant resources from MICs, it is pertinent to reflect the increase in costs since the 2005 Guidelines were approved. Hence the new ceiling per grant will be raised to a maximum of UA 1,200,000 with the minimum remaining at UA 100,000.

3.2.2 To date there is no appetite amongst the MICs to set a target by country on the number of grants it shall qualify for per annum. The principle argument in favour of setting no limits is that it depends on the absorption capacity of each country. Instead the MICs indicated the need for the Bank to annually replenish the Fund so that its resources do not dry up.

3.3 Foreign Exchange and Local Cost Financing

3.3.1 Resources of the MIC TA Fund may be used to finance both foreign exchange and local cost components of approved activities. Beneficiaries of the Fund, including the private sector, will still be required to contribute at least 5 percent of the total cost. The Fund may finance up to 100 percent of the foreign exchange costs of approved activities.

3.4 Procurement of Goods and Services

3.4.1 The procurement of goods and services under the MIC TA Fund shall be carried out in accordance with the Bank's prevailing Rules and Procedures for the Procurement of Goods and Works, and for the Use of Consultants. It is to be noted that:

- i) for National Competitive Bidding (NCB), the national system procedures, normally used for public procurement in the beneficiary country, shall be used in line with Clause 3.3 of the Rules for Goods and Works. To be acceptable for use in Bank-financed procurement, these procedures shall be reviewed and modified as necessary to assure economy, efficiency, transparency and broad consistency with these Rules;
- ii) the threshold of UA 100,000 specified as the limit for procuring equipment (October 2005 Guidelines) will be raised to UA 200,000 or 1/6 of the total grant amount, whichever is the lower, to take into account the rise in costs over the intervening years. The resources of the MIC Fund will, however, not be available for the purchase of vehicles or the construction of buildings⁷.
- iii) where the MIC TAF beneficiary lacks the necessary resources, organization, capacity and experience, they have the option to employ, as their agent a firm specializing in handling procurement.

⁷ This list of items ineligible for financing under the MIC TAF is not exhaustive

This Procurement Agent (PA) shall follow all the rules approved by the Bank, on behalf of the beneficiary including use of Bank standard bid documents, review procedures and documentation. In certain cases the Bank may require the grant beneficiary to employ a PA.

3.5 Terms of Financing

3.5.1 The resources of the MIC TA Fund will be provided on grant basis to Category B and C beneficiary countries for the financing of eligible activities.

3.5.2 The recommendation to provide the resources of the MIC TA Fund on a grant basis is borne out of the need to improve the demand for ADB resources. The availability of grant funding is usually a prerequisite for the purposes of technical assistance, project preparation and institutional support. MICs, unlike ADF-eligible countries, often find it challenging to source grants for this purpose, hence, the Fund will act as an incentive for these countries to engage with the Bank.

3.6 Disbursements

3.6.1 It is proposed that the MIC TA Fund resources be disbursed using the Special Account method, as first preference, with the grant resources deposited into a special account to be opened for that specific purpose by the Beneficiary of the recipient country. Other Bank disbursement methods may also be applied as appropriate.

3.6.2 Disbursements from the MIC Fund will be subject to the Bank's prevailing Disbursement Rules, in particular, the rules on suspension of disbursements. Disbursement in all cases will be made according to a pre-established work schedule, based on the given logical framework. One-tranche release of grant funds, on a case by case basis, will be encouraged where it is deemed appropriate. Under the present guidelines, the implementing agency is expected to open a special account with the Central Bank/National Treasury into which the proceeds of the grant are deposited. However, in some instances, when the account is opened at a commercial bank, the commercial bank is expected to provide a Letter of Comfort, or any other document that the Bank requires from the commercial bank. In most cases, commercial banks are reluctant to provide this Letter resulting in undue delay when effecting disbursements. To avoid this delay the following is proposed:

- i) Preference be given to the opening of Special Accounts at the level of the Central Bank/National Treasury so that the Letter of Comfort is redundant and;
- ii) If the Special Account is opened in a commercial bank, then prior arrangements are made by the beneficiary to ensure that the commercial bank has no objection in complying with the Letter of Comfort requirement.

3.6.3 Grants that do not disburse within 12 months of their approval date will be subject to systematic cancellation.

3.7 Financial Management arrangements

3.7.1 The Financial Management (FM) framework under the MIC TA Fund shall be in accordance with the Bank's Rules of Procedures for FM and best practices. The objective of the financial management arrangements is to permit adequate use of funds in an economical and efficient way and that all transactions are duly accounted for, reported and audited (see para. 4.4.2).

3.7.2 In the case of grants allocated to private sector entities, the Letter of Agreement will include a dispute resolution clause in order to provide the Bank with leverage in the event of any disputes deriving from misuse of the grant by the corresponding private sector entity.

4. PROCESSING OF MIC TA FUND REQUESTS

4.1 Requirements for Proposals

4.1.1 The requests for the utilization of the resources of the MIC TA Fund will be submitted to the Bank by the Government for public sector activities or by private sector entities for private sector activities. Private sector requests should be accompanied by a letter of no objection from the government (Ministry of Finance). However, requests could also be prepared by Operations Departments in coordination with the Government, from identified needs while staff members are on mission or under similar circumstances to those applicable when requests are made to the Partnership and Cooperation Department to seek bilateral funds to finance studies. Under these circumstances, the Government will still need to confirm its non-objection to the Bank undertaking the proposed country analytical work. The proposal should in both cases, clearly address the following issues (refer to Annex 1⁸):

- i) objectives of the proposed project or program, its description and economic justification;
- ii) the detailed activities to be undertaken with the resources of the Trust Fund;
- iii) the Terms of Reference (if applicable);
- iv) the detailed cost estimates of the proposed activity including government or private sector contribution;
- v) the implementation schedule for the proposed activity, including the capacity of the executing agency to implement the activity;
- vi) the timing and suggested procurement modality of the proposed activity;
- vii) the proposed co-financiers (if any) who will also contribute to the grant; and

⁸ In Annexes 1, 2, 3, reference to Government, Minister of Finance etc should be replaced by Private Sector Entities if request is from the Private Sector.

- vi) evidence of the Government's or private entity's commitment that the proposed activity is targeted to a specific need such as technical assistance, it will generate new projects/programs or have high probability of doing so or lead to capacity support for improved portfolio quality, good governance and sound policy.

4.1.2 The MIC TA Fund request form (annex 1) will be completed either by the beneficiary on its own or in collaboration with the Bank. In all circumstances, for public sector grants, an official request from the Government will be required by the Bank prior to finalizing the preparation of the Request for Approval Memorandum (annex 2). For private sector entities, the Bank/beneficiary will submit the completed request (annex 1) to the Government for no objection, on a lapse of time basis⁹, before proceeding with the preparation of annex 2. This no-objection will have been assumed to be provided within the 60 days in the event that there is no explicit no-objection given by the Government concerned. A critical part of annex 2 will be the Results-based logical framework that will detail the expected outputs and outcomes of the grant as well as the expected impact. This framework will also allow for the regular monitoring of activities, through the use of performance indicators, against a set baseline.

4.2 Approval Process

4.2.1 On receipt of the proposal or its finalization from the Task Manager, the concerned Operations Department, Field Office (FO) or the Private sector Department will carry out a desk review to determine if the proposal is a viable or feasible one that merits further consideration and will ensure maximum impact. It will not be mandatory to undertake a mission before finalizing the requested information as per annex 1. After having received all necessary information on the request, the concerned Department or FO would prepare a memorandum to request approval for the utilization of the resources of the MIC TA Fund. The format for the memorandum is given in annex 2. The proposal will be submitted to the concerned Country Team and Regional Director for endorsement, prior to going to the relevant Operations Vice President for consideration in line with the approval authority set out in para. 4.2.2 below. Assuming all the information required is received by the Bank, the processing of requests up to approval, by the VP, should aim to be completed within 30 working days from the date the request is received by the Bank (public sector) or the date when the lapse of time deadline ends (private sector). The memorandum format shall not exceed 10 pages in total, excluding annexes.

4.2.2 Since the MIC TA Fund is a demand-responsive facility, it has to respond to requests for support on time and should be a quick-access facility. The levels of authority outlined in the October 2005 Guidelines will be raised such that Vice Presidents will approve requests below UA 400,000 whilst for requests between UA 400,000 and UA 800,000, approval will be by the President and for requests above UA 800,000 approval will be by the Board, on a lapse-of-time basis.

⁹ A lapse of time of 60 calendar days is required for this purpose

4.2.3 If the request is approved, GECL will draft a Letter of Agreement in line with the format provided in annex 3 for signature by the authorized representatives of the Bank and agreed to by the recipient country. For a private sector entity the letter will be agreed to by the entity itself and copied to the authorized representative of the recipient country, usually the Ministry of Finance.

4.3 Reporting Arrangements

4.3.1 Beneficiaries of the MIC TA Fund will be required to submit quarterly progress reports on the implementation of the activities financed under the MIC TA Fund. On the basis of these reports and information obtained from field supervision missions, including those undertaken by the Field Offices, Management will submit to the Board of Directors a MIC TAF assessment annually on the approvals and utilization of the Fund's resources. At the end of each grant operation the concerned bank user department, in collaboration with the beneficiary, shall undertake a completion report to evaluate the impact of the grant. This report shall follow the prevailing bank completion report format.

4.3.2 A MIC TAF focal point, under ORVP, will be responsible for monitoring grant implementation by coordinating these reporting requirements as well as broadening the knowledge of the Fund amongst MICs, assessing issues that hinder disbursement and ensuring that beneficiary countries and Bank user departments abide by its requirements.

4.4 MIC Technical Assistance Fund Supervision and Audit

4.4.1 While it will not be obligatory to schedule separate supervision missions for MIC TA Fund activities, Bank staff both from headquarters and Field Offices will ensure that the activities are followed-up during missions to the countries concerned.

4.4.2 Beneficiaries of the MIC Fund will be required to have their accounts, related to the utilization of the grant resources, externally audited annually. The Bank's standard prevailing Terms of Reference for the conducting of audits, on Bank-funded operations, shall apply.

5. CONCLUSIONS AND RECOMMENDATIONS

5.1 Conclusions

5.1.1 A key constraint in the ability of MICs to effectively absorb available financial resources, even in the face of glaring needs, is the inadequate capacity for project preparation and implementation. In this connection, the MICs have requested for Bank assistance, in one form or the other, for institutional capacity building, project/programme preparation and implementation activities, and for activities to foster private sector investments.

5.1.2 These Guidelines are aimed at enhancing the utilization rate of the MIC TA Fund, increasing its visibility through better awareness, improving the reporting structure and ensuring better oversight in terms of timely implementation of grant-financed operations.

5.2 Recommendation

5.2.1 The Board of Directors is invited to consider, for approval, the terms and conditions presented in these revised operational guidelines, for the administration and utilization of the MIC Technical Assistance Fund.

MIDDLE INCOME COUNTRY TECHNICAL ASSISTANCE FUND REQUEST FORM
(to be completed by Recipient Country/Private Sector Entity)

1.	Title of Project/Study or Programme	:
2.	Country	:
3.	Executing Agency	:
	a) Name	:
	b) Address	:
4.	Description of the activities	:
5.	Rationale for the activities	:
6.	<u>Project Cost Estimates:</u>	
	a) Foreign Exchange	:
	b) Local Currency	:
	c) Total amount	:
7.	<u>Financing Plan</u>	
	a) ADB	:
	b) Government	:
	c) Total	:
8.	<u>Proposed Mode of Procurement (if known)</u>	:
	a) Services	:
	b) Goods & works	:
	c) Others, including Training of local staff	:
9.	<u>Implementation Plan</u>	:
	- Schedule of implementation to be attached	

- 1 Evidence of Government/Private Entity
- 0 Commitment to Implement the targeted :
- . Project/Study or Programme (Inclusion in the
CSP)
- a) explain and rate the probability that
the targeted project/study or
programme is a Government/Private
Entity priority: :
- b) provide name and designation of
Government/Private Entity official who
will sign the Letter of Agreement :
- c) provide name of Project coordinator
who will be in-charge of monitoring the
activities and the use of the TA Fund
:
:
:

MIDDLE INCOME COUNTRY TECHNICAL ASSISTANCE FUND
FORMAT FOR PREPARATION OF REQUEST FOR APPROVAL MEMORANDUM
(To be used by Bank staff)

Results-based Logical Framework

Country and project name:	
Purpose of the project :	

	RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
		Indicator (including CSI)	Baseline	Target		
IMPACT	Impact					
OUTCOMES	Outcome 1					
	Outcome 2					
OUTPUTS	Component 1 Output 1.1 Output 1.2 Etc.					
	Component 2 Output 2.1 Output 2.2 Etc.					
KEY ACTIVITIES	COMPONENTS				INPUTS	
	Component 1				Component 1	
	Component 2 Etc.				Component 2 Etc.	

1. Introduction

1.1 Background Information

1.2 Project/Study or Programme Objectives

1.3 Sector/Regional Department/Field Office responsible for preparing the Request

1.4 Justification for the use of resources:

- what is the probability that the activities are project targeted?
- what are the economic justifications and rationale for the targeted project/study programme?

2. Project Description

2.1 Description of preparatory activities for which resources are requested

2.2 Description of the expected outputs and their linkages to the targeted project or programme (if applicable)

3. Cost Estimates for the Preparatory Activities

3.1 Detailed cost estimates (broken down into foreign and local costs)

3.2 Financing plan

3.3 Cost estimates by components

4. Mode of Procurement of services and limited goods (if applicable)

4.1 Mode of Procurement of Services

4.2 Mode of Procurement of Goods and Works

4.3 Mode of Procurement for Training activities

5. Implementation Schedule

5.1 Timing of activities planned

5.2 Draft annual Work Programme and procurement schedule

6. Financing Arrangements (to be discussed and agreed with Government)

6.1 Terms of Financing

6.2 Suspension of disbursement

6.3 Letter of Agreement and its annexes:

- purposes, terms, and conditions of TF;
- special deposit account;
- financial provisions applicable to advances for TF

7. Conclusions and Recommendations for Bank's Consideration

7.1 Conclusions

7.2 Recommendations

8. Annexes:

- 1) Evidence that Government is committed to implement the targeted project or programme in the form of duly signed Request Form from Ministry of Finance. For a request from a private entity the Government's no objection, on a 60 day lapse-of-time basis, will be sufficient.
- 2) Letter of Agreement duly cleared by GECL.
- 3) Other relevant annexes including maps etc.

N.B The Memorandum is limited to a maximum of 10 pages excluding Annexes

MIDDLE INCOME COUNTRY TECHNICAL ASSISTANCE FUND
LETTER OF AGREEMENT

Date

Honourable Minister of Finance,
Ministry of Finance,
Republic of -----
City, Country

Dear Minister:

Subject: Grant for [Study] for []
Letter of Agreement (for private sector entities refer to the footnote at the end of
this model letter)

I am writing on behalf of the African Development Bank to indicate the Bank's decision to provide to -----, (the Recipient) a Grant in an amount not exceeding UA ---- (the "Grant"). The purpose of the Grant is to finance certain expenditures required for the [] activities, of the [proposed] project, study or programme.

The Grant is being provided for the purposes and on the terms and conditions set forth in the Attachments hereto, and the Recipient hereby represents, by confirming its agreement hereunder, that it is authorized to contract, withdraw, and utilize the Grant for the said purposes and on the said terms and conditions.

The provision of this Grant does not constitute or imply any commitment on the part of the Bank to assist to finance or part finance the [*project or any project developed as a result of the study or other purpose*] for which the Grant is provided.

Please confirm your agreement with the foregoing and the conditions and terms attached hereto, on behalf of [], by signing, dating, and returning to us the enclosed copy of this letter. This agreement will become effective on the date of countersignature by the Bank.

Sincerely,

[OSVP/OIVP/ORVP]

AFRICAN DEVELOPMENT BANK

By

Vice President, Operations -----

OR

President -----

Date -----

AGREED

----- [COUNTRY]

By: -----

Minister of Finance

----- [COUNTRY]

Date: -----

OR

By: -----

[Private Sector Entity]

----- [COUNTRY]

Date: -----

*** Where private sector entities are involved the following Amendment, Settlement of Disputes, Interpretation and Immunities should be inserted into the Letter of Agreement.**

This Letter of Agreement ("LA") may be amended by mutual written agreement of the Parties. Any amendment will be without prejudice to any rights or obligations accruing or incurred under this LA.

The Parties agree to use their best efforts to resolve disputes or litigation arising under the LA through amicable negotiations. Should the dispute or litigation not be settled by negotiations within sixty (60) calendar days any dispute or litigation, over the interpretation, implementation, claims, enforcement or termination on of its provisions herein contained, under this LA that cannot be resolved between the Parties shall be finally settled by arbitration in accordance with the UNCITRAL Rules under the auspices of the London Court of International Arbitration in force at the date of request, which rules are deemed incorporated by reference into this clause. The place of arbitration will be London, England (unless otherwise agreed upon by the parties) and the language of the arbitration shall be English. The resulting award shall be final and binding on the Parties and shall be in lieu of any other remedy.

Notwithstanding, the Recipient (or Beneficiary) hereby irrevocably consents and agrees, for the benefit of the Bank, that any legal action, suit or proceeding against it with respect to its obligations, liabilities or any other matter under or arising out of or in connection with this LA may be brought in any court of (the name of the country) or any other courts with jurisdiction and hereby irrevocably accepts and submits to the jurisdiction of any (country's name) court with respect to any such action, suit or proceeding.

The Parties hereby acknowledge and agree that the choice of forum by the Bank for any legal action, suit or proceeding, arising out of or relating to the LA, shall not constitute or imply, in any way, a waiver by the Bank of any immunities or privileges (particularly those concerning the immunity of its property or assets from attachment service or execution prior to final judgment) provided in its statutes or articles of agreement; any applicable international treaties or customs; or any applicable law; and the archives of the Bank remain inviolable.