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Middle East and North Africa Transition Fund under the Deauville Partnership with Arab Countries in Transition

Request for Engagement by the World Bank

Middle East and North Africa Region and
Concessional Finance and Global Partnerships

August 24, 2012

ABBREVIATIONS AND ACRONYMS

CFO	Chief Financial Officer (World Bank)
CFP	Concessional Finance and Global Partnerships (World Bank)
CFR	Corporate Finance and Risk Management (World Bank)
CGIAR	Consultative Group on International Agricultural Research
CIF	Climate Investment Fund
CTR	Controller's Department (World Bank)
CA	Contribution Agreement
CU	Coordination Unit
FIF	Financial Intermediary Fund
FPA	Financial Procedures Agreement
GAC	Governance and Anti Corruption
GAFSP	Global Agriculture and Food Security Program
IFC	International Finance Corporation
IFI	International Financial Institution
ISA	Implementation Support Agency
LEG	Legal Department (World Bank)
MD	Managing Director (World Bank)
MENA	Middle East and North Africa
RoE	Roster of Experts
SC	Steering Committee
SME	Small and Medium Enterprises
TA	Technical Assistance
UAE	United Arab Emirates
UK	United Kingdom
UNDP	United Nations Development Program
USA	United States of America

Middle East and North Africa (MENA) Transition Fund under the Deauville Partnership with Arab Countries in Transition: Request for Engagement by the World Bank

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I. DECISION SOUGHT FROM THE BOARD

1. This document presents, for the Executive Directors' approval, a proposal for the World Bank's engagement in the Middle East and North Africa (MENA) Transition Fund, which would involve: (a) establishment of a Financial Intermediary Fund (FIF), with the Bank serving as ***Trustee***; (b) setting up and managing the Transition Fund's ***Coordination Unit*** **(CU)**; (c) providing support as an ***Implementation Support Agency*** **(ISA)**, alongside other International Financial Institutions (IFIs), for the implementation of activities funded by the Transition Fund; and (d) participating as an observer in the Transition Fund's ***Steering Committee*** **(SC).**

II. STRATEGIC CONTEXT

2. At its May 2011 summit, the G-8 launched the ***Deauville Partnership with Arab Countries in Transition*** as a "long-term, global partnership to respond to the historic changes in some of the countries in the MENA region." The Deauville Partnership's objective is "to support democratic transition and to strengthen governance, foster economic and social inclusion, create jobs, support private sector-led growth, and advance regional and global integration"[1] in transition countries.

3. On April 20, 2012, Finance Ministers of the Deauville Partnership endorsed the creation of a new ***Transition Fund,*** which would complement other multilateral and bilateral initiatives by providing grants for technical cooperation and knowledge exchange to help transition countries strengthen their governance and social and economic institutions, and develop and implement home-grown and country-owned reforms.

4. The Deauville Partnership involves three types of participants: donor countries, transition countries and IFIs. The donor participants include Canada, France, Germany, Italy, Japan, Kuwait, Qatar, Russia, Saudi Arabia, Turkey, the United Arab Emirates, the United Kingdom and the United States. The United States is chair of the Deauville Partnership until the end of the 2012, after which the United Kingdom will assume the role of chair. To date, ten donors--Canada, France, Japan, Kuwait, Qatar, Russia, Saudi Arabia, UAE, UK and USA--have indicated their interest in contributing to the Transition Fund, with an overall target of US$ 250 million. Other donors that are not part of the Deauville Partnership may be invited to contribute to the Transition Fund at a later stage.

[1] Deauville Partnership Finance Ministers' Meeting, Communiqué, Washington, DC, April 20, 2012.

5. Countries eligible for Transition Fund support would initially include Egypt, Jordan, Libya, Morocco and Tunisia; other countries in the region may be added later based on countries' requests and as determined by the Deauville Partners and ratified by the SC.

6. Ten IFIs are involved in the Deauville Partnership, including the World Bank and International Finance Corporation (IFC), African Development Bank, Arab Fund for Economic and Social Development, Arab Monetary Fund, European Bank for Reconstruction and Development, European Investment Bank, International Monetary Fund, Islamic Development Bank, and the Organization of Petroleum Exporting Countries International Fund for Development. Some or all of these IFIs are expected to express interest in providing implementation support for Transition Fund-financed activities. An IFI Coordination Platform was established at the inception of the Deauville Partnership to coordinate the multiple IFIs involved and in ensuring a significant degree of harmonization of approach to the region.

7. As a key development partner supporting the MENA transition countries, the Bank has been asked by its Deauville partners to support the Transition Fund in several capacities. During the initial phase, this includes contributing to the Fund's design and operationalization (e.g., preparing consultative documents, convening meetings, drafting establishment agreements). Once the Fund is established, the roles envisaged for the Bank include: managing its CU, serving as its Trustee, providing implementation support (as an ISA) alongside other IFIs, and participating as an observer in the Transition Fund's SC.

8. Key Partners have indicated eagerness to show support and momentum for the Transition Fund by launching it at the Bank-Fund Annual Meetings in October 2012, and making initial contributions and approving the first round of proposals before the end of 2012.

9. The Transition Fund is proposed to be established at the Bank as a FIF. FIFs are multilateral financial mechanisms that support global development initiatives for which the Bank (i) acts as financial trustee, and (ii) provides an agreed set of financial intermediary services, which include, but are not limited to, receiving, holding and transferring funds to recipients or other agencies for implementation. These services may also include customized financial services. FIFs usually involve contributions from multiple donors and can accommodate the participation of multiple implementing agencies, each using its own policies and procedures for project implementation. In addition to being trustee, the Bank can play other roles, as is the case in the proposed Transition Fund, such as providing secretariat services and implementation support as needed. In its Trustee role, the Bank is not responsible for or accountable to donors or FIF governing bodies for the use of funds after transfer.

III. RATIONALE FOR BANK INVOLVEMENT

10. The rationale for Bank engagement is as follows:

- ***Members of the Deauville Partnership have specifically requested the Bank to work with donors***, transition countries, regional partners and other IFIs to set up the Transition Fund. The

proposed engagement responds to that request and reflects the partnership approach at the heart of the Deauville Partnership.

- ***The rationale for Bank engagement is further strengthened by the strong alignment between the strategic focus of the proposed Transition Fund and the Bank's own strategy for the MENA region.*** The proposed Transition Fund would focus on activities to strengthen governance, foster economic and social inclusion, support private-sector led growth, and advance regional and global integration of Arab countries in transition. These are closely aligned with the four pillars of the Bank's strategy for the region as presented to the Board in February 2012 (see Table 1). In addition, the Bank's strategy for MENA has three cross-cutting themes – integration, gender, and private sector development – which are also well-aligned with the thematic areas proposed for the Transition Fund.

- ***Supporting the Transition Fund through the various roles envisaged for the Bank would leverage the Bank's key strengths and capacities.*** The Bank's role in coordinating the design and operation of the Fund would draw on the Bank's experience with coordinating and administering a variety of similar multi-donor partnerships and funds. The Bank's trustee role would leverage its financial management capacity and experience in a broad range of FIFs. The Bank's implementation support role would leverage the Bank's operational experience and capacity, and its prominent knowledge support and convening role in the MENA region.

- ***The use of the FIF structure provides a cost-effective, flexible mechanism for multiple donors to support activities to be implemented by a range of IFIs,*** each using its own policies and procedures, as contemplated in the case of the Transition Fund. The FIF structure would be able to accommodate full and equal participation of a broad range of IFIs, compared to other trust-fund structures (i.e., Bank- or Recipient-executed Trust Funds).

IV. OBJECTIVES AND SCOPE

11. A draft Discussion Paper prepared by the Bank and reviewed by Deauville Partnership members describes the proposed objectives, scope, design and governance features of the Transition Fund, which are summarized below. The Discussion Paper stresses country ownership as the approach underpinning this initiative. Therefore, the Transition Fund would support "technical cooperation [that is] recipient-executed in line with country reform programs, utilizing implementation support from IFIs…under the guidance and oversight of recipients, donors and IFIs together, drawing on their collective experience" and "enhanced by the involvement of technical advisors."

A. Objective

12. The objective of the Transition Fund is to support the transformation currently underway in several countries in the region by providing funds for technical cooperation to strengthen governance and public institutions, and foster sustainable and inclusive economic growth by advancing country-led reforms. The Transition Fund would support a broad range of thematic areas related to finance,

trade/integration, and governance. Table 1 presents the thematic areas currently suggested based on consultations and experience to date, alongside the strategic pillars of the World Bank's regional strategy.

Table 1. Alignment of Suggested Themes of the MENA Transition Fund with the Strategic Pillars of World Bank MENA Strategy

Thematic areas suggested in the MENA Transition Fund Discussion Paper	**Strategic Pillars of World Bank MENA Strategy**
Investing in Sustainable Growth. This could include such topics as innovation and technology policy, enhancing the business environment, competition policy, access to finance, addressing urban congestion and energy intensity.	**Creating Jobs, including for youth and women**, by providing an enabling environment for opportunity, competition, innovation and entrepreneurship.
Inclusive Development and Job Creation. For example, policies for integrating lagging regions, skills and labor market policies, increasing youth employability, enhancing female labor force participation, integrating people with disabilities, vocational training, pension reform, improving job conditions and regulations, financial inclusion, promoting equitable fiscal policies, social safety net reform.	**Increasing Social and Economic Inclusion** of disadvantaged groups through economic measures and enhanced voice and participation (e.g. women and minority groups).
Enhancing Economic Governance, including areas such as transparency and accountability policies, public finance management and oversight, public sector audit and evaluation, integrity, procurement reform, regulatory quality and administrative simplification, SME facilitation, investor and consumer protection, access to economic data and information, management of environmental and social impacts, capacity-building for local government, reform of public service delivery in the social and infrastructure sectors, and sound banking systems.	**Strengthening Governance** through transparency and accountability measures to help create responsive states that are held accountable for their actions.
Competitiveness and Integration, focusing on such topics as logistics, behind-the-border regulatory convergence, trade strategy and negotiations, planning and facilitation of cross-border infrastructure, promoting and facilitating infrastructure projects particularly in the areas of urban infrastructure, transport, trade facilitation and private sector development.	**Accelerating Sustainable Growth** through short and long-term policy actions promoting climate-friendly growth in recognition of the stresses on the region's natural resources.

Sources: "Middle East & North Africa Transition Fund Discussion Paper," July 18, 2012 and "MENA Regional Strategy Update, Regional Update, February 28, 2012," p. 11.[2]

[2] http://intresources.worldbank.org/INTMENA/Resources/RSUpdate2012_MNA_FINAL.pdf

B. Scope

13. To provide flexibility to respond to transformational and cross-cutting proposals, the Transition Fund would provide grant funding and foster partnerships for technical cooperation projects that address a broad range of inter-related thematic areas covering all three pillars of the Deauville Partnership (Finance, Trade, and Governance). Transition countries could make proposals across the thematic areas.

14. Earmarking according to these thematic areas is not envisaged due to the desire to address the needs of transition countries, which may be fluid. There is agreement, however, to review actual allocations after the first 6-12 months of operation to ensure alignment between the Fund's strategic objectives and the funding of projects. Technical cooperation activities funded by the Transition Fund normally would be recipient-executed based on proposals from transition countries. Implementation support would be provided by IFIs participating in the Deauville Partnership which (a) elect to participate in the Transition Fund, (b), are approved by the SC (see below) as an ISA, and (c) are legally-mandated to carry out such an implementation support function for recipient-executed activities. Technical cooperation for parliamentary institutions would be executed by ISAs.

V. GOVERNANCE AND OPERATING STRUCTURE

15. The proposed structure of the MENA Transition Fund supports technical cooperation which is recipient-executed[3] in line with country reform programs, utilizing implementation support from IFIs using their own time-tested procedures, under the guidance and oversight of recipients, donors, and IFIs together, drawing on their collective experience. The innovative and transformational aspects of such technical cooperation would be enhanced by the involvement of technical advisors in the review of proposals, and of external partners in implementation.

16. The Transition Fund would be established at the Bank as a FIF. The Bank would serve as the FIF ***Trustee***, receiving donor contributions, holding and investing these funds, and transferring funds to ISAs for implementation. A ***Steering Committee*** (SC) would be established to oversee the operations of the Transition Fund, and would be its decision-making body. The work of the SC would be supported by a ***Coordination Unit*** (CU), which would be established at the Bank. A ***Roster of Experts*** (RoE) would provide independent advice, as needed, on proposals submitted for the SC's consideration and approval.

17. The Transition Fund would become effective upon signature of the first Contribution Agreement (CA) between the Trustee and a donor. The Transition Fund end commitment date is expected to be three years after the first allocation of funds and the end transfer date is expected to be six years after the first allocation of funds, but either may be changed by the SC, with the consent of the Trustee and the CU (see below).

[3] As discussed below, certain activities may be IFI-executed, particularly TA for parliamentary institutions, given that those institutions generally do not have the requisite capacity for recipient-execution of TA.

A. Steering Committee

18. A SC would be established to oversee the operations of the Transition Fund, and would be its decision-making body, whose responsibilities would include approval of the Operations Manual, ISAs and technical cooperation proposals, and deciding on funding allocations. The SC would include, as decision making members, representatives from donor and transition countries, including the selected Chair, who would retain a decision-making role. Decision-making of the SC would be by consensus of the decision-making members. The SC would also include, as observers, a representative from the Secretariat of the *Deauville Partnership IFI Coordination Platform* (described above), representatives of each of the approved ISAs, the Bank in its role as Trustee, and the CU in the role of Executive Secretary. The SC is envisaged to meet as needed on a virtual basis (i.e., by email), and at least twice a year face-to-face.

B. Coordination Unit

19. A CU managed by the MENA region of the Bank would facilitate the work of the SC and a RoE (see below). It would provide administrative support to the SC, gathering the information required to enable the SC to make decisions. The CU would, *inter alia*, be responsible for (i) organizing SC meetings and acting as Secretary; (ii) facilitating the identification, contracting and compensation of experts on the RoE upon the instructions of the SC; (iii) preparing the Operational Manual and templates for approval by the SC; (iv) receiving funding proposals and screening them for completeness and consistency with the Operational Manual and legal documents; (v) advising ISAs on procedures and requirements; (vi) reporting periodically to the SC; (vii) ensuring that the Trustee has all necessary information; and (viii) providing public information on Transition Fund activities.

C. Roster of Experts

20. Experts on a RoE would provide independent technical advice to the SC on proposals submitted for the SC's consideration and approval. The RoE would consist of a network of experts independent of any institution involved in the Fund, with a high level of experience in domains relevant to the Fund's objectives (the RoE would include a number of experts from, or based in, the region). The experts would be appointed by the SC (based on a list of candidates gathered by the CU in consultation with ISAs) and contracted and compensated by the CU solely on the basis of the SC's decisions. The ROE would not be a full-time entity or a governing body but would make recommendations on submitted proposals as input for decisions to be taken by the SC. The experts would be hired and compensated through the CU for services rendered. The cost of the experts' participation would be borne by the budget allocated by the SC to the CU.

D. Trustee

21. The World Bank would serve as Trustee of the Transition Fund. As such, it would receive, invest, commit, transfer and record funding available for ISAs. The Trustee would receive contributions from Donors on the basis of CAs signed between each Donor and the Trustee. The CAs would incorporate standard provisions governing the administration and use of Donor contributions. The funds would be invested by the Bank's Treasury in accordance with the Bank's policies and procedures for the

investment of trust funds administered by the Bank, and investment income would be allocated to the Transition Fund. The Trustee would have fiduciary responsibility for the funds that it holds.

22. The Trustee would enter into a Financial Procedures Agreement (FPA) with each ISA. The FPAs would include provisions specifying that the Trustee has no responsibility for the use of funds after transfer to the ISA. The Trustee would commit and transfer funds based on funding decisions of the SC, under the terms of the FPAs. Upon transfer of funds, the ISA's own procedures and policies for procurement, financial management, safeguards, etc. would apply, and not those of the Trustee.

23. The Trustee would record financial commitments, maintain accounting records and financial data on the trust fund, and provide periodic financial reports to the Donors and the SC.

E. Implementation Support Agencies

24. Technical cooperation activities financed by the Transition Fund normally would be recipient-executed and would have implementation support (as regards the recipient's proposal preparation and execution, procurement, financial management and reporting, monitoring and evaluation, etc.) from IFIs approved by the SC as ISAs.

25. ISAs would prepare/appraise, monitor, and report on projects to be funded by grants from the Transition Fund, in accordance with their own policies and procedures, working with recipient countries and other partners. Implementation support would be governed by grant agreements between the recipient and the ISA. Technical cooperation for parliamentary institutions would be IFI-executed (with the endorsement of the transition country), given that those institutions do not generally have the requisite capacity for recipient-execution of technical cooperation.

26. As noted above, each ISA would sign a FPA with the Bank as Trustee articulating the terms for all fund transfers by the Trustee to the ISA from the Transition Fund for approved projects. Notably, the FPA would specify that the ISA has responsibility for the use of funds it receives from the Transition Fund, subject to the ISAs' own policies and procedures. The ISAs would be directly accountable to the SC and individual donors for the use of those funds.

F. Recipient Entities

27. Recipient entities would include in principle all levels of government, judicial bodies, other state agencies and parliaments. Activities eligible for execution by transition countries would include those for all recipient entities, with the exception of parliaments or, when on an exceptional basis, transition countries request that specific activities or components be ISA-executed. Proposals approved for parliaments would be ISA-executed. All ISA-executed proposals would require transition country consent. For activities executed by recipient entities in transition countries, the recipient entity would enter into a legal agreement with the designated ISA for the transfer of funds. The recipient entity would be expected to implement the project in accordance with the guidelines of the designated ISA and would report on progress and financial reports in accordance with ISA requirements.

G. Cost Recovery of Activities Performed by the Bank

28. The Transition Fund would operate on the basis of full cost recovery for the Trustee and the CU. The Bank would submit its budgets for Trustee and CU services to the SC yearly and, upon SC approval, funds would be transferred from the trust fund to the Bank. *FIF trustee services to be reimbursed* would include startup costs (such as the costs of establishing the FIF) and the costs associated with receiving and investing funds, accounting and reporting, and related legal, systems and overhead costs.

29. The *cost of managing the CU* would depend in large part on the number of meetings expected to be organized and on the size and complexity of proposals and the degree to which the RoE is engaged. The *costs incurred by the Bank as an ISA* in preparing and monitoring recipient-executed projects would be recovered on the basis of budgets in proposals approved by the SC.

H. Reporting and Accounting

30. An Operations Manual (which would be approved by the SC) would describe the governance structure and the operating principles, guidelines and procedures for the day-to-day operations of the Transition Fund. This would include reporting arrangements that would provide information on how the Transition Fund is contributing to results and outcomes in the transition countries. The reporting framework would involve reporting from five types of entities: the SC, CU, Trustee, ISAs, and recipient entities, as described below.

- **SC.** The SC would commission assessments such as a mid-term review of the portfolio and other periodic reviews that help assess the quality of implementation and results.

- **CU.** The CU would compile reporting on progress of the Transition Fund portfolio based on information received from the ISAs and the Trustee. The reporting requirements would be designed to help the SC oversee financial flows, project activities and achievement of outputs and outcomes overall for Transition Fund-financed activities. This would help promote accountability for resources used. Ultimately, the reporting system would help document and disseminate lessons learned and help understand the development impact of the Transition Fund. The CU would submit an annual progress report to the SC which would consolidate progress reports received from the ISAs. The CU would establish a dedicated Transition Fund website where it would post public information on Trust Fund activities, including minutes of SC meetings, decisions on project approvals, and the progress reports noted above.

- **Trustee.** The Trustee would maintain separate records and ledger accounts in respect of the contributions deposited in the Transition Fund account, investment revenues earned, and cash transfers made from it, and would provide periodic reports to the SC on the funds it holds, including periodic financial status reports and an annual single audit report (rather than a standalone audit of the Transition Fund) together with the Trustee's external auditor's opinion thereon. This information would be available for posting on the Transition Fund website.

- **ISAs.** Each ISA would be responsible for supervising (for projects executed by transition countries) or implementing (for projects executed by the ISA) the projects for which it has been designated as ISA. This includes monitoring and evaluating the overall project performance in terms of relevance, efficiency, effectiveness, impact, and sustainability of the project in accordance with the ISA's policies and procedures. For transition-country-executed projects, the ISA would be responsible for monitoring and evaluation of the activities of recipient entities, under an agreement between the ISA and each recipient entity. The recipient entity would be responsible for each activity for which they have been designated as implementer. The ISA would provide regular, and at least on an annual basis, progress reports to the SC, via the CU.

- **Recipient Entities.** All monitoring and evaluation of recipient entities will be in accordance with the legal agreement between the ISA and recipient entity.

31. A key component of the reporting system would be the wide dissemination of progress and performance reports. In accordance with the access to information policy of the World Bank, which would apply to the Transition Fund, these would be made publicly available through the use of information technology such as the Transition Fund website. The opportunity would also be taken to highlight that the Bank would be playing several discrete roles in the Transition Fund.

32. The Bank would develop a scorecard tracking monitorable performance indicators relevant to each of its roles, in consultation with the SC. It would commission an assessment of its performance in each role about three years after establishment of the Transition Fund, on the basis of these indicators. The assessment would include consideration of whether the Bank would continue in each of its roles, and identification of an exit strategy as necessary. The Bank would inform the SC of its intent to perform the review and ask for their input on the terms of reference in an effort to make it serve their purposes as well. The SC may also choose to assess the Bank's performance in the course of its mid-term and/or other reviews.

VI. THE BANK'S ROLES AND RESPONSIBILITIES

33. As noted above, the Bank has been asked to play multiple roles in the Transition Fund. The Bank's responsibilities and accountabilities vis-à-vis each of these roles would be clearly defined in the Operations Manual to be approved by the SC, and are expected to include the following:

- **SC.** The Bank would be represented by CFP (as Trustee) and MENA (as CU), as non-decision-making (observer) members of the SC. It could also participate as an observer in its capacity as ISA. Although the Bank would not have formal decision making status with respect to the Transition Fund, it could participate in SC discussions in its observer roles, it would sign the key legal documents underpinning it (the CA and FPA), and it would retain the right to consent to amendments to the Operations Manual. In order to manage any perceived conflicts of interest arising from the Bank's multiple roles, particularly vis-à-vis a

level playing field among ISAs, observer status on the SC would be more appropriate than a decision-making role.

- **CU**. The Bank's MENA region would manage the CU in accordance with the Operations Manual to be approved by the SC. The clear delineation of its roles and responsibilities in the Operations Manual, which clarifies that its role is coordination and not decisionmaking, would help the CU maintain its intended role as honest broker vis-à-vis all partners (and, for example, not favor the Bank's ISA function over that of other ISAs), as well as properly set partner expectations relative to the SC's responsibilities and the ISAs' responsibilities.

- **Trustee.** As noted above, the Trustee role would be articulated in the Standard Provisions of the CAs with donors, as well as the Operations Manual and the FPAs with ISAs, and include receiving, investing, committing, transferring and recording funding for Transition Fund-supported activities. The Trustee would commit and transfer funds to ISAs based on funding decisions of the SC. It would have fiduciary responsibility for funds held and invested by the Trustee for the Transition Fund; this responsibility would end when funds are transferred by the Trustee to another ISA, after which the ISA's respective policies and procedures would apply. Box 1 describes the range of services typically provided by the Bank as Trustee for FIFs.

- **ISA.** The ISA function would be carried out by MENA operational teams at the country and regional levels, specifically with respect to proposals for which the Bank becomes the ISA designated by the transition country submitting the proposal to the SC for approval.

Box 1. Trustee Services

The following describes the broad set of 'trustee' services that may be provided by the Bank for FIFs; these are typically customized based on the particular needs of each FIF and would be defined further as the requirements of the Transition Fund become clearer:

- **Contributions management**: receiving and documenting financial contributions to the trust fund; converting currency of inflows as required.
- **Investment management**: investing funds based on an investment strategy; allocating investment income to the trust fund.
- **Commitment recording and cash transfers**: recording financial commitments made against the trust fund in the Bank's finance and accounting systems; executing legal agreements with implementing agencies pursuant to instructions from the governing body; making cash transfers in accordance with these legal agreements; providing financial controls over the resources while they are held in the trust fund.
- **Accounting and financial reporting**: maintaining accounting records and financial data on the trust fund(s); providing financial reports; and monitoring the quality and consistency of financial reporting. The Bank, as trustee, has no role in reporting on the operational aspects or on use of funds by the implementing or other entities to which the cash is transferred by the Bank.

VII. RISKS TO THE BANK AND PROPOSED RISK MANAGEMENT MEASURES

34. Key risks to the Bank in its various proposed capacities, and proposed measures for managing them, are described below.

- **Fragmentation of the aid architecture**. One of the pillars of the Bank's framework for engaging in such initiatives is to ensure that such engagement does not result in an unnecessary proliferation of new funding mechanisms. In this context, it may be noted that the proposed Transition Fund would complement other instruments; it is intended to visibly demonstrate the additionality of the Deauville Partnership. The IFI Coordination Platform under the Deauville Partnership would play a key role in helping to achieve coordination. In addition, the proposed activities supported by the Transition Fund would complement the Bank's regular operations and the other IFIs' own programs in support of country-owned reforms, particularly in the area of growth, economic and social inclusion, and economic governance. Furthermore, the Transition Fund's emphasis on recipient-executed activities avoids the development of costly parallel structures and strengthens local capacity to implement projects. The mid-term review would also provide an opportunity to assess the additionality and effectiveness of the Transition Fund as an added vehicle for development in the MENA region.

- **The political dimension of the Deauville Partnership, its relationship to the Transition Fund, and risk of Bank exposure to activities that may not be aligned with the Bank's mandate, Articles or policies.** The Bank has been in the Deauville Partnership from the outset – and there are several members like the Bank who do not have a political mandate. The Bank has operated in the familiar space of growth, economic governance, inclusion, etc. There is sufficient consensus among Partners that the core activities supported by the Transition Fund would focus on sustainable growth, economic and social inclusion, economic governance, competitiveness and integration. In light of the objectives of the Transition Fund (see Table 1), the Bank would not be engaging in activities that fall outside the scope of the Bank's purposes. Moreover, in its role as ISA, the Bank would only support activities that fall strictly within the Bank's mandate and Articles.[4] That said, the possibility that some of the other ISAs could be interested in implementing activities that the Bank could not perform under its own Articles cannot be ruled out. But there are precedents where Bank-established trust funds have transferred resources to other organizations to pursue such activities.[5] In the unlikely event the Bank sees a problem in transferring funds to an ISA, the terms of the CAs would enable it to resign as trustee.

- **A related risk that has been highlighted is that, in the absence of a decision-making seat of the Bank on the SC, the latter could develop its own set of operating policies that conflict with Bank policies.** The Deauville Partnership consists of 18 countries, all of whom

[4] It may be noted that the Bank, in its implementation support role for country level TA or other activities, would adhere to the GAC operational guidelines.
[5] For example, in the Bank-established Afghanistan Reconstruction Trust Fund, the Bank transfers funds to UNDP to support law enforcement activities that the Bank cannot support under its Articles.

are represented by the very parts of those governments that are responsible for governance of the Bank. The Transition Fund's SC (based on potential donors and beneficiaries identified to date) is likely to reflect the same. The likelihood that the SC will attempt to induce the Bank to go outside its policies, therefore, appears limited. Moreover, the Bank would use other means to preserve its ability to apply its internal requirements to its various roles. The Bank as Trustee would be a party to both types of legal documents facilitating the Transition Fund, i.e., CAs signed by each donor, and FPAs signed by each ISA and would also need to agree to any amendments. The Bank as Trustee and CU would also need to provide its consent for changes by the SC to the Operations Manual. Changes in the Operations Manual would apply directly to the legal agreements, but could not contravene the Bank's policies and procedures. The Bank could also decline to be an ISA for proposed activities that would conflict with Bank policies.

- **Perceptions of conflict arising from the anticipated multiple roles for the Bank** would be carefully managed on a continuous basis; in addition, the SC and IFIs would hold the Bank accountable for managing this perceived conflict of interest well. In anticipation of the potential risk to the Bank arising from its multiple roles, and perceived (or real) conflicts among those roles, several measures have been identified to reduce the potential for conflict of interest, and to manage this risk as it may emerge. First, the Bank's various roles, and associated responsibilities and accountabilities, would be clearly articulated in the establishment documents and communicated widely. Notably, the Operations Manual, which would be approved by the SC, would detail the Bank's responsibilities in each of the roles, clarifying that the CU acts as a facilitator for SC decisions, without taking decisions on its own. Similarly, the Trustee, under the legal agreements approved by the SC and signed by each of the donors, would transfer funds only upon the instructions of the SC. Second, the Bank's role as the CU manager, ISA, and Trustee would be internally separated. It is worth noting that the Bank has experience with a number of partnership programs supported by FIFs in which it plays multiple roles (e.g., CIFs, GAFSP, CGIAR), and the Bank has so far been able to balance its interests with those of other partners and avoid potential conflicts. Third, the Bank would not have a decision-making role on the selection of TA proposals or decisions on funding allocation. This would further reduce perceptions that the Bank, as CU, could influence the selection of TA proposals and allocation of funding in its favor. Fourth, the IFI Coordination Platform Secretariat would be represented on the SC; the Platform is expected to be quite instrumental in helping resolve issues, including potential concerns around conflicts of interest. Fifth, it is proposed that a mid-term review of the Fund's performance, including the roles and responsibilities of the Bank, be undertaken. Finally, the Bank would use proactive communication, including through a dedicated website to be managed by the CU (as noted above), to preempt and manage any perceptions of conflict. Clarity on the Bank's roles and associated functions and accountabilities, transparency of information, and a proactive communications strategy can go a long way in helping to manage this risk.

VIII. PROCESSING AND PREPARATION

35. **External processing.** Detailed arrangements and documentation underpinning the Transition Fund are being developed through a consultative process among Deauville partners, on the basis of the draft Discussion Paper and draft documentation prepared by the Bank, including a draft Operations Manual and draft legal documents. As noted above, partners have expressed a strong interest in launching the Transition Fund at the Bank-Fund Annual Meetings October 12-13, 2012.

36. **Internal processing and preparation.** Given the short timeframe for launch of the Transition Fund, the Bank would need to respond quickly to establish the FIF to enable interested donors to contribute. Prompt engagement by the Bank as Trustee to facilitate financial support for the Transition Fund would provide an important signal of Bank support and of the Bank's responsiveness to requests from its partners to engage promptly to facilitate the flow of IFI support to the beneficiary countries.

37. The MENA Transition Fund is being prepared by a team jointly led by MENA and CFP, and has benefited from inputs from the relevant Bank units, including LEG, CTR and CFR, as well as a review by the MDs and CFO. This proposal for Bank involvement is being presented to the Board for approval in view of the visibility of the proposed engagement and the risks and complexities identified.

IX. RECOMMENDATION

38. Management believes that it would be important for the Bank to respond positively to the invitation from the Deauville Partners to support the establishment of the MENA Transition Fund. The Bank has a strong interest in ensuring that the Transition Fund meets its core objectives. The central roles to be played by the Bank offer it an opportunity to provide its knowledge and expertise in coordination and implementation, as well as in trusteeship and financial management. The rationale for the Transition Fund, its proposed structure, and the proposed involvement of the Bank as Trustee, CU, ISA, and non-decision making member of the SC, promote the Bank's mission and objectives in the Region. Management considers that risks with respect to the Bank's engagement in the Transition Fund have been adequately identified and the proposed risk management measures are adequate.

39. In light of the above, Management seeks the Executive Directors' approval to proceed with the Bank's proposed engagement in the MENA Transition Fund, which would involve: (a) establishment of a FIF at the Bank, with the Bank serving as Trustee (CFP); (b) setting up and managing the Transition Fund's CU (MENA); (c) providing support, alongside other ISAs for the implementation of activities funded by the Transition Fund (MENA); and (d) participating as an observer in the Transition Fund's SC (MENA and CFP).