

Grant Facility Options
Information Sheet
Executive Committee Meeting
Accra, Ghana
11 July 2011

Agenda Item No. 2: Cities Alliance Business Matters

Support Document: Grant Facility Options Paper

Background:

In response to the Update on Cities Alliance Grant Making presented to the EXCO at the Washington, DC meeting, the Secretariat was requested to present possibilities that could be explored to enable a two-tier system by which Cities Alliance would be able to simplify processes for smaller grants, but also for atypical and experimental/innovation driven experiences that would not usually fit in the strategies of the individual partners.

A briefing note on options for EXCO has been provided.

Recommended Action:

For Discussion and Guidance to the Secretariat

Cities Alliance
Grant Agreement Set-up and Processing

-- Briefing note on Options for EXCO --

June 28, 2011

At its 10 March 2011 meeting, EXCO requested the Secretariat to keep working with the World Bank to improve the time it takes to process Grant Agreements and disburse funds to recipients. It was further agreed that possibilities should be explored to enable a two-tier system by which Cities Alliance would be able to simplify processes for smaller grants, but also for atypical and experimental/innovation driven experiences that would not usually fit in the strategies of the individual partners.

Below is elaboration and update on these matters since last EXCO.

1. Working with World Bank to improve grant processing and disbursement times.

Since the last EXCO, the Bank's central Operations Policy and Trust Fund/Global Programs offices, with strong encouragement and support from the Sustainable Development Network, has formed an institutional Small Grants Working Group to develop a work program for addressing these issues over the next 12-18 months.

The group is focusing on grants of up to US\$300,000 (and possibly up to US\$500,000), and includes consideration on streamlining fiduciary, legal and safeguards procedures, and improving mechanisms for alignment with Bank regional operations.

The questions raised by EXCO members at the March 2011 meeting in Washington, including the strong reactions of Clare Short at both the EXCO and Extractive Industries Transparency Initiative board meeting, as well as the extensive documentation provided by the Secretariat on grant set-up and processing times, helped motivate these institutional actions.

A far-reaching set of initial recommendations for improvements in the grants system is being considered by the Working Group, with final recommendations expected to be presented to Bank management in July 2011. If implemented as recommended, the time and transaction cost savings to the Cities Alliance and other grant-making programmes could be significant. Among the recommendations, for example, is to have the grant agreement generated from a system template by grant/program managers, without requiring further legal clearance or involvement. This could reduce grant set-up time by weeks, although at the possible expense of losing flexibility to customize and adapt. The Secretariat and FEU/SDN management will continue to work with the central Bank legal, policy and operational services offices in these reform efforts. **2. Additional options for streamlining grant set-up and processing**

In parallel with the Bank's review of its small grant processes, the Secretariat has begun investigation of other options for reducing transaction costs and improving service standards for grant processing for

one or more of its business lines. For example, are there feasible and efficient alternatives for administering the Catalytic Fund or parts of the knowledge/learning work program?

Three main options are being explored, summarized below.

A. Contractual services support to CA Secretariat.

➤ Contract out specified services in support of Bank/Secretariat grant administration processes for one or more CA product lines.

This would be for discrete services to support Bank/Secretariat staff, CA members and clients. Fees and reimbursable costs would be provided to support grant administration processes, which could include supporting grant applicants in budget formulation and documentation; procurement planning; safeguards documentation; reporting oversight; capacity building; etc. This would extend the capacity of the CA Secretariat and Bank TTLs in their supervision and monitoring functions, while following Bank policies, procedures and work flow.

For example, the Catalytic Fund (CF) could contract support for the 2012 and 2013 Catalytic Fund tranches. Once CF concepts notes approved, they are turned over to contractor to administer/facilitate the final application, grant set up and implementation processes, working with proposal proponents, CA sponsors, and secretariat staff. For example, the contractor could provide secretariat with the fiduciary documentation package needed to get a grant agreement through Bank clearance processes.

Idea to be tested: Could the TOR for this contract also include grant disbursements? In effect, could the WB contract with a banking services or trustee organization to administer the grant awards, on a reimburseable basis, using legal instruments and procedures that are cleared/prescribed by the WB? The services firm would bid on costs of its services, on assumptions of estimated number, value and geographical spread of grants, and the contract would include grant amounts as part of reimbursable expenses.

B. Program administration/partnership arrangement.

➤ Partner with another development organization to co-implement one or more CA product lines, in an arrangement that adds value to both organizations.

Funding for the product line would be provided to partner organization through a grant agreement, which would administer product/program in close coordination and active involvement of CA members and staff.

Partner organization should bring comparative advantages in grant administration, and a fiduciary and policy internal control environment fully satisfactory to the WB. Partner should also be able to add value in other ways.

Example: Partnership for implementation of Catalytic Fund (CF). The CA could issue a competitive call for proposals from potential organizations to partner in implementation of CF. In the arrangements, CA

members and secretariat would retain certain programmatic and monitoring roles (e.g., member coordination, sector/country director concurrences, participation in selection process, dissemination of outputs, etc.) but the partner organization would administer the CF selection and implementation following agreed rules, and in accordance with Bank policies, but with more efficient processes that shorten timelines while retaining sound oversight and control. Partner organization should have a strategic interest in the program, and ideally provide co-financing (e.g., to provide the learning and knowledge management component of CF, or to increase size of CF pool).

Partner organization should bring comparative advantages in grant administration (efficiency of processes, and service standards), and a fiduciary and policy internal control environment fully satisfactory to the WB.

C. Parallel program arrangement.

- A partner organization directly administers the Catalytic Fund or other CA program, in a manner consistent with CA and Bank policies.

Donors would contribute directly to the partner organization for the program, while the CA/Secretariat provides some programmatic roles (e.g., member coordination, sector/country director reviews, knowledge dissemination). The profile of the partner organization would be similar as described in section above.

3. Analysis

There can be some optimism that the Bank's Small Grants Working Group will propose viable improvements in the grant administration system. The potential impacts of these reforms will be better understood over the next few weeks and months. Meanwhile, the Secretariat continues to improve the grant business processes that are under its control. The new batch processing approach of the Catalytic Fund is undergoing its first test, and early indications are that some of the efficiencies that were built into the CatFund design are being realized.

The alternatives proposed in 2.A. and 2.A. have yet to be tested. They could turn out to be viable options, but we can reliably predict that either would take significant amount of work and time in navigating them through the Bank policy and procedure apparatus and getting them operationalized. A good analogy is the effort it took to get the Asian Development Bank into the Cities Alliance trust fund at the World Bank. The agreement took over two years to negotiate and get through all clearances in both development banks. And for reasons mostly outside of the Cities Alliance, the agreement ran for only one term, and then the ADB dropped out.

The last option (2.C.), to move one or more product lines out of the Bank, might have fewer transaction costs and be a practical alternative (if a suitable partner organization can be developed), but this would have wider implications for the program.