Devolved Access Modalities

EXHIBIT CASE STUDIES

Review Draft: Please do not quote – feed-back very welcome

by Benito Müller,[1] William Pizer,[2]

with contributions by Sophie de Coninck,[3] Dan Morrow,[4] Gonzalo Serrano de la Rosa,[5] and Anju Sharma[6]

Exhibit 1.
The Honduras Rural Infrastructure Project

Exhibit 2.
The Kecamatan Development Program

Exhibit 3.
The Millennium Challenge Corporation

Exhibit 4.
Policy Based Funding

Exhibit 5.
The Global Climate Change Alliance (GCCA) funding of the Bangladesh Climate Change Resilience Fund (BCCRF)

Exhibit 6.
The Enhanced NICFI Model

[1] Director Energy and Climate Change, Oxford Inst. for Energy Studies, benito.mueller@philosophy.ox.ac.uk.
[2] Professor, Sanford School of Public Policy, Faculty Fellow, Nicholas Institute for Environmental Policy Solutions, Duke University, william.pizer@duke.edu.
[3] Programme Manager, Global Climate Change Alliance (GCCA), sophie.de-coninck@ec.europa.eu.
[4] Visiting Fellow, Center for Global Development, dmorrow@cgdev.org.
[5] Gonzalo.SERRANO-DE-LA-ROSA@eeas.europa.eu
[6] Head of the ecbi Policy Analysis and Publications Unit (PPAU), Visiting Fellow IIED, anju.sharma@iied.org

Exhibit 1: The Honduras Rural Infrastructure Project

Dan Morrow[1]

Contents

0. Introduction 1

1. How does the funding model generally work, in terms of disbursing funds? 1

2. Who decides what? In particular, in the context of approval of funding, what decisions are taken by the World Bank Board of Directors (i.e. contained in Board's documentation and approval decision) and what decisions are devolved and to whom? 1

3. How does this funding model ensure the governing body's objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"? 2

0. Introduction

In 2005 the World Bank approved an IDA credit of US$47 million to the Government of Honduras to finance a program of expenditures that was designed to promote an integrated, multi-sectoral and locally-driven process of infrastructure service provision.

1. How does the funding model generally work, in terms of disbursing funds?

This funding modality involved a cooperative arrangement among the World Bank, the central government of Honduras and several of its sectoral ministries, an agency of the central government called the Social Investment Fund (Fondo Hondureno de Inversion Social—FHIS), and sub-national government units called "mancomunidades", which are legally defined associations of many municipalities within a given area. In this model, primary responsibility for selecting small projects for investment and for implementing those projects was devolved to the mancominidades with support and supervision from FHIS. Funds were disbursed by the World Bank to the FHIS and then to the commercial bank accounts of the mancomunidades on a quarterly basis based on their reports on budget execution and project implementation.

2. Who decides what? In particular, in the context of approval of funding, what decisions are taken by the World Bank Board of Directors (i.e. contained in Board's documentation and approval decision) and what decisions are devolved and to whom?

The detailed arrangement was negotiated among the Government of Honduras, FHIS and the World Bank. The documentation for the credit that was submitted to the Board of Directors of the World Bank for approval contained a detailed description of this agreed arrangement, including the criteria for selecting which mancomunidades were eligible to participate in the

[1] Visiting Fellow, Center for Global Development, dmorrow@cgdev.org.

program, a description of the types of investment activities that would be eligible for financing, specification of the oversight responsibilities of the FHIS, and the guidelines for financial management, procurement, and monitoring and evaluation. Most importantly, it was the responsibility of each eligible mancomunidad to prepare its own Rural Infrastructure Action Plan (RIAPs) within the menu of activities approved for the program. These included upgrading rural road networks, improvements to water and sanitation systems, and electrification, including through off-grid systems using local renewable energy resources. These RIAPs were subject to FHIS review and approval under a Framework Agreement between the FHIS and each mancomunidad. Contracting out and supervision of investment activities was then also the responsibility of each mancomunidad utilizing its existing administrative structure, although sub-projects costing more than US$250,000 were managed directly by FHIS.

3. How does this funding model ensure the governing body's objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"?

The objective of the funding entity to ensure that its funds were used for economically and socially sound investments and implemented with appropriate fiduciary standards and safeguards was protected in several ways:

(a) *An experienced, capable national agency for oversight*. The FHIS—a well-established agency with considerable experience in working with mancomunidades in these sectors and with which the World Bank was very familiar—was given responsibility for oversight of the participating mancomunidades and also for undertaking monitoring and evaluation of the program.

(b) *Selectivity among mancomunidades and support for further capacity building*. Among the poorest mancomunidades, only those that were evaluated to have minimally sufficient technical and financial management capacity were made eligible for the program. The program started with only two and then expanded to six out of 50 mancomunidades in Honduras. The selected mancomunidades were provided considerable technical support and training for the preparation and implementation of the Rural Infrastructure Action Plans and the sub-projects.

(c) *Limited scope of activities, and agreed technical and economic standards*. Eligible investments were limited to three sectors—roads, water, and electricity—to ensure that adequate technical and economic standards could be met, and preparation of the RIAPs, and the selection and design its sub-projects, were guided by a detailed Operational Manual that had been agreed by the World Bank.

(d) *Agreed processes and standards for financial management, procurement, and environmental and social safeguards*. Arrangements for financial management were agreed in advance, and the procurement guidelines of the World Bank would be followed. A Conceptual Framework for Social and Environmental Management was agreed under which appropriate central government agencies would be involved only for the limited number of sub-projects involving high or moderate risks.

4. How is the funding level for a particular program determined?

The estimated total funding requirements for six mancomunidades for a period of five years was based on a detailed prior study of the needed investments in rural roads, water and electrification for the first two participating mancomunidades as well as the likely costs for technical support and training. Taking into consideration the available allocation of IDA funds to Honduras, the World Bank agreed to finance about 82% of total costs, and the mancomunidades were expected to provide counterpart funds for sub-projects. Co-financing of US$2.3 m. for the solar electrification component was provided by GEF. In 2013 the World Bank approved an additional US$20 million to support expanded implementation of this program.

Exhibit 2. The Kecamatan Development Program

Anju Sharma[1]

Contents

0. Introduction ... 1
1. How does the funding work in terms of disbursement? ... 1
2. Who decides what? ... 2
3. How does this funding model ensure the programme objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"? ... 3
4. How was the level of the funds provided by the World Bank for the KDP program determined? ... 5

0. Introduction

The Kecamatan ("sub-district") Development Program (KDP) was launched in Indonesia in 1998 to address rural poverty and improve local governance. The first two phases of KDP sought to empower village communities to address their poverty, and reduce official corruption as a key element in poverty reduction, by making block grants directly to sub-districts, instead of channelling money through line agencies, and providing intense social and technical facilitation to build village-level capacity and promote participation, transparency, and accountability in community-driven activities.

The third phase of the programme, which was designed during Indonesia's phase of decentralisation in 2003, shifted its focus from poverty reduction to governance, with the aims of building local government capacity to support community-driven development, and supporting the development of permanent inter-village bodies to implement multi-village projects, mediate disputes, and give villages a stronger voice vis-à-vis higher levels of government (Binswanger *et al*, 2010).

The success of the programme led to rapid scaling up – from initial pilots in 25 villages, the program expanded to more than 28,000 villages by 2003 (Hartmann & Linn, 2008). An independent review of the economic impacts of the first two phases found that KDP's *approach to infrastructure development has had very significant impacts on the economies of the villages analysed*. Even by conservative calculations, *significant benefits had accrued* (Torrens, 2005).

1. How does the funding work in terms of disbursement?

KDP was initially funded through government budget allocations, donor grants and loans from the World Bank. The funds were transferred into a special designated account in the Bank of Indonesia (see Figure 1). These funds were used to provide "block grants" of Rupiah 500 million – 1.5 billion (US$ 50,000-150,000) directly to sub-districts consisting of 20-50

[1] Head of the ecbi Policy Analysis and Publications Unit (PPAU), Visiting Fellow IIED, anju.sharma@iied.org

villages for small-scale infrastructure, social and economic activities.[2] There were two forms of block grants: one to support investment proposals made by villages and selected by consensus in inter-village decision meetings; and the second to support participatory planning processes to develop these proposals.

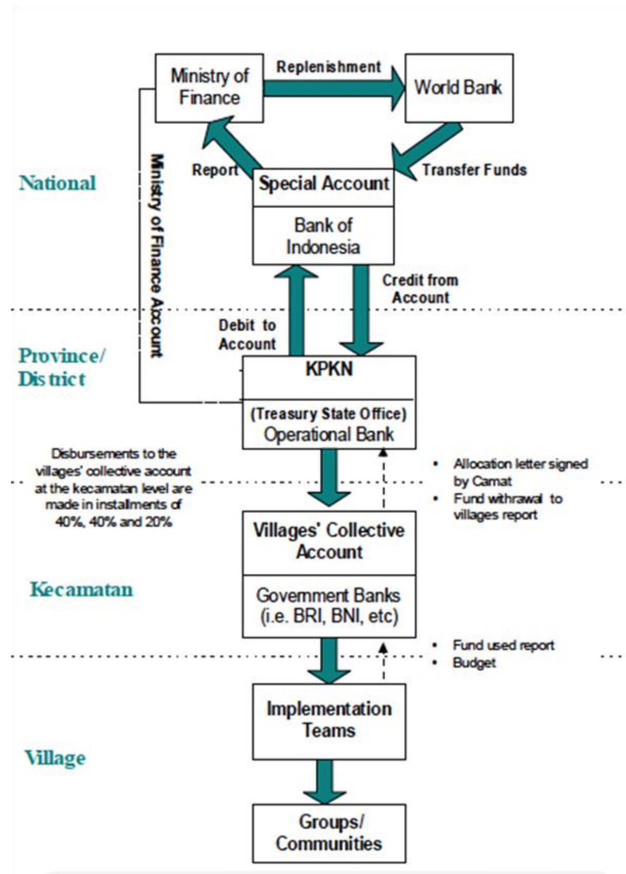


Figure 1: Flow of Funds in KDP (Guggenheim *et al*, 2004)

2. Who decides what?

The World Bank had a central, but not determinant, role in decision-making under the KDP. Since the early 1990's, the World Bank was part of a working group within the Indonesian Ministry of Planning (Bappenas) for President Suharto's IDT (Inpre Desa Teringgal) program to address poverty, and participated in the KDP in this capacity. In general, the Government of Indonesia decided on all policies related to the KDP, while the World Bank was responsible for many, but not all, the technical designs. The World Bank also played a role in oversight and field supervision, with Bank teams visiting sites and reporting back to the Government.

At the sub-national level, development plans under KDP were prepared through a participatory process that typically lasts between four to six months. Villagers could propose

[2]http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/EASTASIAPACIFICEXT/EXTEAPREGTOPSOCDEV/0,,contentMDK:20477526~menuPK:502970~pagePK:34004173~piPK:34003707~theSitePK:502940,00.html

virtually any investment they would like – from infrastructure provision to small-scale economic activities, and negotiate among themselves which proposals to submit. Each village could submit up to two proposals to the Kecamatan council. The requirement that villagers compete for KDP resources promoted the development of high-quality project proposals. The Kecamatan council agreed which village proposal to accept, and this decision could not be overruled through other authorities. Funds were then directly released from the provincial branch of the national treasury to a bank account held by the village.

The direct transfer of funds enabled villages to be autonomous in their development activities. KDP followed an "open menu" policy, and villagers could choose to submit proposals for any productive infrastructure, social and economic activities, except those on a negative short list that included: military or paramilitary purposes; civil works for government administration or religious purposes; manufacture or use of environmentally hazardous goods, arms, or illegal drugs; or financing of government salaries. Land acquisition is also restricted.

In the early stages, the programme did not involve provincial and district governments, and contracted consultants to support the planning process and in the implementation of programmes from the private sector, and did not use civil servants. Although this helped with more rapid scaling up than if government employees had been used, as they would have had to be redeployed and retrained, the decision was contentious, as important institution building in the public sector did not take place, resulting in a trade-off between rapid scaling-up and longer-term institution building (Hartmann & Linn 2008). These concerns were address in the third phase, which focused on governance.

The programme led to the development of project-related skills among communities through learning by doing; training in democratic decision-making, and intensive awareness building about villagers' legal rights. This resulted in a shift in power between communities and local government.[3]

3. How does this funding model ensure the programme objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"?

KDPs fiduciary structure represented a fairly radical departure from standard business practice for both the World Bank and the government of Indonesia. There were five types of fiduciary policy issues to deal with:

- The first issue related to ***fund disbursement***. Normally, for World Bank projects, the national government advances money and buys goods and services, and is reimbursed by the Bank. "While everyone agreed on the need for direct financing, we still needed to know what it is we are disbursing for," says Scott Guggenheim, a former World Bank official who played a key role in the design and implementation of KDP. "In the end we took an odd analogy and argued that the case is similar to education fellowships, where poor students can access scholarships against an official letter of

[3] http://siteresources.worldbank.org/INTCDD/550121-1138894027792/20806147/CDDAFRSynthCAseStudies.pdf

acceptance. In KDP, we are disbursing against an agreed community plan and set of priority investments. This is why the final minutes of the Kecamatan meeting actually take the shape of a payment release order."[4] Project disbursements therefore took place against agreed plans that were verified by the sub-district project manager instead of actual receipts. Villages procured and managed their own technical assistance for projects from lists of pre-qualified service providers. As a result, KDP experienced none of the lengthy procurement delays that often delay other projects.

- At the time, the World Bank required the same ***procedures and documentation*** for village level purchasing as it did for massive infrastructure. The World Bank team in Jakarta worked with the Washington office to produce community level guidelines, which have since been added to the Bank's standard procurement handbook.
- Because the KDP depends as much on social capital and public pressure as it does on formal oversight, a lot more emphasis had to go into structured procedures for ***transparency and information disclosure***. This included a proposal to the World Bank's Board to allow public release of internal oversight documents.
- The fourth issue related to ***defining liability***. The disbursement of grants to villages with limited discretion for local officials on their expenditure introduced a tension between authority and accountability. In the KDP, there was no formal liability for end use outcomes. The Government was liable for any failure to follow the rulebook on planning, manage the planning process and ensure that funds are released against plans and signatures, but not for anything that went wrong in the implementation by villagers. This clarity on liability allowed local officials a level of assurance that they were not being held to account for decisions over which they had no control.
- The fifth issue was related to ***sanctions***. In theory the World Bank's remedy against corruption is a declaration of mis-procurement and the return of funds to the Bank. Under the KDP, however, sanctions were imposed on individual Kecamatans against a corrective action plan, but the Government of Indonesia was not asked to return the funds to the Bank. This way the Government of Indonesia did not feel obliged to contest the application of remedies since the total inflow remained unchanged. Social pressure was also used to limit infractions, by sanctioning the administrative level one step above the level of infraction. So if things went wrong at the village level, the entire Kecamatan was suspended until a corrective action plan was executed; if a Kecamatan, then the district was suspended. Corrective action plans were defined as either a return of the funds, or else completion of the works for which the money was originally given. Somewhere between 45-75% of the recorded infractions were redressed this way.

For the government, accepting KDP's system of direct transfers and disbursing against sub-district and village developments plans also required a big shift to standardised procedures. KDP's transfer system allows for very little discretion by officials. This may have resulted in some loss of technical oversight that the officials could have provided, but the benefits were much higher release rates and much higher rates of end user satisfaction (Guggenheim 2004).

[4] Personal Communication, 2013

The strict enforcement of sanctions, the emphasis on transparency, a hard line on corruption, and the use of non-governmental organisations as independent monitors were all measures taken to ensure that project objectives were met. Effective transparency and accountability mechanisms enabled communities to identify and report corruption and abuses by local officials; helped minimise the leakage of project funds; and assert the power of communities vis-à-vis local officials. The rapid response by project managers and local police, often leading to arrest and prosecution, had a dramatic effect on villagers' belief in the justice system and their own legal rights.

4. How was the level of the funds provided by the World Bank for the KDP program determined?

This was based on rough calculations on what it would take to build one piece of infrastructure and finance one set of proposals per village, matched against how big an envelope the government thought it could provide. Crude targeting ("small, medium, and large") was preferred over more elaborate population-weighted allocations, which would be too complicated and hard for communities to understand.

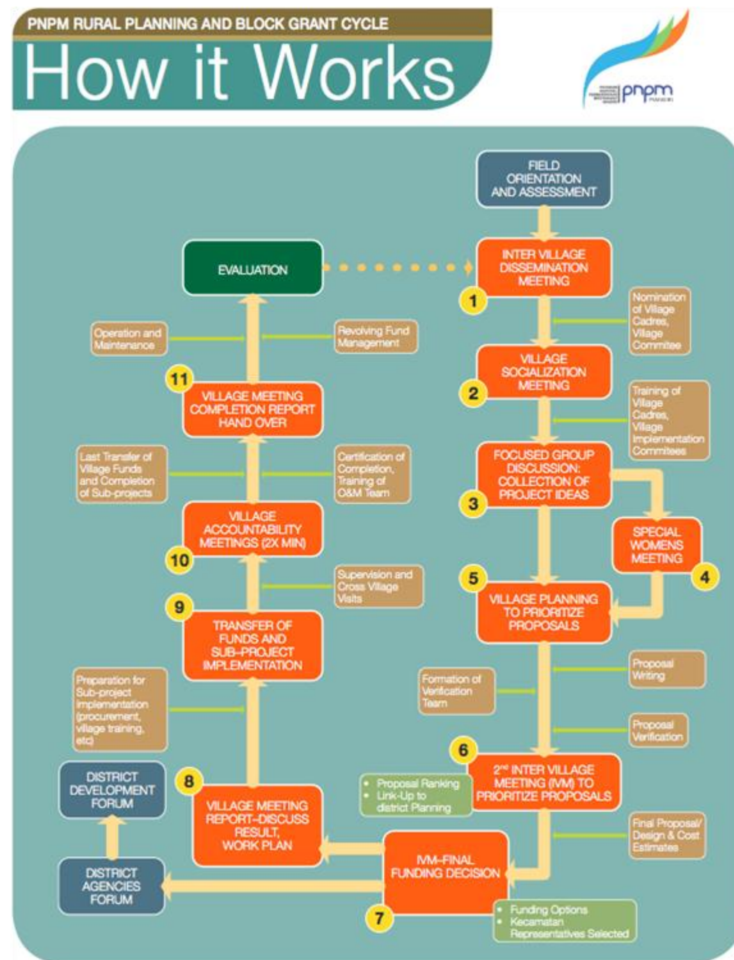
According to Guggenheim, the KDP not only talked the language of partnership but financed it, and on a national scale using all government systems. It deployed not only an army of social activists, but also 2,000 civil engineers, and changed the narrative of local level development in Indonesia, leading to wider recognition that communities can actually manage a lot of community development work. The heavy investment in rigorous mixed methods evaluations also paid off. Guggenheim feels the KDP provides a good model for activities that involve direct community participation, because it can use government systems, it can cover large areas without requiring a big management structure, its modular design allows for variance without worries, and, because of the first three reasons, it is fairly easy to build in long-term predictability. He cautions against recording community empowerment as a cost rather than a benefit, which results in underinvestment in essential capacity building activities.

In 2007, the KDP evolved into a national level "incentivised community block grant programme" – Program Nasional Pemberdayaan Masyarakat Mandirithe (PNPM), or the National Program for Community Empowerment. PNPM is now in its fourth phase, and the largest Community Driven Development project in the world (World Bank).[5] The World Bank continues to support the project, which is implemented by Bappenas and the Ministry for People's Welfare. PNPM provides "incentivised" block grants to villages, where subsequent grant allocations are partly based on the village's performance (see Figure 2).[6] Each village has an elected six-member financial management/ implementation committee, and a village implementation team. All villagers are involved in approving the design and budget, and the rules state that poor villagers must benefit as labourers/ suppliers during the

[5] http://www.worldbank.org/projects/P122810/pnpm-rural-iv?lang=en
[6] For more information on how the planning cycle works, see http://psflibrary.org/catalog/repository/final_How%20it%20Works_English.pdf

project implementation. Village "accountability meetings" are held, where the implementation committee reports to all villagers on work progress and the use of funds.

The KDP approach can hold the key to a problem that is becoming more and more apparent in the context of climate change adaptation: that climate impacts can vary greatly even over small geographical areas, and will need locally-relevant solutions that take on board local community knowledge and experiences. Planning and decision-making must therefore be localised rather than centralised. The KDP approach shows a way in which climate funds can be channelled to communities to enable them to implement locally identified solutions,



within a set of guidelines on the scope of activities to ensure that adaptation or mitigation benefits ensue.

Figure 2: PNPM – How it works

References

Binswanger, H.P., de Regt, J.P. & Spector, S (2010). *Local and community driven development: Moving to scale in theory and practice*. World Bank, Washington D.C.

Hartmann, A., & Linn, J.F. (2008). Scaling Up: A framework and lessons for development effectiveness from literature and practice. Wolfensohn Center for Development. Working Paper 5.

Torrens, A. (2005). *Economic Impact Analysis of Kecamatan Development Program Infrastructure Projects*. http://psflibrary.org/catalog/repository/Economic%20Impact%20Analysis%20of%20KDP%20Infrastructure%20Projects.pdf

Guggenheim, S., Wiranto, T., Prasta, Y., & Wong, S. (2004). Indonesia's Kecamatan Development Program: A Large-Scale Use of Community Development to Reduce Poverty. A Case Study for *Reducing Poverty, Sustaining Growth - What Works, What Doesn't, and Why. A Global Exchange for Scaling Up Success*. http://info.worldbank.org/etools/docs/reducingpoverty/case/88/fullcase/Indonesia%20KDP%20Full%20Case.pdf

Exhibit 3. The Millennium Challenge Corporation

William Pizer[1]

Contents

1. How does the funding model generally work, in terms of disbursing funds? 1
2. Who decides what? In particular, in the context of approval of funding, what decisions are taken by the MCC Board of Directors (i.e. contained in Board's documentation and approval decision) and what decisions are devolved and to whom?..2
3. How does this funding model ensure the governing body's objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"? 2
4. How is the funding level for a particular program determined?..3

1. How does the funding model generally work, in terms of disbursing funds?

The Millennium Challenge Corporation (MCC) was created in 2004 to deliver U.S. foreign assistance with a focus on country selectivity, country ownership, and measuring results. A key feature is that countries qualify for MCC support based on range of indicators in several broad areas (just and democratic governance, investments in their people, and economic freedom). Indicators are typically provided by independent, third-party institutions, rely on objective, publicly available data, and have an analytically rigorous methodology. The chosen indicators and country scorecards are posted each year.

The process of developing programs begins with a data-driven constraints to growth analysis done by the country with MCC technical assistance. This constraints analysis identifies the broad sectors of focus for a program. Then , countries develop an overall program with broad domestic consultation in these sectors. MCC teams help countries refine the program. These programs, or "compacts," involving large scale, 5-year grants, are then approved by the MCC Board of Directors. The country sets up its own local Accountable Entity, including a local board of directors (often government ministers) and management unit, to manage and oversee all aspects of implementation. For example, the $698 million Tanzania compact was signed in 2008, involving three areas of work: transport, energy, and water. The Government of Tanzania established the Millennium Challenge Account Tanzania (MCA-T) as a legal accountable entity that is responsible for the management of the implementation of the projects and activities funded by MCC (see http://www.mca-t.go.tz/en/). Funds are disbursed by MCC to MCA-T based on a quarterly disbursement request package (QDRP) identifying funding needs in the upcoming quarter. The MCC provides guidance on procurement and financial management through publicly available documents and regular consultations (http://www.mcc.gov/pages/countrytools/tools/compact-implementation).

[1] Professor, Sanford School of Public Policy, Faculty Fellow, Nicholas Institute for Environmental Policy Solutions, Duke University, william.pizer@duke.edu.

2. Who decides what? In particular, in the context of approval of funding, what decisions are taken by the MCC Board of Directors (i.e. contained in Board's documentation and approval decision) and what decisions are devolved and to whom?

In general, the MCC Board of Directors is only involved in major decisions, including (a) selection of eligible countries; (b) approval of the compact outlining the projects that will be funded; (c) approval of major changes to a compact; and (d) when and if a compact should be scaled back or terminated early, among others.

Once eligible, compact *development* is done by a team from the selected country and MCC staff over a period of 1-2 years and then presented to the MCC Board for approval (see http://www.mcc.gov/pages/countrytools/tools/compact-development). During *program implementation*, the Management Unit of the Accountable Entity is in charge of the day-to-day tasks of the office including planning for procurements and managing contracts. The Management Unit of the Accountable Entity prepares all contracting documents. The Management Unit also prepares the quarterly disbursement request package (QDRP) (the formal mechanism to request funds). The quarterly request includes a narrative report, the disbursement request, a quarterly performance report, an indicator tracking table, and a conditions precedent report. The QDRP is approved by the in-country board, then submitted to MCC staff for review within 5 days (the QDRPs do not rise to the level of MCC Board approval).

While the program is country-led and implemented entirely by the in-country management unit and board, with MCC oversight, the degree of specificity in the compact could be viewed as a limit on devolution. In practice, this depends on the type of project. Large singular investments may be outlined in some detail by the compact. However, decisions in a decentralized program – for example, community development grants – could be much more devolved.

3. How does this funding model ensure the governing body's objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"?

As per the MCC mission, all compacts have the ultimate goal of economic growth and poverty reduction. All projects are developed with this goal in mind, and indicators are developed to track progress. For example, in the Tanzania Mainland Truck Roads Activity, indicators included (a) better quality roads (reduced roughness) leading to (b) increased traffic volume, reduced transportation costs and reduced travel times leading to (c) increased cash crop revenue (or higher incomes). For each compact, detailed Monitoring and Evaluation (M&E) Plans describe the goals of the program and how progress toward these goals will be tracked, including specific baseline and target values for most indicators and descriptions of any analysis or evaluations that will be done. The Management Unit is responsible for compiling the data on these indicators, which is submitted to MCC quarterly via the QDRP.

On the fiscal management side, monitoring of funds is rigorous and transparent, typically through independent Procurement Agents and Fiscal Agents hired by the local Accountable Entity. The Procurement Agent "assists the Accountable Entity with carrying out

procurement related activities to procure goods, works and services on behalf of the Program." The Fiscal Agent is "responsible for assisting in preparation of the fiscal- and procurement-related controls, ensuring and certifying payments are properly authorized and documented, releasing payments from accounts, managing cash and reconciling accounts, maintaining and retaining proper accounting and records, etc." The Fiscal Agent can be a private firm, the Ministry of Finance, or another governmental entity, as agreed between the Government and MCC. In the case of Tanzania, the procurement agent was a private firm (Crown Agents Tanzania) and the fiscal agent was the Account General's Office of the Government of Tanzania.

4. How is the funding level for a particular program determined?

Funding levels depend on many different factors, including how many countries will be developing a compact in a given year, the budget that MCC has been allocated for that year, the size of the country (population) and the needs of the country (which is related to how many feasible, high-return projects can be implemented).

Exhibit 4. Policy Based Funding

Dan Morrow[1]

Contents

1. How does the funding model generally work? 1
2. Who decides what? In particular, in the context of approval of funding, what decisions are taken by the funding agency's Board of Directors (i.e. contained in Board's documentation and approval decision) and what decisions are devolved and to whom? 2
3. How does this funding model ensure the governing body's objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"? 3
4.How is the funding level for a particular program determined? 3
References 3

1. How does the funding model generally work?

Policy based funding (PBF)[2] refers to a funding modality in which the external funding agency disburses funds to a government conditional on that government's implementation of agreed policy and institutional reforms and not specifically linked to any expenditures by the government. The intention of PBFs is to support the government's efforts to undertake policy and institutional reforms designed to promote the country's social and economic development and, in some cases, to indirectly compensate the government and the country for any short-term costs associated with these reforms.

The underlying rationale for PBF is that development progress depends significantly on the quality of the country's policy and institutional environment—broadly defined. The policy and institutional environment encompasses many things—ranging from the broad parameters of macroeconomic management to pricing policies for particular goods to regulations governing provision of particular services. In many cases, achieving adequate returns on public and especially private investments depends on improving that policy and institutional environment. Over the past decade or so, PBFs have been used by the World Bank and

Box 2: World Bank's Development Policy Loan to Morocco for "Inclusive Green Growth"

In November 2013, the World Bank approved a loan of US $300 million (disbursed in full as a single tranche) to support a program designed to improve the management of natural capital, to "green" physical capital, and to strengthen and diversify the rural economy. The prior actions taken by the government to satisfy the conditions of the loan included: (a) final approval of a degree on energy efficiency in the building sector and (b) official publication of automatic price adjustments for diesel, gasoline and fuel. A follow-up loan is anticipated within 24 months, and the expected triggers for that second loan include: (a) approval of a law creating the National Agency for Energy Regulation and (b) adoption of a decree allowing renewable energy generation to connect to the medium voltage grid.

---

[1] Visiting Fellow, Center for Global Development, dmorrow@cgdev.org.

[2] This modality has gone by several names. Perhaps the most generic is "policy-based lending," but that term is not used here because the modality can also be used with grants or soft-term "credits." Historically the modality as often referred to as structural adjustment lending, and most recently the World Bank and others use the term Development Policy Lending.

others increasingly to support reforms in sectoral policies and institutions rather than in macroeconomic and trade policy.[3] In response to recognition that effective and sustainable reforms depend on country ownership, the conditionalities of PBFs are intended to be consensual, arising from a dialogue between the recipient agency and the funding agency about desirable and achievable reforms.[4] An example of a PBF by the World Bank to support low-carbon development in Morocco is provided in Box 2.

2. Who decides what? In particular, in the context of approval of funding, what decisions are taken by the funding agency's Board of Directors (i.e. contained in Board's documentation and approval decision) and what decisions are devolved and to whom?

Typically the PBF funding modality involves a sustained dialogue between recipient government and the staff of funding agency about desired reforms, and that dialogue is usually supported by prior analytical work. The funding agency staff and the recipient government design a "policy matrix" or "program matrix" involving a well-defined set of government measures and a schedule for their implementation. In addition, the funding agency staff must satisfy itself that the country's macroeconomic policy framework is adequate.

Once an agreement on the policy matrix is reached between the government and the funding agency staff, a document recording those agreements is presented for approval of the funding agency's authorizing body, such as a Board of Directors. Subject to approval by its Board of Directors, the funding agency commits to disburse to the government pre-specified amounts conditional on the actual implementation of agreed measures. A PBF may involve a single "operation" (i.e., conditional disbursement), a planned series of annual operations (referred to as programmatic), or, now uncommonly, a "multi-tranche" operation in which each tranche is disbursed upon implementation of the agreed measured associated with that tranche.

Subsequent to approval of the document that records the agreements between the government and the funding agency, the only decisions prior to disbursement is whether or not the measures specified in the policy matrix have indeed been implemented. This may involve additional discussions and investigations by the staff of the funding agency and subsequently a brief report to the Board of Directors. If "waivers" or changes of some element(s) of the previously agreed measures is recommended by the staff, this may require an additional formal approval by the Board.

[3] In the PBF's original incarnation as Structural Adjustment Loans, the conditionalities dealt largely with macroeconomic policies and were often regarded as coercive. Hence this modality had been perhaps the most controversial mode of developemtn assistance.

[4] For example, the 2011 World Bank's "Good Practice Note for Development Policy Lending" stresses that the reforms supported by such lending must enjoy strong country ownership and specifically states that "Development policy lending should not be used to induce a government to undertake reforms that it does not wish to do because it is unlikely that these reforms will be fully implemented and sustained." (para. 8).

3. How does this funding model ensure the governing body's objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"?

The rationale of PBF is that the objectives of the funding agency include promoting desired policy and institutional reforms in the recipient country, and the instrument is designed to ensure that these reforms are implemented. The government's use of funds disbursed from a PBF is not specified in the agreement between the government and the funding agency, and their use is not constrained by rules for procurement, financial management, or specific safeguards associated with other funding modalities. In this sense, PBFs constitute unconstrained budget support to a government. However, in some cases, the funding agency might, as a pre-condition for PBFs, seek to satisfy itself that in general terms the fiduciary standards and safeguard processes of the recipient government are satisfactory.

4.How is the funding level for a particular program determined?

The amount of any particular PBF is based roughly on the relevant fiscal needs of the government constrained by the allocation of funding resources by the funding agency among recipient countries and among types of funding modalities. Unlike most other forms of programmatic funding and as noted above, the amount of a PBF need not be dependent on the level of any particular expenditure program or even on the costs of the associated policy reform program.

References

World Bank (2011), "Good Practice Note for Development Policy Lending: Designing Development Policy Operations," Operations Policy and Country Services, January 2011. http://siteresources.worldbank.org/PROJECTS/Resources/40940-1244732625424/GPNDesiningDPLJanuary2011.pdf

Exhibit 5. The Global Climate Change Alliance (GCCA) funding of the Bangladesh Climate Change Resilience Fund (BCCRF)

Sophie de Coninck,[1] and Gonzalo Serrano de la Rosa,[2]

Contents

0. Introduction ... 1
0.1. The Global Climate Change Alliance and Bangladesh ... 1
0.2. The Bangladesh Climate Change Resilience Fund ... 2
1. How does the funding model generally work, in terms of disbursing funds? ... 3
1.1. GCCA disbursement to the BCCRF ... 3
1.2. BCCRF disbursement to activities ... 3
2. Who decides what? In particular, in the context of approval of funding, what decisions are taken by GCCA and what decisions are devolved and to whom? ... 4
2.1 GCCA-level decisions ... 4
3. How does this funding model ensure GCCA's objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"? ... 4
4. How is the funding level for a particular program determined? ... 5
References ... 5

0. Introduction

0.1. The Global Climate Change Alliance and Bangladesh

The Global Climate Change Alliance (GCCA) was launched in 2007 by the European Commission to support developing countries most vulnerable to climate change increase their capacities in meeting climate change challenges. With funding close to €300 million, it now covers 37 countries and 8 regions and sub-regions, working with least developed countries and Small Island Developing States across Africa, Asia, the Caribbean and the Pacific. The GCCA funding modalities include general budget support, sector budget support and other sector policy support programmes, and projects[3]. While the preferred management modality is ***budget support***,[4] other modalities[5] allow also ***contributions to multi-donor funds***, such as in the case of the ***Bangladesh Climate Change Resilience Fund*** (BCCRF).[6]

In order to harmonise the expected increase in the number of climate change related interventions, the Government of Bangladesh (GoB) published the ***Bangladesh's Climate Change Strategy and Action Plan*** (BCCSAP) in September 2008. This document provides an ideal opportunity for development partners to align their actions in the area of climate change and pool their funds into the ***Bangladesh Climate Change Resilience Fund*** (BCCRF).

---

[1] Programme Manager, Global Climate Change Alliance (GCCA), sophie.de-coninck@ec.europa.eu.
[2] Gonzalo.SERRANO-DE-LA-ROSA@eeas.europa.eu
[3] See Table 1-4 in GCCA (2013) http://www.gcca.eu/sites/default/files/catherine.paul/gcca_brochure_2013_en_final.pdf
[4] See Chapter 3 and Table 3-2, op. cit..
[5] "Decentralised" or "joint management" (in the case of the BCCRF with the World Bank as interim BCCRF administrator)
[6] See Table 1-5, op. cit.

Due to fiduciary risks, budget support for Bangladesh remains, for the time being, problematic for most grant donors. Currently, only the EU has a targeted budget support in the education sector. However, there is a clear movement towards more joined-up approaches, such as multi donor trust funds, in ever more sectors, especially among the European Commission and the EU member states.

The challenge that Bangladesh now faces is to ***scale up*** these ***investments*** to create a suitable environment for the continued economic and social development of the country and to secure the well-being of its people, especially the poorest and most vulnerable groups, including women and children, taking into consideration the expected negative impacts of climate change.

Majority of the past interventions have taken place through the implementation of a large number of individual, mainly stand-alone, projects. The proposed action aims to be an example of a mechanism with multi-development partner support in the area of climate change that interacts and coordinates with a wide range of crucial development sectors.

The multi donor trust fund approach aims to support the principles of ***aid effectiveness*** of the Paris Declaration by bringing together a range of development partners in support of a government-led strategy.

The overall objective of the GCCA contribution to the BCCRF is to protect and improve the lives of 10 million climate vulnerable people in Bangladesh by 2015 through climate change adaptation, mitigation and disaster risk reduction measures. The purpose is to support the GoB with the implementation of the BCCSAP.

0.2. The Bangladesh Climate Change Resilience Fund

The BCCRF is an innovative partnership trust fund between the Government of Bangladesh, Development Partners and the World Bank to address the impacts of climate change. A key purpose of BCCRF is to support the implementation of ***Bangladesh's Climate Change Strategy and Action Plan*** for 2009-2018. This fund, one of the first of its kind in the area of climate change, was established in May 2010 with a view to fund climate adaptation and mitigation activities, towards making the Bangladesh's national economy and the lives of its people climate resilient. The European Union and the Governments of Australia, Denmark, Sweden, Switzerland, the United Kingdom and the United States of America have provided the financial support.

As for BCCRF governance mechanisms, a ***Governing Council*** (GC), comprising a core group of cabinet Ministers, civil society and two rotating donor representatives, provides overall strategic guidance and ensures its alignment with the Bangladesh Climate Change Strategy and Action Plan. The GC sets grant criteria and approves project proposals to be implemented by Ministries or civil society.

The BCCRF ***Management Committee*** (MC) is a small technical committee, led by the Secretary of the Ministry of Environment and Forests (MoEF) with representatives of other ministries, two rotating donor representatives, one civil society representative and the World Bank. The MC reviews grant requests and recommend projects to the GC. A BCCRF

Secretariat is being set up and trained, so day to day functions such as technical support, advocacy, and communication functions can be transferred from the World Bank.

1. How does the funding model generally work, in terms of disbursing funds?

1.1. GCCA disbursement to the BCCRF

The EU has signed a Financing Agreement with the Government of Bangladesh (GoB) which as appointed the World Bank interim Administrator of the BCCRF. Implementation takes place through "joint management" with the World Bank.. The Administrator manages the BCCRF work programme on behalf of GoB and contributing Development Partners through the BCCRF Secretariat.

Development partners contribute with ***non-earmarked*** funds to the BCCRF. All contributions and correspondingly all payments out of the BCCRF are made on a grant basis. In order to keep the transaction costs low, the minimum contribution is fixed at USD 1 million.

At present, 80% of out the USD 190 million pledged by development partners is committed and around 50% (USD 90 million) has been disbursed to the World Bank. At the time, each development partner signed a contribution agreement to BCCRF with the World Bank. In the case of the European Commission, this "administration agreement AA" amounted to €28.5 million[7]. After an initial 50% disbursement, the AA stipulates certain conditions for subsequent disbursements in terms of BCCRF level of commitments and progress.

1.2. BCCRF disbursement to activities

Overall, the GC initially agreed that 90% of the BCCRF grants will be executed by GoB institutions/agencies, while the remaining 10% will be allocated to the NGO window according to a system of call for proposals. The MC invites GoB agencies to submit proposals, which are screened according to seven criteria: size of proposal, consistency with the ***Bangladesh Climate Change Strategy and Action Plan*** (BCCSAP), experience with development operations, readiness, results targeted, complementarity and social and environmental aspects. Regarding size, the GC targets GoB proposals between USD 15-25 million based on cost-effectiveness of carrying-out the appraisal and supervision of individual grants, while NGO funded proposals average USD 0.3-0.4 million.

Joint GoB-World Bank preparation of projects takes around 18 months and after final approval by MC and GC, World Bank guidelines are followed in terms of financial management, procurement and ensuring environmental and social safeguards.

The MC endorses the work program and appropriate funding levels. Funds are drawn on a proportional basis from each contributing development partner, in accordance with the development partner's relevant contribution to the overall fund. As for approval and implementation procedures for all projects and programs financed by the BCCRF, and actual disbursements made by the World Bank –12% of total budget by November 2013 – for the different government, CSO projects and analytical studies, standard World Bank IDA grants

[7] EUR 8.5m from the GCCA budget itself and EUR 20 m out of the geographic budget as a top-up.

rules are followed. IDA sets out detailed schedules and plans, as well as administrative, financial, procurement, reporting and organizational arrangements for the implementation of all activities financed out of the BCCRF.

All implementing contracts must be awarded and implemented in accordance with the standard World Bank practices.

2. Who decides what? In particular, in the context of approval of funding, what decisions are taken by GCCA and what decisions are devolved and to whom?

2.1 GCCA-level decisions

Once a candidate country has been selected for support under the GCCA, the EU Delegation consults with the relevant in-country counterpart(s) and provides support in formulating a specific programme (in the form of a so-called Action Fiche or Action Document) together with assistance from the Headquarters GCCA Team. Once the programme has been approved by the Commission, the management of the operations is devolved to the EU Delegations while the GCCA Team keeps the overall oversight of the GCCA. The overall process takes 12 to 18 months depending on country needs and circumstances.

2.2. BCCRF-level decisions

The BCCRF favours coordination and a collective voice among development partners. The two rotating development partner representatives take part in project approvals and are in close contact with the WB to follow-up progress in terms of project preparation, appraisal, monitoring and evaluation, reporting

3. How does this funding model ensure GCCA's objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"?

The GCCA relies on the administrative, monitoring, evaluation and audit requirements from the BBCRF.

The ***GoB*** leads on the management and implementation of the BCCRF. On behalf of the European Commission/GCCA and other contributing development partners, the ***World Bank*** is administering the trust fund to ensure due diligence requirements (including fiduciary management, transparency and accountability) and provide technical assistance and analytical/advisory support.

The overall responsibility for managing the risks and monitoring the implementation of the BCCRF activities lie with the ***BCCRF Secretariat***. A monitoring matrix for the BCCRF to track inputs, outputs, results and impact is agreed to by the ***Management Committee***.

Evaluation and audit are programmed by the BCCRF Secretariat and respect the rules set out within the Administration Agreement with World Bank.

Additional audit arrangements have been made satisfying the requirements of the different contributing development partners.

4. How is the funding level for a particular program determined?

At the onset of the initiative[8], the European Commission defined a range of criteria to prioritise among the large group of countries eligible for GCCA funding.[9] Funds are allocated to the highest ranking countries, based on population figures and on availability of funds, and vary from €3 to 15 million. Consultations are then carried on to confirm the allocation and its timing (see question 2). Funding levels are decided on case by case based on needs, absorptive capacities and availability of resources.

As for BCCRF, an initial amount of €8.5 million was allocated from the GCCA budget itself which was later topped up by another €20 million out of the geographic budget.

References

GCCA (2013), From Integrated Climate Strategies to Climate Finance Effectiveness Experiences from the Global Climate Change Alliance
http://www.gcca.eu/sites/default/files/catherine.paul/gcca_brochure_2013_en_final.pdf

European Commission (2007), Communication from the Commission to the Council and the European Parliament "Building a Global Climate Change Alliance between the EU and poor developing countries most vulnerable to climate change", 18 September 2007, COM(2007)540
http://www.gcca.eu/sites/default/files/GCCA/gcca_com2007540_en.pdf

European Commission (2008), Commission Staff Working Document - Implementation Framework of the Global Climate Change Alliance, 15 July 2008, SEC(2008) 2319
http://www.gcca.eu/sites/default/files/GCCA/gcca_sec20082319_implementation_framework.pdf

European Commission (2009), Action Fiche for Bangladesh, Bangladesh Multi-Donor Trust Fund for Climate Change (MDTF-CC), DCI_ENV/2009/022-105
(available from the authors on request)

[8] Staff Working Document (SWD) of 15 July 2008 (SEC(2008) 2319)

[9] The first set of criteria relates to the eligibility of a country for funding under the GCCA. The country must belong to either the group of Least Developed Countries (LDCs) or the group of Small Island Developing States (SIDS) recipients of aid (in line with the official OECD/DAC and UN lists). The second set of criteria comprises the vulnerability of the country to climate change in particular its risk related to floods, droughts, storms, see level rise or glacier melting and the coastal zone elevation with proportion of the population at risk. The importance of the agricultural sector, being one of the most sensitive sectors, is also taken into account. The third set of criteria relates to the adaptive capacity of the country. As proxy indicator, the composite Human Development Index ("HDI") from UNDP has been used.

Exhibit 6. The Enhanced NICFI Model

Benito Müller[1]

Contents

1. How do Quantity Performance Instruments work in terms of disbursing funds? 1
2. Who decides what? In particular, in the context of approval of funding, what decisions would be taken by the GCF Board and what decisions are devolved and to whom? 2
3. How does this funding model ensure the GCF's objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"?..2
4. How is the funding level for a particular program determined?...2
References 3

1. How do Quantity Performance Instruments work in terms of disbursing funds?

Müller *et al.* (2013) are using proposals developed by the ***Center for Global Development*** to enhance the modalities used in the ***Norwegian International Forest Climate Initiative*** (NICFI) in order to illustrate the use of results measured at a macro level with a fixed-price transaction methodology. Under this model, the GCF would use general methods for determining sets of sectoral pathways which, when applied to (eligible) countries, determine the minimum ('expected') performance level from which performance-related payments are made. The price, in turn, would be fixed by dividing the potential total of performance sought across eligible countries by the available funding. The actual transactions would be payments made each year to countries, based on their performance above the minimum pathway. Countries would thus stand to 'make a profit' on achieving low-cost emission reductions (such as through energy efficiency), while at the same time they might need to find additional domestic funding, or low-cost loans, to bring down the cost of more expensive actions. Box 1 gives a more formal description of this model.

Box 1. The Enhanced Macro Model in formal terms

$VP_k(t)$: country k's ***measured and verified*** sectoral level for period *t*;

$E_k(t)$: k's ***expected*** level for *t*;

$A_k(t)$: k's ***ambitious*** level for *t*;

$VEP_k(t)$: k's ***verified eligible performance*** in *t*:

$$VEP_k(t) = \begin{cases} 0, & if\ VEP_k(t) \leq E_k(t) \\ A_k(t), & if\ E_k(t) \geq A_k(t) \\ VP_k(t) - E_k(t), & otherwise \end{cases}$$

Country k's ***maximum eligible performance*** in *t*: $MEP_k(t) = A_k(t) - E_k(t)$;

Total eligible performance level in *t*: $TEP(t) = \sum_k A_k(t) - E_k(t)$;

$F(t)$: ***funding*** available for *t*;

Unit disbursement ('***price***') for period *t*: $P(t) = TEP(t)/F(t)$;

Quantity Performance Payment to *k* for the performance in *t*: $QPP_k(t) = P \times VEP_k(t)$.

[1] Director Energy and Climate Change, Oxford Inst. for Energy Studies, benito.mueller@philosophy.ox.ac.uk.

2. Who decides what? In particular, in the context of approval of funding, what decisions would be taken by the GCF Board and what decisions are devolved and to whom?

QP-instruments are about the purchase of verified quantities. As such, they are "activity-based" if only because the quantities to be transacted have to be generated by particular eligible activities. But the specific decision over which activity is to be carried out – within the bounds of the eligibility criteria – is solely in the hands of the counterparty (project developers, developing country governments, etc.). The GCF, as operator of the QP-instrument, would only be interested in the 'quality' of the quantities it is offered to purchase, subject to eligibility rules. Depending on the price setting mechanism, the GCF may also seek 'value for money'. The role of the GCF Board would essentially be to define the instrument, that is to say the above mentioned four core elements of QP-transactions, as well as criteria as to the type of eligible activities, that is activities that can be used to generate quantities admissible to being transacted.

3. How does this funding model ensure the GCF's objectives are met, as well as satisfying various fiduciary standards and safeguards, without being "hands on"?

By setting the parameters for the QP-transactions, particularly the eligibility criteria, the Board can ensure that any objective, standard, and safeguard can be met, so long as it can be measured and verified. Quantities have to be eligible to be put up for sale according to criteria set by the Board. This eligibility will have to be verified, and it should include a verification of the provenance.

If the Board decides, say, that F-gas emissions reductions do not have sufficient "transformational capability", then all it needs to do is to make them ineligible for purchase. Similarly, it can put restrictions on eligible activities with regards to, say, sector characteristics, social and environmental standards etc. etc. All this can be done without having to actually approve individual activities. In other words, by setting activity eligibility criteria and transaction methodologies (e.g. rules for benchmark and price setting), the Board can influence the transformative effect of its spending under a QP-instrument.

4. How is the funding level for a particular program determined?

This depends on the specification of the QP-transactions. In the case of the above-mentioned enhanced NICFI model, funding level for a particular program is tied to the allocation mechanism: the "Quantity Performance Payment" (see Box 1) is very simply the relevant unit price times the verified eligible performance in question. Under a competitive instrument, the funding level would have been determined through bids by potential providers.

References

Arunabha Ghosh, Benito Müller, William Pizer, and Gernot Wagner (2012), "Mobilizing the Private Sector: Quantity-Performance Instruments for Public Climate Funds", *Oxford Energy and Environment Brief*, August 2012

Benito Müller, Samuel Fankhauser, and Maya Forstater (2013) "Quantity Performance Payment by Results: *Operationalizing enhanced direct access for mitigation at the Green Climate Fund"*, OIES Working Paper EV 59, July 2013

CPR (2014), "Building the Hinge: Reinforcing National and Global Climate Governance Mechanisms", Proceedings of a workshop organized by the Centre for Policy Research in collaboration with Mitigation Action Plans and Scenarios (MAPS) Programme, Energy Research Centre, University of Cape Town, January 2014

Axel Michaelowa, Stephan Hoch (2013), "Fit for renewables? Design options for the Green Climate Fund to support renewable energy feed-in tariffs in developing countries", World Future Council, September 2013.