Background and Rationale

**Funding sources for governance:** The largest Trust Fund supporting GAC implementation is the Governance Partnership Facility (GPF), with a total value of $95 million. Currently all funds of the GPF are committed. Over the lifetime of the program, GPF grants have funded 126 projects. So far 28 grants have been closed and the remaining activities will gradually end by February 2015.

**Momentum has been created:** When the GPF was established in 2008, the design responded to the specific needs at that time, aiming to mainstream innovative governance activities throughout the WB. After 4 years of implementation, GPF funded activities have produced results in thematic areas such as governance of extractive industries, accountability of public resources, governance in Fragile and Conflict-affected States (FCAS), and supporting the demand for governance. GPF funded activities and outputs have influenced WB projects in all sectors: in 2012 the GPF influenced 95 WB projects with a combined lending value of $16.4 billion. In 2013, the number of new WB projects influenced by or using GPF outputs went up to 118 projects with a combined value of $21.12 billion.

**Benefits of the GPF:** As a model for Trust Fund management, the GPF has proven to i) be an effective structure for fundraising at global and country level; ii) reduce transaction costs for World Bank operational staff and for donors, iii) be effective in funding governance activities across all Bank units; and for fundraising, and iv) enhance donor – WBG dialogue about governance.

**Closing the GPF:** Despite the positive results of the GPF as a model for Trust Fund management there is a need to adapt now to the new realities in the World Bank, and change the GPF as it exists. The existing MDTF of the GPF will therefore be closed in June 2015, after the ongoing activities have been completed, and the Bank will not propose further extensions of the GPF in its current form.

**Challenges ahead:** Funding arrangements for the new Global Practices (GPs) are not yet clear at this time, but it is safe to assume that there continues to be a need to find additional resources to fund Bank-wide governance activities. The efforts to raise additional funds are faced by challenges in a changing environment: the new organization structure; a reduction of Bank Budget (BB) of at least $400 million over three years; increased pressure to restore WBG

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1 GPF 2013 Annual Report
lending volume; less funding and more demands from “traditional” donor partners and “new” donors with different needs and demands.

Proposed Way Forward

**Strategic approach:** Given the challenges described above, it is essential to **have a strategic, cohesive, and comprehensive model** from the start that supports continued Bank-wide implementation of governance activities. The approach is to maximize fund raising while being adaptive to the reduction in available donor funding and increasing donor demands. Naturally, the approach should reflect the new working environment in the World Bank and contribute to the effective delivery of the Bank’s strategy and reduce costs.

**Emerging model of fundraising:** Over the past few months, new partnerships and funding arrangements have been established that provide an appropriate model for the new realities and challenges. At country level, successful ongoing GPF activities have led to the establishment of Governance Partnerships for specific countries (e.g. in Nigeria and Kenya). Partnerships are also emerging around key thematic areas, such as Governance of Extractive Industries or Public Financial Management (PFM). These new partnerships represent a realignment of tasks and responsibilities that matches the new realities of the WB.

**Adapting core functions:** Raising and managing funds involves three core functions that need to be executed:

1. **Fund raising:** Budgets within donor agencies are increasingly decentralized to frontline units. Funding from donors is largely provided from the budgets of individual operational units. For example: 40% of DFID’s contribution to the GPF comes from four country offices, the rest from Policy Division in London2. This decentralization of donor budgets complicates efforts to raise funds. **Every fund raising effort needs to be grounded in the specific requirements the frontline unit in the donor partner.**

2. **Trust fund administration:** The ongoing expenditure review (ER) is likely to lead to further integration of TF in WB financial management systems and to demands for greater efficiencies in TF administration. The ER will also lead to increased workloads for Bank TTLs, as a result of the pressure to increase the Bank’s lending performance. **As a result, core TF management functions are seen as a burden by TTLs.** For TTLs, it is increasingly difficult to allocate enough time to TF administration, especially in the labor intensive initial stages of setting up a new TF3. And the burden is growing with reporting of TF results as a crucial administrative task for donor and corporate feedback mechanisms. The demand of Operational TTLs is to provide funding without additional administrative burdens, such as negotiating Administrative Arrangements with donors and with the approving units in the World Bank.

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2 To illustrate the level of budget decentralization in donor agencies: the 2012-2015 budget for governance at DFID Nigeria is $260 million, at least twice as much as the governance budget of Policy Division in HQ.

3 Evidence from GPF grants shows that the prime reason for implementation delays is that TTLs do not have sufficient time to manage the TF.
3. **Implementation support**: A key lesson from the GPF is that providing implementation support to task teams is essential for successful use of TF resources. Support is needed in four key areas: **technical support** to help integrate governance in sector activities; **monitoring and evaluation** to determine what results have been achieved; development of **knowledge and learning outputs** for clients, WB staff, donors and other stakeholders; and **communications efforts** to disseminate and share results, inform about progress, and create positive perceptions about what the WB can achieve with additional funds.

**Proposed Model**

The “one size fits all” model as the current GPF with a single, large MDTF is not suitable for all donor requirements. Instead, more flexibility is needed to respond to the changes in traditional donor agencies and to needs of new donors. Secondly, changes in the World Bank also need to be accommodated.

**Key elements** of the proposed model are:

- The model accommodates single and multi-donor TFs, to provide funding for specific thematic and regional activities. This gives greater flexibility then a single MDTF.

- Each of the SDTFs and MDTFs will typically have a Committee or similar body that allows the donors and the WB to give operational guidance for the specific TF.

- Each SDTF or MDTF can provide funds to operational TTLs through Child TFs. This minimizes the administrative burden for TTLs.

- Through GPF implementation, we have learned that donors want to lower also their transaction costs, but they do want to see strategic benefits of the funds they provide to the Bank. This can be achieved through a high level forum for dialogue between the donors and the World Bank about governance and PSM.

- The three core functions of fund raising, TF administration and implementation support at the lowest possible costs. This can be achieved by an overarching TF Secretariat that is staffed to undertake all three functions, including TF administration, M&E activities, and developing K&L outputs based on results from all TFs.

**There are two options for situating the proposed structure for fundraising and managing TFs for GAC.**

- One option is to place the structure in the new Government, Institutions and Accountability (GIA) Global Practice. This will ensure close coordination with the operational activities and the management of Bank Budget for this GP.

- The other is to accommodate the structure in the new VPU for Global Practices. This will ensure that the TF management structure supports governance activities across all Global Practices, not only GIA. Servicing the needs of these CPs requires location of the proposed structure at a level above the GPs, e.g. with the new VPU for Global Practices.
Which of these options will be chosen is still to be decided. It will also further minimize costs, and avoid overlap of functions, and it is therefore the preferred option in proposals currently under discussion by the SMT, for managing TFs in the new WB organization structure.