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June 14, 2013

For Discussion
Informal Meeting
Tuesday, July 9, 2013

FROM: Vice President and Corporate Secretary

Management Framework for World Bank Partnership Programs and Financial Intermediary Funds

Strategic Engagement, Oversight and Management

1. Attached is a document entitled "Management Framework for World Bank Partnership Programs and Financial Intermediary Funds - Strategic Engagement, Oversight and Management", dated June 10, 2013. The document is scheduled to be discussed by Executive Directors in an informal meeting to be held on **July 9, 2013**.

2. Questions on this document should be referred to Mr. Koch (ext. 35351), Ms. McAdams (ext. 80019) or Ms. Phillips (ext. 85366).

Distribution:

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President
Bank Group Senior Management
Vice Presidents, Bank, IFC and MIGA
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The World Bank

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MANAGEMENT FRAMEWORK FOR WORLD BANK PARTNERSHIP PROGRAMS AND FINANCIAL INTERMEDIARY FUNDS:
Strategic Engagement, Oversight, and Management

June 12, 2013

Concessional Finance and Global Partnerships

Acronyms and Abbreviations

A2I	Access to Information
AA	Administrative Agreement
ADM	Accountability and Effective Decision-Making
AMC	Advance Market Commitment
ARD	Agriculture and Rural Development
BETF	Bank Executed Trust Fund
BTL	Below-the-Line
CFO	Chief Financial Officer
CFP	Concessional Finance and Global Partnerships
CGIAR	Consultative Group for International Agricultural Research
CIF	Climate Investment Funds
CRO	Group Chief Risk Officer
CSO	Civil Society Organization
DGF	Development Grant Facility
DRTF	Debt Relief Trust Fund
ESMAP	Energy Sector Management Assistance Program
FIF	Financial Intermediary Fund
GAFSP	Global Agriculture and Food Security Program
GEF	Global Environment Facility
GRIF	Guyana REDD+ Investment Fund
HR	Human Resources
HRTF	Haiti Reconstruction Trust Fund
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IEG	Independent Evaluation Group
IFC	International Financial Corporation
IFFIm	International Finance Facility for Immunisation
LDCF	Least Developed Countries Fund
LEG	Legal Vice Presidential Unit
LEGIA	Legal Institutional Administration Department
MD	Managing Director
MDB	Multilateral Development Bank
MDG	Millennium Development Goals
MENA	Middle East and North Africa
MIGA	Multilateral Investment Guarantee Agency
NGO	Non-Governmental Organization
NPIF	Nagoya Protocol Implementation Fund
ORAF	Operational Risk Assessment Framework
PP	Partnership Program
RATS	Risk Appetites and Tolerances
SCCF	Special Climate Change Fund
SDN	Sustainable Development Network
TF	Trust Fund
TOR	Terms of Reference
UN	United Nations
UNFCCC	United Nations Framework Convention on Climate Change
VP	Vice President
VPU	Vice Presidential Unit
WB	World Bank

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Executive Summary

i. **The Bank often partners with other organizations to address specific development challenges.** The term "partnership" is used to describe a broad range of collaborative relationships in which the Bank engages, including the relationships between the Bank and client countries, donors, other international organizations, and civil society. The types of challenges targeted by partnering with others are diverse, including, for example, improving consultation and information sharing, coordinating action in areas such as crisis response, and project co-financing. Many development challenges are global or regional in nature, such as climate change, cross-border health epidemics, standard setting and knowledge transfer. The scale, scope, and complexity of global and regional challenges often require collective action, whereby multiple actors work together, drawing on the diverse resources (both technical and financial) of the group to achieve development objectives that could not be addressed effectively by any one of them alone.

ii. **Partnership Programs (PPs) are a subset of the broader collaborative relationships referred to as partnerships.** PPs provide an important instrument for the Bank to participate in coordinated responses to global and regional development challenges. For the purposes of this Framework, PPs are defined as having the following characteristics: (i) a Partnership Body that facilitates agreement among the partners; (ii) a multi-country scope; and (iii) dedicated funding for implementation of a program of activities over time. When financing for PPs is channeled, in full or in part, through the World Bank, one or more of three financing mechanisms may be used: IBRD/IDA Trust Funds (TFs), Financial Intermediary Funds (FIFs), and/or grants from the Bank's administrative budget, generally the Development Grant Facility (DGF).[1] PPs may be managed internally within the Bank or externally through outside organizations.

iii. **The Bank may play one or more distinct roles in Partnership Programs.** The Bank may participate in the decision-making body, provide the secretariat/management function, serve as trustee for the funding mechanism, and/or act as implementing agency for program activities. Understanding the links between the Bank roles in a PP, the authority related to those roles, and corresponding accountability for program outcomes is central to the Bank's ability to assess the potential rewards and risks associated with participation.

iv. **Calls for the creation of, and World Bank engagement in, Partnership Programs are likely to continue.** Global and regional challenges such as climate change, health epidemics, food security, and the push to support developing countries' efforts to meet MDGs suggest that PPs will continue to play an important role in facilitating collective action and close collaboration with others. Anticipating continuing growth of PPs and the potential for

[1] IBRD/IDA Trust Funds consist of Recipient-Executed Trust Funds (RETF) and Bank-Executed Trust Funds (BETF) as defined in OP 14.40. The two are grouped together at the trustee level (as "IBRD/IDA Trust Funds") in this paper for ease of reference. The operational role of the Bank in a PP may vary based on the underlying financing mechanisms. PPs backed by RETFs and BETFs draw on operational roles of the Bank (i.e., supervision or implementation). PPs supported by FIFs are designed to allow transfers to outside agencies and do not always involve the Bank in an operational role. As trustee of a FIF, the Bank also has more limited fiduciary accountability. PPs financed by the DGF involve the Bank as a donor, providing grants to an outside legal entity. Regardless of the financing mechanism, PPs have the characteristics described above.

corresponding growth in demands on World Bank resources, the Bank needs to be more strategic and consider how it can participate most effectively in these programs. This includes consideration of when to engage in PPs, what roles the Bank should play, what type of financing mechanism(s) to use, and when and how exits should be considered. World Bank engagement in PPs will need to be considered in the context of the ongoing work on a WBG strategy. Decisions around WB engagement in PPs will need to be consistent with the corporate priorities emerging from the strategy, the focus on development solutions, and the approach to "dynamic selectivity."

v. **This paper presents a Management Framework for World Bank Partnership Programs and Financial Intermediary Funds.** The Framework builds on experience to date and provides the basis for more consistent decision-making related to Bank participation in PPs, including stronger risk management based on greater clarity around roles and accountabilities assumed by the Bank and the choice of financing mechanism, with special attention on FIFs. It takes a "life-cycle" approach based on three phases: (1) identification, preparation and approval; (2) operational and portfolio management of ongoing PPs; and (3) planning and managing possible exits. The Framework places an emphasis on consistent processes, strategic engagement, oversight, and risk management. Consistent with the work being led by LEG on the proposed WBG Policy and Procedure Framework expected to be discussed at COGAM in late July 2013, the Management Framework for World Bank Partnership Programs and Financial Intermediary Funds will be turned into a Management Directive with required procedures and corresponding guidelines to facilitate implementation. This paper is being presented to the Board for guidance that will be taken into account in the subsequent drafting of the Management Directive. Continuing the current practice for PPs, the Framework anticipates operating within existing Operational Policies for the underlying financing mechanisms for PPs (OP14.40 for IBRD/IDA Trust Funds and FIFs, and OP8.45 for the DGF).[2]

vi. **The primary objective of the Framework is to facilitate more effective World Bank engagement in Partnership Programs.** While PPs are created to facilitate collaboration with others, this Framework is largely internal in its focus. Through greater clarity regarding its own roles and responsibilities and possible limitations, the Bank can be a better partner. Specifically, the Framework seeks to

- Provide greater clarity regarding the terms of Bank engagement in PPs and FIFs and assist decision-making by providing principles for engagement in new and ongoing PPs.
- Introduce a systematic approach to risks and rewards associated with Bank engagement in PPs, facilitating greater transparency and increasing understanding of any limits on Bank participation or accountability.
- Strengthen the Bank's oversight of its own engagement and fill gaps in current practice through the introduction of a "life cycle" approach that addresses new and ongoing PPs.
- Present the basis for the development of tools to support staff working on PPs.

[2] The paper has been prepared to be consistent with both OP 8.45 and OP14.40 and does not anticipate substantive revisions to these policies at this stage. The objective is to provide further clarity around the principles and to set out an approach to risk management as referred to in OP14.40. However, revisions to these policies may be suggested in the context of current efforts to simplify the Operational Manual as well as the ongoing work on the WBG strategy. The Framework would inform such changes.

vii. **The new Framework would apply only to the World Bank.** Most of the existing programs with partnership structures involve IBRD VPUs only. Currently, individual Bank Group members use different processes for review and approval of the underlying financing mechanisms. As more experience is gained with the new Framework, consideration could be given to expanding the Framework approach across the World Bank Group. Collaboration among the Bank, IFC and MIGA on trust funds has increased significantly in recent years, for example through the joint annual Donor Forum,[3] the Trust Fund Annual Report, and joint trust fund portfolio reviews with some donors. Similarly, the IFC collaborates closely with the Bank in several FIF-supported PPs with private sector components.

viii. **The Framework is informed by earlier analyses of Partnership Programs and Financial Intermediary Funds.** The *Partnership Program Information Note* circulated in July 2012 provided a detailed overview of 186 PPs in which the Bank participates.[4] While the Note covers only those PPs where the Bank plays a financial role — as trustee and/or donor — it highlights the regional and sectoral focus, Bank roles, types of partners involved, and financial volumes. Similarly, the *FIF Information Note* presented in May 2011 presented an overview of trends and issues related to the growing portfolio of FIFs.[5]

ix. **The Framework is the first phase of a longer-term work program to support stronger Bank engagement in Partnership Programs and FIFs.** To help implement the Framework, the follow-on work program includes several actions that will be undertaken in the context of Bank-wide consultations given the large number of internal stakeholders to PPs. Some of the actions can be undertaken immediately, while others will require additional time and new tools.

x. **The paper is organized as follows:** Chapter 1 provides context for the Framework. Chapter 2 presents principles and introduces a risk-based approach to World Bank engagement in PPs. Chapter 3 highlights the key considerations in the design of PPs, choice of financing mechanisms (with special emphasis on FIFs), and outlines processes to support a life-cycle approach to engagement in PPs. Chapter 4 concludes with next steps, including highlights of the Directive, procedures, and guidance and tools to be developed for staff working on PPs and FIFs. Finally, more detailed guidance on FIFs is contained in the Annex.

Questions for Discussion:

- Do Executive Directors agree with the overall approach to World Bank engagement in Partnership Programs as described in the Framework paper, i.e. a principles-based and life-cycle approach to engagement; and introduction of a more systematic approach to risk management?
- How might the approach be strengthened further?

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[3] The Donor Forum has been rebranded as the World Bank Group Development Partners Forum as of 2013.
[4] *Partnership Programs – An Information Note*. July 18, 2012. SecM2012-0310.
[5] *Financial Intermediary Funds: An Information Note*. May 17, 2011. SecM2011-0294.

Chapter 1: Context

1. **Working in partnership with other organizations is essential to the World Bank's ability to fulfill its mission.** Partnerships with other institutions and aid agencies often serve as a means to coordinate on the delivery of investments and/or advisory services. Working in partnerships not only facilitates delivery of development projects, but also allows the Bank to share and leverage its experience through knowledge exchange and networking and exposes staff to the innovations and ideas of others. The Bank often partners with others to create global and regional initiatives aimed at specific development challenges. These challenges are diverse, ranging from climate change to health epidemics to standard setting and knowledge sharing and may involve cross-border spillovers. The scale, scope, and complexity may require collective action or close coordination, whereby multiple actors work together, drawing on the diverse resources (both technical and financial) of the group to achieve development objectives that could not be addressed effectively by any single actor.

2. **"Partnership Programs" (PPs) are instruments for the Bank to participate in and promote a collective response to global or regional development challenges.** For the purposes of this Framework, PPs are defined by the following characteristics: (i) a Partnership body that facilitates agreement among the partners; (ii) a multi-country scope; and (iii) dedicated funding for implementation of a program of activities over time. The term "partnership" is used broadly within the Bank to describe a heterogeneous group of relationships. The Framework is intended to apply only to PPs with the above characteristics.

3. **Through Partnership Programs, partners agree to deliver on a program, with defined outputs and results expected over time.** Partnership structures are created with decision-making or advisory bodies to facilitate agreement among partners on items such as strategic priorities, resource allocation, and oversight of program objectives. Because of these features, Bank accountabilities in PPs are different than those of less formally structured partnerships with no dedicated funding. Thus the Framework seeks to present a principles-based approach and consistent methodology for decision-making and oversight of Bank engagement in PPs as defined by the above characteristics rather than all arrangements labeled partnerships.

4. **The portfolio of Partnership Programs in which the Bank is engaged has grown organically over time in line with emerging needs or gaps in international development assistance.** The end result has been a very diverse portfolio of programs designed to address a multitude of challenges. The Bank began to engage in PPs as early as the 1970s as a complement to its lending programs. Many of the PPs in which the Bank initially participated were created to support knowledge-related activities, including research and networking. For example, the Bank was a founding member of CGIAR, established in 1971 as a public-private partnership to promote agricultural research as a global public good and fill gaps that could not be met through country-level programs alone. PPs also provide the Bank with an important mechanism for collaboration with non-sovereign actors (e.g. foundations, CSDs, and the private sector). Knowledge and networking activities remain an important feature of PPs today, but many now provide technical assistance and investment financing to countries.

5. **The number and corresponding volume of financing to Partnership Programs increased from the 1990s onward.** The Bank is involved in more than 186 PPs where financing is channeled in full or in part through or from the Bank. These PPs received close to US$7.5 billion in donor contributions and disbursed US$6 billion in FY11.[6] The PPs in which the Bank is engaged involve 17 VPUs and cover every sector and region in which the Bank works. Program structures have continued to diversify over time as well. For example, participation in partnership bodies has become more inclusive, including not only donors, but also recipients and civil society organizations. The increasing complexity of partnership structures is particularly true of PPs supported by FIFs, which tend to respond to high profile international initiatives, are large in size and may involve financial engineering and complex governance arrangements. Of the 19 FIFs currently administered by the Bank, 16 support PPs. These 16 programs account for the largest volume of financing to the PPs supported by the Bank.

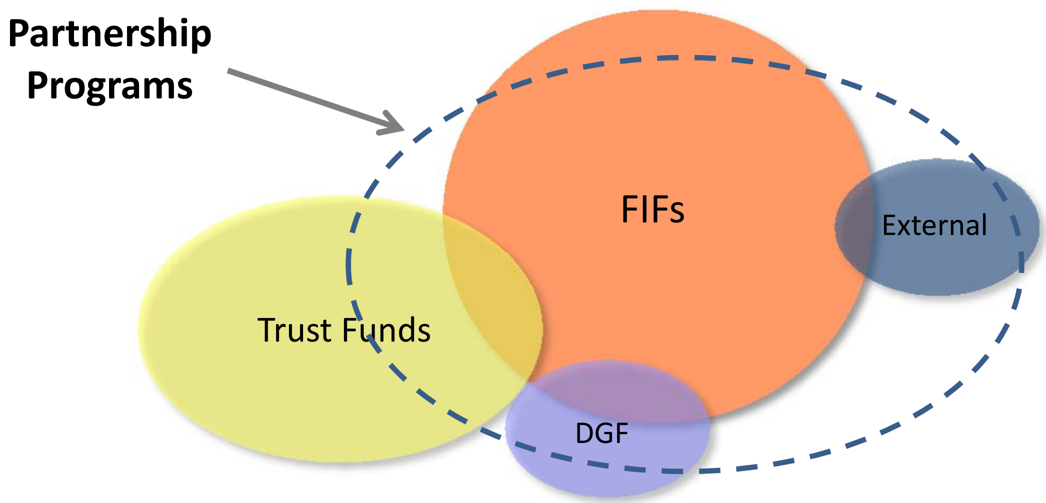
6. **The financing mechanisms backing Partnership Programs have evolved over time.** The evolution of financing mechanisms reflects, and sometimes drives, changes in PP structures. For PPs where financing is channeled, in part or in full through the World Bank, one or more of three mechanisms may be used: IBRD/IDA Trust Funds (TFs), Financial Intermediary Funds (FIFs),[7] and/or grants from the below-the-line component of the Bank's administrative budget, generally the Development Grant Facility (DGF). The choice of financing mechanism can shift over time. For example, the DGF may provide seed funding to a PP in the form of a grant from the below-the-line component of the Bank's administrative budget. Later, that PP may be supported by an IBRD/IDA TF or a FIF.

7. **The majority of PPs where the Bank plays a financial role are supported by IBRD/IDA trust funds, though FIFs account for the largest volume of financing.** IBRD/IDA TFs are mechanisms to accept contributions from donors for activities implemented or supervised by IBRD or IDA. FIFs are large multilateral financial mechanisms that typically support global development initiatives or partnerships. In FIFs, the World Bank acts as financial trustee and provide financial management services such as receiving, holding, and transferring funds to multiple implementing entities and recipients. The Bank does not always play a role in implementation of FIF-supported PPs, and when it does, the Bank may be one of multiple agencies and implementers. Finally, some PPs receive funding that is not administered through the Bank. This is the case for some externally managed programs supported by DGF or FIFs, such as the CGIAR, whose agricultural research centers also receive funding directly from donors as well as through the CGIAR Fund (a FIF). Figure 1 shows the typical mechanisms for funding PPs.

[6] *Partnership Programs – An Information Note.* July 18, 2012. SecM2012-0310.

[7] As of March 31, 2013 there are 19 FIFs; 16 of which support multi-country PPs as identified by the Partnership Program Information Note. Another two support single-country programs that share many of the governance/decision-making characteristics. The latter are not explicitly covered by the present Framework, though applicable lessons for single-country cases are contemplated as part of the follow-on actions to the Framework.

Figure 1. Financing Mechanisms Supporting Partnership Programs



8. **The 2005 Framework for World Bank engagement in Partnership Programs is outdated.** In May 2005, the Bank's Executive Board discussed the paper "*A Strategic Framework for the World Bank's Global Programs and Partnerships*."[8] The 2005 Framework included an overview of actions being undertaken at the time to strengthen selectivity, governance, and oversight and called for further work to create a more strategic approach to engagement in PPs. This included a set of principles on which to base selectivity (see Box 1) and identified sectoral and thematic priorities for engagement. Most of the 2005 principles remain valid today but are not be specific enough to adequately guide decisions on selective engagement. Moreover, experience has shown that *ex ante* identification of sectoral and thematic priorities may overlook important emerging international priorities that merit a partnership response. For example, topics such as agriculture and food security were not identified as priorities for PPs in the 2005 Framework, yet calls for greater collaboration in response to the 2008 food crisis led to the creation of new PPs such as the High Level Task Force on Food Security and the Food Crisis Response Trust Fund. The new Framework takes into account the dynamic external environment and focuses on principles for engagement rather than designating new priority sectors and themes, updating the principles outlined in the 2005 framework paper to provide greater clarity.

[8] *A Strategic Framework for the World Bank Group's Global Programs and Partnerships.* May 3, 2005. SecM2005-0250.

Box 1. 2005 Principles for Engaging in Partnership Programs

The 2005 Board paper outlining a strategic framework for World Bank involvement in Global Partnership Programs cited several principles intended to bring a more coherent institutional perspective to the portfolio. The following highlights these principles, which will be considered in the context of updating a selectivity framework for Bank engagement in PPs:

- Evidence of the need for collective action.
- Consistency with the Bank's development objectives.
- Consistency with country priorities/evidence of country demand.
- Activities undertaken at the most appropriate level in terms of efficient delivery.
- Absence of alternative sources of supply for the same goods or services.
- Extent to which program strategies/priorities are likely to achieve stated objectives and results at the country level.

9. **Changes within the Bank since 2005 have also contributed to the need for a new Framework.** The processes to facilitate selectivity, quality at entry, and oversight identified in the 2005 paper have changed with shifts in Senior Management responsibilities and an increasingly decentralized Bank. As a result, the review process for PPs has not always been clear and consistent. The procedures to be developed to implement the Framework will strengthen the process by providing greater clarity, making it compliant with the Accountability and Effective Decision-Making (ADM) Framework and ensuring that the right people are involved throughout the process and the information critical to decision-making is considered. These procedures will build on existing Bank review processes to avoid creating additional bureaucratic layers. In addition, much of the renewed focus on risk management in the Bank — as reflected by the work on Risk Appetites and Tolerances (RATS) and changes in the approach to approvals and supervision of lending operations — is applicable to PPs as well and is reflected in the Framework for PPs and FIFs.

10. **Two reviews by the Independent Evaluation Group (IEG) have further underscored the need for a new Framework**.[9] In its 2011 review of Global and Regional Partnership Programs, IEG noted the importance of and need for World Bank engagement in PPs as a complement to Bank activities at the country-level and highlighted areas for improvement, in particular the need for greater selectivity in determining when the Bank should engage and the need to further strengthen risk management and corporate oversight of that engagement. Similarly, in its 2011 evaluation of trust funds, which included FIFs, IEG called on the Bank to review its experience with FIFs to ensure that practices for accepting and managing FIFs were adequate. As the majority of FIFs are PPs, the present Framework has been designed to address both to ensure consistency in the Bank's approach. Nevertheless, the Framework also takes into account that not all FIFs have been created to support PPs and highlights issues that are distinct to FIFs as a type of financing mechanism. To address this fact and promote clarity regarding the practices for accepting and managing FIFs, Annex 1 outlines practices as they relate to FIFs, regardless of whether the FIF supports a PP.

[9] IEG, 2011: *The World Bank's Involvement in Global and Regional Partnership Programs: An Independent Assessment*. Washington, DC: World Bank. And IEG, 2011: *Trust Fund Support for Development: An Evaluation of the World Bank's Trust Fund Portfolio.* Washington, DC: World Bank.

Chapter 2: A Framework for World Bank Engagement in Partnership Programs and Financial Intermediary Funds

Applying a Principles-Based Approach to World Bank Engagement in Partnership Programs

11. **The following section provides a principles-based approach to the Framework for Partnership Programs and Financial Intermediary Funds**. The objective of the Framework is to assist with decision-making regarding World Bank engagement in Partnership Programs (PPs) and Financial Intermediary Funds (FIFs). The Framework takes a “life cycle” approach to engagement at three phases (i) identification, preparation and approval; (ii) operational and portfolio management of ongoing PPs; and (iii) planning and managing exits, if and when necessary. The principles-based approach will apply throughout the lifecycle of Bank engagement, including during change management processes of any existing PP. The Framework will be operationalized through a Management Directive, Procedures and Guidance, which will be developed to assist staff in assessing and managing risks and benefits throughout the lifecycle. The Framework seeks to provide greater clarity around the parameters for Bank involvement in PPs to facilitate dialogue and negotiations with external stakeholders.

12. **Selectivity principles for Partnership Programs need to maintain flexibility to respond to emerging needs**. Selectivity should be exercised within the context of Bank strategies and areas of comparative advantage rather than pre-identifying thematic and sectoral priorities (which should be addressed as part of the Bank’s strategies). The option of supporting an externally managed PP may also fulfill the Bank’s development objective when other partners have a stronger comparative advantage and should receive equal consideration. The following updated principles are aligned with the 2005 Framework and applicable operational policies and should be applied to promote a consistent, coherent institutional approach to selectivity at entry and reviewed throughout the life of the PP.

(i) **Evidence of the need for collective action or close coordination involving the Bank.** PPs are one of the primary mechanisms for the Bank to engage in and promote collective action or close coordination with others. PPs feature multi-participant partnership structures to help leverage the expertise and resources of the partners involved. The decision to engage in a PP should be assessed in terms of whether the intended objectives of the program require close collaboration with others backed by dedicated resources (financial and technical).

(ii) **Participation should be consistent with the strategic priorities and comparative advantages of the World Bank**. PPs are created to leverage the expertise and resources of the partners involved. The roles of the Bank in the program thus should be based on its areas of comparative advantage. For example, in a PP aimed at strengthening disaster recovery and planning, UN agencies might best address humanitarian relief efforts while the Bank would focus on reconstruction activities. Assessing the need for Bank engagement in terms of complementarity with strategic priorities will minimize the risk that the PP could divert resources, notably staff time, from achieving institutional priorities. This will need to be underpinned by strong linkages with the corporate business planning and budgeting process.

(iii) **Further fragmentation in the global aid architecture and/or proliferation of financing mechanism within the Bank should be avoided.** PPs often respond to calls for action or perceived gaps in development assistance and as such typically have an issue-specific focus and dedicated "vertical" funding mechanisms. PPs can thus contribute to further fragmentation in the aid architecture if participants involved — including the Bank — do not consider their creation carefully. In determining whether to engage, the Bank will need to consider the need for a new program in the context of alternative sources of "supply" for the same activities. This includes IBRD and IDA operations so that the risk of substitution of unearmarked, core financing for client countries is minimized. Similarly, potential overlap with existing IBRD/IDA TFs and FIFs should be considered carefully.

(iv) **Bank participation in Partnership Programs should benefit the Bank's client countries and ultimately meet their needs.** Given its extensive global and country operations, Bank participation can add considerable value to PPs by helping to reconcile issues-driven financing with country level activities. PPs that seek to link global or regional issues to country level operations should ensure country-level demand. Nevertheless, the global and often innovative nature of many PP activities, such as creation of research networks or knowledge-sharing and advocacy work around new approaches or standards setting, can make establishing a direct link to country priorities and results challenging. PPs, particularly those financed by FIFs, are often created to address global and regional public goods. As such, some PPs may have limited ability to demonstrate *ex ante* evidence of country-level demand, particularly without additional financing. Where evidence of demand cannot be considered as part of selectivity decisions, the Bank review will need to consider how the PP will reconcile supply and demand during implementation.

(v) **Partners should share a commitment to common objectives.** The commitment of the partners involved and the degree to which all share the same program objectives is a key determinant of the likelihood of achieving stated objectives for the PP.

13. **Design considerations for Partnership Programs should reflect experience and best practice**. As an overarching principle for Bank engagement in a PP, the design must align the Bank's accountabilities with its control, ensuring the Bank does not take on accountability for functions that are explicitly or implicitly assigned to others (and vice versa). The Bank review process determining whether and how to engage should also consider whether the proposed structure will support achievement of program objectives, with adequate funding, sufficient implementation capacity, and appropriate risk management. In assessing program design, the following principles apply:

(i) **Roles and responsibilities should be clearly articulated and agreed among partners.** Clear assignment of roles and responsibilities of individual partners is critical to the success of the PP so that all involved understand who is accountable for what and ultimately who is responsible for achieving results. To achieve this, the PP design should make clear how different elements of participation are defined and determined; how decisions are made (and who participates); who is accountable for strategy; who proposes, selects, manages, implements, reports on, and supervises activities; and who is responsible for results; who is responsible for handling what funds; who provides administrative/management support; how to provide the PP with legal status (i.e. the ability to enter into contracts for procurement, employment, etc.); and who has ownership of assets (including websites and publications). Where multiple units within the Bank are involved, divisions of support should be clear both internally and externally so that any limits are clearly identified and understood and potential Conflicts of Interest (CoI) are identified and properly managed.

(ii) **The terms for Bank participation on Partnership Program bodies, whether decision-making or advisory, should be clear.** A decision-making structure should protect more than expose the Bank (i.e. the Bank must consider its role on the body in the context of its accountabilities for program outcomes). Bank representatives serve in their institutional (not personal) capacity. Bank representation, including each staff assignment, should be confirmed by the relevant VP; and supported by internally agreed terms of reference (TOR).

(iii) **The funding mechanism selected should be well suited to the Partnership Program needs.** The financing mechanisms which support PPs can influence the structure of the PP (in addition to the roles, responsibilities and accountabilities of the Bank and others). For mechanisms in which the Bank plays a financial role, the following should be considered (see Chapter 3 for additional details):

- **DGF and other external grants made from IBRD resources —** the Bank generally makes grants to external legal entities. As a donor, the Bank does not typically prescribe the structure of the external PP but assesses participation in terms of the capacity and adequacy of policies and procedures of the external entity.

- **IBRD/IDA TFs —** TFs were created to accept contributions from donors in support of specific activities to be supervised or implemented by the Bank. PPs backed by TFs are an outgrowth of this, with partners agreeing activities will be supervised or implemented by the Bank. Oversight, management and implementation of the program are delegated to the Bank and governed by Bank policies and procedures.

- **FIFs —** FIFs are appropriate to support a new PP or other development initiative when the scale of financing is expected to be large and requires implementation channels beyond those of the Bank (or instead of the Bank), and the Bank's role as trustee can be clearly defined and separated from other roles.

Strengthening Risk Management for Partnership Programs and FIFs

14. **The Bank reaps significant rewards from its engagement in Partnership Programs.** PPs can help address global and regional development challenges that cannot be adequately covered through country-based programs and thus can complement the Bank's core operations. The close collaborative nature of PPs also provides the Bank with exposure to the innovations, ideas, and experiences of others and is an important mechanism for engaging with non-sovereign actors such as foundations, CSOs, and the private sector. Nevertheless, in pursuing such rewards, the Bank runs risks and makes institutional trade-offs. As such, decision-making around PPs and FIFs should be based on a more systematic analysis of the risks and rewards

associated with Bank engagement, facilitating greater transparency and increasing understanding (or management of expectations) of any limits on Bank participation.

15. **The Bank has an established set of risk dimensions, enumerated in its institutional Risk Taxonomy and used in the annual Bank-wide Risk Scan exercise.** In addition, the Bank, led by the CRO Vice Presidency, is in the process of developing Risk Appetites and Tolerances for each Risk Dimension. This work aims to set appropriately monitorable targets and ranges for risk-bearing. A risk-based approach will aid in approval and ongoing management of PPs and take into account evolving conditions affecting individual programs and the portfolio as a whole. Consistent with ongoing work in the Bank, the approach will focus on risk management and taking informed decisions about risks rather than risk avoidance. The approach to risk management should support a willingness to take on greater risks when higher returns are expected from the PP and doing so is consistent with identified appetites and tolerances.

16. **The Management Framework for Partnership Programs and FIFs will build on the above and further develop a systematic approach to PP and FIF risk management.** For the Institutional Risk Scan exercise, risk is defined in the World Bank as "any factor that impacts the ability of the Bank to achieve its development objectives." Any factor that affects the Bank's ability to accomplish development objectives through its participation in a PP would thus pose a "partnership program risk." The 2005 Framework did not address risk management, and while Bank sponsors of PPs take risks and rewards into account during the development of a new PP, a more systematic approach will provide for greater consistency in risk management across PPs and across Bank VPUs.

17. **Several tools are currently used to assess elements of risk in Partnership Programs and the underlying financing mechanisms.** The Framework will build on existing tools, integrating the approach where possible. For example, the Trust Fund Risk Assessment Form (TRAF) is part of the TF proposal process and is used to address potential risks associated with the administration of funds received, including IBRD/IDA TFs and FIFs that would support a PP. Operational risks associated with implementation or supervision of program activities funded by TFs, including FIFs where the Bank plays a role in implementation, are covered by the Operational Risk Assessment Framework (ORAF) as a result of the TF mainstreaming exercise in recent years. However, the review process for program-level risk — those associated with the partnership structure or with the specific roles assigned to the Bank as part of its participation in the PP — varies. Potential program-level risks are expected to be addressed as part of an upfront review of the trust fund concept note; however, there is no standard approach to assessing the program-level risks.

18. **The Framework places an emphasis on program-level risk.** A more systematic approach will be developed as part of the implementation of this Framework and will fill an important gap, facilitating a more consistent approach to the types of program-level risks assessed regardless of the underlying financing mechanism. The Risk and Accountabilities Working Group is currently reviewing existing operational risk assessment and measurement mechanisms as part of the ongoing work on institutional risk. This exercise combined with the ongoing change management process may result in refinements and changes to current risk-

related tools. The work program to implement the Framework will take this into account to maintain the appropriate linkages to tools for assessing and managing financial and operational risks associated with the underlying financing mechanisms to PPs.

19. **The approach emanating from this Framework will explicitly take key risk factors into consideration in decision-making at each stage of the lifecycle of individual PPs** (i.e. upfront at the stage of deciding whether to pursue engagement or not; during the preparation and negotiation of the PP; the operation and portfolio phase, which includes monitoring at the individual and the aggregate level; and in considering possible exits). Each of these phases gives rise to decision points with specific and often different risk issues (see Figure 5, Chapter 3 for details). A key institutional goal would be to support and facilitate appropriate choices in PPs by providing Bank staff with consistently applied criteria, methods and corresponding guidance through development of an easily navigable toolkit that will include a risk component and through outreach and training. Adoption of a more consistent and user-friendly approach to risk assessment will enable VPUs involved in PPs to make clear decisions about whether potential results are worth the identified risks.

20. **An agreed set of standardized risk metrics and criteria is central to a more systematic methodology for a risk-based approach for Partnership Programs.** The reasons for identifying and quantifying PP risks are several. Gauging the tolerance for bearing certain risks in a PP in light of intended results and other agreed measures of success is foremost among the reasons. More explicit assessment of risks and risk/return tradeoffs will improve the quality and consistency of the terms and conditions of engagement in the PP that are negotiated with other partners. A standard set of terms and conditions outlined in a Management Directive and related procedures will serve as a basis for evaluating and negotiating potential engagements. A minimum set of terms and conditions might also be established as a threshold, providing an institutionally supported basis for upfront selectivity and decision-making about engagement. Because the Bank is only one partner in the program, participation in a PP inherently means that the Bank cedes some of the control over the program in exchange for the benefits of working with other partners to achieve potentially greater development impacts than might be achieved by working alone. The Bank should not systematically refrain from engagements in some higher risk PPs but rather balance the risks to the institution against the potential development rewards.

21. **Partnership Programs evolve over time.** PPs are typically set up in response to calls for action or identified gaps in international development assistance. Because of this, many are designed with new or innovative approaches to collaboration in mind. Changes can be made to a PP structure as partners gain more experience. The risk-based approach planned under the present Framework will aid in the ongoing management of existing PPs (i.e. during the implementation phase) by providing a basis for reassessment of risks in light of potentially reconsidered rewards. Consistent with the ongoing work on the RATS, a standardized and broadly understood approach will facilitate monitoring and review as part of a Bank-wide process to track risk levels for the information and potential action by Senior Management.

Putting Principles into Action

22. **A work program has been developed for implementation of the Management Framework for Partnership Programs and FIFs following its discussion by the Board.** Led by CFP, in consultation with a Bank-wide advisory group, the work-program involves development of a Management Directive, related procedures and corresponding guidelines for the Bank across the lifecycle of PPs. These documents will include defining and quantifying PP risks, outlining minimum terms for Bank engagement, clarifying approval processes, assisting in the development of TORs for Bank engagement on partnership boards and outlining risk management strategies. These will be collected in a web-based "toolkit" for staff, linked closely to existing resources for the underlying financing mechanism. This will allow easy cross-referencing for staff as often the design process is not linear (i.e., the financing mechanism may be clear before the program structure is fully agreed). The primary objective of the follow on work to the Framework is to provide Bank staff with a range of readily usable resources, helping them to structure effective and appropriately designed PPs and manage risk issues throughout the partnership life cycle. The web-based resources will also elaborate further on FIF-specific risks to provide clarity for staff in those cases where a FIF is created but does not support a PP (see Chapter 4 for additional detail).

Chapter 3: Considerations for Participation in and Management of Partnership Programs and Financial Intermediary Funds

23. **This chapter outlines key considerations regarding how the Bank engages in Partnership Programs.** The design and structure — as well as the choice of financing mechanism — of a PP influence the roles, responsibilities, and accountabilities of the Bank (and other partners) and need to be considered carefully in applying the principles-based approach and deciding whether and how to engage. As noted before, an overarching design principle is alignment of the Bank's accountability and control. Key considerations are highlighted below. In addition, the chapter outlines processes to facilitate decision-making related to the Bank's management of its own engagement over the life of a PP.

Design and Structure

24. **The structure of a Partnership Program generally involves three levels—decision-making/advisory, management/administration, and implementation of activities.** Figure 3 below provides a basic illustration of a typical PP structure. The functions performed by partners at each level vary according to the individual PP design and objectives. The Bank's accountabilities in an individual PP vary depending on the PP structure and roles played by the Bank at each level. The Bank may play one or more role, including participation in the decision-making body, provision of the secretariat/management unit, trustee for the funding mechanism, and/or implementing agency for program activities. Understanding the links between the roles played in a PP and the authority and accountability related to those roles is central to the Bank's ability to assess the potential rewards and risks associated with participation.

Figure 2. Illustrative Partnership Program Structure

25. **Partnership Program structures facilitate decision-making among some or all of the parties involved.** Decision-making or advisory bodies can take many forms, such as boards, councils, steering committees, and consultative groups. Participants in these bodies typically agree on program administration, implementation arrangements, and/or funding decisions. This may include setting strategic priorities, program objectives, allocation criteria, and results frameworks. Representatives to these specialized partnership bodies may include the Bank, donors, and other stakeholders, such as client countries or CSOs.

26. **The role and influence of individual members of the partnership body can vary considerably, from voting members to advisers or observers.** In many cases, not all partners share equally in decision-making. The role of the Bank in partnership bodies ranges from chair, member, observer, or adviser. In the latter two, the Bank role may inform decisions undertaken by other members of the partnership body. Among the PPs in which the Bank is engaged, there is usually a strong preference for consensus decision-making as opposed to voting mechanisms. Consensus need not mean absolute unanimity but can allow for dissent if it is not presented as an objection that blocks agreement. PPs are generally designed to enable partners to coordinate views and activities on a common platform that is best served by full consensus. When structures allow the PP to proceed on something less than consensus, the collaborative nature of the endeavor can become diluted. Over time, dissenting partners can undermine the common foundation, collective buy-in, and collaborative results. Modalities for Bank engagement in a PP decision-making body should be specific and agreed upfront (as for all partners) so that expectations and accountabilities for PP outcomes are understood. Each Bank role should be supported with an agreed TOR.

27. **Partnership Program structures also include program management and administration functions.** New, legally independent institutions are sometimes created to manage and administer PPs (particularly for large programs), but more frequently, partners agree that an existing institution, such as the Bank or another international organization, should perform this role. Program management and administration functions support the Partnership body. PP management units may be <u>internal</u> to the Bank or <u>external</u> in another partner entity (see Figure 4 below). In the case of FIF-supported PPs, the Bank's management unit and trustee functions are separated to avoid potential conflicts of interest and to ensure clarity regarding the limited fiduciary accountability of the FIF Trustee. Where both functions are provided by the Bank, two different VPUs are involved. In some cases, the Bank may provide the FIF trustee function but an external entity provides program management (e.g. the Global Fund).

Figure 3. Accountability for Management and Implementation Functions in PPs

Function	Internally Managed PP			Externally Managed PP	
Agreeing Objectives and Strategy	Shared among Partners	Shared among Partners		Shared among Partners	Shared among Partners
PP Management	Bank	Bank		External organization	External organization
Implementing Activities	Bank	Bank as Implementing Agency	Other Implementing Agencies	External organization	External organization
Type of Program/Funding Instrument	*Bank-based Program supported by IBRD/IDA Trust Fund*	*Bank-based Program supported by Financial Intermediary Fund*		*Externally managed Program supported by Financial Intermediary Fund*	*Externally managed program supported by DGF Grant*

28. **When the Bank provides the program management (or "secretariat") function for a Partnership Program, Bank policies and procedures apply to secretariat activities.** The Bank staff carrying out these functions may have responsibilities to a Partnership Body while reporting to a Bank line manager, creating the potential for "dual loyalty." As employees hired by the Bank under Bank human resources and administrative policies, the Bank needs to provide relevant guidelines for handling any conflicts that might arise between the Bank's mandate and objectives and instructions from Partnership Bodies. The potential for conflict can be minimized by: (i) ensuring there is strategic alignment between the Bank and the partners on the objectives and modalities of the PP, not only at inception but throughout the lifecycle; (ii) clarifying upfront that these management units are part of the Bank and hence the Bank's policy environment applies; and (iii) clearly defining the functions to be provided by the Bank in the context of the program (rather than as a separate group of individuals assigned exclusively to the program). Potential conflicts should be identified and managed upfront. Adequate disclosure that staff of internal PP management units are Bank staff is needed to ensure clarity among other partners, Bank management, staff themselves, clients, and the general public.

29. **Clarity around the legal entity supporting the Partnership Program is essential.** PPs vary in their legal basis. Some are separate legal entities, while others are programs managed within an institution that provides legal support. In programs that are managed inside the Bank (internally managed PPs), the Bank provides the PP with this legal function and becomes, for example, the hiring entity for staff and the signatory to contractual arrangements under its own policies and procedures. In programs managed outside the Bank (externally managed PPs), this function is provided by the external entity. In such cases, the Bank's policies and procedures normally would not apply to the management of these programs.

30. **The functions of PP management units vary by program.** Box 2 provides a list of typical core functions. Beyond these core program management functions, PP management units can also carry out specific development activities. PPs can be a source of specialized knowledge

(e.g. the Global Gas Flaring Reduction program) and PP-funded staff may provide cross-support and engage in knowledge creation and dissemination activities, mobilizing policy support, or linking global stakeholders through networking.[10]

Box 2. Typical Functions of a PP Management Unit

1. Program Management:
    - Developing work program.
    - Implementation of fund allocation decisions tracking/supervising activities.
    - Managing staff.
    - Reporting.
2. Interfacing with Partnership Bodies:
    - Planning and executing periodic meetings.
    - Facilitating decisions as relevant on strategy and/or allocation processes.
3. Monitoring and Evaluation and Learning:
    - Undertaking monitoring and evaluation.
    - Transmitting lessons to inform policy making and implementation of activities.
4. Interfacing with Partners/ Donors/ Stakeholders:
    - Funding replenishment.
    - Communications and outreach.

31. **Partners regularly agree on the need for results frameworks for PPs and often require independent evaluations of a PP.** Discussion of results with other partners should be central to the design of any PPs. However, establishment of a framework, attribution among partners, and aggregation of results at the program-level can be challenging. While high-level objectives are agreed at the outset, work programs on which to base results are often agreed by partners only on an annual basis. The approach to and quality of the results frameworks also varies among the PPs in which the Bank is engaged. In addition, individual partner organizations can only be accountable for the results associated with the activities they are responsible for implementing. For example, PPs supported by FIFs are often implemented by multiple agencies that may not use the same metrics. This has implications for the Bank's ability to assess the value of its participation in a PP within the context of its own development objectives (i.e. will the PP leverage partners to achieve results that the Bank cannot through its own operations). Work on results monitoring and reporting for trust-funded and DGF supported programs is ongoing. Work on PPs and results is needed and can draw on the experience of the DGF, which has increased its focus on results as part of the ongoing reform efforts. Similarly, as part of the Trust Fund Road Map of 2011, work on improving TF results reporting is ongoing and this will also strengthen results in PPs because the majority of PPs in which the Bank is engaged are supported by TFs.

[10] A high share of BETF expenditures is related to the knowledge products generated by PPs. This may occur when the nature of the PP's work is very specialized and the key Bank staff are located in a Network Anchor unit. In other cases, Network Anchor sponsors work across the Matrix structure, involving multiple regional and country teams.

Financing Mechanisms

32. **The choice of financing mechanism can influence the Partnership Program structure.** PPs supported by IBRD/IDA TFs are generally managed internally, while DGF-supported PPs are typically managed externally in line with the DGF mandate to catalyze new, innovative external partnerships. FIFs may support either internally or externally managed PPs, and the need to separate of the Bank's trustee role from other roles affects program design.

33. **Through the DGF, the Bank makes grants to external legal entities to further work beneficial to development but best done outside.** For example, the DGF was primarily created to help catalyze new, innovative partnerships. As a donor to the PP, the Bank focuses on assessing the capacity of the recipient and may have limited involvement in the design of the program. The Bank receives regular progress reports and requires periodic independent evaluations. The degree to which the Bank participates in a governance or decision-making body varies depending on the PP. However, the Bank may not play an implementation role with respect to DGF funds (although it may implement non-DGF aspects of the PP) and is not accountable for the end-use of those funds.[11] DGF grants often support partnerships for knowledge networking where the Bank is actively engaged in sharing its experiences alongside other partner organizations. The value-added of the DGF as a catalyst would be lost if the program merely supported activities that could have been done through its regular operations.

34. **In Partnership Programs supported by IBRD/IDA Trust Funds the Bank takes responsibility for administering (and sometimes using) funds.[12]** Other partners are involved in decisions at the highest levels but delegate supervision or implementation of activities to the Bank. The value-added of the respective Partnership Body is its focus on shared decision-making that facilitates the contribution of knowledge and experience by the partners to the strategy and aids in aligning resources toward areas of common interest. The Bank takes primary accountability for the use of funds, applying its standard administrative, and operational policies and procedures. The management unit is normally within the Bank, either integrated into a line unit or as a dedicated program secretariat. Bank staff also handle implementation (if Bank-executed) or supervision (if Recipient-executed) of PP activities. Since the Bank carries the most acute accountability for program management, the partnership structure should reflect the fact that accountability is unevenly distributed and ensure the Bank has adequate voice in decision-making. The best approach to decision-making is normally consensus, including the Bank, focused on strategic priorities and approach. This assumes that partner interests are strongly aligned with Bank interests.

35. **Special considerations are needed for managing Partnership Programs involving FIFs.** The complexity of program structures and need for separation of Bank roles in FIF-supported PPs requires additional attention to understand the implications for Bank

[11] Note some DGF grants provide external grant support for PPs that also receive funding from IBRD/IDA TFs and are managed inside the Bank. In these cases, accountabilities for the Bank would be the same as other internally managed PPs financed solely through an IBRD/IDA TF.

[12] The Bank is accountable for use of funds when the activities are financed through a BETF and for supervising the use of funds when activities are financed through an RETF.

accountability. The Bank serves as trustee for each of the 19 current FIFs; however, it does not provide management functions or play a role in implementation for all. Not all FIFs support PPs. Of the 19 FIFs currently in existence, 16 supported global or regional PPs, and these are among the largest PPs involving the Bank.[13]

36. **One PP may also involve multiple FIFs, as is the case for the Global Environment Facility (GEF), which currently comprises a cluster of four FIFs**.[14] Another example is the GAVI PP. The Bank was an establishing partner and serves on the GAVI Board. GAVI is associated with two FIFs: IFFIm and the GAVI Fund Affiliate, which are established as UK charities and supported by Bank administered trust funds as well as treasury services, including bond issuance on behalf of IFFIm. See Annex 1 for a snapshot of the Bank's FIF portfolio and for more detailed consideration of issues specific to FIFs as a financing mechanism, such as "direct access.)

37. **In FIF-supported Partnership Programs, the Bank may or may not play a role in implementation.** When it does, the Bank is usually one of multiple agencies operating according to its own policies and procedures. Because implementation of development activities in FIF-financed PPs involves agencies, implementers, and recipients external to the Bank, the Bank's role as FIF trustee is separated from other functions the Bank may have in the program to help manage possible conflicts of interest and, most importantly, to clarify the limited accountabilities related to each role. The trustee role is limited to the services and responsibilities specified in the trustee agreement. It does not include accountability for the use of funds following the transfer from the FIF for implementation. Instead, the funding recipients, whether implementing agencies or other entities, are directly accountable to the governing body. The degree to which and how the Bank participates in governance and decision-making in FIF-supported PPs varies in accordance with the Bank's role in implementation. In line with its limited trustee role, the Bank trustee is a non-decision making member of the governing body, accountable for the trustee function but not the end-use of funds.

38. **The nature of Bank responsibilities as a FIF trustee varies.** Accountabilities are usually defined either in agreements between the Bank and the PP governing body or in agreements with donors that incorporate documents endorsed by the governing body. (Box 2 describes the FIF trustee functions.) The need for clear separation of functions and for limitations on the accountability of the trustee is not always well understood or appreciated by all partners or the general public. For example, when the Bank plays the role of both trustee and implementing agency in a FIF-supported program, these functions are provided by two different VPUs. The VPU providing the trustee function would not report on implementation, consistent with its relationship with other non-Bank implementing agencies; the unit serving as the Bank's implementing agency would report on implementation.

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[13] The three FIFs not related to a PP as characterized for the Framework include: HRTF, GRIF, and the DRTF.

[14] FIFs in the GEF cluster include the GEF Trust Fund (GEFTF), the Least Developed Countries Fund (LDCF), the Special Climate Change Fund (SCCF), and the Nagoya Protocol Implementation Fund (NPIF).

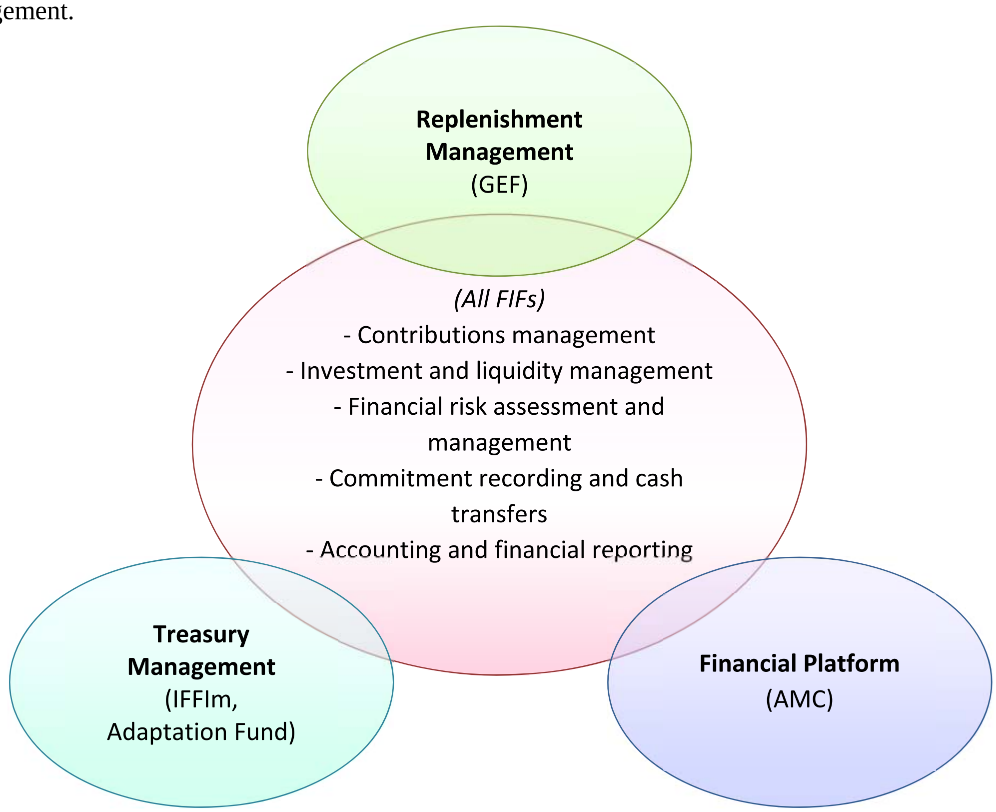
Box 3. The World Bank as FIF Trustee: A Distinct and Visible Role

In a Financial Intermediary Fund, the Bank serves as trustee, a financial role that is customized to the needs of each initiative, and often the first point of engagement for the Bank in such initiatives. Partners explicitly seek the Bank to play the FIF trustee role because of the breadth and depth of Bank experience and expertise as a fiscal agent and financial manager, and to tap the Bank's financial strengths, e.g., in treasury management, accounting, financial controls and reporting, which are seen as essential to the proper management of many new funds. The FIF trustee role is more distinct and visible than is the case with other financing mechanisms.

As a FIF trustee, the Bank provides an agreed set of financial intermediary services that include, but are not limited to, receiving funds, holding funds, investing funds, and transferring them to recipients or other agencies for implementation as directed by the governing/decision-making body.

In addition to these basic financial management services, the Bank sometimes provides additional trustee services (see figure below); e.g. tracking, forecasting and matching the timing and amount of fund inflows and outflows, therefore contributing to a smooth and predictable funds flow process. The Bank carries out these additional duties for the Global Environment Facility (GEF) and Climate Investment Funds (CIFs) among others. In some cases, the Bank's trustee role may involve active participation in donor relations/replenishments, cash management, and financial modeling or customized financial management services, e.g., for FIFs like the International Finance Facility for Immunisation (IFFIm) (bond issuance), AMC (financial platform), the Adaptation Fund (monetization of certified emission reductions) and the CIFs (e.g., managing inflows and outflows in the form of concessional loans). Innovations include the establishment of long-term legally binding, irrevocable contribution agreements that underpin IFFIm and the AMC.

The Bank's trustee role in FIFs has evolved over time, from the provision of straightforward financial management services for PPs like the GEF and Global Fund, to engagement in more innovative financing structures and complex vehicles such as IFFIm or AMC. These developments reflect the changing needs of partners as well as their perceptions of the Bank's comparative advantage in areas such financial, fiduciary, and risk management.



Implementing a "Life Cycle" Approach

39. **While processes are in place to handle decisions regarding financing mechanisms, a more holistic and consistent approach is needed for Partnership Programs and FIFs.** The 2011 IEG review of global and regional partnership programs pointed to the absence of a "well-defined point at which the Bank decides to become involved in a new partnership program."[15] Because the drivers behind PPs are diverse, a single point of entry is unlikely to result. Many large PPs are identified as the result of international calls for action as part of high-level political fora. Other potential PPs are identified by the Bank, such as the need to improve knowledge and networking efforts; while still other begin as a financing mechanism such as an IBRD/IDA TF that later become PPs as more donors join and governance and decision-making structures are agreed. Instead of defining a single entry point, the Framework takes an approach focused on clarifying decision-making. As highlighted in Chapter 2, the introduction of a life cycle approach will promote and support not only decisions at entry but also management of continued engagement in ongoing PPs and in the consideration of possible exits. The life cycle has three phases: (i) identification, preparation, and approval; (ii) operation and portfolio management of ongoing PPs; and (iii) planning and managing possible exits. These three phases and related decision-making processes among partners are highlighted in Figure 3 and described below in more detail.

Phase I: Identification, Preparation and Approval

40. **Partnership Program structures are usually negotiated over time and require agreement among multiple actors.** As a result, the creation of Partnership Programs—and FIFs, whether they back a PP or not—has not always followed a clear linear design and approval process.[16] Early stage discussions may focus largely on the need to address a particular development challenge and the financing needed rather than possible PP structures. Because of this, Bank teams may be aware of the need to set up a funding mechanism before it is clear whether the program it finances will involve the governance/decision-making arrangements characteristic of a PP. This is especially true of FIF-supported PPs that respond to high profile international initiatives like UN conventions or G20 deliverables involving extensive negotiations. As a result, the Bank may need to make a decision on playing one role in the PP, such as FIF trustee, before it can assess the rewards and risks of participation based on the whole of its participation. In such cases, the approach highlighted below may be more iterative, with an updated an abbreviated review as changes materialize with regard to roles and potential risks.

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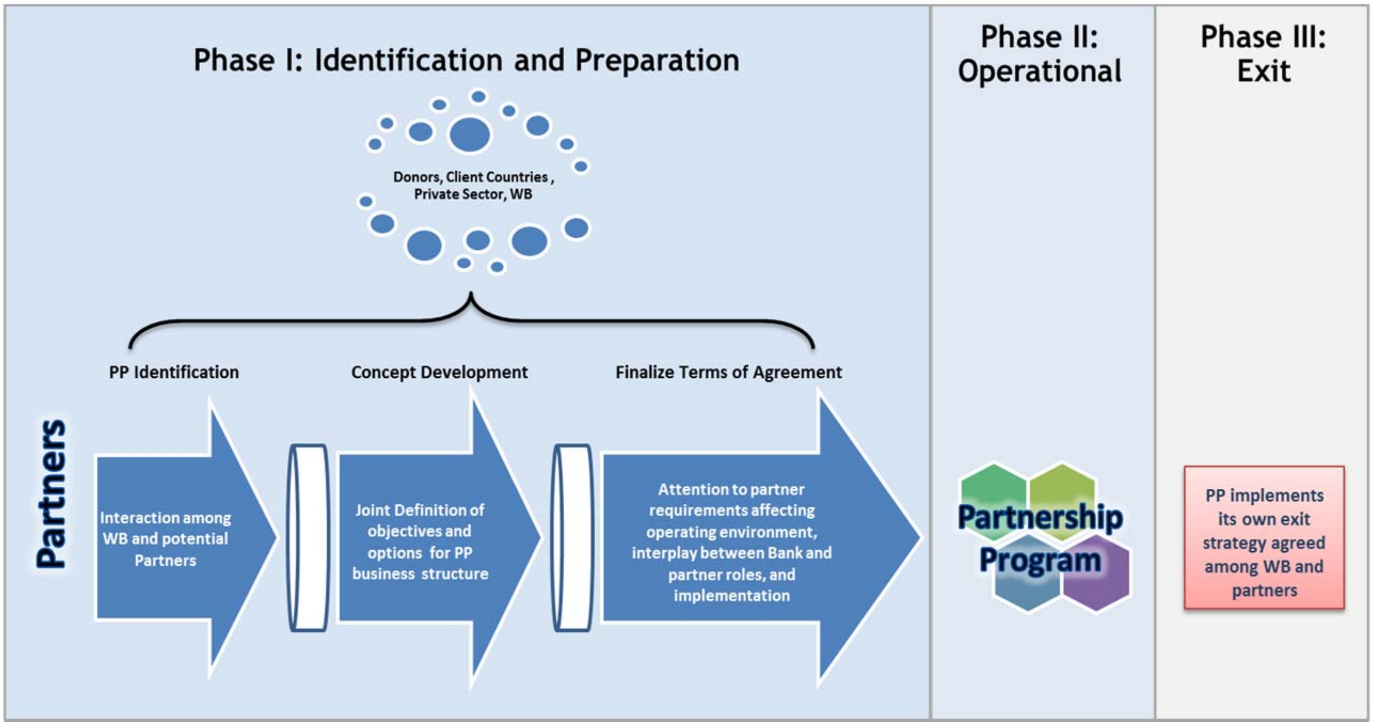
[15] IEG, 2011: *The World Bank's Involvement in Global and Regional Partnership Programs: An Independent Assessment*. Washington, DC: World Bank.

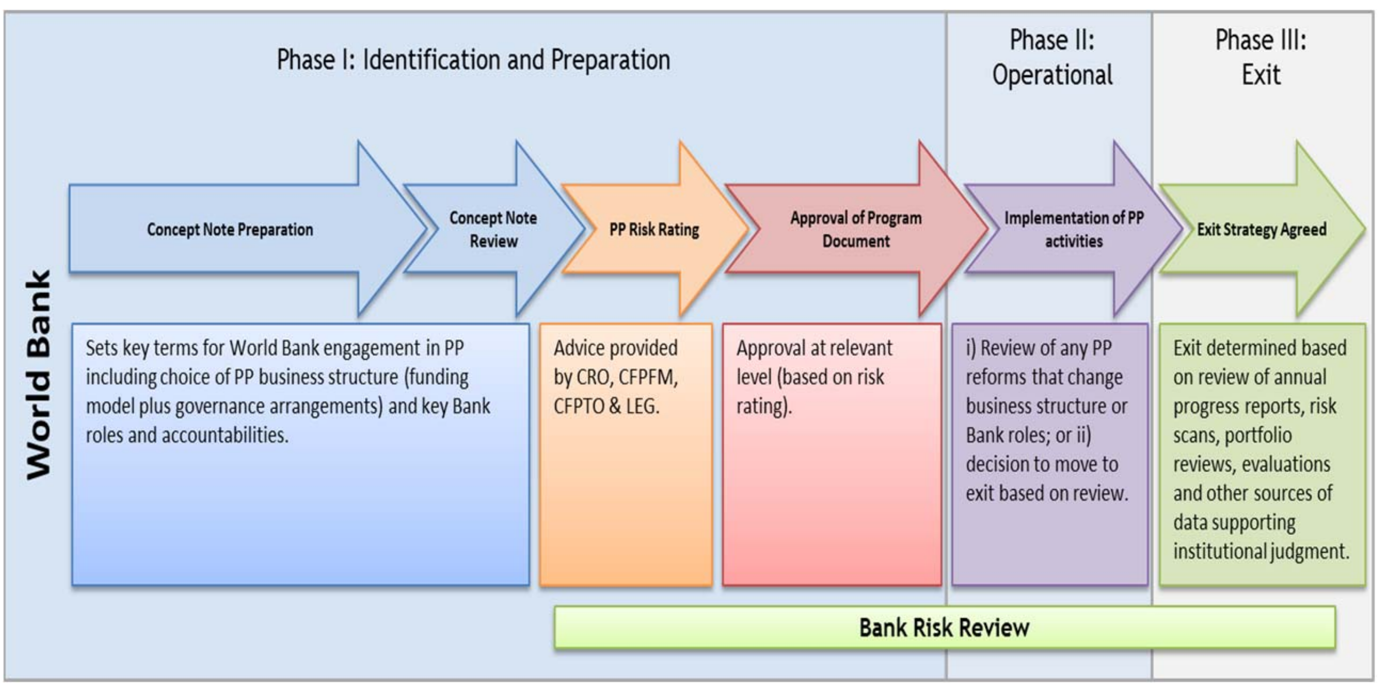
[16] The 2005 framework highlighted a then recently introduced approval process that replicated a simplified lending operations approval. The Partnership Review created at that time and still in use today for DGF supported partnerships is a technical review that informs line management approval of the program based on a web-generated Partnership Review Note (PRN). However, for trust-funded PPs, the PRN remains distinct from the approval process for the trust fund, contributing to ongoing confusion and perceptions of bureaucratic redundancies.

Figure 4. A Life Cycle Approach to Partnership Programs



41. The Bank will need to make decisions related to its own participation at each of phase of the life cycle. Figure 4 highlights the life cycle as it relates to WB internal actions. The decision points outlined below will clarify, standardize, and streamline the varying approaches currently used in the Bank to approve new PPs.

Figure 5. World Bank Decision Points during the Life Cycle



42. **To address the need for selectivity and quality at entry, this Framework proposes two primary points for cross-VPU review regarding engagement in the PP**. This includes a concept review and a second approval step of a fully negotiated package, ensuring the Framework principles outlined in Chapter 2 are applied at both stages.[17] The process by which PPs are created is often more iterative than linear given the nature of negotiating program design with other partners. The internal processes and guidance to support the forthcoming Management Directive will be refined reflect this, providing staff with additional information to help manage the application of the principles and timing of decisions. In addition to the two decision points outlined below, many VPU sponsors currently undertake their own early upstream review of PP ideas to ensure consistency with VPU strategy and priorities following initial contact with potential partners. Implementation of the Framework will include development of good practices to promote greater consistency in the way sponsoring VPUs evaluate possible participation in PPs. A "Resource Group" also will be formed to allow staff to draw on the experience of others involved in PPs across the Bank.

- **Concept Review.** The Bank has introduced a concept review process for the launch of new trust funds, including FIFs. This has helped ensure a corporate review at an early stage, consistent with the approach used for Bank lending operations. The review process provides Bank sponsoring units with clear institutional guidance for representing the Bank in discussions with other partners on program design. Since PPs are global or regional in scope, an early corporate review facilitates regional/country-level inputs into the design and allows consideration of risks and rewards from an institutional point of view. The Framework builds on current practice, standardizing the use of a concept review and replacing some of the existing procedures to simplify and provide greater clarity in the approach.[18] Consistent with the rollout of the ADM, the procedures developed for implementation of the Framework will address participation in the concept review including lead responsibilities and clearances required, helping to streamline the review process. When multiple VPUs represent the Bank in different roles in PPs supported by FIFs, VP-level review of the concept note is anticipated.

- **Program Document.** After further negotiation with external partners, a Program Document should be prepared that describes the agreed program design, the proposed activities, roles and responsibilities of the Bank vis-à-vis the other partners, and the proposed funding mechanism. The Program Document can be agreed with external partners, but would be part of an internal approval package in the Bank, with the objective of informing the Bank's decision on the details of its engagement in the PP. The Program Document should set the

[17] The two-stage approach is also undertaken in the DGF process, with the web-based Partnership Review Note used as the concept note. Programs are reviewed by Sector Boards and VPs and vetted by the DGF Council and Senior Management. The Board approves DGF grants as part of the budget envelope for the Below-the-Line Grant Making Facilities. Subsequently, a grant agreement is prepared with terms of the grant. These procedures will not change.

[18] A concept note for trust funds was introduced following the issuance of the 2007 Trust Fund Management Framework. The concept note described here will build on the existing processes for concept notes used for both IBRD/IDA Trust Funds and FIFs (i.e. will not be a separate process) but given the multi-VPU interest in Bank in PPs, the associated review would be broader to take corporate interests into account. The PRN which is well integrated into the DGF process, will continue to be used for new PPs funded by DGF, and the full package would only be needed if an additional program design process is needed (e.g. linked to a larger trust-funded PP).

basis for the preparation of the required legal documents, which will be fully aligned with the terms of the proposal (e.g. Administration Agreements with donors to IBRD/IDA Trust Funds, Contribution and Financial Procedures Agreements for FIFs, and Grant Agreements for DGF and other BTL grants). The Program Document is expected to be brief in most cases, building on the Concept Note. As with the concept review, procedures and guidance for staff will be developed.

43. **The Framework proposes a risk-based approach to the delegation of approval authority.** In line with the increased focus on risk assessments in operational lending, this Framework introduces a risk-based approach to Bank engagement in Partnership Programs and FIFs. The level of approval required (see Figure 6 below) will be based on a combination of consistency with the principles outlined in Chapter 2, anticipated financial size and the Partnership Program risk ratings that will developed as part of the Management Directive. As part of the work-program to implement the Framework, metrics and threshold criteria for risk assessment will be developed using Bank-wide consultations. In the interim, the approval process will continue to employ a more qualitative assessment of risk based on adherence to the principles, size, structure of the program (i.e. roles and responsibilities assigned to the Bank compared to its decision-making authority in the program), and an assessment of the likelihood of achieving the stated objectives. The corporate review of the concept note will support Bank units in identifying possible risks.

44. **This approach is consistent with OP14.40.** The OP states that for large TF proposals and/or where financing mechanisms *or governance or partnership arrangements are unusually complex or high risk*, review by Senior Management may be required and in certain cases, approval by Executive Directors may be required. FIFs will also follow this risk-based approach. Due to size, innovative characteristics, or institutional risk, in most cases, FIFs (whether or not they support a PP), will be expected to undergo a formal review at the MD/CFO level with subsequent approval by Executive Directors.

Figure 6. Approval for Partnership Programs and FIFs

Risk Rating at Entry	Proposed Level of Review
Low - Moderate	VP
Substantial	MD/CFO
High	Executive Directors

Phase II: Operational and Portfolio Management of Ongoing Partnership Programs

45. **There is a need for systematic and periodic review of the Bank's engagement in Partnership Programs.** PPs typically evolve over time as the partners learn from, and attempt to build on, their experiences. In this context, periodic reviews of the Bank's own engagement will serve several purposes. Most notably, it will provide an opportunity for Bank Management

to determine whether the PP has changed over time and whether any of those changes are material to the risks and rewards assessment underpinning the decision to engage in the PP. This might include, for example, changes to the Bank's role(s) and accountabilities in the PP. This in turn will inform decisions regarding risk management strategies and the value added of continued Bank participation in the PP in light of the changes. Standardization of such periodic reviews will also facilitate monitoring and risk management for the Bank's aggregate portfolio of PPs, in line with the work on the RATS.

46. **The Framework will support a more structured approach to the Bank's ability to manage changes relevant to its own engagement in PPs.** While some major programs, such as the CGIAR, have had a formal restructuring process that enabled the Bank to assess the implications of those changes on its own participation, other PPs have experienced incremental changes that have become significant in the aggregate over a period of years. The latter have often not received formal review in the Bank because of the scope of individual changes was small in nature. A more structured, regular review of Bank participation in ongoing PPs will capture changes to the Bank's roles, responsibilities and thus accountabilities over time. Significant changes to the risk-reward tradeoffs illustrated by Figure 2 (Chapter 2) will require the same level of review as the Program Document highlighted above.

47. **Next steps will include the development of procedures and guidelines to support the implementation of a standardized review process for ongoing Partnership Programs under the Framework.** While sponsoring VPUs do review the ongoing PPs in which they are engaged, a standardized approach across VPUs will ensure greater consistency in the criteria used to assess the implications for the Bank as an institution and allow for aggregation and reporting across the Bank. The development of risk metrics and criteria for PPs described earlier will draw on previous experience and the work on institutional parameterization of risks and will apply to ongoing programs as well as new programs, supporting sponsoring VPUs management of the ongoing PPs in which they are engaged. Threshold criteria will be developed to clarify what would constitute significant changes requiring Bank review.

Phase III: Planning and Managing Possible Exits

48. **Periodic review of Partnership Programs is also vital to the Bank's ability to remain strategic about its own engagement and to manage expectations among other partners.** PPs typically respond to international calls for action or identified gaps in development assistance but few clearly define upfront the conditions under which the PP will have met its objectives and consider a sunset. Any decision to sunset a PP should be the result of a review process undertaken with the partners. To facilitate this, the design phase should include candid discussion s around partner expectations regarding the potential lifecycle of the PP and how success will be assessed.

49. **Nevertheless, the Bank can and should review its own participation regularly in the context of its institutional strategies and priorities.** For DGF-supported PPs, this is a central part of the reorientation strategy initiated three years ago. The DGF now employs a venture capital-type time-bound approach to its funding decisions, providing seed financing to help catalyze new innovative partnerships. As a result, the Bank has exited its donor role in

several DGF-supported PPs. Given the primary nature of Bank involvement in many DGF-supported PPs—as a donor to an external legal entity — Bank exit does not mean an end to the PP itself. Few IBRD/IDA TF- and FIF-supported PPs sunset of their own accord, however. To date, the Bank has exited one FIF that supports a PP, the GAVI Fund Trust Fund. In addition, two non-PP related FIFs have been closed, the Voice Trust Fund and the EBRD Southern and Eastern Mediterranean Trust Fund.

50. **Bank exits from a program should not be perceived as a failure.** Any number of circumstances might influence a decision by the Bank or its partners over whether to exit from one or more of its roles in a PP. An exit could follow a determination that the PP has successfully met its objectives and other instruments such as core IBRD and IDA financing might be better placed to address any remaining needs. In other cases, an exit decision might result from the evolution of program objectives over time such that the PP strategic focus and priorities are no longer consistent with the Bank's priorities or areas of comparative advantage. However, Bank exit can be very challenging where the PP is managed internally and when the Bank is considered a key partner, providing global reach. In these cases, the expectations of other partners (and the public at large) need to be proactively managed to avoid unnecessary disruptions to a PP that could result from a disorderly exit as well as misunderstandings that could have serious negative reputational impact for the Bank. The review of ongoing PPs and planned tools highlighted in the previous section will allow the Bank to manage its own engagement, assessing the value of continued participation against Bank strategies and priorities.

Ensuring Clarity through Communication

51. **A communication strategy and action plan, as well as clarity on communication responsibilities, are needed for each Partnership Program.** Misperceptions about PPs can arise because of unclear accountabilities and insufficient resources for communications and subsequently, inadequate outreach. Each PP (and each FIF regardless of whether it supports a PP) should have a communications strategy and action plan that lays out the responsibility and resources needed for communications throughout the lifecycle of the endeavor. Accountabilities need to be clearly spelled out to ensure proper risk management and proactive communication. The strategy and action plan should be agreed among all affected parties inside and outside the Bank, and should outline the approach for reaching donors, other partners and stakeholders, and the public at large, with a view to ensuring transparent outreach about the PP's purpose, activities and results. This is an important step in positioning the program and safeguarding the Bank against potential reputational impact associated with its participation as a partner and as the legal entity providing the management function for the PP.

52. **Many Partnership Programs create a brand that is distinct from the identity of the organization providing the management function and hence legal status.** This can create confusion regarding the applicability of the policies and procedures of the organization providing the management function for the PP as well as who has ownership of assets such as websites and publications. Giving visibility to donors and other partners is a priority for many PPs. Where the Bank provides the management function for the PP, the Bank also requires adequate disclosure of the Bank's role, including status of program staff as Bank staff, and requires compliance with relevant Bank policies, such as disclosure of information. This means that:

- The Bank's role in the PP is clearly identified in materials and websites.
- In FIF-supported programs, the Trustee's role and its accountability limitations are presented clearly.
- Staff affiliation with the World Bank is presented transparently, on business cards, and in materials and websites.
- Ownership of intellectual property is clear and attributed to the Bank or to another partner organization.
- On disclosure of documents, the Bank's Access to Information (A2I) policy is followed.

53. **For externally managed Partnership Programs, the Bank's involvement should be accurately reflected.** As part of the review process described above, sponsoring units should regularly check to ensure that the Bank's role(s) — on governing bodies or other types of partnership bodies, as a donor, as trustee, or other role — is presented correctly and fully up to date in program materials and websites. The Bank's legal requirements for use of its name and logo will apply to the Bank being included in websites managed by outside entities or on reports and other materials that may be generated through a PP.

Chapter 4: Next Steps

54. **The Framework emphasizes principles and processes for Bank engagement in new Partnership Programs and more systematic oversight of the Bank's roles in ongoing programs.** The Framework is not intended to trigger any automatic redesign of, or amendments to, existing PP constitutive documents nor change the working arrangements between the Bank and partners in existing PPs. Should the need for amendments surface as part of the review process for ongoing programs, changes will be managed in accordance with the principles and processes outlined in this Framework.

55. **The Framework is the first phase of a longer-term work program to support stronger Bank engagement in Partnership Programs and FIFs.** To help implement the Framework, the follow-on work program includes several actions that will be undertaken in the context of Bank-wide consultations given the large number of internal stakeholders to PPs. Some of the actions can be undertaken immediately, while others will require additional time and new tools.

Implementation Work Program

56. Implementation of the Framework will be led by CFP, working in close consultation with other VPUs throughout the Bank. Key components of the work program for implementation are outlined below. Following approval of the Policy and Procedure Framework, the Management Directive, required procedures and guidance for this Framework will be developed to ensure clarity regarding participation in and management of PPs. (See Annex 1 for actions applicable to FIFs; this addresses attributes unique to FIFs as a financing mechanism, such as management of risks associated with direct access, and also the few FIFs that do not support PPs.)

1) **Framework Communications Plan.** The first step in the implementation of the Framework will be to communicate the Framework both within and outside the Bank. Networks and Regions directly involved in PPs will be made aware of the Framework and any requirements implied by its adoption as soon as possible. Donors, implementing agencies, PP governing bodies and other stakeholders consulted during the preparation of the Framework also will be advised of the new Framework. This includes stakeholders to FIFs that do not support PPs, in line with the approach outlined in Annex 1.

2) **Resource Group.** In consultations, Bank teams involved in the creation and management of PPs have indicated the need for easy access to information and the expertise of peers who have worked on PPs. The creation of a new resource group will allow staff to draw on existing expertise from across the Bank. The group would be anchored in CFP to provide coordination and consist of Bank staff from Networks, Regions, and Central Units that have worked directly with PPs over the years and can contribute knowledge, guidance, and experiences with PPs to help with the design and management of other PPs. The group could function virtually or meet as needed. Drawing on a broad group from across the Bank will help raise potential issues early in the design process and should facilitate negotiations and approval of the concept note and Program Document. The group can be constituted following Board discussion of the Framework.

3) **Management Directive and required procedures.** The principles and processes described in Chapters 2 and 3 will be documented in a Management Directive and corresponding procedures for the application of the principles-based approach. This will include an outline of the steps to be followed for review and approval of new PPs and change management of existing PPs (i.e. significant changes that impact the Bank's roles, responsibilities and accountabilities). While the PP and FIF Framework is not part of the current ADM rollout, the work to date on accountabilities and effective decision-making will inform the two-stage approval process outlined earlier, helping to ensure greater clarity for staff working on PPs and FIFs. An ADM Framework for the PP and FIF Framework will be developed in consultation with VPUs involved in PPs. Decision, clearance, concurrence, recommendation and advisory roles will be defined by activities for sponsoring VPUs, Networks, Regions, and central units.
   - Concept Note Template
   - Program Document Template
   - Minimum Terms Sheet for negotiations
   - Model Terms of Reference for staff participating in Partnership bodies
   - Risk metrics and criteria

4) **Guidance and web-based toolkit.** In consultations, many staff asked for concrete tools to support engagement in PPs. More detailed and non-mandatory guidance will also be developed, providing explanations regarding the Management Directive and required procedures, information regarding good practices, etc. Because discussions often begin around the financing mechanism, staff noted the need for an interactive "one stop shop" approach that would link available guidance on the financing mechanisms with that on PPs. For example, staff who access available tools on IBRD/IDA TFs would be prompted with questions that help clarify whether discussions are likely to lead to the creation of a PP structure and be able to link immediately to PP-related tools. The web-based toolkit will be developed in the coming months and will include:
   - Good practices in PPs (and FIFs) Guidelines for internally managed PPs and secretariat functions
   - Risk management tools and a risk management handbook
   - Template for tailored communications strategies

5) **Information and Task Management Systems.** At present, most Bank IT systems are designed for approving and tracking financing mechanisms and associated operations and as such do not track program level information such as governance structure, roles played by the Bank, and staff participating in the program. Also, the limited PP-related data currently captured in existing systems has not always been defined and entered consistently. Work on data clean-up is ongoing.

57. **Improved data flows regarding Bank participation in PPs are necessary to support the life cycle approach (as described in Chapter 3) and facilitate PP monitoring in accordance with ongoing work on RATS.** An information platform is needed for better data capture and sharing at the individual PP level as well as the Bank-wide portfolio level. The information platform must link financial, operational, and program level data to allow for a holistic view of the PPs in which the Bank is engaged. It must also allow for multiple reporting uses, including to teams working on PPs, VPs responsible for overseeing a portfolio of PPs, and the institutional level by Senior Management and the Board.

58. **Modernizing information systems to support PPs will be a multi-year investment and thus a phased approach will be needed.** As a first step, new input fields have been added to existing systems to begin to capture some of the needed information. More are planned to support future interface development and reporting. In the interim, implementation of the portfolio approach under the life cycle will depend on information from sponsoring units. The database created for the July 2012 PP Information Note will support interim measures. Updates will be done in consultation with sponsoring units and include continued improvements to the quality of survey data used for the database.

ANNEX 1: Financial Intermediary Funds

MANAGEMENT FRAMEWORK FOR WORLD BANK PARTNERSHIP PROGRAMS AND FINANCIAL INTERMEDIARY FUNDS: ADDITIONAL GUIDANCE FOR FIFS

I. Introduction

1. The objectives of this additional guidance under the Management Framework for World Bank Partnership Programs and Financial Intermediary Funds ("the Management Framework") are to: (i) assist with decision making during the three phases of the Bank's engagement in FIFs as outlined in the Framework; (ii) strengthen risk management, particularly by providing clarity on the Bank's roles, responsibilities and accountabilities in FIFs; and (iii) improve data transparency, financial reporting and communication.

2. Currently, FIFs are governed by the Bank's Operational Policy (OP and BP 14.40), the Trust Fund Handbook, FIF Guidelines, and a Guidance Note from senior management.[19] These set out broad criteria for the Bank's engagement in FIFs, providing flexibility in the application of operational, administrative, and other relevant policies and procedures. The guidance provided by OP 14.40[20] is that these are *"determined on the basis of the characteristics of each such fund."* While the Bank's policies and procedures (including, among others, financial, accounting, investment management, information disclosure) apply in general to all the Bank's roles supporting FIFs, no formal operational policies or procedures guide or specifically apply to the establishment of a FIF trustee engagement by the Bank. This note is thus intended to complement the Management Framework in providing guidance with respect to procedures for the acceptance and approval of new FIFs and related PPs; management of existing FIFs, related PPs and associated risks; and review and exit from FIFs.

3. The audience for the Framework and this additional guidance is the management and staff of Bank units involved in FIF activities, as well as the Bank's Executive Directors and external stakeholders. Given the multi-stakeholder nature of FIF initiatives, input was sought through wide-ranging consultations, including with FIF donors, implementing/recipient partners (including members of FIF governing bodies), Bank and FIF secretariat staff, and other development partners in their capacity as implementing agencies. Stakeholders provided input on strategic alignment, "direct access", multiple roles of the Bank and the potential for conflicts of interest, and day-to-day management of FIFs. Most stakeholders recognized the value of FIFs in filling gaps in the aid architecture, and felt that they complement other aid delivery channels. They expressed the desire for clearer guidance on implementation, including clarifying Bank roles, and asked for the Bank to develop the capacity to deliver real-time time data on FIF operations.

4. Section II below presents the principles and guidance for FIFs under the Management Framework. Section III discusses issues related to the implementation of the Framework.

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[19] Global Partnership and Trust Fund Policy (CFPTP), Guidance Note 2, April 9, 2009. http://intresources.worldbank.org/INTOPETRUFUN/Resources/guidance-02-FIFvsRETF.pdf

[20] Paragraph 6 of OP 14.40. Footnote 23 of BP 14.40 states: "The determination of which Operational Policies and Procedures apply in the case of FIFs is made by CFP, in consultation with OPCS and LEG, based on the characteristics of each such fund."

II. Management Framework

5. The Management Framework focuses on principles for guiding World Bank engagement in PPs and FIFs, and on strengthening risk management. Core guidance is rooted in five key selectivity principles:

i. Evidence of the need for collective action.
ii. Consistency with the Bank's strategic priorities and comparative advantages.
iii. Seeks to avoid fragmentation in the global air architecture.
iv. Bank participation benefits its client countries.
v. Partners share a commitment to common objectives.

6. In addition, the Management Framework outlines considerations for participation in and management of PPs and FIFs. These relate to the design and structure of new initiatives, the suitability of supporting financing mechanisms, a life-cycle approach to approval, management, review and exit, and clear communications.

7. The principles and advice of the Management Framework apply to both PPs and FIFs; for FIFs some additional issues tend to arise. The Bank currently manages 19 FIFs, a relatively small number of funds that have a range of different characteristics. Most but not all FIFs support PPs. For some FIFs the Bank's role as financial trustee comprises standard services, for others additional services are provided that require attention to a different set of specific risks. FIFs are established for different reasons – for many, the Bank was in the lead, working closely with partners, in the process of their design and implementation (AMC, CIFs, DRTF, GEF, IFFIm, AgResults, GAFSP, etc.). For others, the Bank's engagement responded to a strong request from shareholders, sometimes in difficult political circumstances (Adaptation Fund, GRIF, Global Fund). While each new FIF has its own particular characteristics, the following guidance in intended to highlight some issues that arise frequently.

III. Principles and Guidance for FIFs

8. The ***selectivity principles*** are particularly important for FIFs, which often complement or work in parallel with WBG operations. In considering whether to engage in a new FIF-supported initiative, the Bank needs to focus on the suitability of the FIF mechanism, balancing responsiveness to client demands for new FIFs with the need to ensure that: (i) the FIF-supported initiative is aligned with the Bank's mandate and strategy and complements other Bank instruments in the concerned area; (ii) the nature/scope of the Bank's engagement in the FIF draws on Bank expertise that is not readily available elsewhere, enabling the Bank to add value; and (iii) the Bank's overall engagement will entail well-identified risks that are manageable and will not exceed the Bank's risk appetites and tolerances**.** If it is known from the start that the FIF will be supporting a Partnership Program, these questions will also be assessed at the Partnership level as outlined in the Framework document.

9. More specifically, for new FIFs the scope of the Bank's proposed engagement should draw on key strengths, capacities and experience of the Bank**.** The services sought from the Bank for FIFs usually draw on the Bank's financial management strengths and experience from other FIFs, in such areas as contributions management, investment management, accounting, reporting, and audit services that go beyond the standard trust fund model offered by the Bank. Other value-added areas include cash flow modeling and analysis, design and management of innovative financing and funding sources, and treasury management services. For most FIFs, the Bank has systems in place to support the initiative in multiple roles from different VPUs, in particular with separation of the trustee from other functions, such as program support through activity implementation or supervision, administrative support through a secretariat, or governing body participation. If the Bank has an interest in engaging in capacities other

than as FIF trustee, e.g., as an implementing agency or as the related PP's secretariat, it is important to consider upfront whether engaging as trustee will be well-aligned and compatible with these other Bank roles which will be spelled out in the PP and FIF Framework document.

10. ***FIF design and engagement of relevant stakeholders:*** The Bank has wide experience as trustee as well as negotiating and participating in governance arrangements and operational design. In this context, early engagement with relevant champions and stakeholders has proven beneficial in the development of FIFs. In cases where critical design features have been worked out before the Bank begins the process of formally assessing its potential involvement, entry level decision making needs to examine the extent to which the Bank has been involved in design discussions, and the appropriateness of features that have been locked-in. In cases where design issues have not been determined at entry, it will be useful to ensure adequate engagement and experience-sharing among FIF stakeholders, including the Bank, during the development stage, so that good practices and lessons on governance, operational and financial management aspects may be adequately captured, and to ensure that the basic requirements set out in the PP and FIF Framework are adhered to. A Guidance Note will be prepared on this topic (see Section IV. below).

11. ***Suitability of the FIF Mechanism:*** A FIF may provide an appropriate arrangement to support a new development initiative (whether or not a PP) that is aligned with Bank priorities if it also has one or more of the following characteristics:

- Large financial scale;
- The use of one or more implementing/delivery agencies in lieu of, or in addition to, the Bank;
- The creation, use or well-managed exploration of innovative financing or financial engineering approaches;
- The Bank's role as financial trustee is limited (no implementation or supervisory role with respect to FIF-financed activities) and clearly separated from other roles.

12. The ***size*** of the proposed FIF is relevant primarily in the context of the costs associated with establishing and managing FIFs and their governance structures. Although it can be challenging, depending on the FIF's mandated purpose and activities, it is important to estimating and benchmark administrative costs. If, for example, the administrative cost ratio is greater than that of IDA, comparable FIFs or more standardized IBRD/IDA trust funds, then it will be expected that the additional benefits of a FIF structure (multiple implementing entities, bespoke governance structure, innovative financing components, etc.) will need to outweigh the higher administrative cost ratio.

13. ***FIF Life Cycle Management**.* The approval process for new FIFs will follow the Management Framework's risk-based approach. At present, this will be based on a qualitative assessment of risk based on size, structure of the program (i.e. roles and responsibilities assigned to the Bank compared to its decision-making authority in the program), innovative characteristics, and associated institutional risk. It is expected that in most cases agreement by the Bank to engage in a PP supported by a FIF will be submitted to Executive Directors for approval. If, however, engagement is assessed to be low risk – for example if the proposal would establish a FIF as a subsidiary of an existing FIF, or a small FIF with defined funding that limits its lifetime, or the changes to the FIF being contemplated do not entail material structural or other reforms, Board approval will not be required although the Board would still be informed. A decision on whether the Bank would become a donor to a FIF would normally be subject to Board approval based on the source of funding (for example, IBRD net income or a below-the-line grant as part of the annual Bank Budget process) and will additionally be guided by the specific terms and conditions applicable to the Bank's contribution. More specific guidance on Board approvals, including the various aspects of the PP or FIF that the Board will be asked to approve, will be included in the Guidance Note.

14. To address need for selectivity and quality at entry, the Management Framework proposes a two primary points for review and decisions with respect to engagement in FIFs: an upfront concept review and a second approval step for a fully negotiated package.

15. ***Concept Review.*** A concept review process for the internal launch of trust funds, including programs supported by FIFs, helps to ensure a corporate review at an early stage, consistent with the approach used for Bank lending operations. The early review process provides Bank sponsoring units with clear institutional guidance for representing the Bank in discussions with other partners on program design. Since FIFs usually relate to global public goods or are global or regional in scope, an early corporate review facilitates regional/country-level inputs into the design and allows consideration of risks and rewards from an institutional point of view. This process has been developed over the past several years, building on experience, standardizing the use of a concept review and replacing some existing procedures to simplify and provide greater clarity. Consistent with the rollout of the ADM, the guidelines will address participation in the concept review including lead responsibilities and clearances required. When multiple VPUs represent the Bank in different roles in PPs supported by FIFs, VP-level review of the concept note is anticipated.

16. ***Program Document.*** After an approved Concept Note and further negotiation with external partners, a Program Document package should be prepared that describes the agreed program design, proposed activities, roles and responsibilities of the Bank vis-à-vis the other partners, and the proposed funding mechanism. The Program Document can be agreed with external partners, but would become part of an internal approval package in the Bank, with the objective of informing the Bank's decision on the details of its engagement in the PP. The Program Document should be fully aligned with any legal agreements drafted in relation to financing instruments (e.g. Administration Agreements with donors to IBRD/IDA Trust Funds, Contribution and Financial Procedures Agreements for FIFs, and Grant Agreements for DGF and other BTL grants).[21] As with the concept review, guidance for staff will be updated accordingly, outlining steps for processing including participation in the process.

17. ***Periodic review and possible exit.*** The Bank's engagement in each FIF should be reviewed regularly to gauge effectiveness. Most FIFs incorporate the possibility of exit in their legal documentation; this may be applicable separately to different roles in the FIF as well as the supported PP. While it may not be desirable to establish hard triggers for the Bank's exit from engagement in FIF programs, the Bank's experience to date suggests that the best approach to determine whether any of these reform or exit options is warranted is to ensure that a regular review takes place with respect to all Bank engagements, following the life cycle approach to management of PPs and FIFs as set out in the PP and FIF Framework. The Bank's involvement in FIFs in a trustee, implementing-agency, secretariat or other capacity should therefore be time-bound and ideally subject to review by both the Bank and the FIF governing body, with an appropriate periodicity. This issue should be addressed, if possible, in the design stage of the FIF.

18. FIF stakeholders may determine that the program supported by the FIF is no longer required or no longer serves the objectives originally intended, and should be wound up. This could be the case, for instance, for a specific time-bound or thematic initiative that is no longer deemed relevant by its governing body.

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[21] In some cases, the Program Document may be annexed to a Trust Fund Administration Agreement (AA). However, in such cases, language clarifying the handling of amendments to the AA or Program Document should be included.

19. ***Transparency through Communications and Reporting.*** The Bank's experience with FIFs suggests that proactive efforts to ensure continuous communications, and to improve data transparency and financial reporting, are critical to promoting better understanding of FIF programs, and of the Bank's roles, both within and outside the Bank. Given the multiple roles played by the Bank in most FIFs, clear communication about the Bank's roles and responsibilities, and improved financial data and reporting, are important aspects of managing FIF risk.

20. Data and Reporting: The Bank, as trustee, provides regular reports to FIF governing bodies on the financial status of each FIF. The trustee also provides periodic reports to the Bank's senior management and Board, e.g. the *FIF Information Note,* distributed to the Bank's Executive Directors in May 2011, which provided an overview of FIF portfolio trends and developments. Since September 2011, the Quarterly Business Report to the Board has included a separate section on FIFs. The Trust Funds Annual Report, which is made available to the public, includes a section on FIFs. To address the need for more comprehensive and frequent reporting on FIFs, a FIF trustee website has been created.[22]

21. In order to improve the quality and timeliness of FIF financial data and analysis, consistency of presentation, and ease of access, CFPMI has developed a standardized template for the preparation of regular FIF financial status reports that are submitted to individual FIF governing bodies, and efforts are under way to strengthen internal quality control for such reports. CFPMI will also provide regular internal reporting on FIF trends and developments. Donors will be provided annual donor-by-donor portfolio reviews on FIFs. The FIF trustee website is being expanded to provide financial information on FIFs, collectively and individually. It will also provide links to operational and other performance data produced by FIF secretariats. Information on the Bank's engagement in FIFs in different capacities, as trustee, IA and secretariat, will therefore be available in one place.

IV. Risk Management

22. ***Attention to risk identification, and management to acceptable levels of risk appetites and tolerances, both at entry and throughout the lifetime of a FIF, is critical to overall success.*** In general, the following types of risks warrant assessment at entry-stage as well as regular monitoring through the life of a FIF, using the Bank's Integrated Risk Management Framework:[23]

- *Strategic Effectiveness Risk*: establishing and maintaining each FIF on a course consistent with the Bank's mandate and goals. For FIFs, particular emphasis should be placed on potential risks arising from conflicts of interest related to the Bank's multiple roles.

- *Operational Efficiency Risks to the Bank*: These risks are associated with the provision of the Bank's financial management services to a program supported by a FIF. These include business procedure risk, staffing levels and back-up capacity, information technology systems risk, controls over various processes for financial transactions, risks related to the use of financial models to provide information on cash flows.

- *Partnership and stakeholder risks:* These risks arise if relations with donors become ineffective, deteriorate or become difficult for the Bank to manage, and the risk that the Bank fails to have effective relations with the media, private sector, NGOs or any other unofficial stakeholders.

[22] http://www.worldbank.org/fiftrustee
[23] http://go.worldbank.org/ZXCZ7W3HK0

- *Financial risks* to the Bank: covering foreign exchange risk, liquidity risk, investment risk, donor credit (funding) risk, and basis of commitment risk. The Bank's financial policies and procedures and clear limits of trustee accountability established in the Bank's legal arrangements for FIFs help to contain these risks to the Bank as trustee, nevertheless regular monitoring is warranted.[24]

23. ***Risks related to the eligibility of FIF implementing entities (often referred to as "Direct Access"):*** [25] FIF-funded programs often disburse funds to a variety of implementing institutions. Traditionally, FIF-supported Partnership Programs ("FIFs") have made use of UN Agencies and multilateral development banks (MDBs) as implementing agencies. The Bank, as Trustee, makes transfers to such multilateral agencies, for onward transfers to country authorities or NGOs, with the multilaterals supervising funded activities in accordance with their own policies and procedures. This practice, first established in the GEF, is based on donors' comfort that multilateral institutions have in place adequate operational capacity and fiduciary procedures for tracking the use of the funds. Donors also typically have a voice in the governance of these institutions (through Boards or Governing Councils). There has been growing demand from several FIF governing bodies to expand the number, type, and eligibility of implementing entities: Direct access involves the expansion of implementing agencies beyond the MDBs and UN agencies, to include national entities in recipient countries and other non-traditional agencies such as international NGOs, which use their own operational policies and procedures to prepare, implement and supervise projects funded through the FIF.

24. FIF governing bodies may determine that they wish to confer direct access to funding beyond the traditional multilateral agencies in cases where, for example: the recipient government is not recognized by the international community; where other conditions prohibit or limit the transfer of funds by multilaterals to the government; where the government lacks the capacity to implement the proposed activities; where other organizations might be better positioned or better suited to carry out the proposed activities; or where they wish to expand local capacity.

25. Direct access may yield important benefits, for example, in terms of capacity building. Because the supervisory function traditionally provided by the multilateral policies and procedures is eliminated with direct access, PP governing bodies will establish their own fiduciary and other standards and policies and develop, manage and oversee an accreditation process for their implementing entities. The Bank, as Trustee or implementing agency, has no supervisory relationship over the entities and cannot assume accountability for use of funds. While the accountability of and financial risks to the Bank as Trustee can be limited through legal and other operational agreements with the Bank, misuse of funds by the entities to which funds are transferred could still result in negative reputational impact to the Bank, particularly if the limitations on the Bank roles are unclear or insufficiently communicated. The success of direct access relies on the quality of the fiduciary and other standards and processes established by the FIF governing bodies for approval of these new implementing entities.

26. The following approach, drawing on lessons from direct access processes in the Adaptation Fund and the design of the GEF's direct access pilot may be used to manage the risks inherent in direct access. Further details on good practice to handle direct access will be provided in the Guidance Note.

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[24] Per Financial Management Review by PricewaterhouseCoopers (PwC), FIF financial risks are largely contained and effectively managed by the Bank as trustee.

[25] The term "direct access" was introduced in the context of UNFCCC climate change funds, such as the Adaptation Fund. The Global Fund employs a similar approach, although it is not usually referred to as "direct access" per se.

- *Legal Capacity*: An effective way to manage the risks to the FIF's resources and to the Bank as trustee inherent is to have the FIF imbued with legal capacity. This entity would then be fully responsible for funding allocation and disbursement decisions, have the legal personality required to enter into agreements with the recipients directly, be fully accountable for the funds once they are transferred, and seek any necessary recourse in the event they are misused. This approach aligns responsibility with accountability; the FIF's governing body or secretariat makes decisions, and has the commensurate capacity to enter into contracts, and take legal action or be subject to legal action when required.

- *Minimum Standards*: An acceptable accreditation scheme establishes a set of minimum standards against which prospective implementing entities are assessed. FIF governing bodies should endeavor to set these standards consistent with international good practice. One potential area of focus is to ensure clear separation of project supervision and execution to ensure good project oversight.

- *Accreditation*: A direct access accreditation process should be established by the FIF governing body (not the trustee), whether or not the FIF has legal capacity. FIFs such as the Adaptation Fund and GEF that have introduced direct access have used a certification or accreditation approach to assess the fiduciary standards and implementation capacities of would-be implementing agencies. The governing body of the FIF-funded program manages this accreditation process and decides on the institutions that will be eligible to receive funds.

27. ***Risks related to acceptance of contributions, and execution of transfers under FIFs:*** Related to the risks associated with direct access transfers, the Bank may be requested to make transfers to non-member countries of the Bank, or countries subject to sanctions policies of the Bank's member countries. The Bank may also be asked to enter into agreements to accept contributions into FIF trust funds that expose the Bank to reputational or other risks. Both types of risk are discussed below:

- ***Acceptance of contributions****:* The Bank follows a set of robust procedures for the acceptance and transfer of donor contributions; these procedures are captured in detailed process flow charts for each FIF and included in the FIF's own Operational Manuals, which are prepared and maintained by FIF secretariats. Nevertheless, recent developments, including the involvement of new donors, warrant principles and guidelines to be applied to the ***receipt of funds into a FIF***. The general principle is that contributions to FIFs can be accepted from ***any sovereign donor*** that contributes in accordance with the FIF governing documents, and is also a member of the World Bank Group. An additional due diligence process by the Bank as trustee is not required to receive FIF contributions from governments of these member countries. Contributions to FIFs from ***sovereign non-members*** of the World Bank Group are also possible, in accordance with the FIF legal arrangements. Finally, as with contributions to other Bank programs, contributions to FIFs from ***non-sovereign entities*** would require the Bank to undertake an appropriate level of due-diligence to protect the Bank and FIF partners.[26]

- ***Transfers of FIF Funds from the Bank as Trustee:*** Transfers of FIF resources by the Bank are possible to any entity located in a member country of the World Bank Group. Transfers to entities in ***non-member*** countries of the World Bank Group are possible in accordance with the FIF legal arrangements, if the possibility has been established in the Bank FIF approval documents.

[26] The costs of such analyses would be recovered from the FIF.

28. ***Innovative finance initiatives****:* Experience with FIFs employing innovative financing arrangements (five of the current 19 FIFs)[27] indicates that such FIFs (and the initiatives they support) require more in-depth risk assessments and *ex-ante* risk management strategies that are tailored to the particular characteristics and risks of the initiative. For instance, the International Finance Facility for Immunisation (IFFIm) and the Advance Market Commitment (AMC) for pneumococcal vaccines illustrate the specific risks, including currency and interest rate risks, swap counterparty risk, donor payment risks, foreign exchange and credit risk. For example, with the AMC on the Bank's balance sheet, the core financial risk to IBRD is the possibility of donor payment shortfalls due to default or delay.

V. Additional Guidance Notes

29. As noted in previous sections, in areas where additional detailed guidance is warranted, one or more Guidance Notes will be developed to guide Bank staff on these issues and to facilitate the implementation of this Framework in the following related areas: (i) FIF approval procedures; (ii) communications; (iii) assessment and management to acceptable levels of risk appetites and tolerances of financial and business risks to the Bank related to FIF support; (iv) best practices related to the accreditation of FIF implementing entities; (v) Terms of Reference for Staff participation in FIF governing bodies.

[27] Adaptation Fund (governance, direct access, funded by international tax), AMC (pull mechanism for a vaccine), IFFIm (front-loading immunization funding using bond issuance), CTF (loan contributions to a trust fund), AgResults (assessment of the effectiveness of "pull mechanism").

Annex 1, Table 1: The Bank's Roles in Financial Intermediary Funds

FIF	Type of FIF-funded program	The Bank's role(s) in the governing body of FIF or FIF-funded PP: Governing body participation	The Bank's role(s) in FIF-funded partnership programs: Trustee	Project/Program Implementing agency	Secretariat
Adaptation Fund [a/]	Global partnership	• Observer (CFP- trustee) • Observer (SDN as Implementing agency)	X	X	X
Advance Market Commitment [b/]	Supports the GAVI Alliance, a global partnership	Member of AMC Stakeholders Committee (CFP as provider of financial platform)	Financial platform provider		
African Program for Onchocerciasis Control	Regional Partnership	Voting member (AFR)	X		
AgResults	Global partnership	Non-voting member	X	X	
Clean Technology Fund	Global partnership	• Nonvoting member (SDN as Implementing agency) • Observer (CFP - trustee)	X	X	X
CGIAR	Global partnership	• Chair (SDN) • Board member (ARD represents as donor) • Observer (CFP - trustee) • Executive Secretary (head of Secretariat)	X		X
Debt Relief Trust Fund [c/]	Global financing mechanism		X		X
Global Agriculture and Food Security Program	Global partnership	Non-voting member (CFP - trustee) Observer (SDN as Implementing Agency)	X	X	X
Global Environment Facility [e/]	Global partnership	• Observer (CFP - trustee) • Observer (SDN as Implementing agency)	X	X	X
Global Fund to Fight AIDS, Tuberculosis and Malaria	Global partnership	Nonvoting member of Board (CFP as trustee) and its committees (CFP as trustee and HDN)	X		
Global Partnership for Education Fund	Global partnership	• Observer (CFP - trustee) • Voting member (HDN as Implementing agency)	X	X	X
Green Climate Fund	Global partnership	• Observer (CFP interim trustee)	X	X	
Guyana REDD-Plus Investment Fund	Global financing mechanism	Observer (CFP - trustee, LCR as Partner Entity)	X	X	
Haiti Reconstruction Fund	Country Partnership	• Nonvoting member (CFP - trustee) • Nonvoting member (LCR as Implementing agency)	X	X	X

FIF	Type of FIF-funded program	The Bank's role(s) in the governing body of FIF or FIF-funded PP	The Bank's role(s) in FIF-funded partnership programs		
		Governing body participation	Trustee	Project/Program Implementing agency	Secretariat
International Finance Facility for Immunisation	UK Charity that supports the GAVI Alliance	Attendee (CFP as Treasury Manager)	X		
Least Developed Countries Fund for Climate Change	Global partnership	• Observer (CFP - trustee) • Observer (SDN as Implementing agency)	X	X	X
Nagoya Protocol Implementation Fund	Global Partnership	• Observer (CFP - trustee) • Observer (SDN as Implementing agency)	X	X	X
Special Climate Change Fund	Global partnership	• Observer (CFP - trustee) • Observer (SDN as Implementing agency)	X	X	X
Strategic Climate Fund	Global partnership	• Nonvoting member (SDN as Implementing Agency) • Observer (CFP - trustee)	X	X	X

Notes:
a/ As part of its role as trustee, the World Bank manages sales of CERs, which are the primary source of Adaptation Fund financing.
b/ Not a trust fund.
c/ The Bank provides, on a de facto basis, implementing agency and secretariat. [not just a "service" function].
d/ As part of its role as trustee, the World Bank arranges the issuance of IFFIm bonds. The proceeds of these bonds are disbursed through the GFA to support programs approved by the GAVI Alliance, a global partnership program. While the Bank sits on the board of the GAVI Alliance, it does not serve on the IFFIm or GFA boards, which are UK Charities, and whose board members are all independent individuals. The Bank (HDN) is a voting member of the GAVI Alliance board and CFP (as trustee) is a member of the Audit and Finance Committee of the GAVI Alliance board and HDN is a member of the [Program and Policy] Committee].
e/ The World Bank provides administrative support to the GEF secretariat through an arrangement whereby the secretariat is "functionally independent" although it is in the Bank and its staff are World Bank employees, operating by and large in accordance with Bank policies and procedures. The GEF Secretariat also provides the secretariat for the Adaptation Fund, LDCF, SCCF and NPIF.