GCM

Developments in IDB Grant Financing in 2010

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Grants and Cofinancing Management Unit
VPC/GCM

DEVELOPMENTS IN IDB GRANT FINANCING IN 2010

I. MAJOR DEVELOPMENTS

1.1 **The year 2010 was one of great change in the IDB's approach to grant financing and resulting accomplishments in Latin America and the Caribbean.** The amount of grant financing approved increased by 61 percent; disbursements of grant resources increased by 68 percent. The diversity of funding sources and variety of grant instruments also increased. The Bank's Ninth General Capital Increase (IDB-9) defined new strategic priorities and funding for technical cooperation (TC), investment grants and Haiti grants.[1] A Development Effectiveness Matrix (DEM) was implemented for all grant operations.[2] A new system for classifying Technical Cooperation (TC) grants as Knowledge and Capacity Building Products (KCP) and loan-linked Operational Inputs (OI) was implemented, facilitating monitoring of outputs and development effectiveness of technical cooperation. When considering TC alone, grant support for knowledge and capacity building products increased by 30% in 2010, demonstrating the Bank's renewed commitment to help borrowing countries further these goals. TC grants were fully incorporated into nearly all country programming exercises, thus more closely aligning with Country Strategy goals.

1.2 **The Bank's Governors approved the Ninth General Capital Increase (IDB-9) in July 2010, strengthening the Bank's technical and financial capacity, renewing its strategic vision, and mandating reforms to promote greater development effectiveness.** New strategic areas for the IDB's work were also defined: (i) Social policy for equity and productivity; (ii) Infrastructure for competitiveness and social welfare; (iii) Institutions for growth and social welfare; (iv) Competitive regional and global international integration; and (v) Protecting the environment, responding to climate change, promoting renewable energy and ensuring food security. These areas address strategic priorities for the region and the IDB over the next decade. The IDB-9 mandate also reinforced the IDB's historic commitment to technical cooperation.

1.3 **The new *Strategy for Knowledge and Capacity Building* approved in 2009,[3] was implemented in 2010.** Its approach is based on the following principles: (i) recognition of KCPs as a core business of the Bank; (ii) commitment to transparency, accountability and participatory process; (iii) strengthened quality, evaluability and usefulness of grant financing operations; (iv) improved execution; and (v) enhanced dialogue with donors. To implement the *KCPs*, IDB experimented with a competitive process to prioritize funding for three of the KCP products: policy and capacity building; research and development; and outreach and dissemination. Advisory Services were considered on a rolling basis. The competitive process proved to be a difficult one, but provided many useful lessons. Among these were a greater awareness that the Bank has been supporting

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[1] Ninth General Capital Increase, AB-2764.

[2] Development Effectiveness Framework, GN-2489.

3 Strategy for Knowledge and Capacity Building, GN-2549.

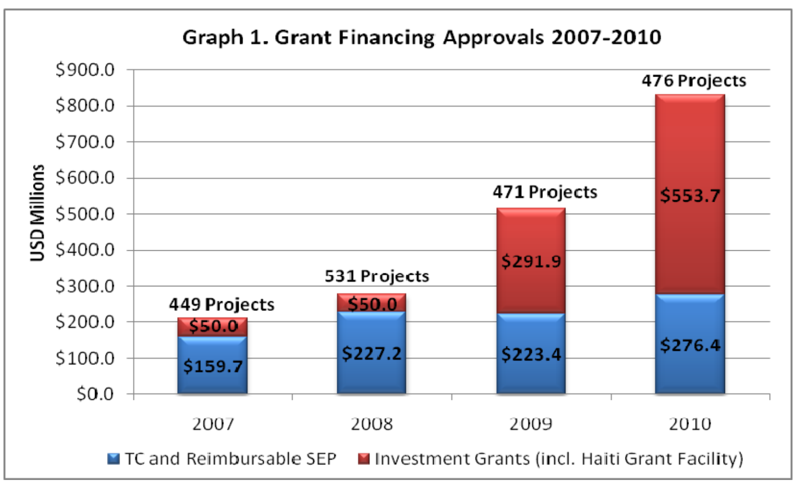
knowledge and capacity building efforts since its inception. A working group has been established to make recommendations for 2011 to enhance the allocation of resources among the four types of KCP, operational inputs and other competing priorities for grant funding. While the process adopted in 2010 needs improvement, the Bank's commitment to knowledge and capacity building efforts and applying higher standards of development effectiveness remains.

1.4 **The Bank took concrete steps to address the challenge of monitoring and reporting on results of technical cooperation grants with the implementation of a new Development Effectiveness Framework.** Since mid-2010, all proposals for knowledge and capacity building TC have been required to include a results matrix and monitoring and evaluation plan. Investment grant proposals must utilize the framework for loans, and the results matrix and M&E plans for operational input TC are linked to those of the specific loans they support. All proposals are now reviewed for "evaluability" as well as country relevance and technical quality in their respective sectors. Beginning with the 2011 reporting cycle, reporting on interim results, outputs and outcomes of grants should be much richer as a result of these changes.

1.5 **Technical cooperation is being included as an integral part of Country Strategies and annual programming exercises.** In 2010, 21 of the Bank's 26 borrowing countries included specific plans for TC grants and services in the Country Programs to be implemented in 2011. In line with the Bank's new system of country strategy indicators,[4] TC proposals will be explicitly linked to the major development outcomes planned in the Country Strategy that the Bank agrees on with the borrowing member countries. Country Strategy evaluations will thus provide an additional source of information on TC results.

II. USES OF GRANT FINANCING

2.1 **IDB increased grant approvals by 61 percent in 2010, to US$830.1 million, compared to US$ 515.3 million in 2009[5].** Grant financing approvals have almost tripled since 2007 (Graph 1). This considers investment grants, including the Haiti Grant Facility, and reimbursable TC operations through the Social Entrepreneurship Program (SEP). For the second year, investment grants accounted for a major share of these



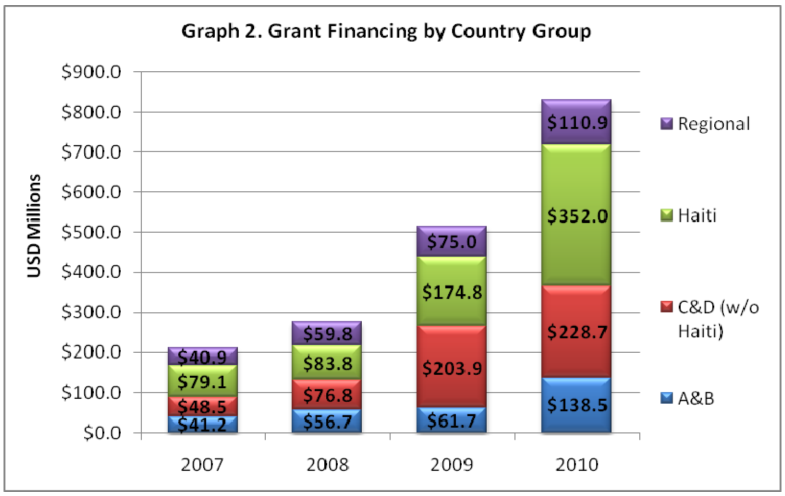
4 Country Strategy Guidelines, GN-2468-6.

5 To be consistent with the IDBs Finance Department norms in reporting approvals, we are now reporting original approval amounts plus increases done during the corresponding years.

grants, and grew from US$ 291.9 million in 2009 to US$ 553.7 million in 2010, a 90 percent increase.[6] The number of grant financing projects remained roughly the same between 2009 and 2010 (471 and 476, respectively). A total of 276.4 million was approved for Technical Cooperation in 2010, up 24 percent from US$ 223.4 million in 2009. The trend toward larger average size continues; in 2010 the average size of TC increased by 27 percent over the previous year.

2.2 **Execution improved in 2010 as disbursements for grant financing grew by nearly 68 percent over 2009**. If the Haiti Grant Facility is excluded, this increase is still 20 percent for all other programs. For TC specifically, the portfolio of projects in execution rose from 1,555 projects at the end of 2009 to 1,601 projects at the end of 2010. Even with significant growth in portfolio and the concomitant tasks of project supervision, the number of TC projects with execution problems fell by 18 percent.

2.3 **Grant financing provided US$ 580.6 million in crucial support to small and vulnerable countries.** During the period 2007-2010, between 60-70 percent of all TC financing annually was directed to these countries (referred to as C and D countries[7] by the IDB, in addition to Haiti) (Graph 2). The net income of the Fund for Special Operations (FSO) and Donor Trust Funds were the largest sources of financing for TC to these countries. Investment grants to the C and D countries amounted to US$ 473.8 million in 2010, of which US$ 251 million came from the Haiti Grant Facility and US$ 195.9 million came from the Spanish Fund for Water and Sanitation.



2.4 **The IDB made a special commitment to Haiti in 2010 in light of the magnitude of its needs.** The IDB increased its financing for the Haiti Grant Facility from US $50 million in 2007 and 2008, to US $122 million in 2009, and finally to US $251 million in 2010. Also in 2010, the member countries of the Union of South American Nations (UNASUR) created a special account to be managed by the IDB to provide budgetary support for Haiti. US$ 6.6 million were received in 2010 from Ecuador and Peru. Finally, the IDB became one of the "partner entities" in the Haiti Reconstruction Fund (HRF), a facility managed by the World Bank. In 2010, US$ 12.5 million were received.

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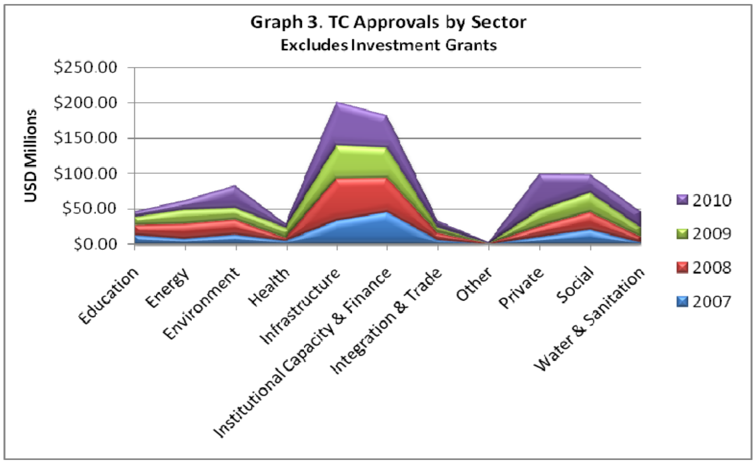
[6] Approvals of investment grants from the Spanish Fund for Water (SFW) and the Haiti grant facility (GRF) accounted for most of this amount: US$150 million in 2009 and US$ 272.9 million in 2010 under the SFW; US$122 million in 2009 and US$251 million in 2010 for the GRF.

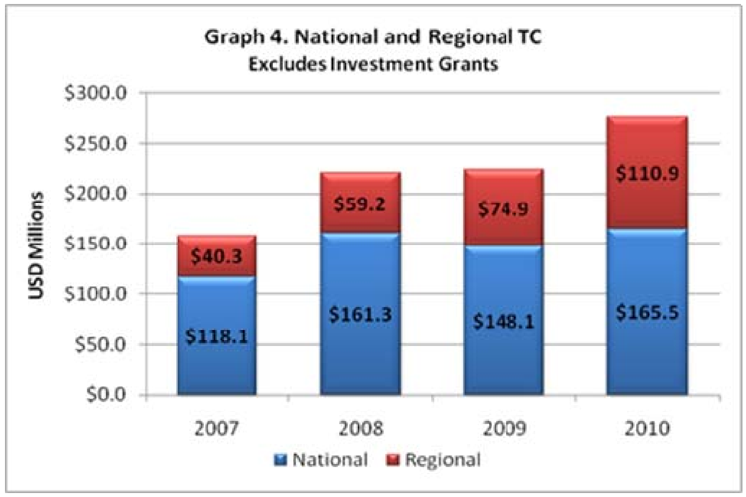
[7] C and D countries are: Bahamas, Barbados, Belize, Bolivia, Costa Rica, Dominican Republic, Ecuador, El Salvador, Guatemala, Guyana, Haiti, Honduras, Jamaica, Nicaragua, Panama, Paraguay, Suriname, Trinidad and Tobago and Uruguay.

2.5 **In 2010, TC financing was greatest in the areas of environment, infrastructure, institutional capacity and private sector development.** The areas of grant support, particularly for TC have evolved over time as the Bank adjusts its priorities based on country and regional needs and uses its ability to innovate and get out in front of emerging issues. TC serves as "risk-capital" for innovation and experimentation that is difficult to finance through loans. The IDB has been able to quickly ramp up support for emerging demands in areas such as results based management, infrastructure, regional integration and sustainable energy and climate change. A comparison of the areas of TC grant support shows that financing for private sector development projects more than doubled in 2010 (US$ 51.06 million compared to US$ 22.7 million in 2009), and there was a 65 percent increase in approvals in the environment sector (US$ 31.5 million versus US$ 16.8 million in 2009) (Graph 3). The largest portion of TC financing has gone to the Institutional Capacity and Finance sector, which comprised about 20 percent of all financing from 2007-2010. These changing sector priorities indicate the Bank's ability to adapt to the new realities faced by LAC, target resources effectively, and be responsive to donor country priorities. Financing by sector and country is summarized in Table 2 of the appendix.



2.6 **Investment grants in 2010 were concentrated in the water and sanitation sector (US$ 287.9 million), infrastructure (US$ 84.3 million) and sustainable energy and climate change (US$ 31.1 million).** The bulk of these grants were targeted to the lower income countries, including Haiti. Grants in the sustainable energy and climate change sector were mainly channeled through the Global Environment Facility and the Bank's Sustainable Energy and Climate Change funds, in addition to the Haiti Grant Facility. The investment grant portfolio is still relatively young and in its initial execution stages.

2.7 **IDB expanded technical cooperation at the regional level.** Reflecting its emphasis on regional integration and knowledge sharing, the Bank increased support for regional TC by 48 percent in 2010, from US$ 74.9 million in 2009 to US$ 110.9 million in 2010 (Graph 4). In fact, support to regional TC has increased steadily over the past four years. Many of the operations financed supported projects that will allow C and D countries to benefit from collaboration with the larger A and B countries. The Bank itself will execute 80 percent of the regional projects.



III. SOURCES OF GRANT FINANCING

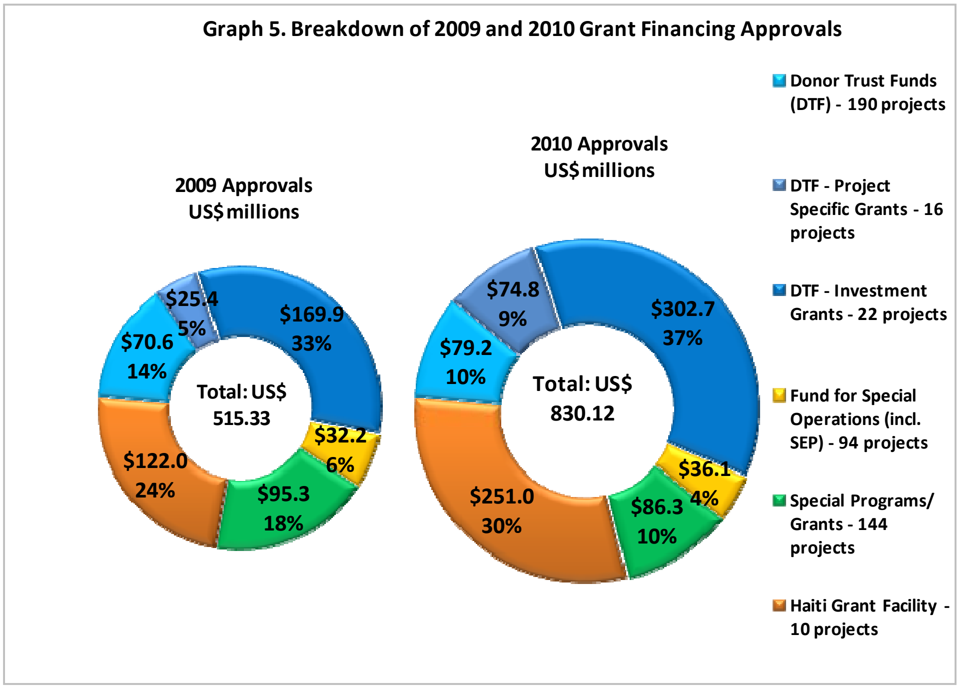
3.1 **Donors contributed an additional US$ 297.2 million to the IDB in 2010.** Of these contributions, US$ 222.4 million were to trust funds and grant facilities, and US$ 74.8 million were contributed through project specific grants. A total of US$ 101.5 million were contributed to single donor funds, US$ 36.7 million to multi-donor funds, and US$ 84.2 million to grant facilities. 18 donor countries, 2 foundations, and 19 private entities contributed to trust funds housed at the IDB, including project specific grants.

3.2 **Contributions from private donors reached US$ 22.4 million in 2010**. In addition to contributions in 2009 from the Kellog Foundation, FEMSA Foundation and others, the principle donors in 2010 were the Bill and Melinda Gates Foundation and the Carlos Slim Institute, with contributions totaling US$ 21.3 million to the Mesoamerican Health Facility. The Bank expects such contributions to increase in the future as the Office of Outreach and Partnerships continues to strengthen relationships with the private sector and philanthropic organizations.

3.3 **IDB has successfully diversified its grant financing portfolio (Graph 5), demonstrating a greater cooperation and support by donors and innovative funding mechanisms.** Financing by all Donor Trust Funds, including PSGs, investment grants, the 33 active donor trust funds, and 5 funds with different governance structures[8], increased by 72 percent over 2009, from a total of US$265.8 million to US$456.8 million (Graph 5). Mirroring the world-wide trend in development assistance, donors showed a preference for contributing to specific thematic areas, and even to specific projects within those areas. The Bank's support for thematic funds—in the form of Special Programs Grants--demonstrates its capacity to use its own resources to develop quick responses to

[8] Clean Technology Fund, Haiti Reconstruction Fund, IDB/Global Environment Facility, Mesoamerican Health Facility, and the Spanish Fund for Water and Sanitation.

emerging issues in partnership with donors. Funding from all sources is summarized in Table 1 of the appendix.



3.4 **The increasing variety of grant financing sources and instruments evident in 2010 has also increased the complexity of fund management for the IDB**. Grant instruments now include technical cooperation--for knowledge and capacity products and operational inputs--development grants, investment grants, and trust fund appointees). Funding sources include public and private sectors, project specific grants, single/multi-donor funds, and tied/untied, with several different governance structures (such as public/private partnerships like the Mesoamerican Health Facility; facilities managed by the World Bank like the Climate Investment Funds; and investment grant-specific funds like the Spanish Fund for Water and Sanitation).

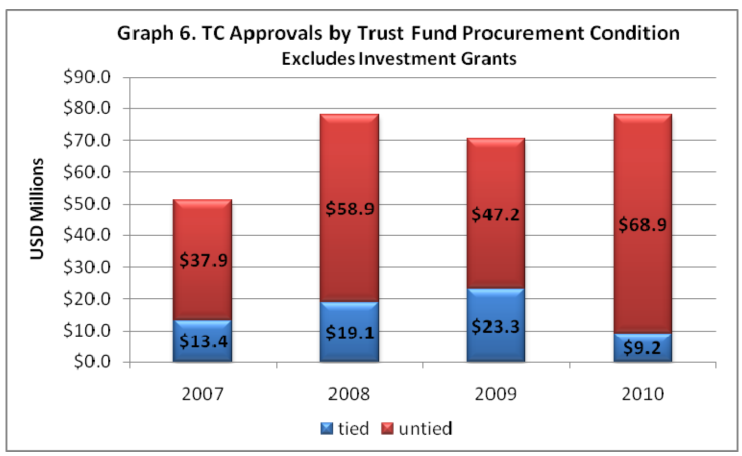
3.5 **Underscoring its support for Technical Cooperation, the IDB allocated an additional US$71 million from its Ordinary Capital (ORC) in 2010 to Special Programs/Grants for TC financing in key thematic areas.** Though TC will no longer be financed by Net Income from the Fund for Special Operations (FSO), IDB-9 introduced an annual budget for grant financing from ORC set at US$ 90 million for 2011.

3.6 **Borrowing country contributions to grant financing also increased significantly.** In addition to the support borrowers provide for grants through the special programs/grants, which is funded with the Bank's own capital, other south-south funding efforts have emerged. The Bank continued to manage a small fund from the government of Chile. In addition, UNASUR fund cited earlier is unique in that contributions come exclusively from borrowing member countries in an effort at south-south cooperation. It is expected to raise US$100 million in donations.

3.7 **IDB was approved as an implementing agency for three global funds/facilities which have the World Bank as their trustee, opening the way for greater access to Latin American countries and greater cooperation with donors and other MDBs**. The three funds approved in 2010 are: (i) the Global Agriculture and Food Security Program Trust Fund (GAFSP), with approximately US$879 million in commitments; (ii) the Clean Technology Fund (CTF), one of the two funds under the Climate Investment Funds, with approximately US$2.1 billion received by the World Bank to promote scaled-up financing for demonstration, deployment and transfer of low-carbon technologies for long-term greenhouse gas emissions savings; and (iii) the Haiti Reconstruction Fund, with pledges of US$577 billion. The IDB has already been operating as an "Executing Agency" of the Global Environmental Facility (GEF) since 2004, and expects to become an agency under four additional facilities in 2011.

3.8 **In order to simplify operational and financial management procedures for grant co-financing and standardize agreements with donors, new guidelines for Project Specific Grants (PSGs) were adopted in 2010.** These guidelines consolidated three different instruments into one, making it easier for the IDB and potential donors to co-finance specific TC and investment projects. There was a notable increase in PSGs in the past year, from US$ 25.4 million in 2009 to US$ 74.8 million in 2010, or 9 percent of all approvals in 2010.

3.9 **The IDB continues to work toward alignment with other multilaterals, including the phase out of tied funds.** Such measures could ensure greater flexibility, responsiveness to country needs and alignment with the Paris and Accra Declarations on Aid Effectiveness.[9] In 2010 there was a 61 percent decrease in use of tied funds for TC compared with 2009 (Graph 6). This is the case even when excluding the larger Investment Grant operations, which tend to be financed by untied funds. In 2010, the IDB negotiated an agreement with Italy that consolidated three small funds into one Italian Consulting Firms and Specialized Institutions Trust Fund in 2011, with the goal of lowering the cost of managing the funds and increasing transparency. The IDB also signed Framework Agreements with Switzerland and Austria in 2010, allowing for a more streamlined mechanism for multiple forms of cooperation with these donors under one umbrella.



9 See: http://www.oecd.org/dataoecd/11/41/34428351.pdf

IV. THE YEAR AHEAD

4.1 **The year 2011 promises to be one of further consolidation and improved effectiveness.** A new Bank-wide working group on technical cooperation and grant financing began its work in late 2010 and its findings will be implemented in mid-2011. New project monitoring reports and completion reports will be rolled out in 2011, providing richer and more consistent information on results and lessons learned.

4.2 **Reforms in grant making will continue to improve the IDB's effectiveness and responsiveness to client needs while helping to achieve greater economies of scale in trust fund management.** A new Guidance for financing of TC with the Japanese Trust Funds, for example, aims to standardize procedures and achieve greater efficiencies in approval of priority projects. Two new guidelines for fund management are expected to be approved. One addresses the issue of cost-recovery and cost-sharing with donors, and the other streamlines criteria and processes for externally funded experts (trust fund appointees).

4.3 **New Special Programs/Grants Funds are being developed to finance TC initiatives previously financed with FSO.** The new Small and Vulnerable Countries Program with US$15 million allocated will have two distinct windows: 1. Technical assistance to countries currently eligible to receive FSO financing[10]; and 2. Technical assistance to C & D countries. In addition, the Intra-regional technical cooperation program set at US$ 1 million is also being developed. Board decisions to allocate these funds from the ORC are clear indications of the IDB's commitment to support priority initiatives with grant financing.

4.4 **Two new multi-donor funds are also being developed.** The Fund to Combat Neglected Infectious and Tropical Diseases (NIDs) will support the strengthening of national and local health information systems, mass drug administration, and inter-sectoral and inter-programmatic approaches to NID control. The IDB's Office of Outreach and Partnerships (ORP) is seeking funding from private and public sector partners. In addition, a new Multi-donor Fund for Initiatives for Regional Infrastructure Integration is under development to complement the Bank's existing special program/grant financed by Ordinary Capital.

4.5 **The Bank expects approval as an implementing or partner entity in four World Bank-trusteed funds in 2011:** (i) the Adaptation Fund, with US$140 million for activities related to climate change; (ii) the Guyana REDD+ Investment Fund (GRIF), with approximately US$250 million for investment grants to avoid deforestation and support low carbon economic activity; (iii) the Strategic Climate Fund (SCX), the second of the Climate Investment Funds, which encompasses three targeted programs on forest investment, climate resilience, and scaling-up renewable energy in low income countries; and (iv) the Readiness Fund of the Forest Carbon Partnership Facility (FCPF).

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10 These countries are: Bolivia, Guatemala, Guyana, Honduras, Nicaragua and Paraguay. Although Haiti is eligible for FSO financing through the Haiti Grant Facility, it will not receive additional grants from the new special program.

4.6 **A standard cost-sharing mechanism is being developed for large funds—currently those with contributions greater than $30 million.** Donors are increasingly asking that IDB and other Multilaterals calculate the actual cost of managing external contributions. This trend is most pronounced in the Global Facilities created with the World Bank as Trustee, where IDB is an important implementing agency. IDB is developing a standard mechanism for accurately estimating and recovering costs associated with fund management, including the added costs of project preparation and execution under specialized funding agreements, which will allow the Bank to create agreement between donors and the Board of Directors on cost-sharing, and to target supplemental resources from donor cost-sharing to the operational parts of the Bank.

4.7 **Finally, regular programming exercises begun in 2010 with country offices and GCM regional team leaders will continue in order to achieve a better matching of country demand with the supply of grant resources, particularly for priority sectors.** This will help the IDB meet its obligations under the new strategic priorities established under IDB-9, and strengthen the connection between donor and IDB grant financing and the strategic priorities of the country programs. It will also facilitate assessment of the contribution grants are making to achieving country goals.

V. CONCLUSIONS

5.1 In 2010, the Bank worked to streamline procedures and diversify mechanisms for grant financing in order to better align itself with evolving sector priorities, country needs, and donor preferences. These efforts have successfully led to a more strategic and efficient use of grant financing with increased focus on aid effectiveness. Greater partnerships have been forged with public and private sector donors as well as other MDBs to ensure greater flexibility and responsiveness to country needs. As the Bank implements the reforms outlined in IDB-9, grant financing will continue to play an integral role in the Bank's activities moving forward. The IDB is better positioning itself to innovate and meet the demands of a changing region.

Table 1. 2010 Grant Financing ($) Approved by Major Funding Source and Type of Instrument [1/]
USD Millions

Funding Source	Fund Types (# of funds with approvals in 2010)	Non-reimbursable Technical Cooperation	Investment Grants	Reimbursable TC - Social Entrepreneurship Program	Grand Total
Donor Trust Funds (DTF)	Single-donor Trust Funds (24 funds)	$55.80	$273.14	$2.30	$331.23
	Multi-donor Trust Funds (8 funds)	$17.40	$2.95		$20.35
	World Bank Trusteed Facilities (3 funds)	$3.73	$26.64		$30.37
	Project Specific Grants (17 PSGs)	$74.80			$74.80
DTF Total		**$151.74**	**$302.72**	**$2.30**	**$456.76**
Net Income of Fund for Special Operations (FSO)	National FSO	$13.31			$13.31
	Regional FSO	$12.35			$12.35
	CT/Intra	$0.20			$0.20
	Action Plan for C & D Countries	$2.00			$2.00
	Social Entrepreneurship Program	$2.86		$5.36	$8.22
FSO Total		**$30.71**	**$0.00**	**$5.36**	**$36.07**
Ordinary Capital (ORC)	Special Programs/Grants (11 programs)	$86.29			$86.29
Haiti Grant Facility			$251.00		$251.00
Grand Total		**$268.74**	**$553.72**	**$7.66**	**$830.12**

[1/] ***Excludes all financing from MIF-specific resources***

Table 2. 2010 Grant Financing ($) by Country and Major Sector [1/ 2/]
USD Millions

	Education	Energy	Environment	Health	Infrastructure	Institutional Capacity and Finance	Integration and Trade	Other	Private	Social	Water and Sanitation	Grand Total
Argentina					$1.26		$0.30			$0.46	$1.77	**$3.79**
Barbados		$1.00	$0.41		$0.35	$0.43						**$2.19**
Bahamas						$1.52	$0.22			$0.17		**$1.91**
Belize						$1.34				$0.35	$0.50	**$2.19**
Bolivia	$0.20	$0.60	$6.65		$0.15	$1.48			$1.08	$2.25	$0.15	**$12.56**
Brazil	$0.20	$1.70	$2.47	$0.25	$9.90	$2.48			$0.27	$0.93	$6.49	**$24.69**
Chile	$1.84	$3.12	$0.20		$0.23	$0.55			$0.52	$0.17	$0.83	**$7.46**
Colombia	$0.49	$0.90	$2.40		$3.33	$1.65	$0.50			$2.07	$0.33	**$11.65**
Costa Rica	$0.35		$3.20			$1.39				$0.18	$20.00	**$25.12**
Dominican Republic		$0.30			$0.75	$0.11				$1.45	$35.00	**$37.60**
Ecuador			$4.00	$0.40	$1.64	$2.35			$1.38	$0.21	$20.25	**$30.23**
El Salvador			$0.20			$0.27				$0.14	$24.03	**$24.64**
Guatemala			$1.00	$1.84		$2.00			$0.07			**$4.91**
Guyana		$1.21	$0.74			$0.85						**$2.79**
Haiti[3/]	$50.60	$16.18	$0.35	$15.00	$108.07	$91.86	$0.55		$2.25		$67.11	**$351.96**
Honduras			$0.40	$0.66	$3.45	$2.79	$0.11	$0.25	$1.02	$1.42		**$10.10**
Jamaica	$1.00				$1.08	$1.25				$1.20		**$4.53**
Mexico		$1.19	$0.80		$1.80	$0.83			$1.45	$0.01	$1.55	**$7.64**
Nicaragua		$1.10	$0.75		$0.34	$2.47		$0.04	$0.43	$3.26		**$8.39**
Peru		$0.40	$2.72	$0.35	$1.59		$0.77		$2.76	$0.76	$73.20	**$82.55**
Panama	$0.11	$1.00	$0.20			$0.08				$0.08	$0.25	**$1.72**
Paraguay	$0.27				$2.94	$1.58				$0.38	$41.70	**$46.87**
Regional	$2.65	$4.78	$13.41	$2.23	$8.29	$12.11	$6.92	$1.81	$39.82	$9.33	$9.59	**$110.93**
Suriname			$0.30			$1.73						**$2.03**
Trinidad & Tobago			$0.81			$0.06						**$0.87**
Uruguay			$1.00		$1.05	$0.05		$0.04		$1.06	$6.85	**$10.05**
Venezuela			$0.20								$0.57	**$0.77**
Grand Total	**$57.70**	**$33.48**	**$42.19**	**$20.72**	**$146.22**	**$131.22**	**$9.37**	**$2.13**	**$51.06**	**$25.87**	**$310.16**	**$830.12**

[1/] ***Excludes all financing from MIF-specific resources***

[3/] **Includes the following amounts for the Haiti Grant Facility:**

Education	$50.00
Energy	$14.00
Health	$15.00
Infrastructure	$84.00
Institutional Capacity and Finance	$73.00
Water and Sanitation	$15.00

[2/] ***Sector Breakdown***

Main Category	Sectors Included	Main Category	Sectors Included
Education	Education	Institutional Capacity and Finance	Capital Markets
Energy	Energy		Multisectior Credit & Preinvestment
Environment	Environment and Natural Disasters		Reform / Modernization of the State
Health	Health	Private	Microenterprises
Infrastructure	Agriculture and Rural Development		Private Sector Development
	Industry	Social	Information Technology and Telecomm
	Tourism		Science and Technology
	Transportation		Social Investment
	Urban Development and Housing	Water and Sanitation	Water and Sanitation
Integration and Trade	Trade	Other	Other