

Cities Alliance

CHARTER

23 January 2009

1. The Cities Alliance is a multi-donor coalition of cities and their development partners. The Alliance has been conceived to improve the efficiency and impact of urban development cooperation in two key areas:

- (a) making unprecedented improvements in the living conditions of the urban poor by developing citywide and nationwide slum-upgrading programs; and
- (b) supporting city-based consensus-building processes by which local stakeholders define their vision for their city and establish city development strategies with clear priorities for action and investments.

The Alliance will foster new tools, practical approaches and knowledge sharing in these two areas, so as to create a new coherence of effort to help realize the rich promise of what well managed cities can achieve.

2. The Cities Alliance was launched in May 1999 by the World Bank and United Nations Centre for Human Settlements (Habitat). The design of the governance and organizational structure was reviewed at two meetings of prospective partners, in June and October 1999. This document takes into account the comments received during this consultation process and is intended to constitute the basic charter for the Cities Alliance.

A. The Cities Alliance: Objectives and Rationale

3. The Alliance will marshal the resources, experience, and knowledge of its partners to focus on two priorities for action:

- (a) *Cities Without Slums*, through the citywide and nationwide upgrading of low-income settlements to improve the livelihoods of the urban poor;¹ and
- (b) *City Development Strategies*, aimed at formulating a broad consensus on a vision and a set of priorities for city actions.

4. As a global partnership, the Cities Alliance aims to:

- (a) improve the quality of urban development cooperation and urban lending;
- (b) strengthen the impact of grant-funded urban development cooperation;
- (c) expand the level of resources reaching the urban poor, by increasing the coherence of effort of existing programs and sharpening the focus on scaling-up successful approaches; and
- (d) provide a structured vehicle for advancing collective know-how.

¹ The *Cities Without Slums* action plan was developed in July 1999, and quantifies these objectives.

5. The Cities Alliance will not develop separate implementation capacity, but rather draw upon the existing capacity of its partners. In-country work will be managed through the regional operational units of the World Bank, Habitat, and other multilateral and bilateral partners, as well as through existing global and regional partnership programs.

B. Relationships with Programs of Participating Partners

6. Complementarities with on-going activities of participating partners will be sought, which are linked to achieving the two main objectives of the Habitat Agenda; the two new Global Campaigns of Habitat, i.e. Secure Tenure and Urban Governance; the World Bank's new Urban and Local Government Strategy; and global and regional partnership programs such as the Urban Management Programme (UMP), the Sustainable Cities Programme (SCP), the Municipal Development Programme (MDP), and the UNDP-World Bank Water and Sanitation Program. Complementarities with on-going programs of bilateral donors, regional development banks, and associations of local authorities will also be sought.

7. Working relationships with associations of local authorities will include their engagement in launching activities and strengthening local buy-in; mainstreaming successful activities; and, evaluation of Cities Alliance interventions.

8. The Cities Alliance aims to capitalize on the experience and expertise of its implementation partners in ways that strengthen their operations, rather than build separate implementation capacity. This should result in an improved coherence of effort among existing programs focused on achieving the Alliance's two priorities for action, without these programs losing their own identity.

C. Cities Alliance Activities

9. Activities sponsored under the Cities Alliance will fall within two main categories:

(a) Country-Specific Activities: The Cities Alliance is primarily focused on achieving results through country-specific activities. Proposals will typically originate from local authorities, but in all cases must be approved by the government of the recipient country, be sponsored by at least one member of the Cities Alliance, and have established channels to meet investment requirements.

(b) Regional & Global Activities: Country-specific activities will be complemented by activities designed to raise awareness, increase learning and disseminate good practices. These activities will include establishing knowledge sharing networks and data bases for city development strategies and for scaling-up urban upgrading programs, mainstreaming indicators and developing guidelines and other tools which advance collective know-how. Regional and interregional

seminars will also be organized with partners to share innovations and lessons learned. Proposals for these activities can originate from any interested source, but must be sponsored by at least one member of the Cities Alliance. Complementarity and consistency with knowledge-building activities in related thematic areas of the Bank, Habitat and other partners are essential in designing activities.

10. The Alliance's key methods of intervention for supporting **citywide and nationwide upgrading** of low-income settlements are to:

(a) identify and develop opportunities for citywide and nationwide slum upgrading programs;

(b) help selected cities and countries strengthen their policy framework as a necessary foundation for scaling-up community-based upgrading programs;

(c) establish consensus with local stakeholders, create alliances, and mobilize resources to implement programs; and

(d) promote activities that raise awareness, disseminate information, and create a global base of knowledge on "best practices" in scaling up slum upgrading programs.

11. The key methods of intervention for **City Development Strategies (CDS)** are to:

(a) support city-based consensus-building process to establish priorities, strategies, and actions for urban poverty reduction and sustainable urban development;

(b) assess the city's economic growth prospects linked to employment and to regional and national development objectives;

(c) assist local authorities in outlining financing and investment strategies, taking into account city-based resources and revenues, as well as private sector investors and partners; and

(d) build capacity and share the lessons and knowledge acquired in formulating and implementing city development strategies.

12. Countries eligible to receive Cities Alliance assistance are those included in the following categories of the OECD Development Assistance Committee's List of Aid Recipients: Developing Countries and Territories (all five columns of the Part 1 table); and Countries and Territories in Transition (column one of the Part II table).²

² The DAC List of Aid Recipients, as updated from time to time, can be found on the OECD homepage: http://www.oecd.org/document/45/0,2340,en_2649_34447_2093101_1_1_1_1,00.html

D. Activity Identification and Selection

13. Regional and global activities will include key knowledge and dissemination activities, including conferences, workshops and studies, and may be proposed by the Secretariat or any of the Alliance partners.

14. Country-specific proposals would typically originate from individual local authorities or consortia of local authorities, but must be sponsored by at least one member of the Cities Alliance.

15. All proposals for Cities Alliance assistance which meet the threshold eligibility requirements described in Section C shall be assessed against a set of criteria designed to evaluate adherence to fundamental Alliance principles that emphasize partnerships and prospects of success and sustainable change. Funding proposals will be evaluated based upon the degree they meet the following criteria:

(a) **Targeting the Objective** - The activity must aim at the reduction of urban poverty and directly support scaling up slum upgrading and/or city development strategies.

(b) **Government Commitment and Approval** - The activity must have government/local authority commitment and approval.³

(c) **Linkage to Investment Follow-up** - Development bank and private and public sector investment partners should be clearly identified and involved from the beginning in the design of the activity so as to increase the odds of investment follow-up for implementation.

(d) **Partnerships** - Proposals for City Development Strategies and scaling-up slum urban upgrading programs must be conceived as a participatory process with local stakeholders including both the private sector and community organizations. They must include appropriate strategies and actions to ensure participation of, and ownership by resident communities. Cities will need to be able to demonstrate the nature and extent of participation by relevant stakeholders.

(e) **Co-financing** - All proposals should include co-financing, combining seed funding from the Cities Alliance with a target of at least 20% financing of the total project budget, from the cities themselves and other sources. Co-financing can be in the form of in-kind contributions. For all proposals requesting over US\$250,000 from Core Funds, the co-financing target is graduated based on the amount of funds requested from the Cities Alliance, ranging from a minimum 25% target for the low range requested (US\$250,001) up to 50% target for the maximum allowable request (US\$500,000). To calculate the co-financing target, simply divide the requested amount by 10,000. For

³ Multi-country activities will not normally be required to meet this criterion. However, the criterion may be applied to multi-country activities that are designed to benefit directly a small number of easily-identifiable countries.

example, where US\$310,000 is requested from the Cities Alliance, the co-financing requirement from non-Cities Alliance sources would be 31% of the total budget.

(f) ***Coherence of Effort*** - Activities should be designed to promote cross-sectoral, inter-divisional and multi-donor coordination.

(g) ***Scaling-up*** – In order to increase the potential for scaling-up, the selected city should preferably have (or have realistic ambitions to develop) appropriate links to other cities in the country/sub-region, for example, through local authority associations.

(h) ***Institutionalization and replication*** – Activities should contribute to developing local mechanisms and models to help city managers and national associations of local authorities institutionalize support for the formulation of city development strategies and citywide and nationwide upgrading programs, so as to facilitate replication in other cities.

(i) ***Positive Impact on Environment:*** Activities supported by the Cities Alliance are expected to achieve significant environmental improvements. These should be clearly stated in each proposal. Any activity in which negative environmental impacts could be anticipated must include an Environmental Impact Assessment and a Mitigation Plan as conditions for approval.

16. Resources for country-specific activities could come from “non-core” funds earmarked by donors for particular thematic or geographic areas, administered in parallel or through a trust fund, or from “pooled” core funds available for allocation based on the competitive criteria (see section F, below). Pooled funding would also take into account additional criteria to help achieve overall program balance, including:

(a) ***Regional Balance*** - Cities Alliance resources will be allocated in a way that ensures a reasonable balance of activities across developing regions.

(b) ***Activity Balance*** - Cities Alliance resources will be allocated in a way that encourages linkages between scaling-up slum upgrading and City Development Strategies.

17. ***Eligible Expenditures from Cities Alliance trust funds***, subject to any restrictions imposed by Non-Core funding sources, may include the following:

- costs of the Cities Alliance Secretariat;
- costs associated with identifying, supervising and delivering activities;⁴
- costs associated with preparing and disseminating information produced by the Cities Alliance;
- costs associated with organizing workshops, seminars or conferences, including participation by relevant international experts and, in appropriate cases, representatives of recipient governments;

⁴ Consistent with the approach of other multi-donor programs of this kind, the Cities Alliance may contract the services of the staff of implementing organizations for these activities up to a limit of 20% of the aggregate amount of the Cities Alliance Trust Fund.

- costs of visit programs for appropriate developing country personnel;
- other expenditures directly related to the fulfillment of the Cities Alliance mandate.

18. Within these guidelines, participating donors may determine particular priorities through the approval of annual work programs. The annual work plan for the Core Fund shall be determined by the Consultative Group as a whole.

19. The process for evaluating and approving proposals for Cities Alliance assistance is described in Annex I.

E. Governance and Organizational Structure

20. The governance and organizational structure of the Cities Alliance will comprise a Consultative Group (CG), a Policy Advisory Board (PAB)⁵, and a Secretariat.

Consultative Group

21. The Consultative Group (CG) is composed of financial contributors to the Cities Alliance Trust and the political heads of the international associations of cities and local authorities which have pledged their strong commitment to and engagement in achieving the goals of the Cities Alliance. The CG will also constitute a global public policy forum to share the lessons learned from experience and agree on policy orientations and standards of practice in areas related to the Alliance's goals. In this way the CG will work to catalyze partners' actions in ways that would go beyond their individual actions. The CG responsibilities are to:

(a) consider long term strategies for the Alliance and approve its annual work program;

(b) approve the annual financial plan and criteria to be used in screening activities to be financed from the Cities Alliance Trust;

(c) facilitate donor coordination of related activities financed from non-core funds and parallel financing;

(d) share the knowledge and experience gained by cities in tackling these problems;

(e) review the performance of the Cities Alliance and evaluate its impact;

(f) confirm donor pledges and help raise additional resources; and

(g) approve and amend the Cities Alliance Charter.

⁵ Changed to Advocacy Panel in January 2009

22. The world organisation, United Cities and Local Governments (UCLG), will ensure an active representation of local authorities in the Cities Alliance and will guarantee balanced representation from different regions in the Alliance. Metropolis, the Metropolitan section of UCLG, will have one of the agreed permanent seats for local authorities.

23. The CG will invite prospective financial partners to serve as “Associate Members” of the Cities Alliance Consultative Group for a maximum period of two years. The associate membership will be non-voting but will share information and participate in key meetings.

24. The Consultative Group will meet as needed and, at least during the initial period, more often than once per year. A global public policy forum will take place immediately before CG meetings and provide substance for discussion. Such forum will be organized by the Secretariat in consultation with the PAB.

25. The CG will establish mechanisms to provide appropriate supervision of, and guidance to, the Secretariat between CG meetings.

26. The Consultative Group will be co-chaired by the Vice-President, Private Sector Development and Infrastructure, of the World Bank, and the executive head of Habitat.

27. Decisions of the CG are made by consensus.

Policy Advisory Board⁶

28. The Policy Advisory Board (PAB) will provide guidance to the Consultative Group on key strategic and policy issues, and in supporting the implementation of Cities Alliance activities. Membership shall be drawn from preeminent urban experts in each region, and would include representatives of non-governmental and community-based organizations, the private sector, as well as the secretariats and/or programs of associations of local authorities. Responsibilities of the PAB will also include:

(a) providing advise on specific issues related to city development strategies and scaling-up slum upgrading;

(b) reviewing and commenting on the Cities Alliance strategy as reflected in draft annual work programs prepared by the Secretariat;

(c) facilitating the engagement of local authority networks in building capacity to sustain and replicate the work of the Cities Alliance; and

(d) evaluating the impact of the Cities Alliance work program through *ex-post* evaluation of selected activities.

⁶ In the wake of a considered review of its role and utility, the Policy Advisory Board was restructured into an Advocacy Panel at the Consultative Group Meeting in Barcelona in January 2009.

29. From seven to ten members would be invited to serve on the PAB, which would meet twice a year. More detailed selection criteria, terms of service and meeting logistics will be determined by the CG. PAB members will be appointed by the Co-Chairs of the Consultative Group, after consultation with CG members.

30. The PAB will report to the CG in writing within two weeks before each CG meeting.

Secretariat

31. The Secretariat will carry out the Cities Alliance mandate and manage its day-to-day operations. The Secretariat will report to the Consultative Group at least quarterly through the CG Co-chairs, and be housed in the Washington, DC office of the World Bank. Habitat and the World Bank have agreed to provide facilities for the Secretariat and have allocated appropriate staff resources for the first three years of operation. After the first year, arrangements for the Secretariat will be reviewed and submitted to the CG for endorsement.

32. The Secretariat will be kept small and focus on the administration of the Cities Alliance partnership rather than the delivery of Alliance-funded activities. Key responsibilities will include:

(a) screening and evaluation of project proposals in accordance with the criteria adopted by the CG;

(b) providing secretariat services to CG and PAB ;

(c) establishing and maintaining effective relations with partners, including supporting the Consultative Group in fundraising;

(d) drafting the work program and budget, and administering the disbursement of funds;

(e) monitoring the implementation of projects and disseminating lessons learned on best practices; and

(f) maintaining a database of existing projects of relevance to the two main areas of activities of the Cities Alliance.

F - Funding

33. To maximize flexibility for donors, the Cities Alliance has a two-tier financial structure: a "Core Fund" and "Non-Core Fund". "Parallel" programs of partners will not be administered through the Cities Alliance Trust Fund.

34. The *Core Fund* comprises a pool of resources that can be used for any activity falling within the work program approved by the Consultative Group. The funds will be applied to country-specific activities, multi-country activities, knowledge and learning activities, and governance costs. Contributions to the Core Fund are not subject to any donor restrictions, including in relation to nationality of consultants. Unless otherwise indicated, all contributions to the Cities Alliance would be designated to the Core Fund. All participating donors would be required to make a minimum contribution to the core fund of \$ 250,000 per annum. In the case of regional development banks, such core contributions can be tied to their relevant operational regions where required by their statutes. Governments of countries referred to in article 12 will be required to make a minimum contribution to the Core Fund of \$50,000 (or local currency equivalent) per annum.

35. *Non-Core Funds* are those that include donor restrictions relating to themes, activities or regions. Individual Non-Core Funds may be established with the consent of the Secretariat. Contributors to Non-Core Funds will be required to make at least the minimum contribution to the Core Fund.

36. *Parallel Funds* support the objectives of the Cities Alliance. Partners engaged in parallel activities which are designed to support Cities Alliance objectives, will commit to implementing a shared vision on best practice developed collectively in the Cities Alliance.

37. Contributions to the Cities Alliance will be in the form of cash. In limited cases, however, contributions of in-kind resources may also be considered with the approval of the CG.

38. Each contributor will enter into a trust fund agreement with the World Bank for its contributions to the Cities Alliance.

39. Key reporting and auditing arrangements are outlined in Annex II.

G - Procurement

40. The Secretariat will designate a task manager for each Cities Alliance funded activity, in consultation with the implementing agency. Hiring of consultants will generally be initiated by the task manager. In some cases, consultants and/or equipment may be procured by recipient governments. Procurement for activities administered by the World Bank will be implemented in accordance with World Bank procurement guidelines. Procurement for activities administered by other implementing agencies will be implemented following guidelines as specified under framework arrangements amongst World Bank, implementing agencies and CG.

Annex I: Proposal Evaluation and Approval Process

1. The process for evaluating and approving proposals for Cities Alliance assistance has been designed to ensure their conformity with the approval criteria and the annual work program approved by the Consultative Group.
2. Proposals for Cities Alliance assistance may be evaluated and approved through one of two processes:
 - (a) Proposals may be specifically identified in the annual work programs approved at annual meetings of the Consultative Group; or
 - (b) Proposals may be dealt with by the Secretariat between meetings of the CG in accordance with the agreed work program, criteria and processes.
3. The evaluation and approval processes for the second category of proposals aim to strike a balance between speed, cost, comprehensiveness of evaluation, transparency and other considerations. The nature and rigor of the evaluation and approval process generally increases with the size of the support requested from the Cities Alliance. To facilitate this approach, proposals are classified according to the amount of support requested from the Alliance: small (\$75,000 or less), medium (over \$75,000, up to \$250,000) or large (over \$250,000).
4. The evaluation and approval processes for proposals that have not been approved through the Cities Alliance annual work program and for which funding is sought from the Core Fund is described below and summarized in the attached table. Proposals for which funding is sought from Non-Core Funds will generally follow the same process, with final approval required from the relevant donor rather than the CG as a whole.

Applications

5. Proposals for Cities Alliance assistance may originate from any member of the Alliance.
6. Proposals for Cities Alliance assistance are initiated by the completion of an application form that seeks to capture all key information required to assess the proposal. Application forms – together with supporting information – shall be available on the Cities Alliance website, as well as in paper form that is disseminated widely.

Initial Screening

7. The Secretariat will undertake an initial screening of all proposals to ensure that the application is complete and is consistent with the threshold eligibility criteria in relation to targeting the objective; eligible countries; government commitment and approval; and, partnerships. If required, the Secretariat may consult with the proposal proponent to elicit additional information.

Technical Assessment

8. Proposals that meet the threshold eligibility requirements will be subject to more intensive scrutiny according to the approval criteria and annual work program.

9. For small proposals (\$75,000 or less), the Secretariat may undertake this evaluation from its own resources but may request an independent technical assessment from one or more specialists with relevant expertise. For this purpose, the Secretariat shall develop and maintain a roster of relevant specialists. The findings and recommendations of such assessors shall not be binding on the Secretariat, but shall in all cases be recorded in the activity file and will be available to Cities Alliance donors. To ensure a rapid response capability, applications for small activities shall be considered on a rolling basis, without the need for a relative assessment of proposals through the periodic batching of proposals.

10. For medium and large proposals (over \$75,000), the Secretariat is obliged to seek an independent technical assessment from one or more specialists with relevant expertise drawn from the roster. As with small proposals, the findings and recommendations of such assessors shall not be binding on the Secretariat, but shall in all cases be recorded in the activity file and will be available to Cities Alliance donors. Unlike small proposals, medium and large proposals will usually be batched for evaluation on a quarterly basis, so as to allow an assessment of the relative merits of each proposal. However, this batching requirement may be waived in the case of urgent requests with the agreement on a “no-objection” basis of the Consultative Group.

11. In all cases, if the Secretariat is of the opinion that the proposed activity is technically sound but raises significant social, political or other sensitivities not fully addressed in the approval criteria, the Secretariat shall refer the proposal to the Consultative Group for further guidance.

Donor Coordination

12. Proposals that are adjudged to meet the threshold eligibility requirements and to be consistent with other approval criteria will then be tested to ensure they are not in conflict with the programs or activities of donors.

13. For small proposals (\$75,000 or less), the Secretariat shall make this assessment by undertaking a review against information on donor programs and activities held in a database developed and maintained by the Secretariat for this purpose. That database shall cover the programs and activities of donors participating in the Cities Alliance and, to the extent feasible, the programs and activities of other donors with significant activities in urban development.
14. For medium and large proposals (over \$75,000), the Secretariat will undertake a more active assessment. In the case of donors participating in the Cities Alliance, this will involve consultation on a “no objection” basis. This consultation will usually be undertaken through electronic mail inviting nominated contact persons to register any concern within a maximum of ten working days.¹ To facilitate this process, participating donors are to advise the Secretariat of relevant contact details within their organization. In the case of donors not participating in the Alliance, inquiries may be limited to information reflected in the database noted above.
15. If the above processes reveal any issue of donor coordination, the Secretariat shall endeavor to resolve such matters through appropriate consultation. Matters that cannot be resolved in this manner may be referred to the Consultative Group for further guidance.

Approval

16. Proposals that pass the above tests shall be subject to final approval according to the following process.
17. For small and medium proposals (\$250,000 or less) that have been positively evaluated through the Technical Assessment process, the Secretariat shall be authorized to approve the proposal without further reference to the Consultative Group. However, the Secretariat shall inform the CG of its approval activity through quarterly reports.
18. For large proposals (over \$250,000) that have been positively evaluated through the Technical Assessment process, the Secretariat is required to seek the endorsement of the CG on a “no objection” basis. This will normally be through a series of quarterly reports based on the quarterly batching of proposals, where donors would be asked to register any objection within 10 working days. For urgent requests, the CG may be invited to endorse the activity at the same time as it is asked to waive the batching requirement (see para 10) and to confirm that there is no conflict with donor programs or activities (see para 14).

¹ In the case of urgent matters, the Secretariat may expedite this process by seeking affirmative advice from each participating donor.

Notification of Proponent

19. Proponents will be notified immediately following the acceptance of their proposal and all approved proposals will be posted on the Cities Alliance website.

Execution

20. Once an activity has been approved and Cities Alliance funds are allocated, the Secretariat shall designate a task manager for the activity, which will typically be the task manager nominated on the application form. The task manager will be responsible for ensuring that all appropriate procurement, supervision and reporting procedures are complied with.

**SUMMARY OF EVALUATION AND APPROVAL PROCESS FOR PROPOSALS
NOT SPECIFICALLY IDENTIFIED IN ANNUAL WORK PROGRAM**

Size of Proposal	Initial Screening (threshold eligibility)	Technical Assessment (conformity with approval criteria and work program priorities)	<i>Donor Coordination</i> ("no conflict" test)	<i>Final Approval</i>
Small \$75,000 or less	Secretariat	Secretariat – Use of independent technical assessors optional. Proposals considered on a rolling basis.	Database check.	Secretariat
Medium over \$75,000, up to \$250,000	Secretariat	Secretariat – Use of independent technical assessors mandatory. Proposals batched for relative assessment on a quarterly basis. This requirement may be waived in the case of urgent proposals with the endorsement of the Consultative Group on a "no objection" basis.	Consultative Group members: Confirm no-conflict on a "no objection" basis. Non-members: Database check.	Secretariat
Large over \$250,000	Secretariat	Secretariat – Use of independent technical assessors mandatory. Proposals batched for relative assessment on a quarterly basis. This requirement may be waived in the case of urgent proposals with the endorsement of the Secretariat on a "no objection" basis.	Consultative Group members: Confirm no-conflict on a "no objection" basis. Non-members: Database check.	Endorsement sought on a "no objection" basis from Consultative Group (if financed from Core Fund).

The final approval for activities to be financed from Non-Core funds is subject to procedures agreed between the Secretariat and the contributing donor of the Non-Core fund.

Annex II: Reporting and Auditing Arrangements

Specific reporting and auditing requirements will be defined in the trust fund agreements entered into between participating donors and the World Bank. The general structure of the proposed reporting and auditing arrangements are outlined below.

For Core Fund (*to be provided to all CG members*):

- Quarterly financial statements¹ (unaudited)
- Semi-annual progress reports on the status of approved activities.

For Non-Core Funds (*to be provided separately to relevant donor*):

- Quarterly financial statements (unaudited)
- Semi-annual progress reports on the status of activities

For all Cities Alliance activities (*to be disseminated broadly*):

- An annual report on all Cities Alliance activities and summary financial statements, no later than six months following the end of the fiscal year.

The World Bank, as trust fund administrator, will provide to donors on an annual basis a management assertion, together with an attestation from the World Bank's external auditors, of the satisfactory performance of the procedures and controls used by the World Bank in administering Cities Alliance funds.

External reviews and financial audits of Cities Alliance activities may be performed at the request of the Consultative Group, individual donors with respect to their contributions to Non-Core Funds, and World Bank management.

A quarterly report on the activities and achievements of the Cities Alliance will be prepared for the Patron of the Cities Without Slums initiative, President Nelson Mandela.

¹ Financial statements are prepared in US dollars and on a cash basis. Contributions are recorded when received, and disbursements are recognized when paid rather than when obligations are incurred.