

FY11 Development Grant Facility Budget

And

Reorientation of DGF Facility

Briefing Memo to Cities Alliance Executive Committee

1. The Development Grant Facility (DGF) was established in FY98 to consolidate World Bank grant-making into a single mechanism;
2. A two-window mechanism was introduced in FY02, with Window 1 designed for long-term partnerships and long-term development challenges, while Window 2 was intended for shorter-term programmes intended to catalyse new approaches;
3. After a long campaign by its first Manager, the Cities Alliance was admitted into Window 1, from which it has received an annual contribution of \$3.0m;
4. Over the past two years, the Board began considering the need to reform the development Grant Facility;
5. On the 10th June, the World Bank Board made a series of recommendations to reorient DGF strategy.
6. A number of significant decisions have been made, which will affect all partnerships in Window 1, including the Cities Alliance. The essential points are:
 - All Window 1 programmes will be required to develop a clearly articulated and time-bound financial exit strategy;
 - Except in exceptional cases, the target time horizon for exit should be three years;
 - The exit of a programme from DGF funding does not necessarily mean disengagement from the Bank;
 - In discussing exit strategies with programme Managers and development partners, the sponsoring unit within the Bank (SDN) and the DGF secretariat should consider how alternative sources of funding might be mobilised to substitute for DGF grants; and
 - The DGF Council has called for the development of a strategy to adapt 'Membership Fee Programs' to provide transitional support – in some cases – to programmes that are to exit DGF.

**Next Steps:**

An indicative timetable is as follows:

- **FY11 1st/2nd Quarter** : Discussions/negotiations with Window 1 programme managers & development partners;
- **FY11 2nd Quarter**: Special meeting of DGF Council to review agreed strategies;
- **FY11 2nd Quarter**: Technical Briefing to the Board by Management on agreed exit of Window 1 programs.

Summary:

The World Bank was one of two Founding members, with UN-Habitat, of the Cities Alliance in 1999. Since then, through the DGF, the World Bank has been a stable supporter of the Cities Alliance, and the largest contributor of core funds. This reform of the Development Grant Facility, which applies to all Window 1 programmes, will require an exit strategy to be in place by the end of 2010, to take effect at the end of FY13.

Recommendation:

EXCO will need to give clear guidance to the Manager to assist him in the discussions on the exit strategy, and may wish to consider the appointment of a small contact group with whom the Secretariat can liaise.