Précis

OED

WORLD BANK OPERATIONS EVALUATION DEPARTMENT SUMMER 2002 NUMBER 224

Grant Programs: Improving Their Governance

For 30 years, grants have been controversial as a World Bank operational instrument. In practice, they have proven useful in circumstances where an important development need could not be met through lending or support from Bank partners. Compliance with sound management criteria, however, has been mixed.

Despite their controversial nature, external grants have proven to be a useful tool in achieving the Bank's development objectives. The growing importance of human resources and social development and the rising demand for capacity-building assistance have changed the Bank's mandate, and require a wider range of instruments than is available through lending only. New development alliances to address deficits in global public goods call for the Bank to put grant money "on the table" to catalyze support from others.

Building a Grant Program

The Bank became involved in external grant-making in 1972 through its collaboration with the Ford and Rockefeller Foundations in establishing what would become the Consultative Group on International Agricultural Research (CGIAR). The foundations were interested in having the Bank take the lead in this activity because of its comparative advantage in mobilizing financial support and in fostering collaboration among donors. In addition to providing grant funds, the Bank agreed to house and pay the full costs for CGIAR's secretariat. In retrospect, it is clear that the Bank acquitted itself well in its multiple responsibilities. But the CGIAR decision did not comply with standard grant-making criteria and created a precedent that subsequently made strict discipline with grant-making standards difficult to enforce.

Funding for grant programs increased from about $40 million in 1985 to $122 million in 1998, when the work of the Development Grant Facility (DGF) got under way. The DGF was designed to bring together all the Bank's grant programs, with the exception of emergency and ad hoc grants to individual countries.

OED's 1998 review of Bank grant programs looked at the procedures in place, and focused on a single question: Is the Bank's process for managing grant programs effectively supporting its development goals?

Findings

The 1998 OED evaluation was able to assess the relevance, efficacy, and efficiency of Bank grant programs that accounted for about 80 percent of the FY97 grants budget, even though monitoring and evaluation systems varied greatly among Bank grant programs, there were gaps in evaluation reporting and dissemination, and no systematic evaluation regime existed for the grants program as a whole. Overall, these grants produced positive development outcomes, especially in the areas of health and agricultural research. For example:

- The river blindness control program, begun in 1974, largely eliminated that disease in 11 West African countries. It protected 40 million people and cured 1.8 million. Eliminating the disease allowed renewed access to 25 million hectares of fertile land for food production.
- The CGIAR helped to improve food production and the incomes of small farmers, with downstream benefits for consumers.

But for many grant programs, although benefits were reported, the fragmentary data and anecdotal reports allowed no firm conclusions regarding their development effectiveness.

Governance of the Bank's Grant Programs

Credibility of the grant programs hinges on the enforcement of sound criteria for selecting and implementing grant proposals. Grants have been made for a wide variety of purposes relevant to the Bank's mission: to respond to emergencies, to increase the Bank's effectiveness by addressing transnational needs for which lending is difficult or impossible, to provide seed money to attract other funders, to enhance understanding and awareness of development problems and discussion of ideas of strategic importance to the Bank, to support innovative and high-risk projects for which lending would be inappropriate, and to promote and enhance partnerships. The difficulty of making choices among such diverse objectives is obvious. How, then, did the Bank's procedures for making such tough choices stack up against those of comparator institutions?

OED compared the Bank's process to a set of generally accepted standards for grant-making institutions and found that it addressed most of these standards. The Bank had in place a sound set of criteria against which to judge the justification of grants. The three most important such criteria—and those against which OED evaluated the ongoing grant programs—are *subsidiarity, an arm's-length relationship with the grantee,* and *a well-planned exit strategy*. Although these elements have long been part of the Bank's grants approval process, they had not been enforced strictly at the time of the study, despite the tighter management that emerged with the launch of the DGF (see table).

Grants: Fiscal Year 1998

Criterion	Fully meets	Does not fully meet
Subsidiarity	45	5
Arm's length	42	8
Exit strategy	29	21

Source: OED data.

Subsidiarity

Foremost among the risks attending grants is moral hazard: soft money has a tendency to drive out hard. Unless properly targeted, grants can compete with the Bank's own lending programs. Ensuring against such an eventuality is the principle of subsidiarity: the Bank should provide grants only where an activity meets Bank objectives, but loans or other instruments are inappropriate and, without Bank participation, funding would not be available from Bank partners. The 1998 review suggested that some programs fell short of full compliance with this criterion. The Small Grants Program and the Institutional Develioment Fund, for example, were funding activities that otherwise might be appropriate candidates for the Bank's Project Preparation Facility or Learning and Innovation loans, while the Consultative Group to Assist the Poorest competed to some extent with the Bank's microfinance lending.

Arm's-Length Relationship

An arm's-length relationship between the Bank and the grantee is intended to guard against actual or perceived conflicts of interest. Once the Bank is called upon to handle a combination of fundraising, fiduciary, and administrative responsibilities within a collaborative arrangement, a de facto dependency relationship develops, and less funding is available for other purposes. A notable (but by no means unique) example of an inadequate arm's-length relationship is the CGIAR.

Exit Strategy

A clear exit strategy is needed to prevent long-term dependence on Bank grant support, which can undercut the independence of the grantee and work against the sustainability of program benefits. To avoid this, it is necessary to have—and enforce—requirements for an exit strategy. Timely program exit also makes room for new priorities and supports the achievement of broad development impact. Nevertheless, during the five years leading up to the 1998 study, only about 2 percent of grant funds were freed annually through program exit. While the median duration of grant support at the time of the 1998 study was 3 years, 17 programs—including many of the largest—had been supported for 7 or more years; of these, 12 had realized more than 10 years of support.

Toward a New Vision for Grant Programs

The OED review outlined a new vision for the grants program that would strengthen the governance of the system and respond to new challenges and opportunities.

An Overall Operating Policy

The first of the recommendations was that an operational policy for grants be put in place. The policy would make the criteria for grant-making more transparent. It would encompass all major external grant programs, including both those associated with the DGF and ad hoc grants, and detail specific guidelines for subsidiarity, arm's length dealings with grant recipients, and exit strategies. Given the evidence of continuing shortcomings in adherence to grant criteria, strict compliance with these criteria would also be instituted.

A Role for Outside Experts

The study suggested that the DGF Council bring in internationally respected development experts and other prominent individuals to help with both oversight and funding. Alternatively, Advisory Boards of external experts could be constituted to provide the same independent check on the Bank grant program. There are several strong reasons for routine use of outside experts, including their objectivity and the ability to engage strong, globally strategic technical expertise that may not be available within the Bank.

Mainstream Grant Programs

The study also recommended that regular grant programs be mainstreamed to Regions and Networks, as appropriate, in order to align grants closely to the Bank's development strategy. This would ensure that grant programs compete with other potential uses of funds, thereby advancing subsidiarity. Emergencies and other grant opportunities could still be addressed by Board-approved grants, as Bank income allowed.

In the context of mainstreaming, OED recommended that the DGF Council assume a different role—to develop and implement grants policy; review compliance; advance partnerships with other public and private donors; promote creative financing; and conduct ex post evaluation of results.

An emphasis on partnerships is also expected to influence grant-making, both on the demand and the supply side, and it was recommended that management ensure that the Bank's policy on partnerships address how these partnerships are related to grants. The Council should help to create endowment opportunities with private sector partners for programs that require long-term support. This is particularly appropriate when an exit strategy is impractical (as in the case of the CGIAR).

Improve Monitoring, Evaluation, and Reporting

The 1998 study found that improved accountability and transparency mechanisms were needed in the grant-making process. While some grant programs had developed robust M&E systems, most had not. There were major gaps in evaluation reporting and dissemination, and no systematic evaluation regime existed for the grants program as a whole. This was at variance with the Bank's commitment to self-evaluation, independent evaluation, and learning from experience. To address these issues, OED recommended:

- Regular external evaluations for all grant programs
- An annual report to the Board emphasizing compliance with grant criteria
- Periodic reviews by the Internal Auditing Department and the Quality Assurance Group.

OED

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A Renewed Focus on Grant Programs

World Bank grant programs are being reviewed—along with progress in the implementation of the 1998 OED recommendations—as part of the ongoing OED evaluation of global programs (http://www.worldbank.org/oed/gppp/). The Bank is currently involved—as founding member, financier, administrator, or participant—in 70 global programs. In fiscal 2001, the Bank provided $120 million in grants from the DGF, and disbursed another $500 million from Bank-administered trust funds for these programs. More recently, IDA grant financing for in-country allocations and grants for regional and global purposes in the range of 15-20 percent of the notional IDA13 replenishment figure has been proposed. It is likely that the DGF model will be adapted to administer the expanded grant program, so it is timely to revisit the work of the 1998 study.

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ISSN 1564-6297