



Options for Managing Development Partner Preferences for Umbrella 2.0 Programs

One of the key objectives of Trust Fund (TF) reforms is to drive the World Bank's TF portfolio towards "fewer and larger" programs that will reflect the core priorities of the Banks' Global Practices (GPs) and Regions. At the same time, development partners (DPs) often express interest to target their support to more narrow areas, whether thematic or geographic. The objective of this note is to help teams manage such DP preferences within Umbrella Programs.¹

It is always desirable to avoid any form of restricting the use of or placing limitations on contributions to Umbrella Programs. In addition, earmarking is not possible in a multi-donor trust fund (MDTF). Pooling resources in support of a common development outcome provides flexibility across the Umbrella Program and makes it easier to draw on the full capacity of the World Bank.² Restricting or placing limitations on contributions undermines the Bank's ability, as program administrator, to manage the funds flexibly and optimally in response to evolving priorities or emergencies. Being a "supply-driven" approach, it also reduces the ability of the Umbrella Program to respond effectively to recipient needs and could ultimately reduce country ownership and overall program impact. Finally, it also detracts from the MDTF's ability to pool donor funds in pursuit of a common development objective.

Umbrella Programs provide DPs several ways to influence and shape Umbrella Programs. As a member of the Umbrella Program decision-making body (the Partnership Council), DPs provide strategic advice on thematic and geographic priorities. They have an opportunity to express their preferences and influence the Program during the discussion of the annual work program and budget. DPs also have inputs on the results framework of the Umbrella Program and can influence the choice of results indicators. Moving the dialogue from inputs to results can be an impactful way for DPs to reflect their preferences in the Umbrella Program.

Nevertheless, some DPs may have limited ability to pool their contributions at the global or regional level due to their own internal budgeting constraints or legislative regulations. Therefore, providing a degree of flexibility in this regard is needed to enable Umbrella Programs to accommodate such situations. This note discusses two complementary options to achieve this, preferencing and earmarking by association, keeping in mind that teams should only use such approaches if they are aligned with the overall objectives of the Umbrella Program and can attract sufficient client demand.

¹ The Umbrella Program consists of one or more trustee trust funds and enables a more strategic approach for donors and the Bank to partner and finance their priorities. It is a flexible instrument based on the following guiding principles that provide scale and efficiency at the same time as balancing donor requirements: a) common governance; b) common results framework; c) common annual progress report that is based on the agreed results framework; d) options for donors who want their funding to support a subset of the Umbrella's broad scope; and e) a Strategic Communications and Visibility Plan that helps donors demonstrate the impact of their investment and value added to their constituents.

² For a case study that illustrates how pooling donor funds can lead to greater efficiency and impact see: World Bank Group Trust Fund Reform Brief: "The Global Water Security and Sanitation Partnership Impact and Efficiency: Findings from a Pioneering Umbrella Program." January 2020.

Preferencing within a MDTF is when a DP expresses a non-binding preference to finance specific sectors, themes and/or geographic areas. The preference is stated in the cover letter of the Administrative Agreement (AA). The DP acknowledges that the Bank cannot guarantee that the contribution will be used for the DP's specific preferences, but it is understood that they will be accommodated to the extent possible. The funds are comingled in the MDTF and DP preferences are not reflected nor attributable in financial and activities reporting.

Earmarking by association is when a DP agrees to fund a specific set of activities or to finance specific sectors, themes, and/or geographic areas under an Umbrella Program. While earmarking is not possible in a MDTF, Umbrella Programs may be able to accommodate such requests when a DP is unable to contribute to the main MDTF due to their own internal policies, regulations or similar issue, typically because they require dedicated financial reporting ("tracking" of their contributions to their area of preference). This is handled by establishing a separate trustee trust fund (called "associated trust fund") supporting specific activities listed in the AA. Associated trust funds must support the Umbrella Program's development objective and contribute to the overarching results framework. Financial reporting is provided for each individual trustee trust fund and narrative reporting is included in the overall Umbrella Program progress report.

All DPs are expected to contribute to program management and administration costs regardless of whether their contribution is preferenced or earmarked.

1. Preferencing within an MDTF

DPs may state a "non-binding preference" to finance a specific sector, thematic and/or geographic area. This statement is not a legally binding commitment by the Bank. The preferencing request is expressed in the cover letter of the AA.

Parameters: Preferencing cannot be based on a specific project or activity, on the type of execution (Bank-executed v. Recipient-executed), nor the type of expenditure (staff costs, consultants, etc.). DPs cannot express negative preferences (i.e. activities, themes, or geographic areas they do not wish to fund). A specific monetary value or percentage cannot be attached to the expressed preference (i.e. a DP cannot express preference that X% of their contribution goes to theme A and Y% goes to theme B). Expressed preferences should be for sectors/themes/geographic areas that are already part of the Umbrella Program. Should the expressed preference result in an expansion of the Umbrella's agreed work plan into new sectors/themes/geographic areas, the Partnership Council would first need to approve this expansion. The results framework of the Umbrella Program may also need to be updated. Expanding the scope and/or activities of the Umbrella Program would require amending the AA of all DPs to the MDTF.

Process: The Umbrella Program Manager (PM) is responsible for handling all requests for preferencing within the Umbrella Program. Before accepting a preferenced contribution the PM shall 1) ensure that the expressed preference is aligned with the Umbrella priorities and results framework, and ensure that the Bank can "deliver" on the preference; 2) ensure that the DP understands that the expressed preference is non-binding and their funds cannot be directly attributed to the specific preference; 3) ensure that the DP understands that they will not receive dedicated financial or progress reporting related to their contribution or preference, and that when the TF closes they will receive their pro-rata share of any remaining funds, based on total contributions to the MDTF by all DPs (see box below); and 4) ensure that the Partnership Council and other DPs are informed of the preferenced contribution.

Managing preferences: It is the responsibility of the Umbrella PM to manage DP preferences. Before accepting a preferenced contribution, the PM should ensure that such preferencing will not negatively impact the Bank’s ability to manage TF resources in the way needed to achieve the Program’s development objective and deliver on the full range of activities and results agreed to under the Umbrella Program. The PM will need to carefully manage DP expectations with regard to any preferencing.

Governance: All DPs contributing to the Umbrella Program are eligible to be members of the Partnership Council. The governance arrangements of the Umbrella will not differentiate among DPs based on preferencing.³ The PM should consult with DPs and take into consideration their expressed preferences when preparing the work program and budgets when practicable.

Reporting: DPs will receive aggregate financial and progress reporting at the Umbrella Program level, with financial reporting broken down at the trustee trust fund level following the principles for reporting on Umbrellas⁴. DP preferences are not reflected in the aggregate level report, meaning that the reports do not attribute certain activities or expenses to individual DPs. In addition, customized reporting (progress or financial) is not provided to the DP for their expressed preference. Reporting may provide information on geographic or thematic areas.⁵ It is important to keep in mind that DP contributions in an MDTF are commingled. All DPs contribute to program management and administration costs. Progress reports will reflect preferenced activities as part of the overall work delivered under the Umbrella Program. This could be done by presenting information broken down by thematic or geographic areas.⁶ The DP can access grant level reporting through the Development Partner Center (DPC), including links to public versions of Implementation Status Reports (ISRs) and Implementation Completion Reports (ICRs).

Visibility: Results achieved under the MDTF are attributed to all contributing DPs. A DP will not receive exclusive attribution or acknowledgement for results pertaining to their area of preference.

If in the course of the implementation of the Umbrella Program, it appears that it will not be possible to fully implement the DP’s preference (for instance because country demand for activities in the preferenced theme is lower than anticipated), the Bank may direct trust fund resources to other sectors or thematic or geographic areas in the trust fund, consistent with the governance arrangements of the particular trust fund. The Umbrella PM should transparently and proactively communicate to the DP the circumstances limiting the Bank’s ability to accommodate the expressed preference and plans for reallocation.

³ In practice, the Umbrella PM will need to carefully manage donor expectations and interventions to avoid situations in which a donor whose only contribution to the main Trust Fund is preferenced attempts to block a decision (i.e. prevent a consensus) regarding a matter outside their area of preference. These “rules of the game” may be explained to all donors in the first meeting of the Partnership Council.

⁴ See *World Bank Guidance Note on Trust Fund Reporting for Development Partners*.

⁵ The Bank’s TF accounting systems do not currently allow automatic aggregate financial reporting along themes or geographic areas within an MDTF, which will therefore not be available in the Bank’s Development Partner Center.

⁶ The World Bank does not provide customized financial reporting based on donor preferences. The PM may aggregate financial reporting by thematic and/or geographic areas, however, this would need to be done manually. This will not be reflected in the standard financial reporting that the Bank is required to provide to donors and which is available in the Development Partner Center.

Closing and Exit: While a DP may decide to exit the Umbrella at any point in time, DP preferences are not considered when calculating the refund from the trust fund trustee, which is instead based on the pro-rata share of total paid-in contributions (see box below).

Box 1		
Development Partner Exit		
If a DP exits an MDTF they are entitled to the same pro rata share regardless of whether their contribution was preferred. DPs may also elect to waive their right to a pro rata share when they exit.		
Scenario 1: Donor A contributes \$5 million to a MDTF and preferences their contribution for work in the Africa Region. After the work in Africa that was of interest to Donor A finishes, Donor A decides to exit the MDTF. At the time of exit, Donor A would be entitled to a pro rata share of \$1,428,571.43 (see computation below).		
Scenario 2: Donor A contributes \$5 million to a MDTF and preferences their contribution for work on planting trees. This work does not take place due to insufficient demand. DP A decides to exit the MDTF. At the time of exit, Donor A would be entitled to a pro rata share of \$1,428,571.43 (the same computation applies).		
Computation of pro rata share of the undisbursed funds when a DP exits a TF		
<u>Donor Contribution US\$</u>	<u>Computation of share of uncommitted fund balance</u>	
Donor A	5,000,000	
Donor B	4,000,000	
Donor C	3,000,000	
Donor D	2,000,000	
Total Contributions	14,000,000	
Fund balance when Donor A exits	6,000,000	
Uncommitted fund balance	4,000,000	
	% of total	Share of unspent balance US\$
	Donor A 35.71	1,428,571.43
	Donor B 28.57	1,142,857.14
	Donor C 21.43	857,142.86
	Donor D 14.29	571,428.57
	Total 100.00	4,000,000.00

2. Earmarking using Associated Trust Funds in an Umbrella Program

In cases where a DP (or a group of DPs) is unable to pool their contribution at the global or regional level and/or provide funding for all implementation areas covered by the Umbrella Program, a separate trustee trust fund may be created under the Umbrella Program (“associated” trust fund). The associated trust fund enables task teams to carry out specific activities, projects, in specific geographic areas, while being able to keep the funds separate for financial tracking and financial reporting.

Parameters: Activities financed by the associated trust fund must align with the Umbrella Program’s development objective and fall within the agreed geographic and thematic scope of the Umbrella Program. Should the scope of the associated trust fund result in an expansion of the Umbrella's agreed work plan into new sectors/themes/geographic areas, the Partnership Council would first need to approve this expansion. The results framework of the Umbrella Program may also need to be updated.

Process: A new TF will need to be established. The Umbrella Program Manager is responsible for initiating the process for creating and administering associated trust funds under the Umbrella Program. A separate

concept note for the establishment of the associated trust fund will be prepared. In some cases, a simplified format may be used. Upon agreement of the Umbrella Program Manager and the contributing DP to accept the association, a new AA would be signed with the DP(s) contributing to the associated trust fund. The Partnership Council should be informed of any trust funds that will be associated to the Umbrella Program.

Management of the trustee: The associated TF should be managed by the same unit that manages the main Umbrella Program MDTF. The Umbrella Program Manager should ensure that the individual activities funded by the associated TF are aligned with the Umbrella Program work plan and that results indicators of activities funded by the associated TF feed into the Umbrella Program results framework. All associated trust funds must include a budget for Program Management & Administration (PM&A) costs. Cost recovery fees are applied at the trust fund level.⁷

Reporting: Progress and completion reports will be at the Umbrella Program level and cover activities financed by all associated TFs. The results framework for the associated trust fund must feed into the aggregate level Umbrella Program results framework. Umbrella Program Managers should consult with DPs on the format and content of reporting. One option could be to organize progress and completion reports so that each associated TF has a dedicated chapter to share their specific achievements and result stories and a chapeau chapter which provides aggregated results at the Umbrella Program level. An alternative could be to prepare a comprehensive report showcasing aggregated results only at the Umbrella Program level and highlight select projects and their results across all the associated TFs based on thematic or geographic areas. . In all cases, only one progress and completion report are prepared per Umbrella Program. Financial reporting will be provided at the individual trustee level via the DPC.

Governance: There is one Partnership Council for the Umbrella Program that covers all associated trustees. Associated trustees do not have their own governance mechanism. DPs contributing to an associated TF are eligible to be members of the Umbrella Program’s Partnership Council. DPs participate in decision making on work plans and budgets for the trustees to which they contribute but discuss activities and results expected from the entire Umbrella Program. In other words, a member of the Partnership Council cannot block a consensus decision on the work program or budget for an associated trust fund to which they do not contribute.

Visibility: DP acknowledgement in relation to the activities funded by the associated trust funds should be consistent with the Umbrella Communication and Visibility Plan.⁸ For instance, in programs with a large number of partners, the preferred approach is for these partners to agree to the use of the program identifier on program outputs instead of their specific DP identifiers as long as these are made visible, and referenced on the partnership website and annual report. This approach will allow communication products to focus on key messages while retaining the rights of partners to visibility.

3. Managing Preferencing

The flexibility to preference DP contributions is an important feature of the Umbrella Program. It helps improve the integration of DPs’ contributions to the Bank’s financial and strategic planning while ensuring that the Bank remains responsive to its partners’ priorities. However, preferencing needs to be managed

⁷ See *World Bank Directive: Cost Recovery Framework for Trust Funds*, 2/25/16, DF12.02-DIR.74

⁸ See *World Bank Guidance on Communications and Visibility Plans (CVP) for Umbrella 2.0 Programs*

carefully and should only be used when justified. Otherwise, there is a risk of over-preferencing and earmarking in the Umbrella Program which can result in fragmentation within the program and deter from the Bank's ability to achieve scale and efficiency and fully meet the Umbrella Program's development objective. Below are some considerations to help manage the risk of over-preferencing.

- Optimal aggregation: It is important to get the right level of aggregation for the Umbrella Program. If the scope of an Umbrella is too large, DPs are likely to require more preferencing and earmarking in order to meet their own internal reporting requirements. Furthermore, the larger the scope of the Umbrella, the more unwieldy the aggregate reporting will come.
- Reporting: While only one aggregate level report is provided for an Umbrella Program, determining the format and level of detail of reporting is important to ensure that DPs are able to easily extract the results and data they need for their own reporting. Consulting with DPs on the level of detail in the aggregate report as well as on the selection of indicators in the results framework can help manage the need to of DPs to use preferencing and earmarking.
- Transparency: It is important to maintain transparent and open communications with DPs throughout the establishment and implementation of the Umbrella Program. In particular, DPs should be consulted and have inputs in the development of the results framework, format of the annual report, and on the communication and visibility plan. Furthermore, DPs should be informed of all preferencing and earmarking within the Umbrella Program and its impact on the overall delivery of the program. Potential risks of over-preferencing should be openly discussed.