Pooled funding for transition at the country level
Prepared for the UNDG/ECHA Task Team on Financing for Transition

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Acronyms

AA  Administrative Agent
AIAF  Afghanistan Interim Authority Fund
ARTF  Afghanistan Reconstruction Trust Fund
BSF  Basic Services Fund, Southern Sudan
CAR  Central African Republic
CBTF  Capacity Building Trust Fund, Southern Sudan
CHF  Common Humanitarian Fund
DRC  Democratic Republic of Congo
DSRSG  Deputy Special Representative of the Secretary-General
HAP  Humanitarian Action Plan
HC  Humanitarian Coordinator
HRF  Haiti Reconstruction Fund
IRF  Immediate Response Facility, Peacebuilding Fund
IRFFI  International Reconstruction Fund Facility for Iraq
ISSSSS  International Security and Stabilization Support Strategy, DRC
LOTFA  Law and Order Trust Fund of Afghanistan
MDTF  Multi-Donor Trust Fund
MDTF-SS  Multi-Donor Trust Fund, Southern Sudan
PBF  Peacebuilding Fund
PF  Pooled Fund, DRC
PRF  Peacebuilding and Recovery Facility, Peacebuilding Fund
SRF  Sudan Recovery Fund for Southern Sudan
SRFF  Stabilization and Recovery Fund, DRC
STAREC  Stabilization and Reconstruction Plan for War-Affected Areas, DRC
ToR  Terms of Reference
UN  United Nations
UNDG  United Nations Development Group
UNDG/DOCO  UNDG / Development Operations Coordination Office
UNDP  United Nations Development Programme
WB  World Bank
Executive Summary
1. Introduction

1. In recent years, the international aid community has committed itself to international initiatives and agreements that underline the importance of harmonising aid activities – the so-called aid effectiveness agenda.\(^1\) This agenda stems from the international community’s debate on how to better coordinate and harmonise its aid activities to ensure maximum accountability, efficiency and transparency. Central to the agenda is an increasing emphasis on ownership, donor alignment, results and mutual accountability.\(^2\) Increasingly, the pooling of funds is seen as an important element in the efforts to improve aid effectiveness, specifically in post-conflict transition situations.

2. The objectives of this review are: 1) to clarify how pooled funds can contribute to aid effectiveness in post-conflict transition situations and through that to improved aid flows and 2) to recommend improvements in current systems, procedures and policies to donors and agencies.\(^3\) The review will critically assess the widespread assumption that pooled funds are a conduit for enhanced coordination and response, giving particular attention to ownership, coordination, speed, flexibility and risk management and mitigation. The review will seek to identify factors that will enable pooled funds to live up to the expectation that they will contribute to aid effectiveness in post-conflict transition situations. In short, the review will seek to identify what are the parameters for success.

3. The review has combined desk study with field work in the Democratic Republic of Congo (DRC). The DRC was chosen because it has multiple funds with a variety of governance structures. Two of the funds – the Stabilization and Recovery Funding Facility (SRFF) and the Peacebuilding Fund – have clear transition mandates, while the Common Humanitarian Fund in DRC, the Pooled Fund, is widely viewed as highly effective. There are also several small donor managed funds. The SRFF contains a number of innovative features aimed at bringing as much of the funding for stabilisation and recovery in Eastern DRC under one strategy as possible.

4. The desk study entailed a review of existing studies and guidance notes on pooled funding in post-conflict transition situations in general, programme and policy documentation (including reviews and evaluations) relating to pooled funds in Afghanistan, Central African Republic, Haiti, Aceh / Indonesia,\(^4\) Iraq and Southern Sudan, as well as DRC, and interviews (both in person and via telephone) with key stakeholders both within the donor community and the executing agencies.

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\(^1\) Notably the Paris Declaration, the Accra Agenda for Action and the OECD/DAC Principles for Good International Engagement in Fragile States. These donor initiatives are proceeding in tandem with efforts to improve coordination and harmonisation in the multilateral system, notably the UN ‘Delivering as One’ process, in which the UN seeks to streamline its operations.


\(^3\) The Terms of Reference (ToR) are found in Annex 1. This review will not examine existing and agreed upon UN guidance for Multi-Donor Trust Funds or other issues relating to administrative effectiveness. Some of the review findings may, however, have implications for aspects of administrative effectiveness.

\(^4\) The Multi-Donor Trust Fund for Aceh and Nias has been termed a successful model by a number of respondents. It has therefore been added to the review team’s list but more information needs to be gathered and it is thus not adequately represented in the report at present.
5. As the point of departure for this review was to build upon – and not repeat – other recent reviews of pooled funding, the review team took as its starting point the consensus in the literature. This has enabled the review team to test previous findings while simultaneously identifying and focusing new research on gaps. Additionally, the review team has categorised 15 funds in the main countries of interest according to their structure and the rules that govern their financing (section 2 and Annexes 4-8). These funds are then assessed in terms of the five areas relating to aid effectiveness specified in the ToR: coordination (section 3), ownership (section 4), speed and flexibility of response (section 5), and risk management and mitigation (section 6).

6. The ToR also specify a focus on structures, partnership arrangements, capacities and processes for planning and decision-making. While the review is not intended to examine the implementation of activities financed by pooled funds, it is impossible to separate entirely ‘structures, partnership arrangements, capacities and processes for planning and decision-making’ from implementation. The desired outcome in terms of aid effectiveness will depend not only on appropriate structures and systems being in place but also on them functioning as intended.

7. The review has focused its inquiries on a number of specific questions relating to: 1) structures, capacities and processes, 2) partnerships, 3) coordination, and 4) ownership and capacity building in order to assess the conditions for achieving aid effectiveness benefits of pooled funding in transition contexts. More detail on these questions is found in Annex 2.

8. The concluding section identifies a number of steps that the international community can take to strengthen the aid effectiveness of pooled funding mechanisms (section 7).
2. Pooled funding in transition situations

Pooled funding mechanisms: structures and categories

9. Pooled funding mechanisms can take many forms but, as defined in the ToR for this review, they all utilise donor contributions against a set of common objectives and activities that are approved by a joint governing mechanism (Box 1).

Box 1. Definition of pooled funding

'Pooled funding mechanisms' are to be understood as arrangements where donors provide financial contributions towards a common set of broad objectives and where allocations for specific activities are decided by a joint governing mechanism. Typically, pooled funding mechanisms involve a trust fund, where money is being held by an administrative agent or trustee, until allocations are made. In post-conflict transitions, the administrative agent is normally a multilateral agency, either the UN or the WB, although it could also be a private company or a bilateral donor operating on behalf of several donors. The common technical term for this type of arrangement is a Multi Donor Trust Fund (MDTF), which is used for instance in UNDG guidance. However in policy discussions, the term ‘Multi Donor Trust Fund’ often refers only to instruments based on development funding, and does therefore not include Common Humanitarian Funds. ‘Pooled funds’ on the other hand, usually refer to both development-based and humanitarian-based arrangements in policy discussions.’

Source: Terms of Reference, Review of Pooled Funding for Transition at Country Level

10. All of the 15 pooled funding mechanisms examined in some detail in this report have a similar governance structure. A ‘typical’ pooled funding mechanism is thus likely to consist of the elements shown in Figure 1. Donors transfer fund contributions to an Administrative Agent (AA) or a Trustee, whose role and responsibilities are similar to those of a banker – they manage the money that has been contributed to agreed terms, disburse funding and produce consolidated reports. A Steering Committee or similar governance/decision-making entity makes funding decisions by allocating resources to Recipient Organizations and ensuring the alignment of these allocations with the relevant strategic framework and conformity with the requirements of the specific MDTF. The Steering Committee can also carry out strategic monitoring and evaluation for the fund as a whole. Representation on Steering Committees generally includes international and national governmental actors. In some

Figure 1. Governance Structure Typical Pooled Funding Mechanism

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In UNDG terminology, ‘pooled funding’ refers exclusively to the pooling of funding among UN agencies. The definition of pooled funding used in this report more closely relates to the UNDG definition of ‘pass-through’ funding. See Annex 3 for more details.
cases donors and civil society actors (international and national) are also present, either as full members or observers.

11. Steering Committees are generally supported by Secretariats which provide the day-to-day management of the fund. Secretariats are sometimes staffed by management agents, generally from the private sector (consulting companies, non-governmental organisations). They can include both national and international staff. The Secretariat may be supported by a Technical Review Committee, which evaluates concept notes and proposals according to agreed criteria.

12. Recipient Organisations are those bodies authorised by the fund ToR to receive money. They are also accountable for its use and thus responsible for monitoring and evaluation at the project level. For UN administered funds, recipient organisations always have an inter-governmental governance body, use international financial and procurement systems, and have privileges and immunities for their personnel and assets, including immunity of its personnel and assets, and immunity from legal process and from search and seizure. In practice this translates into UN agencies and a few other inter-governmental organisations. World Bank administered funds can allocate funding directly to civil society organisations although in practice funding tends to be channelled to government and UN entities. Donor managed funds can allocate resources to any category of recipient.

13. Recipient Organisations in most cases transfer (part of) their funding to implementing organisations who will carry out the actual activities at field level. (I)NGOs are likely to be involved in fund implementation. However, under the UN administered funds, they do not have direct access to the funds as they cannot act as Recipient Organisations but must always receive funding through a UN agency. In a number of funds, a special NGO window has been set up to increase NGO participation and to increase capacity building in the local NGO community. For most of these NGO windows, UNDP acts as fund manager.

14. When the 15 funds surveyed for this review are examined in terms of how they are structured and the rules that govern their financing, two main categories emerge: 1) unified fund model, also known as ‘single window’ funds administered by the United Nations, the World Bank or bilateral donors (often through a Management Agent) and 2) multiple fund model, also known as ‘multiple window’ funds administered by the UN or the World Bank (Figures 2a and 2b). Most of these funds can be characterised as either transition or development funds. Only the Common Humanitarian Funds (CHFs) are classified as humanitarian. Some of the activities supported by the CHFs can, however, be classified as supporting transition (or ‘early recovery’).
15. It is important to understand that a single window fund can have multiple funding modalities. The CHFs for example, have an emergency funding modality and a ‘standard’ funding modality. The same applies to the PBF. As these funding modalities are often referred to as ‘windows’ as well, the terminology can become somewhat confusing.

16. While single window or multiple windows is the basic configuration, there are many variations on these themes. One of the more interesting is the recently created Stabilization and Recovery Funding Facility for Eastern DRC. The SRFF combines a single window MDTF with a parallel funding modality which allows bilateral funding to be applied directly to programmes and projects approved by the Funding Board without having to pass through the pooled funding mechanism.

**Why pooled funding mechanisms?**

17. Pooled funding mechanisms have become increasingly popular with donors in recent years. Most pooled funds are established in development contexts and are believed to bring benefits in terms of aid effectiveness, notably strengthening ownership, bringing greater coherence to donor efforts as well as the UN system, and providing financial resources that can be targeted at highest priority national needs.\(^6\) There is a similar belief that pooled funding can bring aid effectiveness benefits in transition environments. However, fragile and conflict-affected environments pose particular challenges that either do not exist or exist to a much lesser degree in development situations (Box 2).\(^7\)

### Box 2. Challenges of fragile and conflict-affected environments

- Weak national capacity, both with respect to strategising/planning and delivering, as well as coordinating aid and lack of agreement on political rules of the game;
- Lack of agreement on priorities due in part to multiplicity of urgent needs;
- Weak donor coordination and divergent donor agendas;
- Slow disbursement of aid and lack of funding flexibility;
- Inability of ODA funding to support critical activities, e.g. meeting many security / peacebuilding priorities;
- Higher level of risk than ‘traditional’ development assistance (doing harm, corruption, reputational damage); and
- High cost of delivering assistance, leading to difficulties in balancing need for accountability and transparency toward donor populations and addressing transition needs.

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\(^6\) Even though many of the individual development funds have been reviewed or evaluated, there is a lack of system-wide reviews. The UNDG Development Operations Coordination Office (DOCO) is currently conducting a review of the Delivering as One Funds, which will provide more relevant information in this respect.

\(^7\) Based on Van Beijnum & Kaput (2009), Non-paper on Pooled Funding Mechanisms in Post-Conflict Situations.
18. Yet it is precisely the shifting and volatile nature of fragile and post-conflict environments that creates the rationale for pooled funding in transition situations. Countries simultaneously face pressing humanitarian needs and must start the process of socio-economic and political reconstruction to create peace dividends, yet lack the government capacity to deal with either of these. Consequently, assistance in these situations requires funding modalities that can deal flexibly with multiple, often conflicting, needs, and the different timeframes related to these needs. Pooled funding mechanisms are perceived to play a crucial role, specifically as it is assumed that they improve aid effectiveness in post-conflict transition situations (Box 3).

Box 3. Donor perspective on how pooled funding helps to meet key programmatic objectives in transition environments

- Shift focus from individual organisational grants to a more strategic, comprehensive and responsive media support programme;
- Enhance harmonisation with other donors – specifically through a new partnership with the French Embassy who chair the media donors group – to build a better programme and to exert more influence with the government;
- Build longer-term sustainability as opposed to the short-term support DFID provided during the period of the Transitional Government;
- Work through others to maximise DFID's time on policy issues and key technical and financial monitoring, and to reduce DFID's time on administrative aspects of grant management;
- Ability to evolve and respond to new and emerging players, agendas and challenges for developing democracy in DRC.


19. The question, of course, is whether pooled funding is able to improve aid effectiveness in transition environments. Both the literature and the research carried out for this review suggest that the strength of pooled funding in fragile and conflict-affected environments is that it finances activities against a common strategy, developed by national actors in collaboration with international partners, which enhances alignment and ownership. However, as will be demonstrated in this report, there are serious concerns about the capacity of national actors, particularly governments, which call into question the ability of national actors to exert full ownership over the functioning of these funds (section 4). This also undermines the potential benefits of pooled funding in terms of speed and flexibility of funding (section 5).

20. In addition, effective pooled funding requires strong leadership capacity and management skills on the part of all involved. The research conducted for this review reconfirms these needs but also points to weaknesses in these areas. It also underscores the importance of continuing donor engagement in fund operations. Many donors support pooled funding precisely because it enables them to provide funding in areas where they either have no presence or where their presence is too limited to enable them to manage large programmes. It also offers donors that are engaged in a broad range of activities the opportunity to reduce their administrative costs. However, the potential reduction of transaction costs (section 3) needs to be weighed against the multitude of risks involved in engaging in post-conflict transition situations. An approach that is too hands-off increases the risk of programme failure (section 6).
3. Coordination

21. The ToR for this review refer to coordination as one of the core dimensions of the aid effectiveness agenda. However, coordination is not actually one of the partnership commitments identified in the Paris Declaration on Aid Effectiveness or in the Accra Agenda for Action. Coordination is however perceived as a key element to support harmonisation. As such, coordination is closely linked to coherence and effectiveness (Box 4).

22. As the ToR state, there is a widespread assumption that pooled funds are a conduit for enhanced coordination and response. In considering whether pooled funds enhance coordination at country level, one has to distinguish different levels of coordination:

- among donors;
- among implementers (including UN agencies, the World Bank, (I)NGOs and even the partner government);
- within the broader aid system in-country at policy level (including the national government, donors, the UN, the World Bank and civil society);
- among pooled funds in-country.

23. The ToR add one more ‘level’ of coordination that the review is to take into account: the coordination between humanitarian- and development-based activities in support of the transition from humanitarian to development funding.

General observations

24. Overall, it was confirmed by respondents from the different stakeholders involved that pooled funds do enhance coordination at all levels. The respondents also underscored the fact that the existence of a pooled funding mechanism by itself does not automatically lead to enhanced coordination; the mechanisms provide an opportunity and certain preconditions, but whether or not that actually leads to enhanced coordination depends on a number of factors. Most importantly, respondents referred to: 1) the quality of the overarching strategy against which the fund allocates money; 2) the volume of money in the fund, also compared to other funding sources; 3) leadership; 4) management capacity; and 5) transaction costs.

25. Working against a joint strategy is likely in itself to enhance coordination, as different stakeholders are involved in the process of developing the strategy and are also involved in continuously thinking about funding allocation decisions against that strategy. However, if the strategy does not prioritise needs and enforce strategic decision-making, coordination is likely not to exceed the level of a ‘talk-shop’ and as such will not enhance effectiveness.

26. Coordination is also influenced by the volume of money in the pooled funding mechanism, particularly compared to other funding modalities present in-country. By bringing money to the table pooled funding helps engage stakeholders in the coordination process, especially recipient organisations. Pooled Fund participants in the DRC report an increase in meetings and discussions in the run up to allocation rounds of the fund. The money also acts as an incentive to be actively involved in the process outside of the allocation rounds. If an organisation wants to get money from the PF, they need to be seen as actively engaged also in the processes that are not directly linked to the allocations.
27. However, there may be limitations to this in terms of the amount of money in the fund: if the amount is relatively small and if there are other ‘pots of money’ present in-country, it is likely that there is a cut-off point in terms of how much effort stakeholders want to expend in order to have access to the money. This is particularly true of the larger humanitarian INGOs. If the transaction costs are perceived to be too high, organisations may not be willing to engage in the process. In such cases, fund coordination mechanisms ideally should link up with existing coordination bodies, as has been done with the PBF Steering Committee and the SRFF Funding Board in the DRC. However, if there are relatively few other sources of income in-country, then this willingness obviously will be higher. This is for instance the case with the CAR CHF. While the total volume of the fund is very small given the needs in the country, there are few other sources of money available given CAR’s donor orphan status.

28. That said, the Capacity Building Trust Fund (CBTF) in Southern Sudan, as well as the Civil Society and the Media Funds in the DRC are all smaller funds operating in contexts where there is a lot of aid money coming in. These funds do enhance coordination, but mostly against a rather strictly targeted purpose, involving a limited set of actors.

29. The fact that pooled funds bring money to the table also strengthens the position of those actors who are in the lead on coordination processes. As one respondent noted: ‘It gives teeth to the coordination body, as it can follow-up guidance and leadership with money.’ This is most relevant for the CHFs where the position of the Humanitarian Coordinator (HC) is significantly strengthened because s/he has final decision-making power and also has direct access to an emergency funding facility under the CHF. The challenge that remains is to really use that leadership and move beyond equally distributing funds among the recipient organisations rather than prioritising the different needs. Here, the active engagement of donors is required in order to provide the political backing to the HC to make sometimes difficult decisions.

30. Management capacity to support fund leadership and the overall coordination process is also important. To achieve coordination that consists of joint priority setting and decision-making and enhancing the effectiveness of the overall intervention in a given country requires a support body (the secretariat function) that brings together the different levels of information (policy discussions, M&E results and lessons learned, etc.) required to make strategic decisions. This management capacity needs to have access to the right level of information and be able to respond to donor requests in a timely manner.

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**Box 5. Transaction costs for different groups of pooled funding stakeholders**

**Donors:** Lower transaction costs. Donors deal with one central fund rather than a plethora of smaller funds and projects. Cost of information, coordination, administration and access for donors reduced.

**Recipient organisations, specifically UN agencies:** Mixed outcome. Extra transaction costs as most UN agencies receive both money through pooled funds and money direct from donors. Lower for exchange of information and access to information. Higher specifically for humanitarian cluster leads (time and capacity to manage cluster process; risk of perceived conflict of interest).

**Implementing organisations, specifically NGOs:** Extra costs for INGOs as most receive money outside pooled funds as well. Higher for most implementers in terms of number of meetings; e.g. in case of PF in DRC (need to attend meetings both at central and decentralised level – not all NGOs have representations at both levels). Higher for NGOs in terms of complying with rules and regulations for fiduciary management and reporting (especially national NGOs).

**Partner government:** Lower because dealing with one body rather than with individual donors but due to lack of capacity absolute level still very high. Worsens because of lack of clarity amongst government actors on roles and responsibilities (which may lead to in-fighting and corruption) and when there are multiple funds in one country.
of capacity (both in terms of quantity and quality of staff) and resources. In practice, this has proven to be lacking.

31. A final key element to be considered is transaction costs, defined as time and effort of different stakeholders required to set up and operate pooled funding mechanisms. Transaction costs are different for different actors (Box 5).

**Coordination among donors**

32. Donors perceive pooled funding mechanisms as instruments to bring together a group of donors on specific issues, but interestingly this is not often discussed. Rather, donors refer to the potential of pooled funds to enforce enhanced coordination between implementing organisations, especially the UN agencies in-country. However, when it comes to the multi-donor funds that the donors themselves have set up, improved donor coordination and linking up to donor coordination mechanisms are key objectives (Box 6).

**Box 6. DFID Media Project Memorandum on coordination and pooled funding**

‘Alongside the French Embassy, DFID has also been active in forming and supporting the new media donors’ group, the Groupe Inter-bailleurs sur les Médias (GIBM), which now meets regularly in Kinshasa and is chaired by the French Embassy. This group was formed in 2006 to promote coordination between the different projects and training programmes that donors were funding, and to present a united front to government on issues such as media regulation and coverage of the elections. One of the central aims of the GIBM is to arrive at a coordinated strategy in support of the media sector, including a basket funding mechanism. This project is partly a response to the GIBM's call for a common strategy and fund’ (p. 6).

33. In general, improved donor coordination is seen as a positive side-effect of pooled funding mechanisms. Respondents are especially positive about the fact that in most pooled funding governing structures key non-contributing donors are part of the Funding Board or Steering Committee (primarily as observers, but they still exchange information and plans).

34. However, in order to actually enhance donor coordination in a way that contributes to aid effectiveness, active donor engagement is required at field level. Particularly in those cases where donors opt for pooled funds because they themselves lack capacity and access at field level, donor coordination will not have been enhanced. In the case of the IRFFI for instance, many fund donors were not present in Iraq (and some did not even participate in the fund’s Donor Committee even though they were entitled to do so). Furthermore, the key donor in Iraq, the US Government, operated outside of the fund structure. This all has resulted in the finding that the Donor Committee did not provide adequate strategic guidance or oversight.  

**Coordination among implementers**

35. Most donors perceive pooled funds as specifically helpful in enhancing the coordination between UN organisations at field level and stimulating the World Bank to ‘get their act together.’ In this sense, the presence of money acts as an incentive and allows donors to ‘enforce’ cooperation and coordination at field level. Even with humanitarian interventions, where the cluster approach itself is geared towards improving coordination and working against a shared set of priorities and a common strategy, it is still felt that this

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coordination is improved by regulating the money. Donors also consider the strengthened position of the HC to be a positive outcome.

36. Overall, pooled funds have enhanced coordination among implementers (Box 7).

<table>
<thead>
<tr>
<th>Box 7. Coordination benefits of pooled funding mechanisms</th>
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<tbody>
<tr>
<td>CHF CAR – enhancing coordination mostly among UN agencies, although in cluster approach, main INGOs are also part of the package</td>
</tr>
<tr>
<td>PF DRC – in addition to ‘classic CHF’ enhancing coordination with local NGOs – participatory approach (bottom-up approach in terms of priority setting and identification of interventions – challenge in terms of decentralising decision-making and the transaction costs linked to that: cluster leads that don’t want to be in position of donors in terms of making funding decisions).</td>
</tr>
<tr>
<td>IRFFI – two windows under joint strategy did enhance coordination between UN and WB, but did not live up to potential synergy. Practical difficulties arose when UN and WB did not actually work together in-country – resulted in silo approach after all. Did reportedly improve coordination within UN system.</td>
</tr>
<tr>
<td>PBF – in practice, no real enhancement of coordination among UN agencies (no joint programming)</td>
</tr>
<tr>
<td>Donor funds – improved coordination among (I)NGOs and among donors against a targeted purpose; not focused on UN agencies or WB; the focus of these funds seems to be more on improving impact than on improving coordination and contributing to overall strategy</td>
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Coordination within broader aid system in-country at policy level

37. At this level, the coordination between the UN and the World Bank is important. There are mixed results in terms of the extent to which pooled funds have enhanced this coordination. However, there tend to be more negative than positive examples. In the case of Iraq for instance, the IRFFI governance structure did enhance the coordination between the UN and the WB fund, but reviews say that the fund did not develop synergies between the two, therewith limiting the potential scope and effectiveness of the fund.\(^9\) The two institutions are still trying to find and define their respective contributions to transition situations. Even though they signed a Partnership Framework for Crisis and Post-Crisis Situations in 2008, the recent example of Haiti shows that there remains a distinct lack of clarity about the division of labour. The resulting framework for the Haiti Reconstruction Fund (HRF) brings with it a danger of enhancing ‘silo’ coordination – i.e. the danger of the main focus being on coordination within the UN window, within the WB window, and so on and not on coordination among the different windows. Respondents pointed out that this by and large a result of competition over funding: as donors are spending more and more money on transition situations, both organisations are trying to get access to that funding.

38. Another point to make here is tendency of donors to set up sector specific funds to fill perceived gaps left behind by overarching funds (as happened in Southern Sudan with the SRF). In most cases, the governance structures for these donor funds are not linked to the broader funds operating in the country. This leads to an increase in transaction costs and a potential weakening of coordination. The key issue here is that these kind of ‘gap-filling’ funds need to be linked to a common strategy. This is for example what MONUSCO’s Stabilization Support Unit (SSU) in the DRC is trying to accomplish with the SRFF, the PBF and the parallel funding facility to the SRFF.

Coordination among pooled funds in-country

39. The establishment of multiple pooled funding mechanisms in the same country decreases the overall levels of coordination and increases transaction costs for the actors involved.

40. First, multiple funds mean multiple strategies. This may be useful (e.g. with a targeted fund for media or civil society) or it might create increased transaction costs when there is overlap between the different strategies. How does the strategy for the Basic Services Fund (BSF) in Southern Sudan relate to the strategy for the SRF, for example? And how does the Humanitarian Action Plan (HAP) for the DRC relate to the government’s reconstruction plan for war-affected areas (known as STAREC)? There is a significant overlap between these different strategies. The strategy for the SRFF in the DRC draws on the STAREC, the International Security and Stabilization Support Strategy (ISSSS) and the HAP, which has led to some confusion about what should be financed through which funding mechanism. Second, multiple funds mean multiple governing structures. As it is essentially the same people and organisations who engage in these governing structures, the transaction costs increase significantly. All of this creates obvious confusion for the UN agencies as well as for the local actors, who do not make these kinds of distinctions in terms of different strategies and structures – they just see a problem that needs fixing.

41. The level of coordination between different pooled funds in the same country is generally very low. Both in terms of coordination between humanitarian and transition funds (for example in the CAR, where there is reportedly no contact between the CHF and the PBF governance structures), and between different kind of transition and development funds (for example in Southern Sudan, where the MDTF-SS governance structure reportedly does not coordinate with the SRF governance structure; nor with the CHF or the CBTF for that matter). The one exception is the anticipated coordination between the PBF in the DRC and the SRFF, where these two funds combine their governance structures to the extent possible, and the SRFF structure is based on the systems in place for STAREC / ISSSS funding.

42. What does seem to happen is that funds feed off of each other or even are sequentially linked to each other. Here, one can think of the CBTF and the BSF in Southern Sudan, both of which were supposed to phase out when the MDTF-SS was up to speed and ready to take over. Another example can be found in Afghanistan, where the UNDP administered Afghanistan Interim Authority Fund (AIAF) was set up to cover an interim period while the World Bank administered Afghanistan Reconstruction Trust Fund (ARTF) was being set up. Interestingly enough, the third trust fund operational in Afghanistan, the Law and Order Trust Fund of Afghanistan (LOTFA), is actually a special ‘window’ under the ARTF, filling a gap that cannot be covered by the ARTF due to the way in which the World Bank’s mandate is interpreted.10

Coordination between humanitarian- and development-based activities

43. Lack of coherence between humanitarian and development funding has been highlighted as a key issue by the recent OECD DAC INCAF framing paper on transition

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financing.\textsuperscript{11} This lack of coherence can be seen in pooled funding mechanisms the same way as it can be seen in other funding modalities; the funds are governed by only one set of mandates, procedures and policies – either development or humanitarian.

44. The difficulty in bringing the two worlds together is twofold. First, the cluster system that is used by the humanitarian actors does not cover all the key components of a transition process, i.e. security related issues and statebuilding. Thus, there is no agreed leadership on these issues that applies on ‘both sides of the fence.’ Second, the level of involvement of the partner government differs in that government in practice is most often involved in terms of providing input in the bulk of the humanitarian realm, but never in terms of decision-making as this is perceived to be contradictory to the humanitarian principles of neutrality and impartiality. In contrast, in the transition realm, the partner government does have decision-making power. Indeed, having government in the lead of the transition process is the ultimate goal.

45. Both of these points limit the areas of coordination, and both will require the willingness of donors and implementers to bridge the gap, as it is essentially the same people and organisations who engage (Box 8).

\begin{boxedtext}
\textbf{Box 8. Transition from humanitarian to development funding in the DRC}

In the DRC the humanitarian community is thinking about how to phase out of certain PF early recovery activities, as the SRFF is phasing in. Difficulties arise with both funds still operating on the same kind of activities. There is for instance overlap between components 4 and 5 of the SRFF, on the one hand, and the HAP, on the other hand. Even though attempts have been made to draw clear lines between the funds and identify which kind of activity will be covered by which fund, the result of this is an artificial divide that creates problems for the implementers who have to cut programme proposals into different pieces in order to fit the funding structures. The importance of clear leadership for transition is visible in the DRC, where there is a lack of communication between the SSU and OCHA (as respectively the SRFF and the PF fund managers), but there is also the difficulty of the SRFF being managed by MONUSCO while the implementing agencies operate under the guidance of the UNCT.
\end{boxedtext}

\textsuperscript{11} OECD (2010), \textit{Transition Financing: Building a better response}, OECD DAC INCAF, Paris
4. Ownership

46. Ownership is one of the five areas identified as particularly important for aid effectiveness in development contexts in the Paris Declaration and the Accra Agenda for Action (Box 9). As the challenges of operating in fragile and conflict-affected states have become more apparent to donor governments in recent years and fragile and conflict-affected countries have increasingly found their voice, donors have come to recognize that while aid effectiveness is particularly important in fragile and conflict-affected states, it is also particularly difficult to deliver aid effectively because of the multiple challenges facing both donors and their partners (see Box 2). This means that expectations and methods of working have to be adjusted to transition environments.

47. In consequence, donors and national actors from fragile and conflict-affected states have begun to engage in a dialogue on how to adapt development practices and procedures to transition environments. The governments of these countries have also begun to find their collective voice in order to learn from each other’s experiences and to influence debates on effective international response to fragility and conflict. A group of donor and partner governments convened a meeting in Kinshasa in July 2008 in order to discuss ‘aid and development effectiveness in situations of fragility and conflict’ in preparation for the 3rd High Level Forum on Aid Effectiveness. The participants agreed that while strengthening country-owned development processes should be a priority, ‘...in situations of fragility and conflict, where realising full ownership can be challenging, government leadership over priorities and policy direction is an important first step toward ownership.’

48. A phased approach to ownership is particularly important from the perspective of pooled funding. Experience has shown that attempting to apply development standards to pooled funding mechanisms in transition environments runs the risk of producing suboptimal outcomes. The World Bank administered MDTF for Southern Sudan, the UNDP administered Sudan Recovery Fund and the Capacity Building Trust Fund for Southern Sudan all experienced problems as a result of a lack of capacity on the part of Southern Sudanese authorities. From the point of view of the CBTF, the Southern Sudanese authorities were able to articulate their needs and priorities. They were much less able to take on certain operational tasks (Box 10). From the perspective of the MDTF-Southern

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Box 9. Paris Declaration definition of ownership

‘Partner countries exercise effective leadership over their development policies, and strategies and co-ordinate development actions.’


Box 10. Capacity challenges ownership

‘Initially, it was assumed that SPLM structures would be able to take over the payments of the Civil Authority of New Sudan (CANS). Both Government and Donors did not have a realistic understanding of the operational challenges and timelines post CPA for the SPLM structures to take over. Thus, CBTF was initially used to pay for operational costs and salary costs of the CANS staff.’


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12 ‘Kinshasa Statement,’ July 2, 2009, p. 1, http://www.undg.org/docs/9250/RT7-Kinshasa-Statement_EN-and-FR.pdf. As a result of this dialogue and discussions during the 3rd High Level Forum on Aid Effectiveness, the need for an international dialogue on peacebuilding and statebuilding was endorsed. Fragile and conflict affected states (the “G7+”), donors and civil society accordingly met in Dili, Timor Leste in April 2010 and issued the “Dili Declaration.”
Sudan, the Southern Sudanese authorities had problems making decisions, particularly following the death of John Garang in 2005, as well as implementing tasks.

49. What is particularly interesting is the expectation on the part of the donors, the World Bank and also the Sudanese authorities that the authorities were in a position to take on the full range of tasks of long-established governments at such an early stage. Reviews have pointed to the needs assessment that was undertaken by the UN and the World Bank (the Joint Assessment Mission - JAM) to explain how these expectations arose.

50. First, the needs assessment was only that, a needs assessment. It was not a strategic, prioritised plan for progressively developing the capacity of the Southern Sudanese authorities or providing peace dividends to the Southern Sudanese population (Box 11). Second, while the assessment clearly noted the lack of government capacity in Southern Sudan, it did not appear to draw the implications of this for the international community of operating in an environment where ‘the entire public service, including personnel and systems, has to be built up virtually from scratch.’

Box 11. Needs assessment versus strategic plan

‘The JAM process outlined reconstruction needs, but did not provide direction on priorities and sequencing. In this regard, the report was not an operational document but rather an overview of needs. All things were given equal weight, which made a program response difficult. A policy gap, therefore, existed between defining reconstruction needs and presentation of a first development strategy.’


51. Pooled funding mechanisms are often cited as contributing to ownership by placing national authorities in positions of leadership in fund governance structures and by linking fund strategies to national plans for recovery or development. While it is clearly essential to have as much input from national actors as possible when developing the fund’s strategy and determining how to use the funds, national actors often do not have the capacity to fully carry out the tasks associated with these roles. Funds such as the DRC SRFF, the Afghan ARTF, and the Haiti HRF for instance are linked to national strategies, but these strategies lack clear prioritisation of government objectives, making it entirely too easy for donors to pick and choose among the objectives they wish to finance. The SRFF’s two modalities – pooled fund and parallel (bilateral) funding – create particular challenges in this respect. Although activities financed through the parallel funding modality will be linked to the government’s reconstruction strategy (STAREC), that strategy is not sufficiently prioritised and it would be relatively easy for donors to finance their own priorities.

52. A first step toward ownership of transition financing processes might therefore be providing support to the national authorities engaged in fund management and oversight. The Peacebuilding Fund has provided such support in a number of countries, most recently

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13 Joint Assessment Mission, Framework for Sustained Peace, Development and Poverty Eradication, March 18, 2005, p. 45, http://www.ecosonline.org/reports/2005/JAMVolume1.pdf. See also ScanTeam/Norway, Review of Post-Crisis Multi-Donor Trust Funds, pp. 94-95. This evaluation noted that in 2006 the MDTF Secretariat in Juba lacked ‘Sufficient capacity to respond to the higher than anticipated capacity development and support requirements of the GoSS’ (p. 97). What is more, at least some World Bank staff believed that ‘the GoSS [Government of Southern Sudan] would be established quickly, with ministers nominated, bureaucrats hired and their mandates and terms of references prepared and approved’ (p. 100). Of course none of that happened rapidly. In 2010 there is considerable evidence of international community over-optimism of how rapidly reconstruction can occur in Eastern DRC, one of the more difficult environments in which to operate.
in DRC where a portion of the PBF allocation will be used to provide support to decision-making bodies at both provincial and national levels. However because of the limited duration of the PBF funding, this is only a stop-gap measure, not a sustainable solution.

53. From the perspective of pooled funding mechanisms, ownership is often viewed as exclusively or primarily ownership by the national authorities even though the Kinshasa Statement and the Dili Declaration are quite clear that methods of improving relations between the state and the population are critically important. The participation of civil society representatives in governing and decision-making bodies is often limited. However, since the legitimacy of fragile and conflict-affected governments is frequently contested, the broadest possible participation should be sought as is for instance done in the PBF Steering Committees, most of whom have some degree of civil society representation, if only as observers.

54. Also, national NGOs are able to participate in the provincial level priority setting process for the Pooled Fund in DRC. However, on the national level bodies that ultimately decide on allocations, civil society is represented by INGOs. In general, CHFs do not give high priority to promoting ownership at any level. They do not involve the government in any formal decision-making, because of the perception that this would not be in line with the humanitarian principles of neutrality and impartiality. The Pooled Fund, however, is increasingly engaging more with government to ensure as much buy-in as possible. National government actors are invited to the annual HAP workshop, identifying humanitarian programme priorities, and local and provincial government actors are involved in the inter-agency provincial coordination mechanisms (CPIA) to identify priority needs in key sectors in cooperation with UN agencies, (I)NGOs and donors.

55. Two funds in the DRC are specifically designed to strengthen civil society, with a view to enhancing democratic practice and local ownership of development efforts in DRC. These are the Media for Democracy and Accountability Fund and the Civil Society Fund for Good Governance in the DRC (Box 12). Whereas most pooled funds assume an ownership benefit from the operation of the fund (built-in to the fund structure), in these cases donors have created specific funds to support ownership (projectised within the fund). All of the activities supported by the fund have as one major objective strengthening local ownership.

Box 12. Civil Society Fund DRC

‘The programme’s specific objective (purpose) is to reinforce local CSOs in their role as channels for the interests of the population, as promoters of citizen participation in the use of power, in citizen control of government and in the promotion of good governance in society in general.’

‘The Fund’s aim is to promote the ownership by local actors of development agendas. The Fund wishes to support initiatives developed by Congolese CSOs and should therefore not design but rather accompany those initiatives.’


In Liberia, the PBF has provided support to the Peacebuilding Office in the Ministry of Interior. This office acts as the secretariat for the PBF Joint Steering Committee but also supports other government peacebuilding activities. More often than not, however, PBF secretariats are housed in UN offices, although they may employ national staff.
56. In the DRC, some donors have pressured the Pooled Fund to expand the number of local NGOs that receive grants. The number of national NGOs receiving Pooled Fund financing has increased in recent years but at the same time, many of these recipients have experienced difficulty in complying with UNDP reporting requirements. (UNDP manages all NGO grants through the Pooled Fund.) UNDP has recently begun to do some capacity building for these NGOs, through its National Implementation / Direct Implementation technical assistance programme. Although the assistance provided is aimed primarily at enabling local NGOs to comply with UNDP reporting requirements, many of the skills taught – such as keeping accurate accounts – have broader applicability.
5. Rapid, flexible response

57. Since the beginning of significant international engagement in conflict-affected countries in the 1990s, the donor community has been progressively adapting its procedures and approaches to the needs of transition environments. A central lesson, which has been learned and re-learned on multiple occasions, is the importance having the capacity for rapid, flexible responses. While humanitarian actors have the capacity to respond quickly, they do not have the capacity to respond to the full range of transition needs, notably security, peacebuilding and statebuilding, all of which require interaction with actors with whom humanitarians normally do not engage. Transitions also require expertise in institutional development, which humanitarian actors by and large lack. Development actors for their part also have had problems engaging with the security elements of state- and peacebuilding and have had to develop more rapid and flexible procedures and modalities for delivering assistance in transition environments.

58. In 2007 the DAC issued principles for engagement in fragile states and situations. One of these is to recognise the need to ‘act fast’ by having the flexibility ‘to take advantage of windows of opportunity and respond to changing conditions on the ground.’ The need for speed and flexibility was again highlighted in the Kinshasa Statement which specifically focused on funding mechanisms ‘such as MDTFs’ (Box 13). While experience demonstrates that much work remains to streamline the structures and procedures of pooled funding mechanisms, there is also arguably much room for a debate on the meaning of ‘speed’ and how much speed is reasonable to expect in fragile and conflict-affected situations.

Box 13. The need for rapid, flexible response in transitions

‘Existing mechanisms such as MDTFs require improvement to better facilitate rapid and flexible delivery. Donors undertake to work on flexible and rapid funding modalities that support a coherent strategy.’

Source: Kinshasa Statement, July 2, 2009, p. 2

59. The perceived need for speed in conflict-affected countries comes from the desire to demonstrate the benefits of peace to populations where peace processes are fragile. However, as the Fragile States principles, the Kinshasa Statement and the Dili Declaration underscore, statebuilding and peacebuilding are among the highest priority activities in fragile and conflict-affected environments. Both peacebuilding and statebuilding require the creation of inclusive and participatory structures, including financing structures, and these require time to be developed and become operational. The multiple challenges of working in transition environments – contested peace processes leading to lack of agreement on a strategic vision, weak human and institutional capacity, absence of a strong private sector among others – mean that even simple tasks can take a long time to accomplish. In consequence, a number of the MDTFs surveyed here have rapid response mechanisms that can be used for urgent needs. This includes the PBF, the SRFF and the CHFs. What is more, since pooled funding mechanisms only account for a small share of total funding in any country, there are other mechanisms through which peace dividends can be delivered, particularly humanitarian funding.

60. Interestingly, speed is not among the perceived benefits of pooled funding (see Box 3). However there is clearly pressure on those in charge of disbursing the funds to act

rapidly. This pressure often comes from donors, but also from within the fund administrator / manager’s own organisations. Unfortunately, a push for rapid allocation of funding can be counterproductive.

61. The first allocation of the SRFF in DRC is a case in point. The fund was only established in November 2009 and its rules and procedures were still being developed and consulted among key stakeholders while the first allocation got underway in early 2010. Programming involved only one of the fund’s five components, sexual violence, the component that had most recently been added to the SRFF’s strategy. The SRFF’s governance and allocation procedures were based on those used during 2009 for allocations under the government’s STAREC plan and the associated ISSSS, but the individuals involved in the sexual violence component had no experience of that earlier process and clearly had difficulty in obtaining information on how the allocation process was meant to occur. Because two donors earmarked funds for one component of the fund’s strategy, there was no flexibility to shift funding to any other component of the SRFF.

62. An option might have been to delay the first allocation for a few months until there was agreement on the SRFF rules and procedures and they could be communicated to all those who would be involved in the first allocation. However, there was extreme pressure from within the United Nations to prove to the donors – who were skeptical about the UN’s ability to work effectively in the area of sexual violence – that the UN could get effective programmes underway rapidly. Additionally, because of donor skepticism, the initial donor contributions were quite small – since the donors wanted to be sure that the SRFF would be successful in its programming before contributing larger sums. $10 million were divided between two provinces, in an area that is often characterised as the rape capital of the world. This complicated the task of developing effective programmes. These problems were on top of the ‘normal’ delays caused by working with provincial and national governments in DRC.

63. In consequence, an effort to rapidly put effective sexual violence programmes in place led to a seven-month process (instead of the three foreseen in the Fund’s documentation) that more than one interlocutor described as extremely painful for all concerned. Furthermore, the delay has caused major damage to the fund’s reputation amongst the recipients, who were expecting to receive funding and to start implementing at a much earlier stage. A positive aspect of this experience is that both the SRFF Technical Secretariat and the UN’s sexual violence unit immediately began to review the process with a view to avoiding similar problems in the future. The question remains, however, to what extent those who were pushing for a speedy allocation process have drawn the appropriate conclusions.

64. The literature is replete with examples of unrealistic expectations in terms of what is necessary for the effective functioning of pooled funding mechanisms, including the speed with which the fund itself can be created, the amount of time necessary for the fund to become operational and the speed with which programmatic outcomes can be anticipated. This is why realistic assessments of what is feasible in a specific context are as important, if not more so, than needs assessments. In terms of what is feasible in setting up pooled

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funding mechanisms, feasibility assessments need to be combined with an appreciation of what a ‘speedy response’ actually consists of. Key elements of a speedy response would be to ensure that: 1) all administrative blockages in the organisations administering and managing the fund are removed so that the organisations can work as rapidly as the environment allows; 2) appropriate personnel are available in a timely fashion; and 3) processes get underway as rapidly as possible with the recognition that the timeline for the processes is likely to be somewhat extended (Box 14).

Box 14. Establishing the DRC Civil Society Fund

‘This project document is the end-result of design work on the mechanism that began in April 2008 with the development of an initial concept note. Following internal and external consultations, and working with a Steering Committee of local civil society actors, a team comprised of one international and one national consultant worked to create this framework document in November 2008. The broad lines of the programme were presented on Monday December 1st to a group of international donors as well as to the “symposium for civil society” group which includes the Ministry of Plan and a large number of civil society organisations. Other consultations with members of civil society took place during the same time period.’

Additionally, contracting the management agent took nearly one year.

Source: ‘Civil Society Fund for Good Governance in the Democratic Republic of Congo,’ Project Memorandum, p. 4.

65. In the Kinshasa Statement and the Dili Declaration, speed is linked to flexibility of response. For a pooled funding mechanism to be flexible, the fund itself needs to be structured appropriately, including giving due attention to identifying changing priorities / conditions and learning lessons on an ongoing basis. Monitoring and evaluation have typically not received the attention they should in transition environments. That is beginning to change. Both the DRC Media Fund and the DRC Civil Society Fund give a high priority to monitoring and evaluation (Box 15). The PBF has used country level quarterly updates and mid-term evaluations to help learn lessons for future fund management. The SRFF is also planning to produce quarterly updates and intends to produce annual reports that track not only funding through the MDTF modality but also, to the extent possible, parallel funding in an effort to build up a picture of the degree to which key SRFF objectives are met.

66. Some components of the speed versus flexibility debate appear not to compatible. For instance, in terms of speed it is preferable to have clarity about structures, roles and

Box 15. Lessons learning for flexibility

‘As regards the Fund’s operational design, which is to be carried out by a service provider:

• Ensure that the Fund is executed in a flexible manner, with particular attention paid to learning and the application of lessons.

One of the first tasks the service provider will have to carry out during the start-up phase will be to develop a monitoring and evaluation strategy...

The Fund’s monitoring and evaluation system should take into account the following levels:

• Monitoring grant results at the partner-beneficiary level.
• Monitoring beneficiary results and their contribution to the Fund’s strategic results....

A number of recommendations have been made as regards the design of the monitoring and evaluation system:

1) Design monitoring and evaluation as an interactive and dynamic process that must be adapted as new experiences are gained.

2) Monitoring and evaluation is a continuous process and is primarily a management tool that feeds into decision-making and contributes to the improvement of the Fund over time.’

responsibilities up front so as not to spend too much time debating this when setting up a new fund. However, in terms of flexibility, it is counterproductive to have everything fixed in standard models and agreements, as this limits the possibilities to make adjustments to fit the specific context in which a fund will operate.
6. Risk management and mitigation

Risk in transition situations – what are we talking about?

67. In terms of the aid effectiveness agenda, risk is perceived to be a dimension that is specific to transition settings, that influences the way in which interventions in these kinds of settings can be effective and efficient. There seems to be an emerging consensus that current models of aid engagement are not adequate to achieve the desired outcomes in ‘fragile’ or transitional contexts and specifically that it may necessary to accept higher levels of risk than might be considered acceptable in other contexts. The UN SG report on ‘Peacebuilding in the immediate aftermath of conflict,’ for instance, calls for the enhancement of risk tolerance of funding mechanisms. In these discussions, pooled funding mechanisms are perceived to enable donors to adopt a collective approach to the risks inherent in transition situations and as such, to manage and mitigate these risks by sharing and pooling them.

68. However, discussions about risk are complicated by the fact that the term is applied to a number of different kinds of things. The result can be confusing – what are we talking about? There are some three different types of risk that are specifically relevant when it comes to the (potential) contribution of pooled funding mechanisms to manage and mitigate risks:

- risk of programme and strategic failure;
- political and reputational risk;
- fiduciary risk.

69. It is also essential to understand that risk is relative. In assessing risk, it is essential to continually ask: risky for whom, how, and to what extent? In thinking about risk management and mitigation, there are always different perceptions to any given type of risk or risk category both within institutions and between them.

Pooled funding mechanisms and risk management and mitigation

70. To what extent do pooled funding mechanisms enhance risk management and mitigation, specifically from the perspective of the donors and the implementing agencies?

71. In most transition situations, individual actors have relatively limited control over the outcomes of their interventions. This underlines the need for collective approaches – and as such, collective risk-taking. In this context the question of collective impact becomes especially important, and the risk inherent in failing to coordinate strategy is particularly high.

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17 This section builds on findings of the study that is currently being conducted by the Overseas Development Institute (ODI), the Clingendael Institute and Peace Dividend Trust (PDT) on behalf of the OECD DAC INCAF Task Team on Transition Financing and Aid Architecture, which reviews approaches to risk in fragile and transitional contexts (draft report to the Task Team, 1 June 2010).


Many donors feel that pooled funds provide essential firewalls as they enable the sharing and pooling of both programme and institutional risks. The Canadian government, for instance, chooses pooled funding if the country risk is considered too high to provide bilateral funding.\(^{22}\) From the perspective of the fund managers and the implementing agencies, however, it is felt that the donors transfer risks: whenever something goes wrong, the managing or implementing agency is held accountable (which in effect means that there is a high reputational risk for these agencies).

72. With regard to the link between the pooling of funds and the pooling of risk, a key element is the willingness of donors to hand over a certain level of control to managing and implementing agencies. From a donor perspective, control over the use of funds makes result attribution and accountability easier, and as such allows greater management of programme and fiduciary risk. At the same time, and this holds true specifically for transition situations, it also increases political exposure in case of failure, fund mismanagement, poor results, and so on. As such, it could be beneficial for donors to hand over control. However, the potential benefits of handing over a certain level of control are directly related to the capacity of the managing and implementing agencies to actually take on this responsibility, as well as the level in which donors actually allow the agencies to take on the responsibility in transition settings (i.e. in terms of allowing for flexible enough rules and regulations). Both the willingness of donors to hand over control and the ability of the managing and implementing agencies to take on the control responsibility have proven difficult in practice.

**Risk of programme and strategic failure**

73. Leaving aside the contextual risks of transition settings, there are many reasons for potential programme and strategic failure: inadequate understanding of context or flawed assessment, management and operational failures, and failures of planning and coordination, among others. Pooled funding mechanisms have the potential to contribute to the mitigation of these risk factors by promoting a more strategic, comprehensive and needs-based response, which is built on shared understanding and joint analysis of the issues at hand. Pooled funds can only finance priorities defined by the guiding strategy, which has been coordinated between the national government and international actors. Organisations that want access to these pooled funds have a clear incentive to participate in joint needs assessment and prioritisation exercises that are frequently used to define these strategies. More use of pooled funds thus has the potential to advance the Paris and UN reform agendas by strengthening incentives to participate in joint needs assessment and priority setting. Non-pooled funds, on the other hand, pose the risk of fragmentation and skewed attention to the needs of favoured groups or sectors.\(^{23}\)

74. The limitation to this assessment is of course the quality of the overarching strategy (and the manner in which the strategy came into being). In many cases, the strategies do not actually present strategic priorities, but are rather still a very broad list of needs. They leave too much room for donors to earmark and finance their own priorities, which in turn undermines the coherence and as such increases the risk of programme failure. One example here would be the STAREC in the DRC, which acts as a guiding framework for the SRFF.

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\(^{22}\) ODI/Clingendael/PDT (2010) (p.41), INCAF Risk Study – First Draft (1 June 2010)

75. Pooled funding mechanisms are not specifically geared to mitigate management and operational failures. In theory, the fact that project and programme proposals are assessed by a wide variety of stakeholders enhances the chances of catching management and operational flaws early on. In practice, the widespread underestimation of the resources needed to manage a pooled fund (both in terms of finance and qualified staff), actually increases the risk of management and operational failure. Furthermore, a common reason for failure to achieve programme objectives is that the objectives themselves are simply too ambitious, either in their nature or timeframe, resulting in unrealistic expectations with regard to the outcome of the fund’s activities. Such overreach appears to be a common side effect of the political search for peace dividends in post-conflict settings24 and as such is not specifically mitigated by pooled funding mechanisms (see for example Box 10 and 11).

**Political and reputational risk**

76. Pooled funds have the potential of reducing donor exposure to political and reputational risks. They offer bilateral donors the opportunity to pool these risks by sharing the burden of control and oversight. Especially in those contexts where either the security situation and/or the political sensitivity of the situation does not allow individual donors to be actively involved, pooled funds allow them to engage at arms length. The IRFFI for instance allowed donors to engage in Iraq even though most of them did not have an (adequate) presence on the ground due to security constraints. The CHF Somalia will allow donors to engage in the country without having to deal with questionable non-state actors that potentially could cause political damage.

77. By being one of many, donors mitigate the risk of being singled out if something goes wrong – as such mitigating the reputational and political risks. Having said this, pooled funds do not diminish these risks – donors will always have to answer individually to their tax payers and political constituencies.

78. Pooled funds also offer bilateral donors an opportunity to transfer risks to organisations such as the UN and the World Bank. This is in itself not necessarily a bad thing, as these organisations are, in some respects, better suited to intervene in fragile and transitional situations based on their mandate, financial weight, capacity to engage in a direct and neutral dialogue with host governments, and political influence. However, it is essential that bilateral donors realise that the transfer of risks to these organisations does not mean that they have transferred all responsibilities in terms of risk taking.

79. Donors need to provide the political backing necessary for the fund managers to take risks. The upcoming MDTF study conducted by the World Bank as part of the IDA 16 process, for instance, shows that MDTFs do pool risks, but also that the Bank is taking substantially more risk than the donors, which has as a consequence that Bank staff are becoming more and more risk averse. Respondents to the INCAF risk study pointed out that the tolerance of failure amongst donors is higher for bilateral funding than for multilateral funding. At the same time, some UN agencies and the World Bank are less accepting of failure than bilateral donors are – largely a result of extensive donor critique. The current challenge is to weigh the pushing of risk boundaries to achieve potentially better results

against the danger of actual or perceived failure and damage to the reputations of actors involved – perhaps even the entire aid system.25

**Fiduciary risk**

80. The fact that individual actors have relatively low control over the outcome of their intervention in transition contexts sits uncomfortably with the dominant management culture in most aid bureaucracies and with demands for public sector accountability against outcomes. One can say that there is a ‘mismatch’ between the high level of control required to manage programme and fiduciary risks to the required standards and the level of control that is realistically achievable in contexts where capacity, access and security constraints – both for funding and implementing agencies – are such that neither control nor flexible response are easy to achieve.

81. Pooled funds are generally perceived to reduce donor exposure to fiduciary risks. However, this needs some nuancing. Some donors argue that pooled funds increase fiduciary risks for donors in the sense that they have less direct control over fund management and implementation. Combined with the fact that fund administrators and managers do not take any liability for the use of funds, some donors feel that there is no real burden sharing.

82. At the same time, it is this need for control that donors exhibit and the need to manage fiduciary risks to the extent that full accountability is required that creates a risk of programme failure. Recent experiences with MDTFs show that certain funds have been ineffective and inefficient, partly due to the rules and regulations that have been imposed by the very donors that criticise the funds for being ineffective and inefficient. The MDTF Southern Sudan is a good example of this (Box 16).

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**Box 16. Limiting fiduciary risk limits the effectiveness of pooled funding**

The MDTF Southern Sudan (MDTF-SS) has been highly criticised for its slowness in disbursement and its lack of results. The example underlines the limitations created by fiduciary rules and regulations that are too strict and unrealistic donor expectations.

In the case of the MDTF-SS, the World Bank was appointed by the donor community to act as the Fund’s Trustee, as it was felt that the Bank’s fiduciary rules and regulations would provide the best guarantee against corruption and misuse of money (a very real threat in post-CPA Southern Sudan). However, it is partly due to the preconditions and safeguards requested by the donors that there have been serious delays in Fund disbursement. Yet, the donors have been competing to brand the Fund a failure, and to attribute blame for that failure to the World Bank.

The World Bank did indeed make some major mistakes in setting up the Fund and its operational facilities to manage the Fund; but blame cannot simply be assigned to the Bank. The Bank for instance has not been able to allow for more risk-taking in the sense of fiduciary risk, because its Board does not allow for easing up on the fiduciary rules and regulations. The same donors that criticise the Bank for this inflexibility are the donors that sit on the Board of the World Bank. The problem is that the representatives in the Board are usually staff from Ministries of Finance/Treasury Departments, whose perspective is different from that of the donor representatives that deal with fragile states’ issues. To make things more complicated, donor representatives at field level are usually less risk-averse than their counterparts at Headquarters level. With all these different perspectives there is a great risk of miscommunication, misconception and varying levels of expectation.

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In many of the UN pooled funds, UNDP acts as fund manager for an NGO window. In the DRC Pooled Fund for instance, donors are expressing a preference for the funds to be allocated to national NGOs in order to enhance ownership and sustainability. However, this creates problems for UNDP as fund manager in terms of managing the fiduciary risk of working with organisations that generally have less capacity in terms of fiduciary management. Combined with the fact that UNDP is generally not known for its flexibility in terms of fiduciary rules and regulations to begin with, this results in a loss of speed and flexibility. One practical issue is the transference of cash to NGOs. For this, the Harmonised Approach to Cash Transfers (HACT) was developed in 2005. The three main aims of the HACT are to reduce transaction costs pertaining to the country programmes of the agencies that have adopted the HACT by simplifying and harmonising rules and procedures, to strengthen the capacity of implementing partners to effectively manage resources, and to help manage risks related to the management of funds and increase overall effectiveness.

However, the HACT was designed for development environments, not humanitarian environments. The Pooled Fund management in DRC would like to see a version of the HACT better suited to humanitarian environments. UNDP as managing agent is constrained from advancing money to NGOs because of the cash balance requirements of the HACT, while NGOs have not understood or had the capacity to comply with HACT reporting requirements. In an effort to overcome the latter problem, UNDP is providing some technical assistance through a specialised unit to local NGOs in order to help them bring their financial management capacities in line with HACT requirements.

Pooled funds do enhance the mitigation of fiduciary risks in the sense that they increase transparency – with all actors working against a shared and agreed framework, there is less room for corruption and the promotion of own priorities. As such, pooled funds mitigate fiduciary risks particularly when engaging with possibly corrupt and/or abusive parties to a post-conflict process.\(^{26}\)

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\(^{26}\) Scanteam (2007), Review of Post-Conflict Multi Donor Trust Funds, for Norad
7. Conclusions and recommendations

86. This review of 15 pooled funding mechanisms has identified two basic categories of funds (see Figures 2a and 2b) – single- and multi-window – with different administrators/trustees but similar governance structures (see Figure 1). While there are variations in the way in which the 15 funds within the two categories are structured and in the procedures followed by different funds, there is no evidence to suggest that it is possible to identify standard models that can reliably be applied to different scenarios. Rather, if pooled funds are to live up to the expectation that they will contribute to aid effectiveness in post-conflict transition situations, it will be necessary to tailor the standard structures and procedures to each context.

87. Similarly, it is difficult to find a hard-and-fast rule about the size of pooled funding mechanisms. The question that needs to be answered is whether there is an added value to having a pooled fund. There are cases where a small, $10-20 million fund can play a useful role. Money contributed to a pooled fund is theoretically more flexible than bilateral funding and it is desirable to have as much flexible funding as possible if that funding is used strategically. The CAR CHF, for example, is quite small, with $27 million committed over 2 ½ years. Several of its donors have withdrawn and another was contemplating withdrawing. Concerns revolved around the non-strategic way in which resources were allocated and inadequate fund reporting. At the same time, the donor that was contemplating withdrawing began to question the size of the fund. The conclusion was that a fund of $10 million was “just about enough” in the CAR context to give the Humanitarian Coordinator adequate influence over the allocation process. The PBF allocation to DRC is $20 million, which is quite small compared with other funding available and the enormous needs of Eastern DRC. However, the PBF Secretariat is attempting to target resources strategically to fill gaps and jump-start programming while helping to catalyse additional funding for these projects.

88. With this background in mind, this review has identified a series of factors that are likely to enhance the chances that pooled funding mechanisms will increase aid effectiveness (Box 17). Based on these, the following recommendations emerge from this review.

Box 17. Preconditions for establishing aid-effective pooled funding mechanisms

- Leadership on the part of key actors in the fund management process
- Adequate human and financial resources for fund management
- Adequate understanding of the context in which the fund is operating
- Adequate time to establish fund structures and make them operational
- Clarity on fund procedures and on the roles and responsibilities of key stakeholders and means of communicating these to all relevant actors
- Capacity building for local stakeholders to enable them to participate to the fullest extent possible
- Harmonisation of fund procedures and management arrangements among funds
- Appropriate donor engagement

Recommendations

89. **Leadership.** One issue that has consistently been stressed by respondents is the importance of leadership at all levels for the successful establishment and functioning of
pooled funding mechanisms. Speaking of the Pooled Fund in DRC, one donor noted: ‘Leadership was critical. At the outset there was a strong, competent DSRSG who was prepared to try something new. The OCHA office had high quality people. Among UN Agency representatives and cluster leads were people who were willing to give this a go. There was a very fortunate mix of people. If you don’t start CHF well, it’s hard to catch up.’

90. In the case of the CAR CHF, which was suffering from poor allocation decisions and subpar reporting, the Humanitarian Coordinator who took up his post in 2009 took a strong stand in favor of allocating resources within clusters on the basis of priorities, rather than dividing the funding among all cluster members. This reportedly was something that OCHA, as fund manager, would have liked to do for previous allocations but did not have adequate power and authority to enforce its position.

- **Recommendation 1:** Fund administrators and managers should invest in qualified leadership, in particular by ensuring that their managers have experience working in post-conflict transition settings. Furthermore, donors should allow fund administrators and managers to allocate sufficient resources in order ensure that such qualified leadership is in place.

- **Recommendation 2:** Donors should provide the political backing to the fund administrators and managers that will enable them to make difficult decisions regarding priority setting and allocation decisions.

91. **Adequate human and financial resources for fund management.** This review has found a consistent pattern of attempting to establish pooled funding mechanisms, particularly large funds, without adequate human and financial resources. There are various reasons for this. Chief among them are:

- Difficulty in finding experienced personnel willing to work in post-conflict environments;
- Lack of centralised surge capacity on setting up funds and fund management structures; within the UN, this surge capacity is divided over the UNDP MDTF Office, the Peacebuilding Support Office, UNDP Bureau for Crisis Prevention and Recovery, UNDG DOCO and UN OCHA, while within the World Bank, this surge capacity is fragmented throughout the organisation;
- Perception that donors are unwilling to pay for fund overheads, coupled with the belief that certain positions such as cluster (CHF) or component (SRFF) lead can be done on a (very) part-time basis;
- Slowness in UN mission and UNDP procurement procedures.

92. To the extent that donors resist paying fund overheads, this is a false economy. As one interlocutor stated: ‘Without the capacity to make funds work, they will not work. You can have all the guidelines and all the tools you want but without capacity, it will not work.’ There is some evidence on both sides of this issue. Members of the Haiti Reconstruction Fund Steering Committee have reportedly complained that both the fiscal agent and the partner entities receive overheads. Others have noted that donors are willing to pay reasonable overheads if presented with a prioritised budget and a compelling argument for doing so.

- **Recommendation 3:** Fund administrators and managers should make use of surge
capacity to acquire the assistance of individuals with experience in setting up pooled funds for up to six months.

- **Recommendation 4**: The UN, the World Bank and donors should ensure that there is adequate surge capacity that can help set up funds and that can teach in-country staff about fund management. There should be a central body of knowledge on pooled funds in transition, both in the UN and the WB, as well as in donor capitals, which pulls together lessons learned from existing funds and where people can turn to for information, support and advice.

- **Recommendation 5**: Fund administrators and managers should ensure that the staff that are assigned to work with pooled funding mechanisms are able to devote adequate time to these tasks.

- **Recommendation 6**: Donors should ensure that pooled funding mechanisms to which they are contributors have adequate funding and high quality staff to administer and manage the fund in a manner that will maximise the opportunities for aid effectiveness. This may require donors to play a proactive role as members of Steering Committees and in other fora.

93. **Adequate understanding of the context in which the fund is operating**. Despite the increasing use of joint needs assessments and conflict assessments, expectations about the pace of implementation of fund activities continue to be unrealistic. This is part of a broader problem of working in transition environments where many members of the international community fail to appreciate fully the constraints imposed by conditions prevalent in these situations. If pooled funding mechanisms are to live up to the expectations about their benefits for aid effectiveness, however, it is essential that the establishment of fund strategies be grounded in a detailed understanding of context, in particular the capacity of key local counterparts. Too often structures and timelines are based on unrealistic assumptions.

- **Recommendation 7**: Prior to establishing a pooled funding mechanism, fund managers should undertake a capacity assessment of all the stakeholders involved in fund implementation so that strategies and timelines reflect a realistic appraisal of in-country conditions. The conclusions of the assessment should be shared with all key stakeholders (national and international) in order to develop a shared understanding of the basis on which fund strategies and timelines are developed. Donors should think about making such a capacity assessment a requirement for contributing funds.

- **Recommendation 8**: In order to identify changing priorities / conditions that may affect fund operations and learn lessons on an ongoing basis, all pooled funds should give high priority to developing a rigorous fund-level monitoring and evaluation component. Furthermore, fund managers should make sure that they have adequate staff capacity assigned to monitoring and evaluation.

94. **Adequate time to establish fund structures and make them operational**. It is clear that there is a tension between donors and UN and WB headquarters pushing for speed in terms of setting up a pooled fund, and what is actually feasible on the ground. Fund administrators can transfer money quickly. They can probably also set up a basic pooled fund, working against the priorities identified in a PCNA with limited participation, fairly quickly. But setting up structures that have significant amounts of participation, such as the PF or the SRFF and also the Peacebuilding and Recovery Facility (PRF) of the PBF,
simply requires more time.

95. While setting up a participatory pooled funding mechanism, interim mechanisms can be developed to bridge the start-up period. The Immediate Response Facility (IRF) of the PBF has been used for this purpose for instance. This Facility can be set up very quickly because decision-making is centralised, relatively few actors are involved and the process is top-down. Most IRF allocations are followed by longer-term PRF allocations. Another example can be found in the sequencing of the AIAF and the ARTF in Afghanistan. Donors can also set up a temporary specialised fund that is to be phased out when the broader fund structure becomes operational, such as the CBTF in Southern Sudan.

- **Recommendation 9**: The existing guidelines on setting up pooled funding mechanisms should include clear references to the fact that it takes time to set up participatory pooled funding mechanisms, in order to manage expectations. Also, the upcoming guidance for OECD DAC donors on transition financing should include reference to realistic timelines.

- **Recommendation 10**: These guidelines and guidance should also include reference to the different options to bridge the start-up period of a full-fledged pooled fund.

96. **Clarity on fund procedures and on the roles and responsibilities of key stakeholders and means of communicating these to all relevant actors.** As part of the UN reform process, the UN has made considerable progress on standardising pooled fund governance, oversight and management structures and procedures. This has facilitated the establishment of UN administered MDTFs and greatly clarified the relationships between the fund administrator (UNDP’s MDTF Office) and UN agencies receiving funding through UN administered MDTFs. At the same time there is evidence that this standardisation has an impact on flexibility.

97. In DRC the SRFF Technical Secretariat wanted to include a number of features in the ToR for the SRFF that would be beneficial for aid effectiveness: biannual and quarterly reports (not just the standard annual report) and a report covering activity for the entire SRFF, not just the MDTF, or pass-through, modality. However because elements of the UNDG ToR for MDTFs had been the subject of lengthy negotiations, the SRFF Technical Secretariat was told that the ToR could only be amended through similar, probably lengthy, negotiations and therefore the SRFF had to accept the standard ToR. But the Secretariat was then told that it could include such provisions in the fund’s rules and procedures. Thus, there is flexibility in the system. The problem is that anyone relying on standard documents and procedures would not know this and might not know about innovations such as those employed by the SRFF (and the PBF for quarterly updates). The absence of a central ‘go-to’ body (paragraph 91) for information previous experiences with pooled funding exacerbates this communication problem.

98. Similarly, the experience with the first SRFF allocation (paragraph 61) demonstrated a serious communication problem at field level. The review team spoke with individuals engaged in that process who outlined a series of questions that they had had about the allocation process. Many of these questions related to standard UNDG MDTF procedures. The SRFF rules and procedures were, however, still a work in progress and these individuals were unable to obtain that information through other channels in a timely fashion, largely because of confusion over roles and responsibilities of SRFF stakeholders. (See also
recommendations 3 and 4 above, as the surge capacity that should help fund managers to set up the funds should also communicate fund procedures and roles and responsibilities to the fund’s stakeholders.)

- **Recommendation 11**: A fund should only begin allocating resources when its rules and procedures have been agreed, the roles and responsibilities of key actors clarified and all stakeholders have received this information in a user-friendly format.

- **Recommendation 12**: The fund administrator should make clear to the fund managers which items need to be covered in the fund’s ToR and which can be tailored in the fund’s rules and procedures.

- **Recommendation 13**: The existing guidelines for setting up pooled funding mechanisms should include examples of fund rules and procedures, so as to make clear which kind of issues can be covered in them.

99. **Capacity building for local stakeholders to enable them participate to the fullest extent possible.** The key element in moving from humanitarian-based interventions to development-based interventions in transition situations is the increasing engagement with local stakeholders. The main challenge in this respect is the lack of capacity of the local partners and the lack of experience for the local partners in working in a pooled fund setting, which directly influences the effectiveness of the fund. Capacity building therefore should be one of the core elements of the fund set-up, which implies moving beyond the notion that capacity building will occur just by including local partners in the fund structure. The World Bank, for instance, invests a lot of time and money in building capacity in their government counterparts to safeguard their own investment.

- **Recommendation 14**: Fund managers should ensure that capacity assessment and capacity building for government counterparts is built into the activities of the fund support structure (secretariat).

- **Recommendation 15**: The fund’s decision-making body should make sure that part of the fund’s money is spent to ensure that key local partners, both at government and civil society level, have the capacity to carry out their responsibilities as effectively as possible. Capacity building should be projectised, for example through technical assistance.

100. **Harmonisation of fund strategies, procedures and management arrangements among funds.** This review has shown that aid effectiveness is generally negatively affected when there are multiple pooled funds in the same country. In most cases, coordination between the funds is poor and the existence of multiple fund structures, in which mostly the same group of people and organisations participate, increases transaction costs. The most important thing to keep in mind to increase aid effectiveness in these cases is to make sure that the fund strategies are harmonised to the fullest extent possible.

- **Recommendation 16**: As pooled funding mechanisms are established in each country, a dialogue should take place at senior levels of the relevant organisations (government, UN, World Bank, donors and other key stakeholders) to ensure that the different funds complement each other under the umbrella of an overarching strategy for recovery and development.
• **Recommendation 17**: When a new fund is established in a context where one or more funds are already operating, key stakeholders should consider how the new fund can complement the existing funds, in order to reduce transaction costs for local actors.

• **Recommendation 18**: Key stakeholders should make every effort to ensure that procedures and roles and responsibilities are similar across funds in order to reducing transaction costs for all actors.

101. **Appropriate donor engagement.** In addition to strong and effective leadership, ‘Having donors that play an active role and shape and steer is also key.’ In the case of the CAR CHF, the donor in question worked with OCHA to identify steps that needed to be taken to improve management shortcomings (paragraph 87). Follow on funding was pegged to progress on these areas. The donor now feels that funding allocations are based on priority needs, rather than a division of money among partners in the clusters, and that reporting has improved. The donor is also encouraging others to commit resources to the fund. While pooled funds provide a mechanism for broadening the donor resources, this can come with a cost if donors allow funds to operate on auto-pilot.

102. An example of less appropriate donor behaviour can be found in the DRC SRFF, where donors pushed for the creation of the fifth component on sexual violence when all preparations had been geared towards components 1 to 4. Then, they earmarked their contribution for this component specifically, leaving the other components without new funding coming in. And then, they limited their contributions, linking possible future contributions to the performance on the first allocations. This review, as well as the upcoming INCAF risk study, found that there seems to be a miscommunication between managing agents and donors; both tend to think on behalf of the other. Specifically, management agents think donors have certain limits (in terms of money and procedures), but donors may be more flexible in reality. It is important to be open in the communication about this – most often donors say they are willing to make adjustments or exceptions, but that they need valid arguments and proposals supported by evidence in order to do that.

103. Respondents feel that donors transfer their fund allocation decision-making process to organisations that are not fit to take on this responsibility and whose culture and operational structures are not set-up to act as a donor. These organisations are contesters for the money themselves – they are implementing organisations and as such need the money to survive and implement their own activities. As a result, a conflict of interest is created, which brings with it a very high reputational risk. Specifically within the humanitarian cluster system, some cluster coordinators feel they are forced into a position that is not natural for them. They feel that staff should be designated to act specifically in the coordination position and that some sort of firewall should be created in order to limit the perception of a conflict of interest.

104. Some feel that the answer to this problem may be to hire private sector actors to manage the funds, as is for instance the case for the BSF and CBTF in Southern Sudan. However, to date there is no evidence that private actors perform better than the World Bank or the UN. There is evidence that private actors run into similar problems in terms of bringing in qualified staff. Also, it seems to be generally accepted that private actors, unlike the UN and the World Bank, cannot take on the more political role of the fund manager in terms of discussing policies.
• **Recommendation 19**: Without micromanaging, donors should engage constructively with fund managers and administrators when management weaknesses are causing a reduction in aid effectiveness.

• **Recommendation 20**: Donors should clearly communicate their willingness to make adjustments to standard procedures, and what is needed for them to do so, in order to strengthen the effectiveness of the fund.
Annex 1. Terms of Reference

April 24 2010

Review of pooled funding for transition at the Country Level
Terms of Reference

1. Background

There is growing interest from donors and agencies in the use of pooled funding in post-conflict transition, as it is assumed that it improves aid effectiveness through stronger coordination, ownership, risk sharing and lower transaction costs - benefits that can be difficult to achieve in transition settings through other aid modalities. The SG Report on Peacebuilding in the Immediate Aftermath of Conflict contains several recommendations on the use of pooled funding mechanisms.

In response to this interest, a growing number of pooled funding mechanisms have been established in transition countries, including countries such as Sudan, DRC, Iraq and Afghanistan. Initially, the focus of Multi-Donor Trust Funds in for instance Sudan and Iraq was on long-term development objectives and government ownership. In the last few years, Common Humanitarian Funds have been established in support of Humanitarian Appeals in a number of protracted complex emergencies, and pooled funds with a special focus on recovery have also been introduced in a few cases, for instance in Sudan. These new types of pooled funding mechanisms seek to address aid effectiveness issues that are particularly relevant in transition situations, including speed and flexibility.

In addition, global pooled funds such as the Peacebuilding Fund (PBF), the World Bank’s Statebuilding and Peacebuilding Fund, and the Central Emergency Response Fund (CERF) are also increasingly important for transition countries. This introduces new possibilities and also new challenges in ensuring coherent and effective aid delivery at the country level.

A number of studies and workstreams have focused on pooled funding in transition situations (see attached mapping). The issue of UN/World Bank cooperation was addressed in two reviews in 2006 and 2007. A number of other evaluations and studies have focused on either humanitarian or development based instruments, but little work has been done on the general use of pooled funding in transition, including in particular how development based and humanitarian pooled funding mechanisms interact. Furthermore, while it is assumed that pooled funding mechanisms can improve aid effectiveness, there has been little discussion of whether they actually achieve these benefits and what the conditions for this might be.

Recently, there has been renewed interest in additional research in this area:

At a UNDG-donor meeting on Multi-Donor Trust Funds on 21 January 2010, it was suggested that a study be conducted on emerging lessons and issues arising from the simultaneous operation of multiple funds in one given context, including those related to development, recovery and crisis/post-conflict in the same country.

The Framing Paper produced for the INCAF Financing Task Team as a basis for its work, suggests that stronger coherence and synergy between humanitarian and development based systems and processes is necessary. It also suggests that more work on the aid effectiveness of pooled funding is required. The INCAF Directors’ meeting on 24 February 2010 requested that the INCAF Financing Task Team solicits contributions on different themes, such as pooled funding mechanisms from a broad range of bilateral and multilateral agencies. It also confirmed that the INCAF Task Team should produce draft policy and operational guidance by the end of 2010 for improved transition financing.
DFID is conducting a study on comparative advantages and complementarity of system-wide multi-donor trust funds for peacebuilding and post-conflict recovery that is expected to provide input to the INCAF Financing Task Team. This study concentrates on global pooled funds, but will also look at links and coordination mechanisms between global pooled funds and country level mechanisms.

The World Bank is conducting its own internal study on MDTFs in fragile and conflict countries which looks at past performance, but also looks forward to identify possible ways for the WB to increase its effectiveness in fragile and conflict countries as a MDTF administrator.

2. Objectives

A review of the experience with different types of pooled funding arrangements at the country level in transition situations will be conducted by the UNDG/ECHA Task Team on Transition Financing to fill gaps in existing knowledge and to feed into relevant processes, including the INCAF Financing Task Team, the UNDG/ECHA Working Group on Transition and the UNDG Working Group on Joint Funding, Financial and Audit Issues. The review will include in-depth field based country case studies, which will add value compared to other recent and on-going work, which is based on desk and HQ research.

The objective of the review is to clarify how pooled funds can contribute to aid effectiveness in transition situations and through that to improved aid flows, and to suggest recommendations to donors and agencies for improvements in current systems, procedures and policies. There is a widespread assumption that pooled funds are a conduit for enhanced coordination and response. While this expectation may appear as common sense, the review is to demonstrate its veracity and provide evidence, or not, to this effect.

It will focus on the following key questions:

- How design and management of pooled funding mechanisms at the country level contribute to aid effectiveness as defined in the Paris Declaration on Aid Effectiveness, including in particular national ownership and coordination?
- How pooled funds can help to adapt these aid effectiveness principles to post-conflict transition with weak ownership or capacity, as called for in the Accra Agenda for Action?
- The contribution of pooled funds to strong and inclusive development partnerships that include governments, agencies, civil society and NGOs, as well as donors.
- How pooled funds can improve the coordination specifically between development-based and humanitarian-based activities, and support transition from humanitarian to development funding?
- Contributions to other dimensions of aid effectiveness that are specific to transition settings as discussed in the Framing Paper and the SG Report on Peacebuilding in the Immediate Aftermath of Conflict, including speed, flexibility and risk sharing?

This will require a focus in the review work on structures, partnership arrangements, capacities and processes for planning and decision-making, rather than the actual implementation of activities or the preceding assessment of needs. The review will thus focus on the pooled funding mechanisms themselves, and less on the agencies and other entities that implement activities.

The review will further narrow its focus on a limited number of clear and precise questions that can be investigated through in-depth country case studies. These questions will be developed as part of the initial stage of the review work in a dialogue between the consultants and stakeholders. Annex 1 contains an indicative list of possible questions for consideration as part of this initial dialogue. The review will not be able to cover all of these questions, and will need to focus on a few in order to address these in
Pooled funding mechanisms are to be understood as arrangements where donors provide financial contributions towards a common set of broad objectives and where allocations for specific activities are decided by a joint governing mechanism. Typically, pooled funding mechanisms involve a trust fund, where money is being held by an administrative agent or trustee, until allocations are made. In post-conflict transitions, the administrative agent is normally a multilateral agency, either the UN or the WB, although it could also be a private company or a bilateral donor operating on behalf of several donors. The common technical term for this type of arrangement is a Multi Donor Trust Fund (MDTF), which is used for instance in UNDG guidance. However in policy discussions, the term ‘Multi Donor Trust Fund’ often refers only to instruments based on development funding, and does therefore not include Common Humanitarian Funds. ‘Pooled funds’ on the other hand, usually refer to both development-based and humanitarian-based arrangements in policy discussions.

Donor funding can be divided in two categories that are governed by different mandates, procedures and policies: development and humanitarian. In addition, non-ODA funding can be said to constitute a third category, which is particularly relevant to security related activities. The lack of coherence between humanitarian and development funding has been highlighted as a key issue by the INCAF framing paper. In some cases, dedicated funding is provided for activities that can be said to cover both the humanitarian and development field, including for early recovery and transition. However, funding still comes from either one or the other source, also in these cases, and specific pooled funding mechanisms are accordingly governed by only one set of mandates, procedures and policies: either development or humanitarian.

Pooled funding mechanisms can be set up with different focus and geographical scope. In post-conflict transition, pooled funds at the country level are of particular interest as they allow donors to provide general funding towards national recovery plans or humanitarian appeals, which can be allocated to implementing agencies in a coordinated way according to needs. Bilateral donors are often less strongly represented in post-conflict countries and therefore less able to participate in donor-coordination on a day-to-day basis. In addition, government capacity to coordinate a large number of donors directly is often limited. Pooled funds can enable funding under a coordinated framework with less demand for capacity of both bilateral donors and governments. Furthermore, general budget support is often difficult because of weak government capacity. Pooled funds usually involve national governments and other national actors as key partners, and allow a high degree of national ownership and leadership.

A particularly important issue is the establishment of several pooled funding mechanisms in the same country for different purposes, and how to ensure coordination, national ownership and low transaction costs under these circumstances. The review will consider this question, and recognise that there may be different perspectives on aid effectiveness issues among different actors in a country.

Given constraints in time and resources for the review work, it will not aim to provide an in-depth assessment of the actual impact (what could be called the development effectiveness or humanitarian effectiveness) of pooled funding mechanisms, or aid effectiveness issues specifically related to results orientation and M&E. This would be the objective of a more systematic evaluation with a strong focus on implementing partners, implementation and outcomes, rather than the planning and decision-making within the pooled funding mechanisms themselves.

However, the review may consider the specific impact of pooled funding mechanisms on strengthening the capacity of national partners, as this is inextricably linked to core dimensions of aid effectiveness, including ownership, coordination, accountability, risk sharing, speed and flexibility. It may also discuss the mandates and objectives of pooled funds and their use for delivery of aid for strategic purposes, including to implement
national plans following joint needs assessments. Furthermore, it may look at how pooled funds engage with different types of implementing partners, including government, civil society, the private sector and multilateral agencies and how this contributes to capacity development and aid effectiveness.

The review will not assess the internal administrative and managerial effectiveness of pooled funds and the financial overheads, internal management procedures and systems, which are specific to individual funds and administrative agents. The review may nevertheless look at ways to enhance coordination and harmonisation on these issues across funds, and especially amongst different pooled funds operating in the same country.

Furthermore, the review may consider transaction costs, defined as the time and effort of different stakeholders required to set up and operate pooled funding mechanisms. Consequently, transaction costs in the review will not be understood as the financial overheads, procedures and systems that are specific to individual administrative agents.

3. **Approach**

The review will be based on the concepts, definitions and conclusions presented in the INCAF Framing Paper and will also take into account the INCAF study on risk as well as the DFID study of global pooled funds.

The review will aim for a close cooperation with the World Bank, and it will engage the donors in INCAF in the process from the beginning to ensure that donor perspectives are represented in the review work and to ensure effective communication of results and recommendations to the INCAF Financing Task Team. It will aim for synergy with the DFID study on global pooled funds to the extent possible through relevant links and joint work on country cases for instance.

It will be important that the review provides a useful and constructive contribution to INCAF before it commences its work on guidelines and recommendations towards the end of 2010. In addition, partner governments and civil society and NGOs in the case study countries will also be consulted to ensure that the review provides a full picture, including with regard to national ownership, capacity development and transaction costs.

The review will be based on a desk study of available material combined with a series of interviews with key actors in national governments and development/humanitarian agencies, including the UN, the World Bank, key bilateral agencies, and NGOs/civil society, both at HQ and country level.

As a first step, a discussion paper will be developed by the consultants for presentation to the INCAF Financing Task Team and an INCAF event with a broad group of stakeholders, including representatives of national governments, planned for June. The discussion paper should seek to identify specific gaps in current knowledge within the overall focus of the review, and help to narrow down the focus of the review by presenting a range of possible questions and choices to be made in the review work.

Based on the feedback from discussions, and a review of existing studies and guidance notes, in-depth country studies will be conducted through visits to 2-3 countries and research of material available at the HQ level of relevant UN entities and the World Bank to investigate specific questions. These in-depth country cases should include countries with a recent history of transition, and where several pooled funding mechanisms have been established to address different funding needs, in particular both humanitarian and development mechanisms. The purpose will be to explore the trajectories that led to the establishment of the different existing pooled funding mechanisms, and the experiences with these through transition from war to peace and from humanitarian to development funding.
After this in-depth case study work, an analytical and general understanding should be developed of different types of pooled funds, and the aid effectiveness issues and challenges related to these. This could provide a ‘menu’ of pooled funds with recommendations for when and how they should be used depending on objectives and conditions. An additional 2-3 much briefer country cases based on desk research will be developed to corroborate this analysis and to provide further detail and nuance.

All the country cases should build as much as possible on other recent work, and will be chosen from the 6 country cases studied in the Framing Paper and the 3 country cases of the DFID study of global pooled funds. This provides the following list of possible country cases: Afghanistan, Burundi, CAR, DRC, Southern Sudan, Timor Leste and Nepal. The decision on country cases should be made together with the consultants as quickly as possible after the contracting.

A final synthesis analysis will summarize findings and suggest recommendations.

4. Management arrangements

The review will be managed by the UNDG/ECHA Task Team on Transition Financing in close cooperation with the World Bank. The World Bank will provide review comments and participate in discussions throughout the process, and the report will recognize differences of opinions and perspectives between UNDG/ECHA Task Team members and the World Bank, should they emerge as part of the review work.

Donors from the INCAF Financing Task Team will be invited to form an Advisory Group to provide recommendations, review comments on drafts and to engage with the UNDG/ECHA Task Team at key points during the process.

5. Output and timeline

April: Conclusion of contracts with consultants.

May: Consultants initiate desk review of existing reports and guidance notes (see mapping in annex).

Consultants discuss discussion paper with UNDG/ECHA Task Team. Selection of country cases is finalized.

June: Discussion paper (3-5 pages) to be presented at the INCAF Financing Task Team meeting and INCAF seminar (planned for 14-15 June) with broad group of stakeholders, including national governments, multilateral agencies and NGOs.

Consultants visit New York, Washington to conduct interviews and collect source material on specific pooled funds.

July: Consultants visit 2-3 countries to interview key actors in the field, and conduct interviews on other case study countries by phone.

August: First draft of report (20 pages plus annexes) for review by the UNDG/ECHA Task Team, the World Bank and the Advisory Group (two week deadline).

September: Final draft, including executive summary.
6. **Expected results**

The review will provide evidence in the form of case studies and a synthesis analysis for how pooled funding mechanisms at the country level contribute to national ownership, coordination and other aid effectiveness principles and dimensions. This will allow governments, agencies and donors to improve overall aid flows and design better pooled funding mechanisms in the future, and in particular mechanisms that are more coherent, especially in situations with multiple pooled funding mechanisms, better aligned with common, nationally owned priorities, more flexible and rapid and with lower transaction costs, and therefore overall more attractive to governments and donors.

The review will suggest a set of concrete and actionable recommendations that will feed into discussions in the INCAF financing task team, the UNDG/ECHA Working Group on Transition and the UNDG Working Group on Joint Funding, Financial and Audit Issues, including for the purpose of strengthening UNDG guidance for management of MDTFs.

7. **Required qualifications of consultants**

The review will be conducted by two consultants, both with extensive experience in policy analysis and research in the area of peacebuilding, fragility, funding mechanisms and aid effectiveness for donors and multilateral agencies.

The consultants will all be required to have specific and recent experience with research on
- aid effectiveness issues related to post-conflict transition, including peacebuilding and fragile situations;
- financing mechanisms in post-conflict and fragile situations, including pooled funding mechanisms.

8. **Budget and financing**

The review will be jointly funded by interested UN entities, and the two consultants will be contracted by UNDP.
ToR Annex 1: Indicative list of questions to be addressed

The following list of questions represents ideas suggested in preparatory discussions and it will need to be narrowed down in the initial stage of the review work on the basis of a reading of the existing literature and discussions with stakeholders among agencies and in INCAF. The review will concentrate on a few clear and precise questions to address areas where there is a knowledge gap. The order of these questions will not necessarily determine the ordering of the report itself.

Conceptual basis
- What aid effectiveness benefits are expected from pooled funding in transition situations?
- How are these benefits similar or different from aid effectiveness benefits when they are pursued from an exclusive development or humanitarian perspective?
- What characteristics of pooled funds can be expected to improve the transition from humanitarian to development funding sources, systems and procedures?

Mapping and trends
- What different types of pooled funds are used in transition settings, and what objectives do they have, including both development and humanitarian objectives?
- What planning processes and strategic frameworks are they based on, and what are their governing mechanisms? How are management arrangements similar or different?
- What is the expected level and character of government involvement in pooled funds as described in their ToRs, and how does this take into account actual government capacity (and increase in capacity over time) to assume these tasks?
- How do pooled funds engage with different types of implementing partners, including government entities, civil society and NGO’s, private companies and multilateral agencies, and what implementation mechanisms are used?
- What is the level and character (including earmarking) of donor contributions to pooled funds and what are the trends, including share of overall donor funding and compared to direct budget support?
- What is the importance and role of non-ODA funding in pooled funds?
- How significant is support for pooled funds from non-DAC members versus donors that are members of DAC? Do non-DAC donors contribute to pooled funds in different ways from DAC donors?

The contribution of pooled funds to aid effectiveness
- To what extent do management arrangements and fund policies reflect aid effectiveness principles, and what are the actual aid effectiveness benefits that can be observed from existing pooled funds in transition contexts?
- How do inclusive partnership arrangements contribute to aid effectiveness of pooled funds, and to clear and cooperative arrangements of pooled funds at the country level?
- How effective is information sharing and coordination between various pooled funds in countries with multiple funds, and with bilateral funding flowing outside pooled funds, including direct budget support?
- How do development and humanitarian based instruments in particular build on each other, and what are the synergies between them? Are pooled funding mechanisms designed to take over from each other in a sequence of transition?
- Do pooled funds contribute to transition from humanitarian to development assistance by strengthening national capacities of both state and non-state actors to plan, coordinate and implement activities?
- Do pooled funds develop government capacities to control and coordinate aid flows and through that national ownership in a similar way as direct budget support would, or do they to weaken ownership by substituting and delegitimizing government capacities, or crowding out direct budget support?
- How does engagement with different types of implementing partners, including government, civil society, the private sector and multilateral agencies contribute to
aid effectiveness, including ownership, speed and flexibility?

- What are the specific improvements in overall transaction costs, including time and effort invested of national partners, participating agencies, fund managers and donors? What are the ‘opportunity costs’ for donors of pooled funds versus ‘going it on their own’.
- What is the impact on risk sharing and risk mitigation? What is the impact on speed and flexibility?

**Analysis and conclusions**

- What are the conditions for achieving aid effectiveness benefits of pooled funding in transition contexts?
- What robust and objective analytical typology or ‘menu’ of different pooled funding mechanisms can be suggested for post-conflict transition based on the mandates, objectives and management arrangements, and given background factors such as the overall objectives of international engagement, the political context, and existing country capacity and ownership?
- What can be said about the ‘critical mass’ or threshold size of pooled funds on this background? What types of flexibility, coherence and synergy between funds are required for aid effectiveness? How can overlap and negative competition for donor funding and space be averted and strong and inclusive development partnerships be promoted?
- What specific recommendations can be suggested with regard to planning processes and governance arrangements of pooled funds to improve aid effectiveness? How can procedures and management arrangements be harmonized between different pooled funds to reduce transaction costs?
- How can pooled funding mechanisms in transitions from humanitarian to development situations be arranged so that they strengthen the capacities of state and non-state actors over time to set and achieve their own development objectives?
**ToR Annex 2: Mapping of existing work on pooled funding in transition situations**

The following is based on initial discussions in the UNDG/ECHA Task Team on Transition Financing and does not represent a full and complete mapping. It can be used as the starting point for the desk research.

1. **Working groups and task teams**

   **INCAF Financing Task Team**
   Donor forum with participation of UNDP, OCHA and WB. Discusses overall issues related to transition financing, including risk taking, donor policies and procedures, pooled funding and needs assessment and planning. Aims to develop a set of recommendations for reform by the end of 2010.

   **The UNDG Working Group on Joint Funding, Financial and Audit Issues**
   The working group focuses on enhancing the coherence, effectiveness and harmonization of issues related to joint funding, finance and audit at the country level. It provides guidance based on the needs and demands at country level, including through modification of existing instruments where possible. Since the Working Group will cover the areas of joint funding, finance and audit, issues related to these areas will be worked on simultaneously by the time-bound Task Teams on Funding Issues and Finance.

   **The UNDG Fiduciary Management Oversight Group (FMOG)**
   This is the first point of contact in headquarters for fiduciary matters on MDTFs, where the fiduciary and legal dimensions are discussed. The Group discusses any required departures from the standard MoUs, SAAs and SC TORs.

   **Peacebuilding Contact Group**
   Composed of UN agencies and departments. Reviews PBF proposals and discusses PBF policy issues.

   **Peacebuilding Advisory Group**
   Composed of independent experts appointed by the SG to provide policy guidance and advice on the use and impact of PBF.

   **The IASC Group on Humanitarian Financing**
   This group has been established recently, and is likely to concentrate on strengthening the CERF and country-based humanitarian pooled funds, and also look at issues relating to funding of preparedness and early recovery. Furthermore, it will discuss the ongoing evaluation of Common Humanitarian Funds in 3 countries.

   **CHF Working Group**
   Composed of CHF donors and agencies and serve as primary forum for informal discussions and information sharing on CHFs.

   **CERF Advisory Group**
   Composed of independent experts appointed by the SG to provide policy guidance and advice on the use and impact of CERF.

2. **Studies**

   **DFID desk study on system-wide multi-donor trust funds (on-going)**
   Desk study which will aim to clarify the comparative advantages and complementarities of main global pooled funds and provide recommendations on how to increase their complementarity. Not clear if it also will include the CERF. Steering group of the study include major donors. Will be submitted to INCAF FTT as input.
World Bank MDTF Review (on-going)
Will focus on WB experience as MDTF manager and feed into IDA 16 replenishment report in March 2010. It will contain a review of MDTFs based on desk and HQ research, their performance, key success factors and challenges. It will highlight recent changes within the Bank to reflect the lessons of experience, as well as between the Bank and partners such as the UN, donors, etc. It will include issues of design, governance structures, donor agreements, implementation on the ground, and of course client consultation and readiness. As part of this, it will look at how various UN-WB partnership (and fiduciary principles) have come into play so far. Active cooperation and synergy with the UN will be sought.

Third CHF evaluation (on-going)
Will look at both impact and aid effectiveness in light of the humanitarian cluster approach, but will not look at coherence and synergy with development based pooled funding mechanisms. The study is an extension of two previous CHF evaluations, which addressed the same set of issues: ‘Common Funds for Humanitarian Action in Sudan and DRC. Monitoring and Evaluation Study (December 2006)’, and ‘Evaluation of Humanitarian Pooled Funds in DRC and Sudan (December 2007)’

INCAF Financing Task Team framing paper (February 2010)
Defines basic concepts and identifies issues related to overall transition financing. Reviews country cases. Recommends a ‘holistic approach’ that transcends the current division of mandates and systems between humanitarian and development. Donors need to reform their systems. Focus on planning and priority setting and the relevance of national ownership. Recommends further improvements of pooled funding mechanisms to enable better balancing of service delivery and capacity building, timeliness of different types of funds and minimum conditions for establishing new funds, agreement on practical options to decrease fragmentation and improve participation, as well as stronger predictability of funding.

UN MDTFs & ‘Delivering as One’ Funds: A lessons learned non-paper (July 2009)
Produced by MDTFO as background for ‘the Haag meeting’ in July 2009 between UNDG and a group of donors. The paper focuses on management and administrative issues, but also includes discussion of some aid effectiveness issues, including coordination, harmonization and transaction costs. It focuses exclusively on the experience with ‘Delivering as One’ funds and not transition related funds. However, some of the issues raised will be relevant for a discussion of transition related funds.

Non-paper on Pooled Funding Mechanisms in Post-Conflict Situations (June 2009)
Produced by consultants as background for ‘the Haag meeting’ in July 2009 between UNDG and a group of donors. The paper discusses a number of aid effectiveness related questions, mostly from a donor perspective, including the rationale for pooled funds, lessons learned, types of pooled funding mechanisms and suggestions for reform. The paper summarizes and discusses existing evidence, but does not include new evidence or analysis.

Study of Transaction Costs Associated with Humanitarian Pooled Funds (June 2009)
The study has a strong focus on aid effectiveness issues and introduces many useful ideas, including the suggestion that the costs of pooled funds have to include the time and energy spent on adapting to them and the opportunities missed - not just the administrative costs and overheads of managing the funds. The study documents how pooled funds allow a transfer of costs and accountability from donors to agencies, and how it makes funding less predictable for the agencies. It is limited to humanitarian funds.

Study on the relevance and applicability of the Paris Declaration on Aid Effectiveness in Humanitarian Assistance (March 2009)
Discusses aid effectiveness issues arising from bringing the humanitarian and development mandates together in joint and coherent action, but does not discuss the specific issues of pooled funding.

Stocktaking Review of the International Reconstruction Fund Facility for Iraq (January 2009)
Broad review of accomplishments of the Iraq MDTF and its two-window structure. It gives an overall positive assessment of the MDTF, including its broad scope, and aid effectiveness benefits such as risk reduction and transparency. It criticizes the lack of coordination between two facilities, slow implementation and lack of strategic guidance. It emphasizes the need for donor buy-in.

Evaluation and Review of the PBF (2009)
Focused on the objectives and management of the PBF, including stakeholder roles and responsibilities. Documents some early results. Recommends more focus on filling the gap between humanitarian and development assistance, more emphasis on strategic planning, results orientation and implementation capacity.

Central Emergency Response Fund: Two year evaluation (July 2008)
Focus on the role of the CERF within the humanitarian architecture and its contribution to humanitarian reform, but no discussion of coherence and synergy with development based funding sources. Emphasizes the importance of the core humanitarian mandate of life saving. Discusses timeliness of response, prioritization, administration and management.

Review of Post-Crisis MDTFs (February 2007)
Commissioned by the World Bank and Norway with very much the same focus as the above mentioned study, but leading to slightly different conclusions, including the case for one single fund in many situations.

Commissioned by the UNDG/ECHA Working Group on Transition to take a broad look at the emerging issue of MDTFs in transition, including impact and effectiveness. A total of 5 funds were studied. The study was conducted before CHFs became common, and therefore limits its focus to development oriented funds by for instance emphasizing capacity development and ownership as goals of MDTFs. It focuses on documenting UN and World Bank comparative advantages as fund managers and recommend a two-window structure as the typical approach.

3. Guidance notes

Guidance Note on Funding for Transition (December 2009)
The note was commissioned by the UNDG/ECHA and CWGER. It introduces a number of basic concept and issues, including the transition financing gap, the role and benefits and limitations of pooled funding, and it describes important funding mechanisms including humanitarian appeals and funds, including the CERF as well as the PBF.

Multi-Donor Trust Funds: Guidance Note to UN Country Teams (March 2007)
The note was produced by UNDG/ECHA on the basis of the 2006 study. It describes different development based MDTF models and encourages UNCTs to establish MDTFs when relevant, based on a two-window structure. It advises UNCTs on how to access WB managed MDTFs. It includes a short section on Humanitarian Funds, but the focus is on development based funds.
### Annex 2. Research and assessment questions

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<th>Research questions</th>
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<td><strong>Structures, capacities and processes</strong></td>
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<td>- To what extent do management arrangements and fund policies reflect aid effectiveness principles, and what are the actual aid effectiveness benefits that can be observed from existing pooled funds in transition contexts, including coordination and ownership? How does the existence of multiple pooled funds in the same country influence these benefits?</td>
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<tr>
<td>- To what extent do improvements in overall transaction costs occur, including time and effort invested of national partners, participating agencies, fund managers and donors? To what extent are these improvements influenced by the existence of multiple pooled funds in the same country? What are the ‘opportunity costs’ for donors of pooled funds versus ‘going it on their own’?</td>
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<td>- What is the impact of pooled funding on risk sharing and risk mitigation, both from the perspective of the donors and the executing agencies?</td>
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<td>- What is the impact of pooled funding on speed and flexibility of planning and decision-making, and how is this influenced by the existence of multiple pooled funds in the same country?</td>
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<td><strong>Partnerships</strong></td>
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<tr>
<td>- How do inclusive partnership arrangements contribute to aid effectiveness of pooled funds, and to clear and cooperative arrangements of pooled funds at the country level?</td>
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<td>- How does engagement with different types of implementing partners, including government, civil society, the private sector and multilateral agencies contribute to aid effectiveness, including ownership, speed and flexibility?</td>
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<td><strong>Coordination</strong></td>
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<td>- How effective is information sharing and coordination between various pooled funds in countries with multiple funds, and with bilateral funding flowing outside pooled funds, including direct budget support and non-ODA financing?</td>
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<td>- How do development and humanitarian based instruments in particular build on each other, and what are the synergies between them? Are pooled funding mechanisms designed to take over from each other in a sequence of transition?</td>
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<td><strong>Ownership and capacity building</strong></td>
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<td>- Do pooled funds contribute to transition by strengthening national capacities of both state and non-state actors to plan, coordinate and implement activities?</td>
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<td>- Do pooled funds develop government capacities to control and coordinate aid flows and through that ownership in a similar way as direct budget support would, or do they weaken ownership by substituting and delegitimising government capacities, or crowding out direct budget support?</td>
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<tr>
<td><strong>Assessment questions</strong></td>
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<tr>
<td>- What robust and objective analytical typology or ‘menu’ of different pooled funding mechanisms can be suggested for post-conflict transition based on the mandates, objectives and management arrangements, and given background factors such as the overall objectives of international engagement, the political context, donor and agency capacities to oversee and manage funds, and existing country capacity and ownership?</td>
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<td>- What can be said about the ‘critical mass’ or threshold size of pooled funds on this background? What degrees of flexibility, coherence and synergy between funds are required for aid effectiveness? How can overlap and negative competition for donor funding and space between funds and among executing agencies be averted and strong and inclusive development partnerships be promoted?</td>
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<td>- What specific recommendations can be made with regard to planning processes and governance arrangements of pooled funds to improve aid effectiveness? How can procedures and management arrangements be harmonised between different pooled funds to reduce transaction costs?</td>
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<td>- How can pooled funding mechanisms in transitions from humanitarian to development situations be arranged so that they strengthen the capacities of state and non-state actors over time to set and achieve their own stabilisation, peacebuilding and development objectives?</td>
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Annex 3. UNDG definitions for pooled funding and pass-through funding

The UNDG Guidance Note on Joint Programming defines pooled defines **pooled funding** as follows: ‘Under this option, participating UN organisations pool funds together to one UN organisation, called the Managing Agent (MA), chosen jointly by the participating UN organisations in consultation with the (sub-)national partner. The MA will support the (sub)national partner in managing the programme. Programme and financial accountability for the UN support to the joint programme will rest with the MA.’

The UNDG Guidance Note defines **pass-through funding** as follows: ‘Under this option, two or more organisations develop a joint programme, identify funding gaps and submit a joint programme document to donor(s). If the donor(s) and participating UN organisations agree to channel the funds through one participating UN organisation, then the pass-through modality applies. The UN organisation channelling resources, hereinafter called the Administrative Agent (AA) would be jointly selected by all participating organisations. The programmatic and financial accountability will rest with the participating organisations and (sub-)national partners that would be managing their respective components of the Joint Programme.’

All the funds discussed in this report have a pass-through mechanism, where either an Administrative Agent or a Trustee is responsible for receiving and managing the donors’ collected funds – in terms of financial management, the donors are dealing with one agency or institution.
### Annex 4. Key characteristics of funds surveyed – Coordination

<table>
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<tr>
<th>Fund type</th>
<th>Key characteristics</th>
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<tr>
<td>UN administered humanitarian funds [CHF basic-CAR / CHF enhanced-DRC Pooled Fund]</td>
<td>• Both basic and enhanced CHFs strengthen coordination among UN agencies and INGOs. Enhanced CHFs include local NGOs. CHF funding further strengthens the cluster system, by providing an incentive to agree to a common approach and to participate actively in the allocation process, which can be time-consuming, particularly for cluster leads and co-leads.&lt;br/&gt;• Both basic and enhanced CHFs strengthen the ability of the HC to coordinate. However it has often proven difficult to avoid the pressure to distribute CHF resources equally among UN agencies rather than take difficult decisions based on highest priority needs.&lt;br/&gt;• Both coordinate against a humanitarian strategy. The enhanced CHF develops the strategy and priorities in a bottom up fashion. This can lead to unmet expectations on the part of implementers who assume that locally identified priorities will automatically be funded. It also creates challenges for some cluster leads who are uncomfortable about having to take on what they see as a donor role in determining which projects should be funded.&lt;br/&gt;• There appears to be limited coordination between CHFs and other pooled funding mechanisms.&lt;br/&gt;  o In DRC humanitarian actors note that there is no systematic way of tracking activities outside the humanitarian arena, which makes it difficult for humanitarian actors to link to transition / development activities. That said, there has been an effort to delineate the different types of activities that will be funded through the HAP, on the one hand, and through components 4 (return and reintegration of IDPs and refugees, and community recovery) and 5 (sexual violence) of the SRFF, on the other hand.&lt;br/&gt;  o Additionally, there has been an effort to begin to think of an exit strategy for humanitarian assistance and to involve government in decision-making processes. Concerns about impartiality and neutrality of humanitarian assistance in such environments remain unresolved, which underscores the importance of strong HC/RCs.&lt;br/&gt;  o What is more some humanitarian actors believe that it is not possible to have a fully harmonised strategy covering humanitarian, transition/stabilisation and development efforts because the latter two require government engagement but in view of the continuing humanitarian crises in DRC humanitarian actors need to be independent of government in order to meet urgent needs.</td>
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<td>World Bank administered single window MDTF [MDTF Southern Sudan]</td>
<td>• The Bank’s initially focused on coordinating donor interventions and inputs vis-a-vis the government of Southern Sudan against an overarching strategy (the Comprehensive Peace Agreement). There was no specific focus on enhancing UN coordination per se. However there have been turf battles between UN agencies and between UN agencies and the UN mission, for example, with regard to electoral assistance.&lt;br/&gt;• The lack of coordination with the United Nations and a perceived competition for resources resulted in the creation of a new fund, administered by the UN, the Sudan Recovery Fund.&lt;br/&gt;• The lack of results through the MDTF-SS and attendant concerns about its speed and flexibility led some donors to by-pass the fund, to the extent of setting up other MDTFs (including the Basic Services Fund, the Capacity Building Trust Fund and the SRF). Other donors routinely do not contribute to MDTFs. The cumulative result has been a fragmentation of approaches and, because of a lack of coordination among the various funds, an overall loss of coordination. This has enabled the GoSS to play donors off against each other.</td>
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<tr>
<td>World Bank fiscal agent funds with multiple windows [Haiti MDTF]</td>
<td>• Although the fund is only now becoming operational, there is a danger that the multiple window structure will lead to a focus on intra-window coordination and that there will be inadequate coordination between windows.</td>
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| UN-World Bank jointly administered MDTF [IRFFI] | • Among the objectives of the IRFFI were:  
  o Ensure swift, flexible, and coordinated donor financing for priority investments in Iraq.  
  o Help donors coordinate and channel their support for reconstruction and development efforts, focusing on both short term and medium term priorities.  
  o Rationalise and coordinate the contributions of the United Nations system and the World Bank, to ensure gaps are filled and that there is consistency and coherence between Facility-financed activities.  
  • The two window structure under a common strategy did enhance coordination between the World Bank and the UN. Problems arose, however, at an operational level due to lack of in-country collaboration between the two groups. The IRFFI's full potential to address a broad scope of recovery needs was undermined by the lack of coordination between the two facilities.  
  • Coordination among UN agencies was also reportedly enhanced by the UN window. Iraq was the first country where the cluster approach was implemented.  
  • The impact of the funding mechanism on donor coordination is difficult to assess because: 1) the major donor, the United States, operated outside the structure and 2) many fund contributors had no presence in country and did not attend steering committee meetings. What is more, a 2007 review of MDTFs noted that for many donors, an important objective of allocating resources through the trust fund was to: “Create a common capacity for donors to deliver their assistance programs. The security situation limits donors’ capacity inside Iraq. In this context, the IRFFI is a mechanism for donors to deliver their own programs.” Such an objective is not necessarily supportive of coordination, particularly since the UN window allowed earmarking both by thematic cluster and by agency. [The latter is no longer possible under UNDG rules governing UN trust funds.] At the same time, MDTF donors saw the fund as a means of coordinating with the United States. |
| UN administered funding facilities with MDTF and parallel bilateral funding modalities [SRFF] | • The SRFF uses the pre-existing STAREC / I4S structures for coordination / decision-making. The reason why the SRFF does not make use of the cluster system and the CPIA, which are very similar to the system of technical working groups set up under each Comité Technique Conjointe (CTC) at the provincial level, is reportedly because clusters were not eager to become part of a body that is led by government.  
  • The structure of the Funding Facility is intended to encourage donors who may not wish to contribute to an MDTF to align the activities they finance with the Government’s STAREC strategy. Specifically non-contributing donors are being asked to share in the decision-making process (for example by reviewing proposals), reporting mechanisms and M&E mechanisms. As the funding facility is only now becoming operational, it is too early to determine how successful this feature will be.  
  • Specifically with regard to reporting, the Technical Secretariat will go beyond the UNDG reporting requirements of producing an annual report of the activities of the SRFF. They plan to produce narrative and financial quarterly updates and annual reports on all activity under the SRFF, whether financed through the pooled fund (the “pass-through modality”) or the parallel funding modality.  
  • The decision to give each of five sub-components of sexual violence in two provinces (Ituri territoire in Orientale and South Kivu) a (rather small) allocation during the fund’s first allocation process (all funding had been earmarked to the sexual violence component) does not bode |
Intra-UN coordination is further complicated by the fact that the SRFF is managed by the mission (MONUSCO), while the main recipients will be members of the UN Country Team.

To date, communication between OCHA which manages the Pooled Fund (jointly with UNDP) and MONUSCO’s Stabilization Support Unit has been minimal. This means that apart from the effort to delineate how the HAP and the SRFF will divide up work on a) return and reintegration of IDPs and refugees, and community recovery and b) sexual violence, coordination has been minimal. There are indications that a dialogue may be inaugurated in the near future.

**Donor MDTFs with contractors (for profit, not for profit) as managing agent**

- Links between DRC media fund and donor group and one of the Sudan funds (Basic Services?). In the case of the DRC media fund, the donor group specifically requested that a common strategy and fund be developed.
- Coordination is an explicit principle of the Civil Society Fund for Good Governance in DRC. The Project Memorandum states: “The Fund will work towards efficient coordination and for synergy with other support initiatives for civil society that may already be underway in the DRC.” A donor coordination forum for support to civil society is already in existence in DRC. The Civil Society Fund’s governance and management structures will be developed to accommodate additional donor partners who may wish to join the Fund in the future.
- Assumption that as Sudan Recovery Fund becomes increasingly operational, the Basic Services Fund will wind down. But not clear that there is actual coordination between the two.

**UN administered central fund managed at country level by UN agencies [PBF]**

- The PBF programs against an agreed strategy (Priority Plan) and has a catalytic and gap-filling mandate, which implies coordination with other actors in-country. The challenge for the central fund is that it has little control over activities at the country level. Outcomes depend on UN missions and UN agencies. Experience indicates that successful coordination requires strong leadership from the HC/RC.
- For countries on the Peacebuilding Commission agenda, there is also the need to develop an integrated peacebuilding strategy. In some cases this has led to overlapping strategies (Burundi PRSP and IPS) with overlapping coordination structures, straining the limited capacity of governments and creating additional coordination challenges.
- The Stabilization Support Unit of MONUSCO, which is the secretariat of both the PBF and the SRFF, has sought to use the DRC PBF allocation to jump-start activities that would subsequently be funded through the SRFF in line with the government’s STAREC plan and the international strategy to support the STAREC. In view of the limited donor contributions to the SRFF to date, and the priorities for funding under the PBF, this linkage has yet to be made. However, the SSU has succeeded in linking bilateral funding to support PBF priorities.
### Annex 5. Key characteristics of funds surveyed – Ownership

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<th>Fund type</th>
<th>Key characteristics</th>
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| **UN administered humanitarian funds [CHF basic-CAR / CHF enhanced-DRC Pooled Fund]** | • The basic CHF in CAR does not seek to promote ownership or engage with national actors, official or non-governmental.  
• Government has no decision-making role in Pooled Fund allocations in DRC. At the technical level, there is often good collaboration between clusters and provincial governments, as the involvement of provincial officials is often necessary for the implementation of projects supported by clusters. At the same time, because of the structure of the national and provincial governments, there has at times been a lack of clarity on which governmental entities to engage with.  
• There have been some discussions recently among PF officials and donors about the possibility of a more formal role for government in the PF structures in view of the evolving political environment in the country. |
| **World Bank administered single window MDTF [MDTF Southern Sudan]** | • The MDTF-SS has been strongly promoted ownership: GoSS in the lead, involved in all decisions, co-financing fund.  
• Partly as a result of this approach, the MDTF-SS’s performance has lagged. |
| **World Bank fiscal agent funds with multiple windows [Haiti Reconstruction Fund]** | • Multiple roles are envisioned for the government of Haiti:  
  o A government representative chairs the Fund's Steering Committee and, along with bilateral donors, holds a decision making role in the SC.  
  o The government will review proposal concepts to ensure their consistency with the Recovery Plan and related initiatives.  
  o The government will coordinate donors (including the HRF) and manage the policy dialogue on reconstruction.  
Questions remain about the government’s capacity to play these multiple roles.  
• Influential bilateral donors are perceived to be pushing their own agendas via the Haiti Reconstruction Fund, which would undermine ownership.  
• Government ministries and NGOs (presumably national as well as international) will be able to access to HRF as implementing agencies through “partner entities” (currently, the World Bank, UNDP on behalf of all UN agencies, the Inter-American Development and “any other entity as agreed by the Steering Committee and the Trustee [the government].”) |
| **UN-World Bank jointly administered MDTF [IRFFI]** | • The government of Iraq participated in the August 2003 UN-WB Joint Needs Assessment which was initially the basis against which IRFFI funds were allocated.  
• According to a 2007 review of MDTFs, critical assumptions underlying the design of the IRFFI were that:  
  o the Government of Iraq would consolidate over time;  
  o there would be continuity in government policy and personnel between the transition phases;  
  o the security situation would normalise and;  
  o the Government of Iraq would generate own revenues through oil production to fund major development initiative.  
However by mid-2007 none of these factors conditions existed and violence had increased, which made assumption of ownership by Iraqi authorities problematic.  
• While the WB window did not allow earmarking, it did allow donors to express sectoral preferences and 67% of the contributions to the WB window by mid-2007 were preferred. According to the 2007 MDTF review, WB officials expressed concern that this limited ownership, as the preferences reflected donor interests rather than government priorities. In the view of WB officials, unpreferred contributions are more effective.  
• The World Bank used Project Management Teams for managing and administering project implementation. To avoid creating parallel structures, the Bank tried to ensure that PMTs used civil servants paid by the government and located within government ministries. In principle
this should promote ownership (through capacity building), although frequent turnover in ministry staff may have reduced the impact of this approach. UN capacity building efforts were more ad hoc but are thought to have contributed to increased government capacity. Nonetheless evaluations have rated the Bank’s continuous capacity building approach as more likely to yield longer term benefits in terms of ownership.

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<tr>
<th>UN administered funding facilities with MDTF and parallel bilateral funding modalities [SRFF]</th>
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<tr>
<td>• The objectives of the SRFF have been defined on the basis of the Government’s STAREC Plan and the support strategy of the international community.</td>
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<td>• Government actors at the national and provincial levels are involved in setting funding priorities, developing and approving project concept notes, and approving project proposals. The capacity of national and provincial actors to play these roles is variable but generally weak. In recognition of this, a small portion of the $20m PBF grant has been allocated to enhancing the capacity of provincial offices working through the Comite Technique.</td>
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<td>• Donors are able to earmark funding for one of the five SRFF sectors. Although there are governmental priorities in each of the five sectors, earmarking reduces the ability of the government to determine at any given point in time what its top priorities may be.</td>
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<td>• While the parallel funding modality offers the opportunity to more closely align non-contributing donors’ activities with the government’s plan for Eastern DRC, it also runs the risk of giving higher priority to donors’ priorities than governmental priorities.</td>
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<th>Donor MDTFs with contractors (for profit, not for profit) as managing agent</th>
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<td>• The chair and deputy chair of the Basic Services Fund Steering Committee in Sudan are national authorities. Several ministries are voting members of the SC. However the SC does not appear to be used on a routine basis to provide strategic advice or take decisions. It has also been noted that committee members require training to play their mandated role.</td>
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<td>• The soon-to-be created Civil Society Fund in DRC will include both representatives of government and civil society on its advisory committee (responsible for strategic direction, approval of workplan and evaluation of annual performance) as well as Congolese individuals as members of the Technical Committee (regular monitoring and quality assurance of the service provider’s work).</td>
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<td>• The purpose of the programme supported by the DRC Civil Society Fund “is to reinforce local CSOs in their role as channels for the interests of the population, as promoters of citizen participation in the use of power, in citizen control of government and in the promotion of good governance in society in general.” It was decided that this objective could be best promoted by pooling donor funding against an agreed approach to supporting civil society in DRC. An explicit objective of the Civil Society Fund is to build the capacity of civil society organisations to enhance their effectiveness. A medium-term objective of the Fund is to transfer responsibility for its management to local actors.</td>
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<tr>
<td>• The purpose of the DRC Media Fund is to: “support the development of an independent, well regulated and professional media sector, which gives information and voice to the Congolese people and helps them hold decision makers to account.” In common with the Civil Society Fund, it was decided that pooling donor funding against an agreed approach was the most effective means of meeting this objective.</td>
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<td>• The Capacity Building Trust Fund in Southern Sudan was initially created to help develop the administration of Southern Sudan in order to facilitate the transition from war to peace. The SPLM reportedly engaged actively with the fund and clearly articulated their needs and priorities.</td>
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<th>UN administered central fund managed at country level by UN agencies [PBF]</th>
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<td>• For the Peacebuilding &amp; Recovery Facility, national governments develop priority plans jointly with senior UN officials. They co-chair the Joint Steering Committee and are able to implement activities (although only Recipient UN Agencies are able to access funds directly from the PBF).</td>
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<td>• For the Immediate Response Facility, the senior UN representative in the</td>
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- The country submits proposals for high priority activities “in consultation with national authorities”.
- Where in-country Secretariats are located within national entities, they can contribute to ownership and capacity development. In DRC and CAR the secretariats are not located in national entities.
- In CAR, representatives of civil society sit on the Joint Steering Committee.
### Annex 6. Key characteristics of funds surveyed – Speed

<table>
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<tr>
<th>Fund type</th>
<th>Key characteristics</th>
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| **UN administered humanitarian funds [CHF basic-CAR / CHF enhanced-DRC Pooled Fund]** | - According to its concept note, the standard allocation for the CAR CHF takes just over 3 weeks, with funds disbursed at the end of the process.  
- The standard allocation for the DRC Pooled Fund takes approximately 6-8 weeks. (The Rapid Response Reserve makes decisions more rapidly.) UN agencies typically receive their allocations from the UNDP MDTF Office a few days after all paperwork is submitted to NY following approval of projects by the HC. Once an NGO project is approved by the HC, it can take UNDP as managing agent several months to disburse funding. This time lag can be repeated several times as funding is released in 3 tranches of 30%, 60% and 10%.  
- Perceptions about the relative speed of the Pooled Fund vary. Some interlocutors believe that it is faster than most bilateral sources of funding; others believe it is significantly slower. In part this depends on the timeframe adopted. Implementers are also involved in setting priorities through the cluster system for the Pooled Fund but are not engaged in this process – which can also be lengthy, it is argued – for bilateral funding. |
| **World Bank administered single window MDTF [MDTF Southern Sudan]** | - The World Bank promised rapid implementation when the Fund was initially established, but failed to deliver on that promise. They were slow in setting up the fund and its structures and then in disbursing funds. There were multiple reasons for this:  
  - World Bank rules and regulations.  
  - the Bank’s lack of capacity in-country.  
  - a lack of capacity within the GoSS  
  - slowness in co-financing  
- By mid-2010, however, only 10% of the MDTF-SS was not yet disbursed. |
| **World Bank fiscal agent funds with multiple windows [Haiti MDTF]** | - The Haiti fund has a top heavy structure with a large coordination body (board) presiding over more than just the fund. The danger is that the process will be slowed due to the lack of capacity of the government which is nominally leading the process.  
- There is considerable concern that very little recovery work was underway some 6-7 months following the earthquake in January 2010. There have been criticisms that the HRF has been slow to respond to the situation. However the government of Haiti only requested the creation of a fund on March 17. The first meeting of the HRF Steering Committee took place exactly 3 months later to approve the Fund’s operational guidelines and the administrative budgets of the Secretariat and the Trustee (IDA) and consider urgent requests for financing from the Interim Haiti Reconstruction Committee. $30 million was approved for budget support which was expected to leverage an additional $30 million in budget support from the World Bank. |
| **UN-World Bank jointly administered MDTF [IRFFI]** | - The World Bank window had a low disbursal rate compared with the UN window. In large part this was due to the fact that the Bank was working through the public sector and given the high level of official corruption in Iraq the Bank was unwilling to relax its fiduciary standards. In an effort to speed disbursement the Bank conducted a portfolio review in 2007 to assess opportunities for moving resources into projects that had the potential for making more rapid progress.  
- UN projects were primarily executed outside the public sector (but through Iraqi entities) which enabled more rapid disbursement. Additionally, because the UN had remained in Iraq following the 1991 Iraq War, its agencies had existing networks capable of supporting implementation. The WB lacked these pre-existing networks. |
| **UN administered funding facilities with MDTF and parallel** | - According to UNDP’s MDTF Office’s website, it is anticipated that 3 months will be necessary for the development and approval of SRFF projects. (a) call for concept notes and review by the Joint Technical |
| Bilateral Funding Modalities [SRFF] | Committees / Technical Teams: 1 month; (b) review of concept notes by Technical Secretariat and development of project proposals: 1 month; and (c) review of proposals by Funding Board and project approval: 1 month.  
- The first allocation for sexual violence (component 5) took approximately 7 months.  
  - In large part this was a result of trying to create the fund without significant support from experience fund managers at the same time as the first allocation was in progress. This meant that none of the actors was familiar with the way in which the fund was intended to operate. The Rules and Procedures for the SRFF were nearing completion in July 2010, at the same time as the first allocation was approved. The decision to proceed with the first allocation before all elements of the SRFF were in place was due primarily to pressure on the UN to be seen to be addressing the problem of sexual violence and to demonstrate to the donors, who have been slow to allocate resources to the fund and were reluctant to channel financing for sexual violence to the UN, that the UN could effectively programme in this area.  
  - Some of the delays experienced with the first allocation came from the government side, a lack of clarity initially about which provincial authorities should be the focal point for the sexual violence allocation process and slowness in approving final documentation.  
  - At the same time, sexual violence was added as a separate component of the I4S well after the other four components had been working through the STAREC structure to allocate funds. Ironically the component with no experience of the structures on which the SRFF was basing its allocation process was the first, due to donor earmarking, to go through the SRFF allocation process. Because the RoPs were not yet completed, because of significant understaffing of the SRFF Technical Secretariat, and because of staff changes in the MONUC (now MONUSCO) Sexual Violence Unit, the individuals who were required to lead a and take part in the SV allocation had inadequate guidance. These problems are now on the way to being resolved as the RoP are in the final stages of approval, the SRFF Technical Secretariat has conducted its own lessons learning exercise from the first allocation, the SV Unit in Kinshasa is in the process of doing the same and provincial government focal points appear to have been identified in both Ituri and South Kivu.  
- In addition to its periodic (quarterly?) allocations, the SRFF has a rapid approval track for urgent needs in line with the IPF. Projects cannot exceed $500,000. Decisions are to be made within 3–5 working days of the submission of a proposal. This funding track does not appear to have been employed to date (early August 2010). |

| Donor MDTFs with contractors (for profit, not for profit) as managing agent | The design phase of the DRC Civil Society Fund for Good Governance lasted from April – December 2008. An ultimately unsuccessful UNDP tendering process lasted from September 2008–September 2009. DFID took over the tendering process and in mid-July 2010 it was anticipated that a managing agent would shortly be identified. |

| UN administered central fund managed at country level by UN agencies [PBF] | The PBF has been perceived to be quite slow in disbursing funds for what is now known as the Peacebuilding & Recovery Facility. (There have historically been fewer concerns raised about the fund’s rapid response window, now known as the Immediate Response Facility.) In part this criticism has been justified, as it took the Peacebuilding Support Office some time to get systems in place and provide other stakeholders information on how to use them. At the same time, because the PBF is reliant on numerous other actors, notably UN agencies and national governments, to manage key elements of the project development and approval process, the ability of the PBSO to set the pace for the PRF. From the field perspective, it can seem that it takes an extremely long time for a country to be approved for PBF funding, for the priority plan to be approved and for projects to be accepted for financing. This was |
certainly the case in DRC. However because of the need for the UN system to agree that a country should be eligible for PBF funding and for government engagement in developing the priority plan and allocating resources, it is not likely that the process will ever be truly speedy. Once projects are approved, resources are delivered in a timely fashion.
## Annex 7. Key characteristics of funds surveyed – Flexibility

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<th>Fund type</th>
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| UN administered humanitarian funds [CHF basic-CAR / CHF enhanced-DRC Pooled Fund] | - Both the basic and the enhanced CHFs have rapid response mechanisms that enable the HC to respond very quickly to crises and unforeseen needs.  
- The bottom-up approach to identifying priority needs and the twice yearly review of priorities offer the opportunity to more readily identify changes in priorities. |
| World Bank administered single window MDTF [MDTF Southern Sudan]         | - The MDTF-SS has not been flexible. It was unable to adjust its procedures and regulations; it could not change the allocation process. |
| World Bank fiscal agent funds with multiple windows [Haiti MDTF]          | - The flexibility of the UN window was potentially undermined by the ability of donors to earmark contributions to thematic cluster and agency level, an opportunity which many IRFFI donors took. Since UN window received about 2.5 times the funding of the WB window, this could have undermined overall flexibility of the fund. According to a 2007 review of MDTFs, UN cluster leaders disputed any loss of flexibility as all contributions were used for activities consistent with the Iraqi national development plan and were approved by Iraqi authorities.  
- While the WB window did not allow earmarking, it did allow donors to identify sectoral preferences and 67% of the funds allocated to the WB window by mid-2007 were preferenced. The 2007 MDTF review reported that WB officials were concerned about a loss of flexibility. |
| UN-World Bank jointly administered MDTF [IRFFI]                          | - In principle, the multiple window structure of the HRF could enhance flexibility, since each of the partner entities has particular areas of expertise.  
- The flexibility of the UN window was potentially undermined by the ability of donors to earmark contributions to thematic cluster and agency level, an opportunity which many IRFFI donors took. Since UN window received about 2.5 times the funding of the WB window, this could have undermined overall flexibility of the fund. According to a 2007 review of MDTFs, UN cluster leaders disputed any loss of flexibility as all contributions were used for activities consistent with the Iraqi national development plan and were approved by Iraqi authorities.  
- While the WB window did not allow earmarking, it did allow donors to identify sectoral preferences and 67% of the funds allocated to the WB window by mid-2007 were preferenced. The 2007 MDTF review reported that WB officials were concerned about a loss of flexibility. |
| UN administered funding facilities with MDTF and parallel bilateral funding modalities [SRFF] | - In addition to its periodic (quarterly?) allocations, the SRFF has a rapid approval track for urgent needs in line with the IPF. Projects cannot exceed $500,000. Although this funding track has not been employed to date (early August 2010), it will provide the SRFF with the flexibility to address needs that arise in between funding cycles.  
- Donors are able to earmark funding for one of the five sectors on which the SRFF focuses. This reduces the flexibility of the SRFF. |
| Donor MDTFs with contractors (for profit, not for profit) as managing agent | - The Southern Sudan Capacity Building Trust Fund works primarily in six areas to enhance the capacity of the Government of Southern Sudan. The CBTF also has a Responsive Window, aimed at providing modest financing for additional capability building identified by the GOSS and State governments.  
- Initially established to promote capacity building for the fledgling Southern Sudan administration, the Fund quickly shifted gears when estimates of operational challenges and timelines proved overly optimistic. The CBTF was then used to pay operational and salary costs of the Civil Authority. According to a lessons learned study, key factors in the ability of the CBTF to meet these challenges were: “The highly decentralised nature of the decision making structure of the donor steering committee, active engagement and clear articulation from the SPLM officials/GoSS combined with the strong leadership of UNICEF…”  
- The Civil Society Fund in DRC gives considerable attention to monitoring and evaluation as a means of enhancing the Fund’s flexibility. |
| UN administered central fund managed at country level by UN agencies [PBF] | - The two window structure of the PBF enables it to respond to urgent needs.  
- Well-functioning in-country secretariats supported by proactive and engaged Steering Committee co-chairs can identify 1) gaps in PBF programming (against the priority plan) and direct subsequent rounds of funding to those gaps or 2) emerging needs that can be met through either the IRF or a rapid response reserve in the PRF. |
Annex 8. Key characteristics of funds surveyed – Risk management and mitigation

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<th>Fund type</th>
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<tr>
<td>UN administered humanitarian funds [CHF basic-CAR / CHF enhanced-DRC Pooled Fund]</td>
<td>• The 4 UNDG ExCom agencies – UNDP, UNICEF, UNFPA and WFP – adopted a common operational framework for transferring cash to government and non-government implementing partners in 2005 (the Harmonized Approach to Cash Transfers for Implementing Partners or the HACT). The three main aims of the HACT are to: o Reduce transaction costs pertaining to the country programmes of the ExCom agencies by simplifying and harmonising rules and procedures; o Strengthen the capacity of implementing partners to effectively manage resources; o Help manage risks related to the management of funds and increase overall effectiveness. The HACT uses macro and micro assessments, conducted with implementing partners during programme preparation, to determine levels of risk and capacity gaps to be addressed. It uses assurance activities such as audits and spot checks during implementation. It introduces a new harmonised format for implementing partners to request funds and report on how they have been used. The HACT was designed for development environments, not humanitarian environments. As far as CHFs are concerned, the HACT in its current format creates certain difficulties for both the UN agencies using it and for implementing partners. The Pooled Fund management in DRC would like to see a version of the HACT better suited to humanitarian environments. UNDP as managing agent is constrained from advancing money to NGOs because of the cash balance requirements of the HACT while NGOs have not understood or had the capacity to comply with HACT reporting requirements. In an effort to overcome the latter problem, UNDP/Goma is providing some technical assistance, through the NIM/DIM unit there, to local NGOs in order to help them bring their financial management capacities into line with HACT requirements.</td>
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<td>World Bank administered single window MDTF [MDTF Southern Sudan]</td>
<td>• Set up focusing specifically on the mitigation of fiduciary risks. However, too strict rules and regulations in this respect have resulted in the increase of risk of programme failure.</td>
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<td>World Bank fiscal agent funds with multiple windows [Haiti MDTF]</td>
<td>• Overall, the complex set-up of the fund creates risks of strategic failure. • At the same time, going through the fund mitigates donor’s political risk as Haiti is high-profile case (earthquake received a lot of media coverage and a lot of money was raised to help Haiti) where media attention will be scrupulous, while at same time weak government capacity and high corruption creates high risk of failure. Fund provides some fiduciary cover.</td>
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<tr>
<td>UN-World Bank jointly administered MDTF [IRFFI]</td>
<td>• Mitigated reputational and political risk for donors and enabled them to engage in Iraq where otherwise they could not have done so (also due to lack of capacity on the ground).</td>
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<td>UN administered funding facilities with MDTF and parallel bilateral funding modalities [SRFF]</td>
<td>• Enhances mitigation of strategic failure by promoting parallel bilateral funding. • At the same time, the possibility of parallel funding lessens the pressure on donors to fund through the SRFF, which in turn creates the risk of the fund not having enough leverage to reach its results.</td>
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| Donor MDTFs with contractors (for profit, not for profit) as managing agent | • Donors perceive private companies to be better at risk management (INCAF Transition Financing paper, p.66). However, there is little or no analysis available to explain why a private firm may be a more effective fund manager, or under what conditions; and in particular, the relative
| UN administered central fund managed at country level by UN agencies [PBF] | performance/advantages of public and private actors given the broader objectives of most pooled funds, such as supporting policy dialogue in politicised environments or absorbing the transaction costs and facilitation roles involved in consensus building (Options for a Transition Education Funding Mechanism, p.17).<br><br>• By sequencing the IRF and the PRF, the danger of programme failure is mitigated. |