Pooled Funding to Support Service Delivery

Lessons of Experience from Fragile and Conflict-Affected States

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This document presents the findings from a short research project commissioned by DFID. The research was overseen by Tessa Mattholie.

Part I is a policy briefing, providing a succinct overview of the issues. Part II provides more detailed operational guidance for those involved in setting up and running pooled funds.

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Executive Summary

Research objectives

This is the output from DFID-commissioned research into the use of pooled funding to support service delivery in fragile and conflict-affected states (FCAS). The aim was to distil practical knowledge from existing studies and, in particular, to *capture practitioner experience* on the design and implementation of pooled funds, in order to produce:

- an updated summary of current knowledge and knowledge gaps (from a policy perspective) in a *policy briefing* note (Part I of the team's report);
- more detailed *practical guidance* for those working on establishing/managing pooled funds for service delivery in FCAS (Part II of the report).

The research team reviewed existing literature and selected for detailed review 16 pooled funds which covered a variety of countries, fund managers, and approaches to service delivery. The team's review of case-study documentation was supported by extensive interviews with people involved in the case-study funds, and sought to learn equally from successes and failures.

The significance of pooled funds

Pooled funds rarely dominate aid flows at country level but they often have an importance beyond their scale. They may be at the centre of collaboration amongst donors and with governments. Even if they are financially a small part of total aid flows, they have high visibility and high expectations, so it is important to maximise the chances that these flagship instruments will work as intended.

The literature on pooled funds highlights their potential advantages, but it also notes that their performance frequently falls short of expectations. Potential advantages include coordination and harmonisation among donors, enabling operation on a larger scale and with lower transaction costs, and allowing participating donors to pool the risks of operating in fragile contexts. They can provide a framework for dialogue with the government along with direct support to capacity development and service delivery. At the same time there are many examples of pooled funds that have fallen short of expectations, with slow disbursement; dissatisfaction with results often leads donors to pursue alternative or parallel channels of funding.

Research findings – key themes

Key themes identified included:

- *Trade*-offs, which make it necessary to be clear and selective in setting pooled fund objectives. Examples of potential trade-offs to consider when designing a pooled fund include:
  - Speed of service delivery versus capacity building of government systems.
  - Fiduciary risk versus capacity development.
  - Donor attribution versus ownership, alignment and use of country systems. (Donors wish to know what their money will fund, but granting the partner government freedom to manage the money is part of capacity building.)
  - Short term, visible impacts for political goals versus investing in what may be slower, long term (sustainable) change.

- The importance of *context analysis,* and the need for continual review of changing contexts, linked to *feedback* on pooled fund performance and *flexibility* to adapt in response to experience.

- The need to *manage expectations* is relevant for initial design and for subsequent monitoring, evaluation and communications.

- Country ownership and *engagement with the government* is a consistent theme which is relevant at virtually every stage of assessing, designing, managing and phasing out a pooled fund, or transitioning to other aid instruments. In some cases a government's lack of capacity, or of legitimacy, limits the role it can be given, but sustainability depends on engaging with the government to the extent possible.

- A pooled fund's relationship with the government is one aspect of *risk management*. Pooled fund donors should work together to reflect the International Network on Conflict and Fragility (INCAF) objective of *moving from risk avoidance towards better risk management.* Individual contributors' efforts to limit their own perceived fiduciary, political and reputational risks may be inconsistent with achieving an effective balance between risk and opportunity in pursuing objectives.

Lessons of experience

The importance of context and the ubiquity of trade-offs mean that there is no generic blue-print for a successful pooled fund. Rather, the research team has highlighted the factors to be considered in deciding whether and how to set up (and then manage) a pooled fund, and provided illustrations of typical problems and how they have been addressed.

- *There is a danger that political agendas and desire for speed will lead past lessons and local (political and institutional) context to be ignored*.

- The relevant context includes other aid instruments with which the pooled fund will interact; *complementarity with other instruments* should be factored into the design.

- *Donors are frequently over-optimistic about time-scales: (a) about how long it will take to get the pooled fund up and running* (setting up a pooled fund – even "off-the-shelf" – takes time, more so if it needs consensus-building among donors and buy-in from the government); and *(b) about how long after that there may be demonstrable results on the ground.* A pooled fund may not be the best solution *in the first instance* when very rapid results are required.

- *Working with government, and if possible through government systems, should be the 'default' approach when supporting service delivery.* An intermediate step may be to design pooled funds in ways that provide shadow alignment with government systems.

- Experiences with pooled funds also highlight *the importance of building from existing systems and administrative structures*, even when they are seriously flawed or weakened.

- A *simple dichotomy between humanitarian and developmental approaches is unhelpful*. Many FCAS are countries with protracted crises which last for a number of years, and frequently leave large numbers of people extremely vulnerable. This means that aid instruments and donors need to adjust to different levels of violent conflict, political uncertainty and fluctuating levels of government capacity. There needs to be very clear analysis of the short-term/long-term trade-offs and the specific goals and objectives of humanitarian instruments, particularly if short-term interventions might run counter to creating local institutional capacity and create parallel systems that further fragment aid programmes.

- Effective *pooled fund governance* requires a clear system of authority, accountability,, and transparency. More often than not the World Bank or the UN act as the fund manager, but there are cases where private companies or NGOs have managed pooled funds. Different agencies have different strengths, and operate under different constraints, so the initial choice is important. Donors need to understand at the outset how much flexibility the chosen agency can exercise and tailor the design accordingly. The chosen agency must be able to deploy sufficiently experienced staff in-country. Pooled fund secretariats play a crucial role, but many have been undermined by weak staffing. Pooled fund governance may need to mitigate conflicts of interest (e.g. if the pooled fund manager is also bidding for funds) while ensuring that the staff involved have the right incentives to perform. Contributing donors need to provide strategic oversight while avoiding micro-management.

- There is *rarely enough attention to monitoring and evaluation* (M&E) at the outset when the initial focus is rapid service delivery. M&E is naturally more difficult in fragile environments (data are scarcer, the costs of collection higher, and data collection and M&E may be limited by travel restrictions). But if M&E is inadequately addressed at the outset (in terms of proper design, establishing baselines, a broad set of indicators, and allocating the necessary resources), aid mechanisms often suffer later when asked to demonstrate the results that would justify continued funding.

- Similarly, there is rarely much attention to a realistic *exit strategy*. The design of a pooled fund should include a flexible but clear goal on what is intended when the fund's mandate ends.

Operational Guidance

A pooled fund is not a panacea, and it will not *automatically* engage better with the government, pool risk, reduce transaction costs and align funding within an overarching strategy. But such objectives can be achieved with good design linked to realistic expectations, hard work and judicious and sustained support and engagement from the donors. The Operational Guidance (the second volume of this paper) provides more detailed guidance to support decision-making by practitioners in the field.

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Acronyms

A-MDTF	Analytical Multi Donor Trust Fund
ARTF	Afghanistan Reconstruction Trust Fund
BSF	Basic Services Fund
CAP	Consolidated Appeal Process
CAR	Central African Republic
CBTF	Capacity Building Trust Fund
CGA	Country Governance Analysis
CHF	Common Humanitarian Fund
CPA	Coalition Provisional Authority
CSO	Civil Society Organisation
DAC	Development Assistance Committee
DFID	Department for International Development
DRC	Democratic Republic of Congo
ERF	Emergency Relief Fund
EU	European Union
FCO	Foreign and Commonwealth Office
FCAS	Fragile and Conflict Affected States
GHA	Global Humanitarian Assistance
HAP	Humanitarian Action Plan
HC	House of Commons
HPF	Health Pooled Fund
HQ	Headquarters
HRF	Haiti Reconstruction Fund
ICAI	Independent Commission for Aid Impact
IDPS	International Dialogue on Peace-building and State-building
IEG	Independent Evaluation Group
IFC	International Finance Corporation
IHRC	Interim Haiti Reconstruction Commission
ILO	International Labour Office
INCAF	International Network on Conflict and Fragility
INGO	International Non-governmental Organisation
IRFFI	International Reconstruction Fund Facility for Iraq
JI	Joint Initiative (Zimbabwe)
M&E	Monitoring and Evaluation
MC	Management Committee
MDTF	Multi Donor Trust Fund
MDTF - SS	Multi Donor Trust Fund Southern Sudan.
MoFEP	Ministry of Finance & Economic Planning
MoH	Ministry of Health
MoU	Memorandum of understanding
NEX	National Execution
NGO	Non-Governmental Organisation
NPTF	Nepal Peace Trust Fund
NYC	New York City
OCHA	Office for the Coordination of Humanitarian Affairs
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
oPt TF	PA-UN occupied Palestinian territory Trust Fund
PA	Palestinian Authority
PBS	Protecting Basic Services
PF	Pooled Fund

PFM	Public Financial Management
PRDE	Poverty Reduction in Difficult Environments
PWC	PricewaterhouseCoopers
RC/HC	Resident/Humanitarian Coordinators
RoY	Republic of Yemen
SC	Steering Committee
SCGP	Strengthening Capable Government Programme
SFD	Social Fund for Development
Sida	Swedish International Development Cooperation Agency
TA	Technical Assistance
TF	Trust Fund
TRG	Technical Review Group
UN	United Nations
UNDP	United Nations Development Programme
UNDG	United Nations Development Group
UNICEF	United Nations Children's Fund
UNPBSO	United Nations Peacebuilding Support Office
UNPFN	United Nations Peace Fund for Nepal
UNSCO	Office of the United Nations Special Coordinator for the Middle East Peace Process
UNRWA	United Nations Relief and Works Agency
USAID	United States Agency for International Development
WASH	Water, Sanitation and Hygiene
WB	World Bank
WBG	West Bank and Gaza

Part I: Policy Briefing

"What have we learned about the strengths and weaknesses of pooled funding to support service delivery in fragile and conflict-affected states?"

> *While a large number of donor studies highlight the potential benefits associated with trust funds, most empirical case studies find that trust funds have generated disappointing results. This failure to translate theoretical advantages into practical success is caused by a number of factors, which include poor design, a lack of flexibility [by] donors and fund administrators, poor contextual understanding, a failure to generate proper ownership, and donors' failure to commit funds to trust funds or to prioritise harmonisation over strategic issues. While a number of useful 'best practice' guidelines can be gleaned from the literature, there is a lack of research examining trust fund design issues, and there are few studies that highlight which models of trust fund are most appropriate in particular contexts*. (Walton, 2011)

A. Introduction

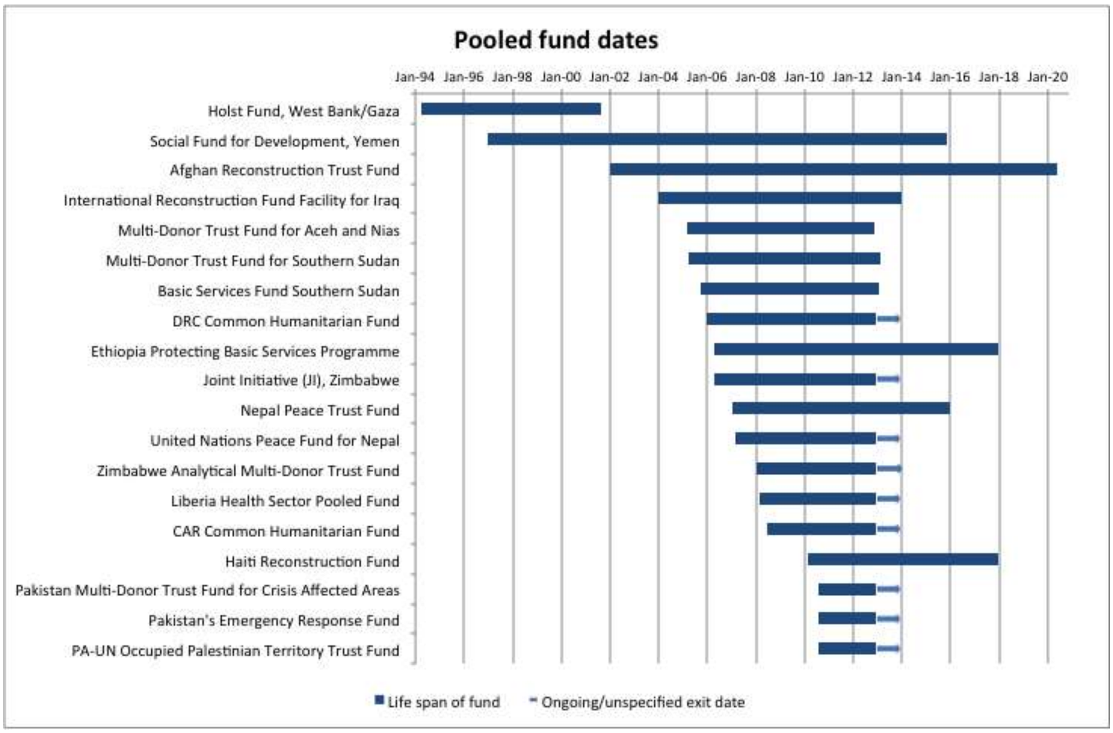
1. In mid-2012 DFID commissioned a research team to distil practical knowledge from existing studies and practitioner experience on the use of pooled funding to support service delivery in fragile and conflict-affected states (FCAS), with the following aims:

- providing an updated summary of current knowledge and knowledge gaps (from a policy perspective) in a **policy briefing note;**
- providing **practical guidance** (currently missing from much of the literature) for those working on establishing/managing pooled funds for service delivery in FCAS;
- **capturing practitioner experience** on design and implementation of pooled funds in order to contribute to the policy and guidance papers.

2. This **Policy Briefing** provides a summary of current knowledge of key aspects of Pooled Funds supporting service delivery in FCAS, including the principal findings from the research exercise. For those seeking more detailed, practical advice, the **Operational Guidance (**Part II of this paper) is an additional resource aimed at practitioners in the field.

3. Both parts draw on the case studies and interviews by the research team, as well as on the wider literature. Annex I provides details on the case study approach and includes a list of interviewees. Figure 1 below is an overview of the funds used as case studies – for brief details on each fund, see Annex II.

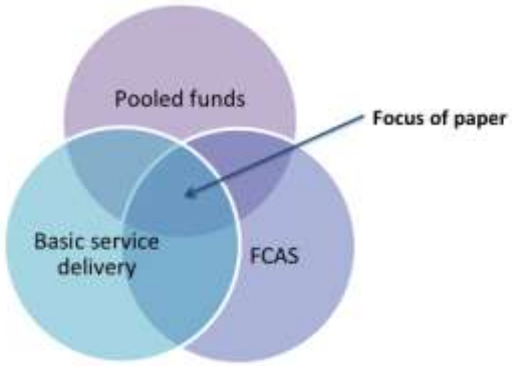
Figure 1 The case study pooled funds



Note: the Holst fund for West Bank/Gaza was not formally one of our case studies, but it was an important precursor of other pooled funds, in West Bank/Gaza and elsewhere/

4. The focus is the use of pooled funding mechanisms to deliver basic services in fragile and conflict-affected states. As Figure 2 illustrates, this represents the confluence of three related subject areas.

Figure 2 Focus of the guidance



Pooled funds – donors commingle funds supporting a common programme.

FCAS – Fragile and Conflict Affected States

Basic services – education, health, and water, sanitation & hygiene (WASH)

5. Each topic is considered with this in mind, though the guidance offered may also be of more general interest. Pooled funds can take many shapes and forms, and the research team deliberately looked at funds that differed in size, scope, management arrangements, number of participants and so forth. (Box 31 in Annex I illustrates the variety of funds considered.) FCAS for this study includes countries (or territories) with stagnant or deteriorating governance, in a conflict or post-conflict situation (or post-disaster in FCAS contexts), and nascent states, and covers both humanitarian and development contexts.

6. For the purposes of this paper, basic service delivery includes education, health and water, sanitation & hygiene (WASH). This is considered both in terms of the delivery of the actual services and capacity building for medium to long-term sustainability (see Box 1 below). In many instances, service delivery forms just one part of the remit of the pooled fund.

Box 1 Scope of Service Delivery

*"**Service Delivery** is conceptualised as the relationship between policy makers, service providers, and poor people. It encompasses services and their supporting systems that are typically regarded as a state responsibility. These include social services (primary education and basic health services), infrastructure (water and sanitation, roads and bridges) and services that promote personal security (justice, police). Pro-poor service delivery refers to interventions that maximise the access and participation of the poor by strengthening the relationships between policy makers, providers, and service users."*

(Approaches to Improving the Delivery of Social Services in Difficult Environments, Berry *et al*, 2004**)**

7. The Policy Brief is organized as follows:
- Section B considers why pooled funds are important, and summarises existing good practice guidance.
- Section C highlights key themes that stood out from the present research.
- Section D addresses the design and implementation of pooled funds.

B. Why pooled funds matter, and criteria of effectiveness

The significance of pooled funds in FCAS

8. Pooled funds (or multi-donor trust funds – MDTFs) rarely dominate aid flows at country level (see Box 2 below), but they often have an importance beyond their scale. Pooled funds are often at the centre of collaboration amongst donors and with governments; even if they are financially a small part of total aid flows, they have high visibility and high expectations. FCAS will always be risky environments so it is important to maximise the chances that these flagship instruments will work as intended.

Box 2 How significant are pooled funds in FCAS?

MDTFs are rarely the most important financing instrument in conflict settings— total funding through some 18 operative MDTFs in 2007 amounted to US$1.2 billion, still a small fraction of international financing for fragile and conflict-affected states. (WDR 2011)

Trust funds account for about 11 percent of official development assistance, and the World Bank is trustee for about half of the total contributions. (IEG 2011)

Potential advantages and disadvantages of pooled funds

9. There is a substantial literature on pooled funds which highlights their potential advantages, but it also notes that their performance frequently falls short of expectations. The 2011 World Development Report (WDR), for example, observed that *the performance of multi-donor trust funds is mixed, with criticisms ranging from slowness to a lack of expectation management and mixed success in working through national systems.* (WB, 2011**)**

10. The present research seeks to understand reasons for pooled funds' success and failure and to offer guidance accordingly. It recognises that pooled funds are not the only relevant aid instruments: donors should be able to utilise a complete repertoire of aid instruments to respond to the variety of contexts in FCAS, and pooled funds should be designed to complement other instruments.

11. At the end of this section we reproduce a useful checklist of the potential advantages and disadvantages of pooled funds (see Box 5 below). It is striking that the entries in both columns are so numerous: we highlight in section C below, the importance of being selective about the benefits sought from a particular pooled fund, and understanding the trade-offs involved in pooled fund design.

12. Based on the research for this study, several key advantages and disadvantages of pooled funds were identified.

- **Cost** – transaction costs to the donor are reduced. There may be economies of scale from mass procurement, and a single reporting and procurement system may simplify administrative coordination, and reduce administrative costs. At the same time, the creation of a new administrative layer in the form of the pooled fund, comprising of a steering committee, a secretariat and various working groups, does have costs. Transaction costs to implementing agents may increase, which may be passed back to the donor through increased bids, or discourage agents from working with a pooled fund, reducing competition and potentially driving up costs.
- **Harmonisation & coordination** – there is potentially a huge advantage of pooled funds, by pooling finance and expertise for enacting an overarching strategy. However, this has met with varying levels of success.
- **Predictability and timeliness of funding** – by pooling the funds and having donors commit to multiple years of support, the fund can assist in improving the predictability of aid (but in practice donors on rarely provide such predictability). It may also help to mobilise funding and reduce frontloading, particularly in high-profile, highly-politicised situations such as Iraq

and Afghanistan, where frontloading continued to be an issue. In other instances, commitment of funds to projects, rate of expenditure at the project level or disbursement has been slow (MDTF Southern Sudan, A-MDTF Zimbabwe, Haiti Reconstruction Fund).
- **Government engagement** – the combining of donors' funds means that the government must deal with one fund rather than a multiplicity of donors. In practice, if the situation is seen as internationally important politically, the government may have to deal with the donors bilaterally in addition to the fund. The skill of the fund manager also matters; if the fund manager expects the government without assistance to produce reports/requests for funds to their international standards it can be problematic, but where fund managers have taken a more proactive approach to government engagement, including providing timely technical assistance, the results are more positive.

Relevant aid effectiveness criteria

13. The aid effectiveness principles embodied in the Paris Declaration and the Busan outcomes are relevant for pooled funds, as illustrated in ODI's guidance on the characteristics of effective pooled funds (Box 3 below).

Box 3 What makes a good pooled fund (ODI)

Past research stresses that a good pooled fund:

…promotes **ownership**
- o by engaging key players in national government (ministers are on the management committee, for instance)
- o by developing the capacity of the national government
- o with a project implementation unit (PIU) that is embedded in the relevant ministry
- o by being transparent to national government.

…promotes **alignment**
- o by aligning with relevant national strategy documents
- o by limiting earmarking or preferencing
- o by aligning (or shadow aligning) with government systems.

…promotes **harmonisation**
- o by having systems that give donors confidence to contribute, including:
  - adequate fiduciary oversight
  - experienced senior staff
  - transparency to donors.

…delivers **results**
- o by disbursing funds quickly and flexibly, using procedures that are appropriate to a fragile state.

…promotes **mutual accountability**
- o by ensuring good monitoring systems and independent reviews.
- o by ensuring donors and recipients are accountable for development results.

Source: Coppin et al, 2011

14. The Principles for Good International Engagement in Fragile States & Situations (Box 4 below) are also fundamental, and are underpinned further through the extensive work by INCAF (the International Network for Conflict and Fragility) to develop guidance on transition financing (OECD, 2010b). The *New Deal for engagement in fragile states* that was agreed at Busan in 2011 (IDPS, 2011a) deepens previous commitments, with a strong emphasis on country leadership and ownership, and on the need to change habitual approaches to aid; this highlights the "TRUST" elements of the New Deal, which have the most direct implications for pooled fund design, include **T**ransparency, **R**isk Sharing, **U**se and Strengthen Country Systems, **S**trengthen Capacities, **T**imely and Predictable Aid.

Box 4 Principles for Good International Engagement in Fragile States and Situations

1. Take context as the starting point.
2. Do no harm.
3. Focus on state-building as the central objective.
4. Prioritise prevention.
5. Recognise the links between political, security and development objectives.
6. Promote non-discrimination as a basis for inclusive and stable societies.
7. Align with local priorities in different ways in different contexts.
8. Agree on practical coordination mechanisms between international actors.
9. Act fast … but stay engaged long enough to give success a chance.
10. Avoid pockets of exclusion.

(OECD, 2007)

Box 5 Potential advantages and disadvantages of pooled funds

Advantages	Disadvantages
➢ **Coordination**: They facilitate donor coordination and harmonisation. ➢ **Ownership**: They help to boost recipient government ownership of post-conflict reconstruction and development. They can allow recipient governments to fund its priority needs including payment of salaries and provision of basic services, supporting state-building objectives. ➢ **Mobilising resources**: They encourage a range of multilateral donors, bilateral donors and private sector actors to commit resources. ➢ **Tackling front-loading**. They provide a solution to the problem in many post-conflict contexts, where donors are willing to commit large amounts of resources during the immediate post-conflict period, when government capacity is lowest. ➢ They have the potential to **cut transaction costs and administrative burdens**. ➢ **Simplifying procedures**: They provide straightforward disbursement and recording procedures. ➢ **Accountability and information**: They may create separate institutions for supervising and auditing assistance, boosting accountability and improving access to information. ➢ **Spill-over effects**: They may drive up overall standards in public financial management. ➢ **Tackling cherry-picking**: They may help to ensure that donors do not cherry-pick their favourite projects and ensure that unfashionable yet critical projects are funded. ➢ **Absorbing political risks**: They help to absorb political risks for bilateral donors of working with a recipient government directly. They allow donors to provide flexible support to a nationally owned development plan, progressing to budget support if possible, but with the flexibility to retreat if necessary. ➢ **Policy dialogue**: They may provide a platform for policy dialogue amongst donors and between donors and the recipient government.	➢ **Complexity**: They often produce complicated implementation arrangements. ➢ **Cost**: Despite promising to cut costs, MDTFs are often more expensive in practice. ➢ **Persistent front-loading**: In some circumstances (particularly countries of high geo-strategic importance such as Iraq and Afghanistan) pressure to distribute funds quickly can lead to poor standards of implementation, weakening aid effectiveness and contravening state-building objectives. ➢ **Slow disbursement**: In other contexts, MDTFs can be slow to disburse funds in practice. ➢ **Earmarking**: Although, in theory, trust funds should ensure that national governments set funding priorities, in practice most resources to trust funds remain earmarked. At the same time, funds that do not allow sufficient earmarking, can cause significant legal and legitimacy problems for some donors and create allocation problems. ➢ **Poor ownership**: Donors often continue to directly implement programmes. ➢ **Low commitment from donors**: MDTFs often do not lead to harmonisation because only a small proportion of total funds are channelled through the MDTF. ➢ **Ossification**: These mechanisms may ossify – institutions created to support trust funds are unlikely to evolve or change as the situation changes, causing particular problems in fragile contexts.

Source: Walton, 2011 – who cites sources for each advantage/disadvantage listed.

C. Key Themes

15. Our research revealed some cross-cutting themes which are worth considering upfront. These issues are informed by the INCAF recommendations on pooled funding in relation to their *transition financing guidelines* (see Box 6 below). We deal in turn with: trade-offs; managing expectations; the cyclical nature of the relationship between contexts, goals and outputs funded; government engagement; and risk management.

Box 6 INCAF recommendations on pooled funding

"To maximise the effectiveness and impact of these funds, significant improvements are required, including:

- *Greater clarity on how to **manage potential trade-offs** between effective service delivery and government capacity building.*
- *Agreement on how different funding instruments at country and global level link together and can be used to **meet common objectives**.*
- *Agreement on practical options to **decrease fragmentation** (of funding mechanisms and reporting and accounting rules and regulations), and **increase government participation** in the governance of pooled funds.*
- ***Better management of expectations** about what can be delivered through pooled funds, and acceptance of the higher overhead costs associated with transition situations.*
- ***Increased predictability** of funding flows and decreased earmarking of contributions into pooled funds.*
- *Further exploration of opportunities for **collective risk management** through pools."*

Source: OECD, 2010a

Trade-offs

16. **Pooled funds (especially for FCAS) are characterised by trade-offs**. For this reason, we do not offer blue-prints for pooled fund design. Instead, it is recommended that donors and recipient countries are clear about what they are trying to achieve, are thorough in checking that a pooled fund is the appropriate aid mechanism to use, and that the design will be consistent with goals and objectives. On this basis, those responsible for designing and managing pooled funds should recognise the trade-offs and make explicit decisions about how to deal with them.

17. Examples of potential trade-offs to consider when designing a pooled fund include:

- Speed of service delivery versus capacity building of government systems.
- Fiduciary risk versus capacity development.
- Donor attribution versus ownership, alignment and use of country systems. (Donors wish to know what their money will fund, but granting the partner government freedom to manage the money is part of capacity building.)
- Short term, visible impacts for political goals versus investing in what may be slower, long term (sustainable) change

18. Underlying most of the trade-offs listed above is the trade-off between capacity building (of government and/or of other local entities, in a manner that encourages sustainability) and the delivery of services (timely, efficiently and to an appropriate standard).

19. It is therefore vital to clarify certain questions at the outset (as an internal exercise for DFID and with partners – the checklist of potential advantages and disadvantages in Box 5 above may be useful here). For example:

- what is the fund intended to achieve or its goals?
- what are the objectives of the pooled fund?
- do all partners share the same objectives? (and the same entry and exit conditions?)

- are there too many objectives and what are the trade-offs between them?
- what are the degrees of government legitimacy, motivation and capacity?
- what are the optimal levels of government engagement overall, by ministry and by level of government?
- is the timing of the fund's start up and exit/transition realistic?
- are governance arrangements of the pooled fund clear and appropriate?
- is there a sensible division of labour in terms of:
    - different instruments to address different objectives (and will the Pooled Fund promote harmonisation or add to proliferation?)
    - different donors working to their comparative advantage?
- is there a danger of repeating past mistakes?

➔ See also: *Fragile states: measuring what makes a good pooled fund*, ODI Project Briefing, No. 59, (Coppin et al, 2011).

Managing expectations

20. When a number of donors come together to create a pooled fund, **expectations are often unrealistically high** about what it can achieve and how quickly it can do so, and this can set the fund up for perceived failure if it does not meet expectations.

21. The political dimension can exacerbate this by requiring results early on, potentially at the cost of sustainability and capacity building. There is thus the need for realism about timescales, and a consideration of the most appropriate way to sequence financing mechanisms.

22. Adaptability is required, as the specific situation evolves or becomes clearer. The capacity and motivations of stakeholders may not be immediately apparent, particularly to those out of the country, and these are key to the delivery of results and whether expectations are realistic.

Cyclical feedback & the importance of flexibility

23. **Continual review, feedback and flexibility are needed to keep a pooled fund relevant.** The country context, including the aid landscape, informs the goals and objectives of the pooled fund. These goals are then key to prioritising which programmes are funded, and the choice of programme should in turn affect the context, which may result in a need to alter the objectives of the fund and the programmes funded. This cycle continues indefinitely over the lifetime of the fund, with external factors and events also feeding into the system. This is illustrated in Figure 3.

Figure 3 Cyclical feedback loop

24. From this, the following emerges:
- **Flexibility** – for this cycle to be successful, the goals and objectives need to have in-built flexibility to respond to the changing context.
- **M&E** – an effective monitoring & evaluation process should be in place to track results of the programmes funded, and to feed this information back into the fund design.
- **Updating the context analysis** – the context analysis should be updated regularly, responding both to the impact of the programmes and to external factors and events, such as changes in the political situation (more on this in Part II, Section B).

Government engagement

25. In line with the New Deal for Engagement in Fragile States agreed at Busan, and following on from previous international agreements such as the Paris Declaration on Aid Effectiveness (2005) and the Accra Agenda for Action (2008), **country ownership and engagement with the government on planning and implementing aid interventions remain central.** This is a consistent theme which is relevant at virtually every stage of assessing, designing, managing and phasing out a pooled fund, or transitioning to other aid instruments.

26. Dependent on the context, government engagement may be more or less possible, or possible only with certain sections of the governmental/state system. The case studies utilised for this project revealed a number of different models, some where the government was actively involved, e.g. in setting up and managing the fund, some where it was passively involved, providing limited oversight, some which were set up to engage government and some which purposely exclude it. (See Box 31 in Annex I for a full list categorised by type of government involvement.)

27. Recent donor and recipient country initiatives, such as the work of INCAF or the Busan agreements, support the view that the risks of not working with the government are usually greater than the risks of working with the government. Pooled funds can contribute to the implementation of the post-Busan New Deal through supporting elements of a country compact. While this is dependent on the context and goals of the fund, it is worth noting that there is no 'safe option'. Engaging with the government may carry fiduciary risk and reputational risk, but a decision not to engage with the government may undermine the entire programme. This can be better understood by considering the concept of risk, which also emerges as a cross-cutting theme.

Managing risks and trade-offs

28. One of the key arguments for pooling funds is the potential to share and manage risks. The 2011 WDR (Box 7) highlights pooled funds' role in managing risks in FCAS.

Box 7 WDR 2011 on MDTFs and managing risks

Pooling funds also provides a way to manage risk. Multi-Donor Trust Funds (MDTFs) have increasingly been used in fragile and conflict-affected situations—for example, in Afghanistan and Southern Sudan Iraq, Indonesia, West Bank and Gaza, and Haiti. MDTFs can help to bridge the dual accountability dilemma. For national actors, they improve the transparency of donor investments, ensure greater coherence with national planning, and provide a platform for resource mobilization. For donors, MDTFs can reduce transaction costs and provide a forum for donor collaboration and dialogue with national authorities, while MDTF secretariats can provide information to capitals that donors may not be able to generate on their own. MDTFs can enable donors to adopt a collective approach to the risks inherent in transition situations. In the humanitarian context, pooled mechanisms may increase funding levels because they enable donors to disburse larger sums than they can manage directly. (WB, 2011)

29. Discussion of risk tends to focus on fiduciary risk, in particular, the risk of corruption, and due diligence measures that can be taken. However, risk is a much broader concept than this. Recent DAC guidance distinguishes between three types of risk in providing aid to FCAS:

1. **Contextual risk** – risk due to the country situation, generally outside the control of the international community;
2. **Institutional risk** – risk to the donor, such as reputational risk, fiduciary risk (including risk of corruption), security risk;
3. **Programmatic risk** – risk of the objectives not being met.

30. These three types of risk are illustrated in the "Copenhagen circles" – see Figure 4 below. This sets programmatic risk as consisting of the overlap between contextual and institutional risk.

Figure 4 The Copenhagen Circles of Risk

Based on:OECD-DAC Guidance *International Support to Post-Conflict Transitions*

31. Individual contributors' efforts to limit their own perceived fiduciary, political and reputational risks may be inconsistent with achieving an effective balance between risk and opportunity in pursuing objectives. This trade-off may be especially acute in a context of early recovery when "windows of opportunity" may present themselves. The most common fiduciary risks in FCAS are not financial theft, they are related to value for money (VFM), including the risk of doing the wrong thing or doing the right thing poorly – wasting money. Thus, for pooled funds, policy aspects of risk should be focusing on this level – VFM and quality, the need for participatory policy and planning, which moves beyond assessing or managing simple trade-offs.

32. If the donor appetite for institutional risk, particularly fiduciary risk, is set too low, the risk of programmatic failure may increase, as risk-averse procedures can cause delays and even inaction. A fund manager with experience in managed risk-taking is a major advantage over risk-averse fund management. Ideally a pooled fund offers a way for donors jointly to manage political and reputational as well as fiduciary risks, taking account of the country context and the importance of programme success. INCAF has highlighted the ways in which donors need to adapt their treatment of risk in order to operate effectively in transitional situations **(**see Box 8 below).

Box 8 INCAF on risk

Donors need to rethink their procedures, rules and conceptual frameworks for addressing risk in transitional situations. Current approaches are largely guided by accountability and reporting requirements that have been created for more stable environments. Partially as a result of this, current risk management practice is primarily focused on institutional risk reduction — in particular to address fiduciary and reputational risks to the donor.

But risk management is not just about risk reduction or avoidance: it involves balancing risk and opportunity, or one set of risks against another. A new conceptual framework is therefore required ... to ensure parallel focus on contextual, programmatic and institutional risks along with specific reforms to simplify the tools and procedures available, including for planning, procurement and financial management. Whilst this may be uncomfortable for international partners, it will ultimately help to deliver better results.

From risk avoidance towards better risk management: Donors need to a) start performing joint assessments of contextual risks; b) use collective or shared risk management arrangements; and c) simplify procedures for the release and delivery of aid.

(OECD, 2012b)

➔ See also INCAF-DAC *Aid risks in fragile and transitional contexts: Improving donor behaviour*, (OECD, 2011a).

D. Design and Implementation

33. In this section we provide some headline findings from the current research. More details and more extended examples can be found in the Operational Guidance (Part II).

Realism in contextual analysis and feedback loops

34. *The trade-off calculus will vary in different contexts*. The case studies indicate that the wider country context has a major influence on the design and success of a pooled fund in terms of government capacity, capacity of third party service providers, level of donor engagement, and evolving needs and priorities. They reinforce the advice that: *Trust funds design should be tailored to local conditions rather than simply following a generic international model* (Walton, 2011).

35. *There is a danger that political agendas and desire for speed will lead past lessons and local (political and institutional) context to be ignored*. Interviews highlighted the significant dangers of wishful thinking. High levels of international political pressure are often associated with establishment of pooled funds to support national reconstruction. The pressure and associated rush to establish pooled funds post-crisis can pre-empt thoughtful design with a vision for an exit or transition strategy. There is evidence that some funds are not sufficiently adapted to context. In these cases, they tend to be driven by donor interests and external perceptions and/or priorities, with insufficient effort made to understand the country context prior to establishment. Donors need good context analysis to assist them in managing expectations for what a pooled fund can accomplish, and to ensure conflict sensitivity and the avoidance of harm.

36. The centrality of country context also raises the issue of who does the analysis. All institutions approach the country context with some specific interests and priorities: diplomacy, security, humanitarian, development, regional spillover effects, economic investment. One key element involves an assessment of the dynamics at the national and regional/local level in regards to different elements of the government. A number of interviewees and studies pointed out that a major reason for shortcomings in pooled funds is that "reality is constantly ignored", particularly in FCASs due to political agendas. Donors often were too eager to agree that there is a ‘post-conflict’ situation when it is a more complicated political dynamic. (Iraq was a clear example where political imperatives drove

the design and the implementation process; when this happens, realistic assessments aren't done, realistic project design isn't done and expectations aren't well managed.)

37. *Realism about time-scales includes (a) how long will it take to get the pooled fund up and running?* (setting up a pooled fund – even "off-the-shelf" – takes time, more so if it needs consensus-building among donors and buy-in from the government); and *(b) how long after that to have demonstrable results on the ground?* This makes it important both to manage expectations surrounding a pooled fund, and to consider each pooled fund in the context of possible complementary instruments which may be better suited to delivering very near-term results.

38. *It is essential to set out clear expectations of donors involved in the fund so that consistent engagement is provided*. In Iraq (IRFFI), the Donor Committee was very active at the start, but when security problems started they stopped meeting (they did not meet between 2005–2007); this meant that there was no strategic guidance for IRFFI and reduced the donors' ability to have meaningful insight of the context. The donors left the WB and UN to their own devices and then in 2007/2008 they started to demand results. As projects came up for planned completion donors such as DFID and the EU swapped to the opposite extreme and wanted to micro-manage project details showing little interest in the big picture.

39. From Afghanistan, it was clear that there is a need to set out expectations required of donors from the start to ensure optimal level of engagement; initial levels of engagement often fade. The external evaluation (Scanteam, 2008) found the lack of donor engagement particularly on strategy and technical inputs "troubling". In order for the pooled fund to remain a consensus building instrument for major funding decisions, donors need to continue to engage on policy and oversight – not just pushing all this on the World Bank.

Matching the pooled fund design to its objectives

40. *Be careful that the political need to show that something is being done immediately does not lead to inappropriate intervention decisions*. There is often an understandable political demand for quick results to show that something is being achieved, and/or to provide political support to a legitimate government. But this needs to be tempered with realism about what kinds of result are appropriate and achievable in the short term. Frequently, this comes back to identifying the trade-offs and being explicit about the choices that are being made in the design and implementation of the pooled fund. as well as the corresponding risks that need to be managed.

41. *Another key lesson is the importance of details in the design of the pooled fund.* Some examples, which recur in this note and in the operational guidance:

- the appropriateness of the fund manager's systems and procedures to the context;
- the need for attention not just to the choice of an agency to manage the pooled fund, but to the quality of personnel assigned;
- the need to take care that alignment with government takes account of local government as well as central government institutions, and achieves the right degree of government ownership without making excess demands on the government's administrative capacity;
- the need to ensure that procurement arrangements are fit for the specific purposes of the fund.

42. Such details are context- and country-specific, involving such issues as the political settlement in Liberia, the politics of decentralisation in Ethiopia, and the existing complex aid architecture and donors in DRC. It is vitally important to understand local politics and institutions. This covers local institutions (what systems do local bureaucracies use?) and local political economy (e.g. being sensitive to conflict). A well designed Political Economy Analysis (PEA) may be an indispensable part of the context analysis and can contribute to the design and also to the longer feedback loop when revisited as part of an annual or mid-term review. Resources such as Joint Assessment of Conflict (JACS) and Drivers of Change can provide basic tools for the context analysis, particularly in FCAS.

43. Experiences with pooled funds also highlight *the importance of building from existing systems and administrative structures*, even when they are seriously flawed or weakened. (This is a strong finding from research on public finance management (PFM) in fragile states – see WB, 2012a.) An understanding of current government systems and working with them is a basic task at the start. In Nepal (NPTF) there was not enough understanding of government systems at the start – they used previous funds and simply 'cut and pasted' in the new plans; conversely, adaptation to Ethiopia's PFM system and unique federal structure was key to the success of the Protecting Basic Services (PBS) programme.

44. Finally, and this is often particularly sensitive in FCAS, a central element of design and implementation involves the relations between central and local government. Part of political settlements can involve asymmetric decentralization, and donors need to be particularly cognizant of the sensitivities and tensions in these evolving arrangements as found in Pakistan, DRC. Indonesia and South Sudan.

Protracted crises

45. *Many FCAS are countries with protracted crises which last for a number of years, and frequently leave large numbers of people extremely vulnerable. This means that aid instruments and donors need to adjust to different levels of violent conflict, political uncertainty and fluctuating levels of government capacity.*

46. In response to high levels of vulnerability, donors establish humanitarian funds with the capacity for rapid response. These humanitarian crises in FCAS are not temporary interruptions to the country's development continuum, they are part of the political landscape. It would be appropriate to establish pooled funds that are not designated either 'humanitarian' or 'development' but a hybrid that can adapt to the 'ups and downs' in protracted crises, as well as a number of stagnant or deteriorating contexts. This point is often recognised in principle but less often reflected in the way pooled funds have been designed.

47. *Some core elements of humanitarian pooled funds and instruments remain essential to effective work in protracted crises,* where there are urgent human needs due to political collapse, increasing levels of violent conflict and/or population displacement. Well designed and managed humanitarian funds can play a key role in addressing pressing health, nutrition and other immediate imperatives. Sometimes there will be a long term need for humanitarian responses, in which case humanitarian and development instruments may exist alongside each other, potentially serving complementary purposes.

48. There remains the need to design funding instruments for service delivery while also addressing capacity, but perhaps through a different fund, while instilling the flexibility to address shifting needs and the location of the needs. Among examples of the potential use of humanitarian pooled funds over the longer term, perhaps as annually replenished funds with multi-year frameworks, are the experiences in CAR, DRC, and Pakistan. One lesson is that these funds require predictability of donor support, and need to be aligned with other support for instruments that could fund recovery activities. Another lesson is that longer-term humanitarian funds need exit criteria, either for ceasing operation or for transition to development instruments.

49. *FCAS include situations where 'crisis is the norm, and the norm is crisis', highlighted in a country such as CAR or DRC, which has both nearly two decades of 'emergencies' and a high level of sub-national fragility.* The interviews and case studies on which this paper draws reinforce all the points made in INCAF guidance on this subject. There needs to be very clear analysis of the short-term/long-term trade-offs and the specific goals and objectives of humanitarian instruments, particularly if short term interventions might run counter to creating local institutional capacity, especially in government, and create parallel systems that further fragment aid programmes.

50. Good conflict analysis should be part of this. It also links to risk, as tolerance for risk should be higher for humanitarian instruments, and donors should seek to move from 'normal' practices to take risks with multi-year humanitarian instruments and aid baskets. It is possible to strike the right balance between the short and long term even in difficult sectors like infrastructure, where early investment can be in repairs, while the longer term reconstruction projects are being prepared for implementation.

The importance of ownership

51. *Working with government, and if possible through government systems, should be the 'default' approach when supporting service delivery.* Ownership is a central principle in the Paris/Accra principles, and one that underpins the post-Busan New Deal. *Past research has highlighted ownership as a criterion of a good pooled fund while it also recognises the challenges of ensuring ownership in fragile and conflict-affected environments.* In FCAS, ownership is central to legitimacy, accountability, and the prospect of state-building, capacity development and sustainability, but there is no simple recipe for getting ownership right in relation to a particular fund. However, unless there are specific reasons not to engage with government, the pooled fund should include mechanisms for engagement with government entities. An intermediate step may be to design pooled funds in ways that provide shadow alignment with government systems.[1]

52. It is important to have a realistic role for the government, taking account of its capacity and interest, with the government's legitimacy as another important dimension.[2] The question of government legitimacy raises a range of issues, including how well it is accepted by different elements (or regions) of the population, how acceptable it is for partnering with donors (Ethiopia), its legal authority (oPt) and capability. The contextual analysis should incorporate the areas where country ownership exists, where it has the potential to develop, and where it is likely to be lacking, and fund design should respond to these areas accordingly.

53. The range of experience in terms of Government buy-in varies considerably, with knock-on effects for country ownership, efficiency of fund allocations and alignment to national priorities. In Indonesia (Aceh Multi Donor Fund) and Liberia (Liberia Health Pooled Fund), the Government was fully involved in objective-setting from the outset, led the governance mechanism and participated in fund implementation, leading to strong country ownership. In Iraq (International Reconstruction Fund Facility for Iraq) and Afghanistan (Afghanistan Reconstruction Trust Fund) by contrast, the Government's initial involvement in decision-making was extremely limited, even though Government was expected to be involved in implementation and the funds were intended to support national reconstruction, necessitating later revisions to the governance structures.

54. A lesson from Afghanistan is that if a pooled fund works with and through the government it must be ready to deal with disagreements between the government and donors. Government engagement increased over time and the more voice it had the more important it became to deepen and define roles and responsibilities. The government's reform agenda was not necessarily in line with what donors wanted to fund. It did enable policy discussions; but it also brought tensions over priorities between donors and the government. The lesson for the design and management of pooled

[1] *'Shadow alignment' is the practice of providing aid in such a way as to mirror national systems, to enable rapid conversion to 'real' alignment as soon as conditions permit.* (DFID, 2010a)

[2] As one observer commented to the team:

> *... we need to differentiate states where there is a robust political settlement in place where we have confidence that incumbent authorities are legitimate but not necessarily capacitated – probably Timor Leste – from those where legitimacy remains highly (and probably rightly) contested and where high levels of caution are required about building the capacity of state institutions…. For too long we have associated humanitarian with state avoiding and development with simplistic state-engagement.....*

funds is that generally governance mechanisms should set policy, priorities and provide oversight, but stay out of the execution**.**

55. One aspect of FCAS design that is wider than pooled funds, but which includes them, is the decision by donors on which parts of government should be involved in various projects. This includes central or sectoral ministries, and sometimes specific (more competent or trusted) ministries and some central functions. Another key element involves the ways in which funds may support finance and planning ministries in their proper roles in strategic resource allocation, budgeting and financial management (support to the recurrent budget may be crucial in ensuring rapid results and restoring government systems in the early stages of recovery).

Design of pooled funds

56. *Donors should set up the fund in context of other funds and operations – where does the fund fit in (externally) as well as how is it managed (internally),* i.e. the pooled fund functions as part of donor portfolio and country architecture. The design has to identify the minimum conditions that have to be achieved and maintained in order to receive the aid.

57. *Design is a matter of process as well as product – it matters who is involved, as this can strengthen ownership and sharpen objectives*. As INCAF guidance rightly emphasises, it is also important not to have tunnel vision: each fund must be seen in context of other instruments and the aid landscape more generally. It matters who is involved at the outset (several more successful pooled funds – usually in politically high-profile cases – have benefited from high-level donor representation). Interviewees stressed the importance of ensuring that governance structures encourage joint strategy formation, both amongst donors and with the government (see Box 9 below for a cautionary example).

Box 9A lack of joined-up governance in Haiti

One of the key strengths of pooled funds raised by interviewees is the forum they can provide to bring all parties together for discussion and the forming of a joint strategy – ensure your governance structure encourages this. The governance structure in Haiti did not allow for this. The Interim Haiti Reconstruction Commission (IHRF) made the decisions about what the priorities were, and this was done with a very political focus. Because the IHRF and the Steering Committee of the pooled fund itself, the HRF, were completely separate, serious discussions or strategy planning failed to happen. In fact there was a disconnect between the two structures.

58. Since pooled funds may be part of an overall strategic approach to dialogue and finance for the country concerned, it is important to engage with important non-contributing donors to ensure effective coordination, especially in a context of transition or fragility with both humanitarian and development instruments present (as found in the Liberia health pooled fund – Box 10 below).

Box 10 Liberia Pooled Fund

By combining support from donors, the pool fund reduced transaction costs for the Ministry of Health and Social Welfare (MOHSW) and reduced the fragmentation of support for the health sector. The inclusion of non-contributing donors on the governance committee helped to improve overall coordination. Specific, mutually reinforcing objectives were selected at the outset, which increased their likelihood of being achieved. In a context where major donors by volume do not participate in pooled funds arrangements, the Liberia pool fund raised the relevance and effectiveness of multiple small donors while increasing the stewardship role of the Ministry of Health and Social Welfare. As the fund is managed from within the MOHSW, uses country systems, and the steering committee is chaired by the MOHSW, the fund has been successful at increasing the MOHSW's ability to coordinate health sector donors and increasing the MOHSW's fiscal decision making-space.

59. A donor's involvement in a pooled fund should transfer substantial responsibilities to the fund manager, but there will remain the task of continuing to take an interest in the performance of the fund and its governance. This engagement needs to be consistent and pitched at the right level (not veering from neglect to micro-management). *A pooled fund is not necessarily less work for DFID* – for a good pooled fund the work will be different and add more value (and a bad pooled fund will be more work and more frustration). Maintaining an interest in the fund's governance should mean contributing to strategy (including the pooled fund's complementarity with other funds and operations) and oversight, not micro-management.

60. Donors and governments need to be realistic about what a single pooled fund can achieve (it is not a cure-all), and avoid loading it with too many objectives – the more there are, the harder it is likely to be to achieve them using a single operating instrument. Objectives should be realistic and explicit, reflect the context, and be revisited over time. Donors and governments should seek the successful achievement of modest and specific objectives rather than poor achievement of ambitious objectives. Objectives should focus on what is feasible in the short- to medium-term, with long-term goals on the horizon. What the fund should seek to accomplish is not always obvious and will evolve over time if there is room for adapting objectives based on M&E and operational experiences, as well as the changing context.

61. *The design must address the role of country systems, including whether (preferably 'yes') and how they would be used in the pooled fund implementation.* The design should set out the minimum conditions for working through country systems, and which country systems, and which levels of government. The pooled fund planning process would incorporate the context analysis as well as a review of the aid architecture, and could also include a recognition of what other systems or programmes might be reinforced or undermined by different decisions and designs.

62. INCAF has urged that *'an international agreement on objectives be used to facilitate prioritisation during transition. Furthermore, strict prioritization should be linked to a specific facilitating strategy that combines different aid instruments in support of these priorities, which should be revisited on an annual basis to ensure continued relevance. This requires a collective approach across policy communities and better risk management.'* (OECD, 2012a)

Governance of pooled funds

63. Effective pooled fund governance requires a clear system of authority, accountability,, and transparency. The governance structure requires mechanisms that are appropriate to the context, including the membership and function of the overall steering committee, as well as the governance of the fund and the fund manager. The structure needs flexibility to allow it to continue to function well over the lifetime of the fund. This may result in changes that expand the government's involvement when it becomes appropriate, or which reduce complexity if the fund becomes too unwieldy.

64. Pooled fund governance works better when it is clear with whom different responsibilities reside, as well as whether they have sufficient capacity for dealing with trade-offs and risk. Broad stakeholder representation and transparent decision-making processes can mitigate vested interests. Inclusive processes for establishing funding priorities, such as participatory national planning, can reduce the opportunity for 'hijacking' funding priorities. Explicit and transparent governance rules and procedures help to enable different stakeholders to understand their own roles and those of others.

65. While it is essential to keep donors engaged, it is not always productive to rotate responsibility – the chairing of coordination mechanisms needs to be based on a lot of political capital and time investment, building relationships. This is especially true in FCAS. Better to be pragmatic than systematic – use the person who has relevant skills.

66. The composition of the fund's Steering Committee requires care in regards to the relative authority and responsibility of the individuals in their own organisations. The function of the Steering

Committee works best when its mandate is well structured and operates with a focus on strategic input. Pooled funds have done well when the Steering Committee is supported by technical working groups that can address specific operational matters. The Steering Committee also needs to be able to change when there are opportunities for increasing government engagement. Part of the governance structure would include a thorough Mid Term Review that provides guidance on all levels of the fund, from governance to fund manager to implementation, or specific sectoral goals and targets.

67. Several interviews noted that *secretariats are crucial but are often undermined by weak staffing*, either in numbers or in professional background. This is not a new finding:

> Secretariats are also critical, although they have often been under-staffed and under-funded. The costs of secretariats should be more realistic. MDTF secretariats need to be staffed up quickly with the requisite skills, to ensure that the start-up phase runs as smoothly as possible. (Scanteam, 2007)

68. Secretariats play different roles – e..g in management of the fund itself, in servicing the governance bodies, keeping stakeholders informed, and ensuring M&E. Secretariats require sufficiently senior staff to ensure that as much decision-making as possible takes place in-country (referrals to Washington or New York are a typical source of delay and slow disbursement). Consider carefully the position of a secretariat vs. the fund manager: it may be important that the secretariat is seen as providing a common service to all pooled fund contributors, and staffed accordingly.

Fund managers and trustees

69. *The choice of fund manager requires a clear understanding of the context within which the manager will function, as well as the structure and governance of the fund itself.* The design of the pooled fund should clarify the different "fund manager" roles: acting as the trustee for the funds (custodian of the resources) and the management of the programme (disbursing funds to the implementers) may be distinct roles. It is quite feasible for the fund trustee to hire an agency to serve as the fund manager (and also to outsource other functions such as monitoring and verification). Equally important is the selection of key staff, including the skills and experiences that they bring, and the potential for a probationary review period for these positions.

70. The study found that a good fund manager requires both strong leadership and good quality staff. In the Common Humanitarian Funds in both DRC and CAR, the presence of a good leader was noted, and their absence was felt when they left. Flexibility of the fund manager to respond to the local context, adapting procedures where needed, is also important. Fund managers need the space and flexibility to innovate, using pilot approaches and adapting in light of lessons learned where necessary to optimise performance.[3] An equally important factor is the ability of the fund manager to hire and retain an adequate number of quality staff. The staff have to be able to build and maintain good relationships with government ministries, and with contracted implementers, donors and other stakeholders.

71. For large funds, the World Bank and UN are the usual trustees. Each can do some things the other cannot. For example: the UN can channel funds for the salaries of security personnel but the WB cannot;[4] in some cases, regardless of technical considerations, a UN agency may be considered as having more legitimacy for political engagement with a nascent government; the WB is more suitable where budget support or similar close alignment with government planning and budgeting is required. The Operational Guidance (Part II) provides more information on their institutional frameworks for trust fund management.

[3] In Aceh, for example, the fund provided the government the flexibility to implement projects through line ministries and other development partners.

[4] Thus UNDP's Law and Order Trust Fund for Afghanistan (LOTFA) complemented the World Bank's ARTF, so that donors were able to support policing activities that were not eligible under the ARTF.

72. The *fund's procurement strategy needs to be considered in tandem with the choice of fund manager*. It is well known that World Bank and UN procedures for international procurement are ponderous (a consequence of the high fiduciary standards that donors often seek). In Afghanistan (Afghanistan Reconstruction Trust Fund) and Ethiopia (Protecting Basic Services), earmarking funds to support recurrent financing helped governments avoid the rigidities of World Bank rules on capital expenditure, increasing implementation speed. In the Joint Initiative Fund in Zimbabwe, participating NGOs agreed to follow a donor agency's procedures for procurement. In the event that a fund uses government systems, donors should ensure that they have sufficient fiduciary confidence in them at the outset, and provide additional capacity support where necessary. In Nepal, donors to the Nepal Peace Trust Fund agreed that the fund would use government procedures, but then raised concern about the robustness of its public financial management systems during implementation.

73. While the WB and UN are the more usual fund holders and managers, there are other fund managers. Amongst the case studies (see Annex I), NGOs collectively managed a pooled fund in Zimbabwe, and private companies have been used in Liberia and South Sudan. Use of private sector, contracted fund managers has had some success (e.g. BSF in Southern Sudan – see Box 11 below), as well as the Health Pooled Fund in Liberia, but only to the extent to which they are held accountable to their contract. In delegated cooperation arrangements, a lead donor plays a trustee role and in some cases (e.g. Ghana) the recipient government has set up a pooled fund for joint-financing of sector programmes.

Box 11 Private sector fund manager in Southern Sudan

The BSF approach of contracting overall fund management to a single commercial company operating outside of Government is considered to have given it a significant efficiency advantage over other pooled funds operating in Southern Sudan during the same period, in particular the MDTF which was World Bank managed and Government implemented. It was widely seen as an effective fund, which enabled donor funding to be channeled to service providers more rapidly than was the case for other funds, and more transparently than was the case for bilateral donors, given Government involvement in the Steering Committee. BSF was able to contract service providers within a matter of months, whereas for the MDTF the process took years. This approach may not be appropriate where one of the aims of the pooled fund is to facilitate coordinated dialogue with government, and directly strengthen government capacity.

Monitoring and evaluation

74. There is rarely enough attention to M&E at the outset when the initial focus is rapid service delivery.[5] M&E should be considered in the context of a fund's objectives – whether national or independent M&E is appropriate, or both. The M&E framework must be adequately resourced and should monitor the full extent of the fund, from inputs, outputs and outcomes to fund management, governance and the overall effectiveness of the mechanism itself (see Box 12 below).

75. M&E is naturally more difficult in fragile environments (data are scarcer, the costs of collection higher, and data collection and M&E may be limited by travel restrictions). But if M&E is inadequately addressed at the outset (in terms of proper design, establishing baselines, a broad set of indicators, and allocating the necessary resources), aid mechanisms often suffer later when asked to demonstrate the results that would justify continued funding. Often funds could be particularly strengthened by mandating an element of independent evaluation from the outset, and linking this to a

[5] Evaluators in Aceh were hired early in the Fund's cycle for quality and tracking, including criteria of donors such as gender, environment, conflict sensitivity and spatial equity. Contracting of MDTF, Southern Sudan, monitoring to a third party agent who was contractually required to provide comprehensive reports on a monthly, quarterly and annual basis proved an effective way of ensuring a timely flow of information on project implementation across the MDTF portfolio and identification of constraints to implementation.

pro-active communications strategy. But all agencies involved in pooled funds must recognise that good M&E has to be paid for.

Box 12 M&E matters

The availability of quality data is a significant challenge in many fragile and conflict-affected environments, affecting the ability of interventions to be targeted in an effective and sustainable way, according to need. In Central African Republic, projects under the **Common Humanitarian Fund** have tended to be supply-driven, based on the proposals of implementing agencies, rather than guided by an overall needs analysis. Likewise, in Pakistan, the **Emergency Response Fund's** ability to prioritise has been affected by limited information on humanitarian needs in conflict-affected areas country-wide.

By contrast, in Yemen, the **Social Fund for Development** has a demonstrated track-record in monitoring interventions to the level of outcomes, evaluating the sustainability of interventions ex-post and feeding back monitoring data into its funding allocation system. This, however, is an exception. **In most pooled funds, insufficient attention has been paid to the role of monitoring and evaluation.** Monitoring is often limited to the level of outputs, and in many cases, particularly for UN-managed funds, implementing agencies are left to monitor their own interventions and report back to the Fund Manager, with little or no external verification of their findings. Some funds, including a number managed by the World Bank, have hired independent monitoring agents to keep track of project implementation, but their focus has tended to be on outputs rather than results. Even when information is available, the ability of a Fund to respond to it effectively can be impeded by weaknesses in the design of its governance structure, as was the case in the **Multi-Donor Trust Fund for Southern Sudan,** which only had an oversight body constituted at political level, without a supporting technical body underneath it.

Adaptation and exit strategies

76. The design of a pooled fund should include a flexible but clear goal on what is intended when the fund's mandate ends. From the interviews it was apparent, first, that exit had rarely been properly considered early on (Box 13 below), and, second, that in many cases, donors should not exit unless there is a superior alternative (but this did not take into account issues of changing donor interests, priorities or donor fatigue). To the extent possible, in a context where what to do may not be obvious and may change, it is necessary to establish a vision and milestones for the potential evolution of the fund, and revisit them regularly. In many cases, no consideration is given to exit strategy at the point of fund establishment, but you need the capacity to adapt your systems in line with your exit/transition strategy. Transitioning a fund to recovery too early can overload it with expectations resulting in failure. The vision for the pooled fund may include dissolving the fund and a completion process, or evolving to sector or general budget support, depending upon the context, but it is vital to avoid becoming entrenched in unchanging programming, prioritisation, and execution – doing the same thing year after year, driven by inertia rather than strategy.

Box 13 Where is the exit?

Many pooled funds are set up without any consideration of an exit or transition strategy. This is a typical feature of humanitarian funds, leading to a mismatch between annual funding cycles and longer-term needs in situations of protracted crisis (e.g. **Common Humanitarian Funds** in CAR and Democratic Republic of Congo). However, a number of development-oriented funds also have no exit strategy, or highly unrealistic ones. In Yemen, the absence of an exit or transition strategy for the **Social Development Fund**, which has been in operation for over 15 years, has the potential to undermine Government institutional coherence. In Liberia, there has been no discussion on how the **Health Pool Fund** might evolve over time, for example into an instrument for sector budget support. In Afghanistan, the original vision of a fund that would last two years proved so unrealistic that the **Afghanistan Reconstruction Trust Fund** has now been extended to 2020, but still without a clear exit or transition strategy. In Southern Sudan, the exit of the **Multi-Donor Trust Fund for Southern Sudan** was premised on handover to a Government institution which hadn't even been established, while the **Basic Services Fund** was extended several times due to the absence of a viable handover strategy. Indonesia's **Aceh Multi Donor Fund** offers one of the few examples of a well-planned exit, in part due to the involvement of Government in initial design of the fund, clear focus on exit from the outset and effective use of capacity building during the lifetime of the fund to facilitate eventual handover to Government.

From policy frameworks to operational practice

77. A pooled fund is not a panacea, and it will not *automatically* engage better with the government, pool risk, reduce transaction costs and align funding within an overarching strategy. But such objectives can be achieved with good design linked to realistic expectations, hard work and judicious and sustained support and engagement from the donors. The Operational Guidance (the second volume of this paper) provides more detailed guidance to support decision-making by practitioners in the field.

Part II: Operational Guidance

Guidelines for the use of pooled funding to support service delivery in fragile and conflict-affected states and situations (FCASs)

Part II builds on the Policy Briefing in Part I. The Operational Guidance in this volume offers more in-depth practical support to those involved in setting up or managing pooled funds..

IMPROVE THE OPERATION OF POOLED FUNDING
Pooled funding enables holistic, strategic engagement in transition environments, and significantly reduces transaction costs for donors and partner country governments alike. Pooled funds also enable donors to adopt a collective approach to the risks in transition situations. *More work should be done, however, to establish realistic assumptions about how quickly funds can be made operational, how trade-offs between quick delivery and capacity development should be handled, and how an excessive proliferation of instruments can be avoided.* (OECD, 2010a) [*emphasis* added]

A. Introduction

1. The **Operational Guidance** in Part II builds on the platform provided by the **Policy Briefing** in Part I, and aims to provide more detailed practical guidance for practitioners who may be involved in setting up or managing pooled funds for service delivery in FCAS.

Throughout the Operational Guidance quotations from interviews have been used to give insight and, in some cases, add colour to the debate. Please note that these quotations cannot be taken to represent the views of the Research Team, nor the official stance of the organisation the interviewee is affiliated to. They should be read as personal opinions, based on particular experience, rather than universal recommendations.

2. One lesson that emerged repeatedly was the importance of context – everyone we spoke to was aware of the particularities of the contexts they had dealt with, but were not necessarily sensitive to how different it could be in other countries. Thus if one interviewee praises a particular fund manager or governance structure and another criticises it, there is not necessarily a contradiction: it may be a matter of the appropriate tools being used in the appropriate places, as well as reflecting the variability of quality in the funds considered. **For this reason, no blue-prints are offered in this paper, just factors for consideration to support decision-making in what are, by definition, difficult environments**.

3. The Operational Guidance follows the format of setting and answering a series of questions. The full list of questions are given in the contents pages at the front. Table 1 below gives the high level structure to help readers navigate the guidance. References to further reading are also given throughout the guidance, and the Bibliography includes additional resources..

Table 1 Structure of the Operational Guidance

Element	Chapters	Scope
Considering pooled funding	B Context analysis	Deciding whether a pooled fund is appropriate through analysis of country context and resource landscape. *(See Part I, the Policy Briefing, for discussion of the potential advantages and disadvantages of pooled funding.)*
Designing a pooled fund	C Goals & objectives	Setting goals and objectives including consideration of adaptability, ownership, and the possible trade off between capacity building and service delivery. (*See Policy Briefing Note for more discussion of key trade-offs.)*
	D Fund design	Size of fund, optimal number of donors, single sector vs. multi-sector; speed of fund and setting timeframes; design elements which are overlooked.
	E Understanding and managing risks	Understanding different types and sources of risk; approaches to managing risks and the trade-offs this involves.
	E Governance structure	Designing governance arrangements including example structures; engaging with the government. (*Builds on the discussion in Part I of government engagement.)*

Element	Chapters	Scope
	G Fund management	Overview of different fund managers (World Bank, United Nations, government, private firms, NGOs, donor-led); pros and cons of different alternatives and implications for financial management and procurement structure.
	H Intervention design and implementation	Deciding priorities; service delivery modality; possible implementing agents; sustainability and the government's role.
Running the fund	I Managing the fund / results	Donors' roles; monitoring & evaluation; troubleshooting – options if fund is failing to deliver.
Exiting the fund	J Exit strategy	Why exit strategy matters, and possible options.

B. Context analysis

"Take context as the starting point"

*OECD Principles for Good International Engagement in Fragile States and Situations (*OECD, 2007*).*

Key messages:

- *Sound contextual analysis is an essential precursor to making decisions on whether and how to establish a pooled fund.*
- *Pooled funding is not always appropriate; the detail of the context, as well as the detail of the fund design, can be crucial.*
- *There are a range of toolkits readily available to assist in analysing country context and the aid landscape.*

Is a new pooled fund appropriate for this context?

"Pooled funds, as single gateway between governments and donors, have to be the right approach for FCAS. Key challenges are how to manage the fund, and how to manage within the fund." (Interview, DFID staff)

"Structurally, I like the idea of pooled funds: more donors, therefore a bringing together not only of finance but also expertise; there is a greater sense of transparency, accountability and financial stewardship; more donors should mean there are more people to check the funds are spent well."

"It should be like this, but in practice I have not found it to be so." (Interview, two International NGO workers)

"Look at the full range of tools at your disposal. Use buckets of tools and approaches." (Interview, consultant)

"We really see trust funds as a potential solution in areas where we would like to use government systems but see fiduciary risk as being such that we can't give direct to government." (Interview, DFID staff)

4. Pooled funds bring together finance from a number of donors and then, through a fund manager, disburse funds to implementing agents within the country. Section B of the Policy Briefing (Part I

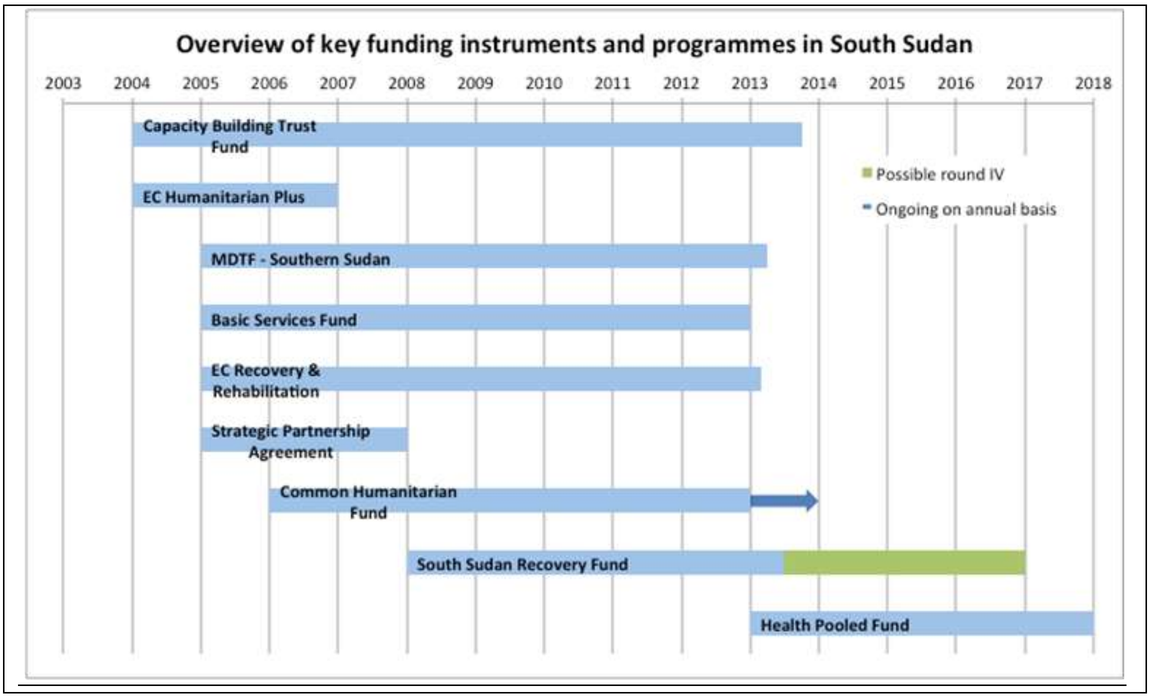
above) notes the various potential advantages (and disadvantages) of pooled funds. But the advantages are not automatically realised in every context, and there may be trade-offs between different pooled fund objectives, so *the rationale for this particular pooled fund needs to be carefully thought out from the beginning*.

5. Contexts where pooled funds can be particularly useful include:
   - Where it is **politically difficult (or inappropriate**) for the donors to engage directly with the government, e.g. the A-MDTF Zimbabwe.
   - When the state has only **shaky systems of accountability**, or none, e.g. MDTF Southern Sudan and HRF Haiti.
   - Where **large-scale reconstruction** is required, such as after a crisis or conflict, a pooled fund can coordinate and harmonise the aid flows, e.g. ARTF Afghanistan.
   - Where **a number of UN agencies are involved**, a UN-led pooled fund can coordinate their work effectively, and potentially include NGOs, e.g. the CHF Democratic Republic of Congo.
   - In **a high-risk setting**, a pooled fund allows donors to pool risk; fiduciary risk is often thought of here, e.g. corruption, but other sorts of risk, such as reputational risk, may also be mitigated (see also Section E below).

6. In countries which lack donor offices, a pooled fund is sometimes seen as a way for donors to contribute without having to be too involved. This has varied rates of success which track, to some extent, the political importance of the country (compare the UN Common Humanitarian Fund in the Central African Republic, whose recent poor performance has led to donors withdrawing their funding, with the Afghanistan Reconstruction Trust Fund which was set up in 2002, is still going strong, and is set to continue to 2020).

7. A pooled fund does not operate in isolation, so consider the role of pooled funding in the wider aid landscape – how it would cohere with other aid instruments. In particular, where other pooled funds are already operating in the territory, consider whether a new fund is really necessary, and how it will relate to existing funds. Proliferation of funds can be problematic and reduce some of the advantages of pooling funds in the first place – for example, Southern Sudan suffered from having too many parallel funding instruments (see Figure 5 below).

Figure 5 Overview of funding instruments and programmes in South Sudan



Which stakeholders should be involved?

8. The stakeholders, in the broadest sense, consist of everyone involved in organising the funding and the potential recipients, bearing in mind that there may not be a clear-cut division between those two groups (in fact, it is better in terms of local ownership if there is not). Within the country, this encompasses people and organisations such as the government, locally-run NGOs, civil society organisations (CSOs) and private firms; internationally, it includes donors, the United Nations (UN), the World Bank (WB), international non-governmental organisations (INGOs), private firms and the diaspora.

9. With regard to each stakeholder, their capacity to contribute effectively to a particular country programme and their capacity to operate in specific sectors requires assessment, as well as their capacity to scale up. It is also important to consider their motivations and whether it is possible to align these with the objectives of the funding – this can help to engage with them in an effective manner and increase the likelihood of success.

10. Usually the most important stakeholder for donors to engage with is the government. The relationship between donors and the government is vital in terms of ownership, assessing risk and trade-offs and in both the design and implementation of pooled funds.

➔ See also *Principles for good international engagement in fragile states & situations* (OECD, 2007).

When is pooled funding not an appropriate aid mechanism?

11. *When results are required rapidly a pooled fund is generally not the most appropriate instrument in the first instance.*

12. A pooled fund takes time to set up – to agree goals, to design the structure, to find appropriate people to run it and implement its projects. Where a fast response is necessary, directly funding organisations already on the ground may be a better option. For example, the Afghanistan Reconstruction Trust Fund took two years from establishment in 2002 to the first disbursement of funds in 2004 (however, spending time building up capacity appears to have paid dividends in the medium term, with disbursements operating "very well" by 2008 according to the Scanteam review – Scanteam, 2008).

13. That said, there may be contextual reasons why, even where fast results are required, a pooled fund is the most appropriate mechanism. In that case, the fund can be designed to expedite delivery. In all cases, it is not simply a question of which aid mechanism to use, but how the aid mechanism is designed and structured.[6]

14. Due consideration must be given to how the fund fits in with the current aid landscape, what links it has with the government, and its strategic role in providing funds. Where pooled funds have been used simply as a means of taking funds off the donors' books quickly (delegating responsibility for the effectiveness of the aid, the relationships with the government and risk assessments), this has not resulted in good pooled funds. In addition, as discussed in Part I, none of the advantages of using pooled funds are automatic – for example, the effect on transaction costs may be ambiguous if the wider impact is considered – thus it is not a good in itself to create a pooled fund, it is only good if it is well-handled.

[6] It is not always possible (natural disasters strike without warning), but there are circumstances where the need for a pooled fund can be anticipated and it is well worth planning ahead so as to reduce the lead-in time before disbursements.

When analysing the context, what needs to be considered?

"The political economy needs to be clearly understood at a senior level, and how donors can influence it in the right direction. An analysis should be done of the context – it does not need to be long, but must be thorough. This should guide the purpose and how you operate." (Interview, DFID staff)

"A lot has been written on understanding the context and political drivers of conflict, and the 'do no harm' stance, but the context is tough e.g. Yemen. Development people are considerate of the anthropological side but only to some extent, whilst humanitarian people don't have time for it." (Interview, former World Bank staff)

15. The context of the country and the resource landscape can be analysed to understand:
- what country-specific sensitivities need to be taken into account;
- drivers of conflict;
- where the needs are;
- what existing systems are in place;
- what sort of intervention is appropriate to the local conditions (what is possible, in practical and political terms);
- possible partners to work with;
- which aid mechanisms to use.

16. Relevant aspects of the country context include its stability, risk factors, geography, and the capacity and willingness of the country's government with particular reference to the strength of country systems and their underpinning by a sound legal framework. Political dimensions – domestic, international and that of the donor, can also be considered, including the legitimacy of the government to its population as well as in the international arena (see Box 14 below). The resource landscape consists of donors and other stakeholders, including potential fund managers and implementing agents, and existing aid instruments/modalities, particularly pooled funds that are already established.

Box 14 The international dimension

International relations – how the country and its government is viewed internationally, its human rights record, how high-profile it is, is of key importance. The general success of the Afghanistan Reconstruction Trust Fund (ARTF) was due in part to the international pressure to deliver.

In the occupied Palestinian territories, the legal status of the Palestinian Authority (not a sovereign state) has been a constraint, and dealing with the Hama administration in Gaza, has been problematic for donors, USAID refuses to have any of its funding go into the state apparatus which means that education projects it funds cannot involve schools or teachers.

In addition, the underlying agenda of the donor government, and the international community, towards the recipient country, which may not be overt, is relevant. For example, in Iraq various donors had very different, in some cases contradictory, political agendas and this impacted the design and the functioning of the International Reconstruction Fund for Iraq (IRFFI).

17. Table 2 below gives an overview of salient country context and resource landscape features when considering pooled funding for basic service delivery.

Table 2 Context analysis – key aspects

Aspect	Specifics	Relevance
Country context		
Economy	Economic indicators such as GDP per capita and sources of income	The level of income can form a quick indicator of capacity of the country, including government capacity; Sources of income can be important motivators for government and can reveal sources of instability, e.g. sale of diamonds has been a motivator for the government of Zimbabwe to engage internationally, while fluctuations in the price of oil have impacted stability and capacity in Yemen.
Stability trajectory of a country	a) post-conflict/transition; b) crisis/impasse; c) gradual improvement; d) deteriorating government systems.	This affects, among other things, the sort of aid required, the urgency of need, and the potential for capacity building. This may not be easy to determine, and assumptions made about this can have large consequences on the design of the fund, e.g. the International Reconstruction Fund for Iraq (IRFFI) assumed that the security situation would improve and the political situation would stabilise; when the reverse occurred they were unprepared and had to evacuate to a neighbouring country at short notice.
Risk context (also see section E below)	a) security issues, whether national or regional (including border security); b) fiduciary issues, such as financial risk and the ability to do business; contextual risk, i.e. the possibility of return to conflict; c) reputational risk to the donor of involvement.	This impacts the level of engagement and how much engagement at field level is possible or desirable (e.g. the example of Iraq as above). It also affects ability to monitor the work being done (e.g. in Afghanistan field visits to some areas had to be limited to 15 minutes before "the Taliban appeared on the horizon").
Geography	a) physical geography such as access to remote areas, b) human geography such as urbanisation and tribal/ regional differences,	Can affect service delivery and highlight gaps in current provision.
The capacity and willingness of the government (part of country governance analysis – see Box 15 below)	a) its commitment to strengthening accountability and capacity to effectively manage aid. b) the strength of state systems and capacity at national/regional level, even between Ministries.	Analysis of these aspects, grounded in the realities of the country situation, can help inform how and whether to engage with the government, who within the government to engage with and to what level, and the degree of autonomy passed to the government. For example, in Nepal, the international community recognised that the timing in terms of political process was key for the peace process. Donors came together in conjunction with government to analyse the context and set up the Nepal Peace Trust Fund (NPTF). The involvement of the government in the context analysis brought benefits as well as challenges, "the shared context document was acknowledged to be lacking…but there were some things that were too difficult to talk about" (DFID staff).

Aspect	Specifics	Relevance
Domestic politics	Particular sensitivities of the domestic political situation including: i) the legitimacy of government for the population; ii) the government's attitude to its population, whether benevolent, largely absent, or predatory/aggressive to the majority or to sections of its population based on regional, tribal, racial, religious, economic, political or other issues.	This has clear implications for government engagement , e.g. in DRC, the government is "basically non-existent" for large swathes of the population which presents particular challenges for government engagement and aid delivery; in Zimbabwe, government-sponsored violence against opposition supporters led to the formation of a fund, the Joint Initiative which, perhaps naturally, eschewed engagement with the government. By contrast, in Nepal, it was vitally important for the peace process, that all of the top political parties (irrespective of whether they were in government or not) were involved in the board of the Nepal Peace Trust Fund.
Politics and international relations	Political stance of the: i) recipient government ii) donor government iii) international community	The politics of the donor country as they relate to the recipient country, including its historic relationship with the country can sometimes be a cause of sensitivity (e.g. this was relevant for the UK in its dealings with Zimbabwe). See also Box 14 above on the importance of international relations.
Resource landscape		
Potential sources of funding	Consider who is funding what and to what level (and who is not currently funding but may be persuadable), and the potential for strategic alignment of funding.	Fellow donors, including inter-governmental organisations, can be assessed to identify potential partners to work with. Different donors have different preferences as to sectors funded and aid mechanisms used; for example, the US and European Commission tend not to contribute to pooled funds (though exceptions have been made); anecdotally, some countries concentrate on peace-work, others have a preference for funding health-care or education, and this may vary by region.
Stakeholders and potential fund managers/ implementers	Capacity analysis of stakeholders and potential fund managers/ implementers, including: a) international organisations – the UN, the WB, INGOs, private firms; b) national-level capacity, including: national NGOs, locally-owned private firms, the government itself, civil society, and the diaspora.	With respect to each, consider their: • On-ground, in-country capacity • Ability to scale up • Ability to deliver results • Potential to build capacity • Motivations

Aspect	Specifics	Relevance
Needs analysis	An analysis of needs mapped against existing aid instruments to assess where the gaps are, what can be done, and whether a new fund is appropriate.	The analysis of needs may start by taking the national budget and identifying shortfalls. An analysis of the extent to which funding is fragmented informs the potential need for increased harmonisation and joined-up working. Consider the comparative advantages of different funding sources, their strengths and weaknesses, and the potential to coordinate with them, with particular attention to any pooled funds already in existence. A pooled fund will influence the overall aid architecture. It is therefore important to consider its potential role in the overall system at design phase, both at sector level as well as in the country at large.

18. Consider the analytical toolsets available, e.g. Country Governance Analysis (CGA) – see Box 15 below, Political Economy Analysis (DFID, 2009b), Joint Analysis of Conflict and Stability (JACS), Fiduciary Risk Assessment (FRA – DFID, 2008b, DFID, 2009c), Due Diligence Analysis (which focuses on the suitability of CSO partners[7]), all of which can be useful, but focus on different elements of the context.

Box 15 Country Governance Analysis: 5 principles

(a) be rigorous, based on robust sources of information;
(b) be embedded within the country planning process;
(c) be set within the framework established in DFID's 2006 White Paper 'Eliminating world poverty: making governance work for the poor'; i.e. good governance is to be found where states are capable, accountable and responsive;
(d) support country-led approaches by building on existing processes of dialogue; and
(e) support not undermine the Paris Declaration on Aid Effectiveness through shared analysis and by enabling us to decide how far to align with the partner government to achieve poverty reduction results.
(Country Governance Analysis – How To Note, DFID, 2008a*)*

➔ For further guidance see the DFID How To Notes referenced above. See also INCAF Guidance on Transitional Funding (OECD, 2010a, OECD, 2010b, OECD, 2012a, OECD, 2012b).

How in-depth should the context analysis be, who should do it and how often? Should it be made public?

"Did we perform a situational analysis prior to starting the Fund? Errr, we discussed it one evening over a whisky, does that count?" Interview, UN staff.

19. There are two basic approaches and both can be used – each has its advantages:
- One approach consists of drawing up your own context analysis in an informal setting with people who know the country and understand its particular sensitivities.
- Another approach is to commission a full independent analysis (see Box 16). Even if this is not

[7] See http://old.dfid.gov.uk/Work-with-us/Funding-opportunities/Not-for-profit-organisations/Corporate-Governance-expectations-of-CSOs-and-Due-Diligence/

done initially, it can be a useful tool when drawing up the goals of a fund as it can help establish a baseline and communicate the fund's purpose to the wider aid community and the country itself. The former is fast, but latter may be seen as more neutral and thus more acceptable to a range of stakeholders. However, independent evaluations made publicly available may not be appropriate in all contexts (see Box 17 below).

20. Context changes continually, thus the context analysis needs frequent updating to reflect the evolving situation. Annual and mid-term reviews are typical milestones for updating the context analysis. In Nepal, where a peace process was being initiated, the donors involved admit that at the very start of the NPTF a number of assumptions were made in order to get the process under way. After the fund had been running for six months, the situational analysis was revisited and gaps began to be filled in. Once this baseline had been established, reviews/evaluations were carried out by external evaluators, every couple of years. These evaluations provided action points for the government which runs the NPTF.

Box 16 Independent situational analysis

Consider contracting an independent entity to conduct a situational analysis of the country using input from major stakeholders.

The analysis could cover country capacity, government willingness and legitimacy, and give an overview of the aid landscape.

Such analysis can then be a transparent way of agreeing the major issues with other donors and with the Government itself.

It can also be an important step in designing a pooled fund: it can form the foundation for determining the goal and objectives, design, management arrangements, means of executing the aid programme, and indicate the desired results. This analysis can be checked for accuracy to the extent possible, and, where possible, should be publically available in the interests of transparency (see Box 17).

Box 17 Transparency in sensitive situations

"Consultation on and communication of CGAs [Country Governance Analyses] is important but should be handled pragmatically based on country context. Transparency is desirable and, if possible, CGAs should be written for proactive publication. In sensitive contexts, this may not be possible and there may be different versions submitted internally and for public communication purposes (after consultation with the FCO). All countries should publish some version of the governance analysis."

(Country Governance Analysis – How To Note, DFID, 2008a*)*

C. Goals & objectives

"Most pooled funds have limited goals, but then people try to ascribe a greater use to them; if a pooled fund is about building schoolrooms let it be about that." (Interview, DFID staff)

Key messages:

- *Be realistic about what a single aid mechanism can achieve: consider trade-offs, and do not be over-ambitious.*
- *Consider a phased approach, for example, focusing on service delivery in the first phase, then building national capacity in the second phase.*
- *Leave room for flexibility – as the situation evolves or becomes clearer, the objectives may need revisiting.*

What should be considered when setting the goals and objectives of the fund?

21. Make the objectives of the fund clear, coherent and achievable, and ensure they are clearly communicated to stakeholders.

22. If the overall goal is broad or lofty, consider supporting it with more concrete objectives, e.g. if the goal is to improve educational outcomes, back this up with tangible objectives, whether it is to build more schools, increase enrolment, or achieve parity between the sexes at primary level. This helps focus resources, manage expectations, and sets clear measurable standards which can also help when monitoring and evaluating the performance of the fund.

23. If there are multiple objectives, check for conflicts between them; if the objectives cohere it should be easier to achieve them (and to recognise whether they have been achieved).

24. Be aware of the trade-offs, for example, between delivery of basic services and trying to build institutional capacity. Be realistic about what a single aid mechanism can achieve and avoid loading it with too many objectives.

25. Beware of being too ambitious – this can raise expectations to unrealistic levels, which inevitably leaves stakeholders disappointed or worse. A good evaluation of context and capacity can be useful in this regard.

26. Consider whether there are any unstated, underlying objectives of the fund, held by the donors, the potential fund manager, or the government or other stakeholders. Check that these are complementary, or at least not detrimental, to the stated goals of the fund.

27. In some contexts, what to do or how to do it might not be obvious; identifying needs and being responsive may be the initial objectives, which can then be revisited and revised in the light of operational experience.

How can flexibility and responsiveness be built into the objectives?

28. A fund must continually adapt or it will become obsolete (see Box 18 below). Objectives can evolve or change as either the context or the information available changes. Stakeholders must be aware of this important aspect from the beginning.

29. Revisit the contextual analysis at agreed milestones to ensure it continues to reflect reality and to close gaps in understanding, and use these milestones as opportunities to review the objectives and priorities.

30. Incorporate lessons learned from implementation and avoid rigid or long-term funding commitments that cannot be revised.

Box 18 The importance of flexibility

The ability of a fund to adapt to changes in its operating environment, or improved information, as well as the findings of its own evaluations, has a significant impact on its effectiveness.

In Iraq, the International Reconstruction Fund Facility for Iraq (IRFFI) was built on a series of assumptions with respect to progressive improvements in the security situation and Government capacity which in the event did not hold true (the security situation got worse, with knock-on effects for Government capacity) – but the fund had limited capacity to adjust its objectives or operational modalities in response, severely limiting its effectiveness.

In South Sudan, the design of the Multi-Donor Trust Fund for Southern Sudan (MDTF-SS) was not appropriate to context (it was expected to simultaneously build Government capacity, which was extremely weak, while also delivering services through Government systems) and was based on inadequate understanding of the operating environment. However, as these challenges became apparent, it failed to change course as needed, or to balance rapid response projects with capacity building. As a result, implementation experienced significant delays and donors turned to other mechanisms to provide rapid transition financing.

By contrast, the Emergency Response Fund (ERF) in Pakistan re-balanced its focus to provide greater assistance to conflict-affected communities after an evaluation found that they had been given insufficient support compared to flood-affected areas.

What can be done to maximise country ownership when setting the goals?

"Donors wish to know in advance how the money is going to be spent; this is in contradiction to letting governments decide how to spend the money as they need time and support to decide." (Interview, consultant)

31. Where possible, give key stakeholders (government, religious organisations, beneficiaries) opportunities to participate in establishing and revising the goal and objectives.

32. Align with national policies, priorities, systems, and strategies to the extent that the context permits (the legitimacy of public policy and planning is critical here). (See also the discussion at ¶81–83 below, and Box 22 below on ensuring government buy-in.)

33. Where this is a priority, and the key stakeholders are not ready to give reasonable direction, the initial objective of the fund may be to support the stakeholders to be in a position to take ownership.

Can the goals include both building national capacity and delivering services?

34. There is, to some extent, a trade-off between delivering services quickly and efficiently, and building national capacity, and for that reason, some would argue it is better to use separate aid instruments (even two separate pooled funds) to perform each task, otherwise there can be a conflict between one objective of the fund (building capacity) and another (service delivery). (To an extent this was the de facto result in Southern Sudan in the roles adopted by the Capacity Building Trust Fund (CBTF) and the Basic Services Fund (BSF) which were more effective than the MDTF-SS which tried to do the two tasks simultaneously.)

35. However, for medium to long term sustainability, service delivery should be a matter for the state (or delegated by the state to another provider), and capacity building is often essential to allow this to occur. Having separate funds for capacity building and service delivery would require coordination between them – precisely the sort of situation that a pooled fund is meant to ameliorate. Indeed, coordination was a challenge for the various pooled funds in Southern Sudan.

36. A phased approach may be considered, where in the short term, service delivery takes priority, and in the medium term capacity building becomes the focus. If this is done, it should be cognisant of the fact that such transition is rarely linear and is subject to regression. In Haiti, a phased approach was considered at the design phase of the Haiti Reconstruction Fund (HRF): those involved wanted a balance between *"working with proven implementing partners and building the long term capacity of the state"* and were aware of the tension given that those who are most able to deliver in Haiti are often not part of Government, but a longer term view on capacity development was important.

37. Where a phased approach is used, define benchmarks at the outset, in agreement with the Government where possible, that will trigger progress to the next phase. This has been done for the new Health Pooled Fund in South Sudan (which has taken over where the Basic Services Fund left off), which focuses on service delivery in the first phase, then moves onto strengthening government systems at later phases.

➔ For further guidance, see the *Handbook on Contracting Out Government Functions and Services in Post-Conflict and Fragile Situations* (OECD, 2010e)

Should a fund's success be measured solely on its ability to meet its objectives?

38. If a pooled fund is to form part of a coherent strategy, it is helpful to be clear about what it aims to achieve compared with other aid interventions; taking the objectives of the fund seriously entails measuring the performance of the fund against those objectives – if the situation changes, or it becomes clear that the objectives chosen are not appropriate, then the objectives of the fund should be changed so that there can be agreement and clarity about the purpose of the fund. For example, the Basic Services Fund, Southern Sudan, had provision of basic services as its main goal, but had a sub-objective of building capacity: when it became clear that it was unable to build capacity the goals should have been altered to reflect that.

39. Consider any tension between a fund's main goals and other underlying objectives (see Box 19).

Box 19 Stated goals vs. underlying objectives

In addition to the agreed goals of the fund in terms of humanitarian/development objectives, there may also be underlying objectives, which may be stated or implicit. For example, an underlying stated objective of the CHF in DRC was to strengthen the role of the Humanitarian Coordinator, which it certainly succeeded in doing, quite apart from its success in achieving its goal of improving the humanitarian response in DRC. The IRFFI had multiple unstated objectives, including providing a neutral platform for collaboration between the CPA/Iraqi officials and countries that both supported and opposed military action. Its perceived neutrality made it possible for non-OECD donors to participate. Contributions went through impartial third parties, the WB and the UN to which they were all member states.

In the case of the A-MDTF Zimbabwe, while it had limited success at achieving its main goals (against which it was assessed), it was rather more effective at achieving its overarching objective which was to "establish the groundwork for re-engagement by development partners in Zimbabwe": it allowed the World Bank to re-engage with Zimbabwe and build up its office in-country in a way which otherwise would not have been possible, and provided a forum for other donors to engage more deeply with the government and with each other.

D. Fund design

Key points

- *There is no optimal size for a fund: even small funds can reap substantial benefits, while large funds, if unsuccessful, can create proportional difficulties.*
- *Consider design features to increase speed, such as a small grants window for small projects, or an interim procurement agent to provide surge capacity in the initial stages.*
- *Planning an exit strategy, and ensuring sufficient budgeting for monitoring & evaluation, are both important but tend to be overlooked at the design stage.*

Is it better to be all-embracing, or to form a coalition of like-minded donors? Is it better to be single-sector or to support multiple sectors? What is the optimum size for a fund?

"A coalition of like-minded donors is better if a large amount of donor engagement is needed. The more donor involvement required, the lower the optimal number of donors." (Interview)

"Trust funds are successful when there are few donors, the objectives are simple and the management structure is simple – very few cooks in the kitchen. The more complex the trust fund, the less impact at field level." (Interview, DFID staff)

"Multi-sector funds have more money and potential for better coherence. Sector funds are easier to align with relevant Ministry, have a better relationship with that Ministry and are better at lobbying the Ministry. You can tender out individual funds and include a clear mandate of what is expected from them." (Interview, consultant)

"Single or two/three sector funds have worked the best as it is easier for donors to coordinate with a small number of government agencies. If the pooled fund is operating across too many sectors, the danger is that government collaboration is too laborious and therefore doesn't happen." (Interview, Government employee)

40. Theoretically, a large, multi-sector fund should be able to reap more of the benefits associated with pooled funds, such as coordination and harmonisation, than a smaller more focused fund. However, if a fund is successful, it can have positive impacts on coordination and harmonisation even if it is small and focused on a single sector (e.g. Liberia Health Sector pooled fund whose Steering Committee, which included non-contributing donors as observers, became the default sector coordinating committee). Conversely, a large fund which is unsuccessful can have a negative impact on harmonisation and coordination; this is especially the case for multi-sector funds, for example, the MDTF Southern Sudan which was too broad to be responsive to sector nuances and resulted in a greater use of more sector-specific funds such as the Basic Services Fund (cf. Figure 5 above). Similarly, a small fund may be seen as being better to address discrete issues, but even a large fund may be good at this if the priorities are well defined and the governance structure supports this.

41. Even a small fund can, in some cases, have a large impact if it tackles catalytic issues – for example, Southern Sudan's Capacity Building Trust Fund which addressed capacity bottlenecks within government such as payroll reform.

42. Government engagement – a single large fund should make it easier for the government to engage: one gateway for the government to interact with donors. However, a more focused fund aligned to the ministerial structure may be better at engaging with the individual ministries.

43. These issues are summarised in Table 3 below.

Table 3 Size of fund – potential strengths and weaknesses

Attribute of fund	Potential strengths	Possible disadvantages	Comments
Large number of donors	• Coordination: the fund, or groups within it, can become a forum for donors and stakeholders. • Government engagement: one gateway for the government to deal with the donors en masse .	• Donors may differ in their priorities, appetites for risk, expectations and strategies. • Donors may engage the government bilaterally in addition to via the PF. • Harder and slower to make controversial decisions, and thus less responsive to needs. • May be less clear who is responsible.	• Where there is a large number of donors, their approach may be more hands-off. Conversely, a smaller number of donors often calls for more donor engagement. • Too many donors involved in running the fund may crowd out engagement from the government and other national stakeholders. • Bringing together a large number of comparatively small donors allows them to punch above their weight, e.g. Liberia Health Sector PF which did not include the three biggest donors in Liberia.
Multiple sectors	• Brings together the breadth of experience. • Allows coordination between different sectors, possibly reducing a silo mentality and facilitating an overarching strategy.	• Unless the governance mechanism is well structured, it may prove difficult for government and donors to have in-depth discussions on sector-specific technical issues. • If the fund fails it is not confined to one sector.	• Separate working groups may be created for each sector, which allows for technical discussion but means that coordination between sectors is not necessarily improved.
Large volume of aid	• Greater reach and impact. • More influential. • Greater predictability of spend.	• The level fiduciary controls applied to large funds may lead to slower disbursement . • If unsuccessful, the consequences may be worse ("all eggs in one basket"). • Choice of fund manager is, in effect, limited to the WB and UN.	• Volume of the fund relative to the total funding in the country is perhaps more important for influence and coordination role: compare the Haiti Reconstruction Trust Fund (HRF) which only accounted for 5% of aid flowing into the country, with CAR’s CHF which was a major conduit of aid and thus highly influential even though it was only an eighth of the size of the HRF.

Attribute of fund	Potential strengths	Possible disadvantages	Comments
Small number of donors	• Like-minded donors may be more focused. • Faster to form and to make decisions. • May be less need for compromise and less incentive for donors to engage bilaterally with the government.	• Coordination role may not be as strong. • Reach and impact may be more limited.	• Non-contributing donors may be included as observers which can increase the harmonisation role of the PF. • There is generally more donor engagement with such funds, which can help ensure that their implementation stays on track . • Sometimes the fund, of necessity, starts small, e.g. the PA-UN oPt Fund which has only one donor.
Single sector	• Single sector funds may allow for more in-depth policy discussions and technical meetings. • More easily aligned (or shadow-aligned) to a Ministry.	• This approach may lead to several sector-specific pooled funds being created for different sectors which then raises coordination costs. • Danger of islands of excellence which are not replicated.	• Having separate funds for each sector may not necessarily increase the silo mentality, as coordination between sector groups within a single pooled fund is often lacking anyway.
Low volume of aid	• A small fund can be successful at addressing quite focused issues. • May be easier to close the fund down if it is not performing.	• More limited in what it can achieve. • Having lots of smaller funds would require coordination between them which reduces some of the advantages of pooling funding.	• More of the small funds considered appear to be successful, but this could be because they are more carefully targeted, or, relatedly, because they have been agreed to meet real need rather than for political reasons.[8] Compare the MDTF-Southern Sudan whose goals were drawn up as part of the peace-making process, with the more successful Capacity Building Trust Fund designed to address a bottleneck in government capacity.

[8] Not to underestimate the importance of satisfying political requirements, but they can be an obstacle to agreeing realistic objectives, among other things.

Speed is of the essence – how can the fund be designed to deliver some results rapidly?

"Initial success, even if small or simple, can do a huge amount in making the pooled fund. In Southern Sudan we saw the sheer exhaustion of the World Bank and Government; need some success early on for buy-in and feeling that they are achieving something. Make sure they are well supported to do this." (Interview, DFID staff)

"In Afghanistan a lot of money was wasted on "quick impact projects" that generated no lasting impact, wasted money and damaged the reputation of donors, NGOs and the government. Very little was done to address security and justice, which is what the Taliban (sort of) offered. " (via email, former World Bank staff)

44. Delivering some results rapidly can be useful for gaining buy-in from donors, the government and the public, as well as being essential in humanitarian situations.

45. Having a small grants window where projects under a certain financial threshold can be approved more swiftly, as was used in the MDF Aceh and the CHF in DRC, as well as the Capacity Building Trust Fund (CBTF) in Southern Sudan, can be an effective way to win buy-in and achieve some results fast. Technical assistance may also be fast-tracked through this window, and other incidental expenses *"[the rapid assistance window] has helped with financing workshops and printing, which other donors typically do not want to support but which the Government sees as vital"*.

46. Consider interim measures to deliver services, while systems are being put in place and capacity is being built, for example, having an interim procurement agent, or possibly even an interim Fund Manager to oversee the fund initially. Private firms can play a useful role here as they tend to be best at fast delivery. Also consider the use of single-source contracts as an interim measure. For the Afghanistan Reconstruction Trust Fund, an interim procurement agent was used effectively, in contrast to the MDTF in Southern Sudan where it took a year to procure the procurement agent.

47. Increasing transparency and effective communication among stakeholders are key strategies for managing the pressure to 'do something' before it is clear what to do and how best to do it. Another strategy, when rapid results are essential, is to establish short-term funding priorities to minimise the overall exposure until more information is known about what and how to proceed.

48. A well-run Secretariat with sufficient senior people in-country to make decisions can also increase the speed and the quality of the decisions made: referring back to HQ is a frequent cause of delays, and it is often difficult for people outside the country to have a good understanding of the realities of the situation on the ground.

49. There can be tremendous pressure to deliver results fast before it is clear what should be done and how best to do it. Ideally, therefore, fund design should commence in anticipation of the need, so that it is ready to go once, for example, the peace agreement is signed. This is not always possible, for example where natural disasters precipitate the crisis (e.g. Haiti).

50. "Quick Impact Projects" have had a varied success rate. While some rapid response might be justified, it is likely to be less effective and less efficient than a project with a longer term timeframe. Consider whether simple "reconstruction" is required, or if building legitimacy is actually the underlying objective of the fund (e.g. Afghanistan where the focus was apparently on reconstruction but legitimacy was the more important goal).

51. The need for sustainability in the delivery of basic services should be recognised, even if it is not the first priority, and thus it is important not to "lock in" a humanitarian response, rather to structure the fund to allow evolution towards a more developmental and sustainable approach by, for example, using implementing agencies who are not just focused on humanitarian aspects (or, at least, not

exclusively using humanitarian agencies), and checking the funding will not drop off too rapidly once the situation evolves. Recognise the protracted nature of these situations, and structure multi-annual funding to support long term capacity building as well as having flexibility to respond to crises.

52. Finally, consider if a pooled fund is the most appropriate mechanism to use in the first instance – it is generally not the fastest at delivering results and can take significant time to set up.

What is a realistic timeframe for establishing a pooled fund? What milestones should be included?

53. It could take from a few months to up to two years to establish a pooled fund, depending upon the context (political aspects may be particularly salient), goals and objectives, urgency, and the modality of fund management. It may be useful to distinguish between the date the fund was first formally discussed, the date of establishment of the fund, and the date of first disbursement. For example, the Afghanistan Reconstruction Trust Fund was established in January 2002 having been agreed in December 2001, but there was little disbursement until the end of 2004; this was attributed to weak capacity in the Government of Afghanistan. The Haiti Reconstruction Fund, formed in response to overwhelming humanitarian need post-disaster, was first formally discussed in January 2010 at a meeting of the international community in Montreal, was established in May 2010, but did not disburse funds until the end of 2010. In contrast, the CAR UN-run Common Humanitarian Fund had a long period between being formally discussed, in April 2007 following on from the UN Emergency Relief Fund, and actually being established over a year later in July 2008, but then received and disbursed funds that same month.

54. Milestones along the way could include a thorough situational analysis and any related assessments (fiduciary risk and/or due diligence), developing the business case, arrangements for fund management, establishing the controlling agreements, protocols, and procedures.

What else needs to be considered when designing a fund? What design features tend to be neglected that deserve greater attention?

"No one builds in a percentage for decent monitoring and evaluation in any of these funds – this is crazy as all the donors talk about how bad it is. How do donors think M&E will happen (especially in the UN) when they don't pay for it?" (Interview, consultant)

"Exit strategy? We need to start the fund first." (Interview, UN staff)

55. The importance of budgeting for monitoring & evaluation, and planning an exit strategy, tend to be overlooked at the design stage.

56. Good quality, independent monitoring and evaluation systems cost money and, faced with the overwhelming needs of the country, are rarely seen as a priority. However, without monitoring and evaluation (M&E), it is difficult to know the impact of the fund and what could be changed to make it more effective. Thus, good M&E, combined with appropriate feedback into programme design, can help ensure that funds are being used in the most efficient and effective manner, and thus promotes Value for Money (VfM). And sustaining support depends on being able to demonstrate the fund's effectiveness.

57. Before intervention, the full life-span of the pooled fund should be considered if the "Do no harm" principle is to be taken seriously. Thus, an exit strategy should be considered at the outset, though it may need flexibility – without an ultimate aim, institutional memory/experience accumulated can go to waste, its role as the situation transitions may be less clear and ultimately the

fund is in danger of losing its purpose. If there is an eventual aim, the transition can be planned right from the start, which is likely to make the exit more graceful (see also section J below).

E. Understanding and managing risks

What risk management principles should be considered?

"In humanitarian work you don't have time to do 4 weeks' worth of due diligence before starting a project. However, just because you are working in a fragile state doesn't mean you should be exempt from risk management. ... working in a fragile state the appetite for risk may be higher, and this should be reflected in the tools." (Interview, DFID staff)

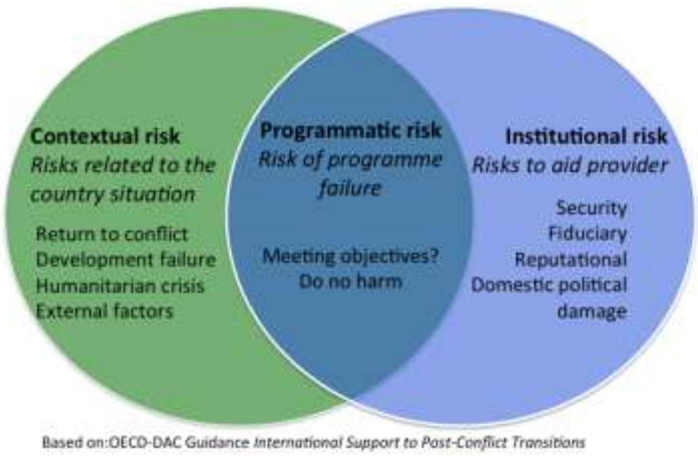
58. Discussion of risk tends to focus on fiduciary risk, in particular, the risk of corruption, and due diligence measures that can be taken. However, as noted in Part I, risk is a much broader concept than this, and donors to FCAS need to think in terms of balancing risks against each other, and in terms of better risk management rather than avoiding risks completely.

59. Recent DAC Guidance distinguishes between three types of risk in providing aid to FCAS:

1. **Contextual risk** – risk due to the country situation, generally outside the control of the international community;
2. **Institutional risk** – risk to the donor, such as reputational risk, fiduciary risk (including risk of corruption), security risk;
3. **Programmatic risk** – risk of the objectives not being met

60. These three types of risk are illustrated in the "Copenhagen circles" – see Figure 6 below. This sets programmatic risk as consisting of the overlap between contextual and institutional risk. Institutional risk, in turn, includes reputational and political risks as well as more narrow fiduciary risks.

Figure 6 Interlocking Risks



61. Risk management is based on several key concepts, the following of which are particularly salient here:

(a) **Risk is always relative.** When working in difficult environments, there is no safe option – it is a question of weighing up the relative risks of different courses of action, and putting in mitigating measures where possible. <u>Even doing nothing carries with it a risk. Thus, risk is always a relative concept – the risk of one course of action must be compared with the counterfactual.</u>

(b) **Weigh risks against opportunities.** When designing any sort of intervention or programme, the risks incurred must be weighed against the pay-off if the programme is successful.

(c) **Distinguish likelihood from severity.** Distinguish between the likelihood of a risk (the probability that it occurs) and the severity of a risk (the consequences if it occurs); compare the risk of catching a common cold (high likelihood, low severity) with the risk of contracting a rare but fatal illness (lower likelihood, higher severity).

(d) **Context affects risk.** The likelihood and severity of a risk event varies according to context; e.g. catching malaria is low likelihood and severity in some contexts, and may be high likelihood and high severity in others. Thus, risks cannot be viewed as theoretical statistical entities independent of their environment; rather, they are deeply embedded in the context they inhabit.

(e) **Who is at risk?** Consider on whom the risk falls, whether on the donor, the fund manager, the government or the intended recipients of the aid. Different entities may have different tolerances for risk.

62. Excessive aversion to risk can undermine potentially important activities and implementation modalities. Fund managers need the space and flexibility to innovate, using pilot approaches and adapting to lessons learned.

63. Consider the trade-off between fiduciary risk and risk of programmatic failure. If standards of fiduciary risk are set too high, this limits what the fund is able to do and the risk of programmatic failure can increase.

64. The level of government engagement can be a testing ground for this – it may be seen to be safer to retain tight control over the finances, but this can impede government engagement, ownership and capacity building, and thus reduces the ability of the fund to achieve these aims.

65. Where the government does not have sufficiently strong systems in place to manage the money themselves, giving the government decision-making power, even if the money remains with an external body (such as the Fund Manager) can lead to good government ownership, such as occurred with the Capacity Building Trust Fund in Southern Sudan which had high levels of government ownership even though the money was managed by UNICEF.

66. *If the donor appetite for institutional risk, particularly fiduciary risk, is set too low, the risk of programmatic failure may increase*. For instance, if the tolerance for fiduciary risk is low, then this can cause delays and even inaction. (See Box 24 in section G below for an example where this danger was successfully addressed.)

67. The following elements are worth highlighting:
- Adopting generic responses to fiduciary risk may be ineffective if it does not factor in a detailed understanding of local public financial management systems (this applies to all countries).
- Equally, risk management mechanisms that are appropriate for governments with more capacity may be much more costly (in terms of delay and programme effectiveness) in a fragile context.
- Trade-off between different types of risks is fundamental to the design of any aid instrument, therefore they need to be made explicit when a fund is established.
- This is not to say that fiduciary "risk events" (as INCAF calls them) should be covered up: those administering the pooled fund should be alert to them and should be prepared to follow up aggressively when they are discovered.

➔ See also INCAF-DAC *Aid risks in fragile and transitional contexts: Improving donor behaviour*, (OECD, 2011a)

F. Governance structure

Key messages:

- *If the Steering Committee is composed of high-powered and political individuals do not overload their role, make sure it encompasses only the high-level strategic input. Complement it with hands-on technical working groups to sort out the operational specifics.*
- *Flexibility to respond to changing context, e.g. increasing government engagement, is important. A thorough Mid Term Review, or similar, can be a convenient point to consider if structural changes are needed.*
- *The importance of a good secretariat, well-staffed and with sufficient budget, should not be underestimated.*
- *Consider the use of procurement agents, financial agents etc. to expedite delivery.*
- *Take time to build relationships with the government and other stakeholders, even when other priorities seem more important.*
- *The government may have a different vision for the fund compared with the donors (and other stakeholders). Acknowledgement of the realities of this situation may be a good platform to commence negotiations.*

What needs to be considered when structuring the fund's governance arrangements?

"One thing that really gets in the way – having too many donors, or even any, making governance decisions. That is not to say that they do not need to be happy, they do. But it's a very different thing to ask donors to provide official approval – this is very cumbersome." (Interview, former World Bank staff)

"I talked to [a government Minister] about MDTFs, he said when you have a governance structure in a trust fund which allows people to speak more broadly it is of enormous assistance to the country. Otherwise, there are as many agendas as there are donors." (Interview, World Bank staff)

68. The governance structure (see Box 20 below) should be appropriate to the situation, and remain relevant throughout the lifetime of the fund. This may mean adding layers to increase government engagement when it becomes appropriate (e.g. IRRFI) or reducing the numbers of tiers involved if they are shown to be too cumbersome (e.g. A-MDTF Zimbabwe). It is important to establish expectations at the start to ensure appropriate, sustained engagement, which otherwise often diminishes over time.

69. Make sure it is clear whom the responsibility rests with, and that they have sufficient appetite for risk to take on the job.

70. Broad stakeholder representation and transparent decision-making processes can mitigate vested interests. Inclusive processes for establishing funding priorities, such as participatory national planning, can reduce the opportunity for 'hijacking' funding priorities. Explicit and transparent governance rules and procedures ensure stakeholders know their respective role.

71. Trace the path a project takes from initial ideas to implementation and check for unnecessary loops, e.g. where a project must be approved multiple times by the same body, and potential bottlenecks, for example, the Steering Committee's role; this was a problem with the A-MDTF, Zimbabwe (see ¶78ff below).

72. If the Steering Committee is composed of high-powered and political individuals, scheduling meetings can be problematic: do not overload their role, make sure it encompasses only the high-level strategic input. Complement it with hands-on technical working groups to sort out the operational specifics.

Box 20 Main bodies within the governance structure

Steering Committee: consisting of chair & co-chair, active members & observers

Role: Can consist of strategic prioritisation, funding decision-making, strategic monitoring (it may be a high-level political forum for government, donors and fund manager to set strategic direction or have a more operational basis, i.e. actually reviewing proposals)

Chair & co-chair: e.g. the fund manager[9] and government minister or a donor. Rotating the chair may encourage broader ownership but can result in lack of continuity.

Active members: e.g. donors, government officials, possible implementing partners. Consider limiting the numbers, and review the overall composition – if government ownership is important but they only have one representative out of ten

Observers: e.g. other donors, possible implementing partners

Frequency of meetings: This could be anything from once a month or biannually. Infrequent meetings, due to e.g. political issues, or difficulties in scheduling, has a negative impact on the ability of the fund to operate (see Iraq example, ¶76 below).

Secretariat

This is usually the fund manager but may be an independent firm. Provides administrative support and day to day fund management. Where it is located, within or outside of government, should reflect the goal of the fund.

Administrative agent

The Fund Manager. Accountable manager of the funds, disburses funds and produces consolidated reports.

Technical review groups

Offers advice on technical matters. May have power to approve projects, or merely recommend them.

Procurement agent / financial agent / management agent

Specialist units to handle one specific technical matter. E.g. financial agent used in Holst Fund so that WB did not have to bear all the reputational risk when working with the Palestinian Authority in the 1990s.

What governance structures have been adopted in different cases?

73. Some examples of different governance configurations are given below.

Afghanistan Reconstruction Trust Fund (ARTF), 2002–

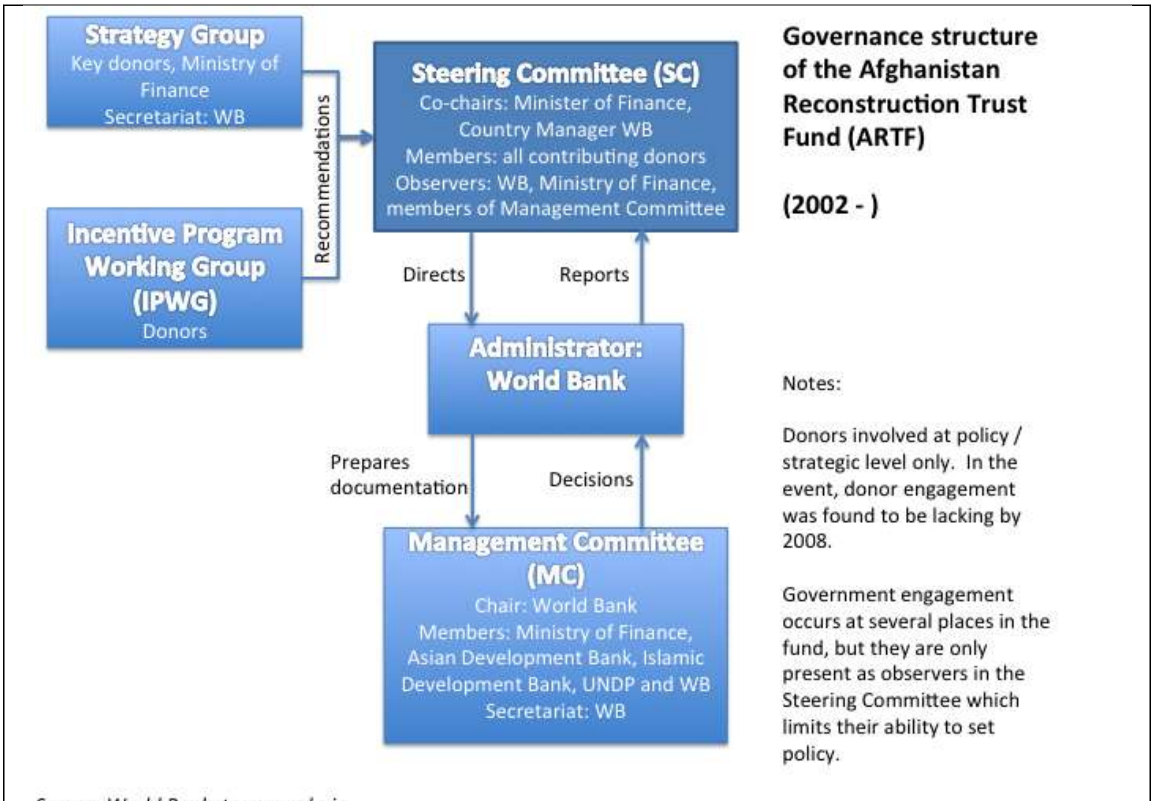
"The ARTF was very strongly owned by the Government – it had been constructed by Ministers who at the time had different ministries but were key influential leaders and were still around in Government in different positions. I always had sense that the ARTF was owned. But by the time I arrived [in 2007] there were questions about whether it was fit for purpose and needed to change with the changing times." (Interview, DFID staff)

74. The ARTF has a clear separation between strategy, which is directed by the Steering Committee, and operational decisions which are made by the Management Committee and reported back to the Steering Committee (see Figure 7 below). This may have made life easier for the Fund Manager, and helped the decision-making process to be efficient, but it in the medium term, donor engagement was found to be lacking, which has negative consequence for the fund's future.

[9] It is common practice for the fund manager/trustee (e.g. the World Bank) to be a chair or co-chair of the steering committee. But the pooled fund donors should be alive to the potential conflicts of interest that this may involve.

75. The Government was engaged in the design of the fund, but were only present as observers in the Steering Committee. This may have been appropriate at the start, when Government capacity and legitimacy was low, but perhaps should have evolved over time to allow greater direct Government engagement.

Figure 7 Governance structure of ARTF



Source: World Bank; team analysis

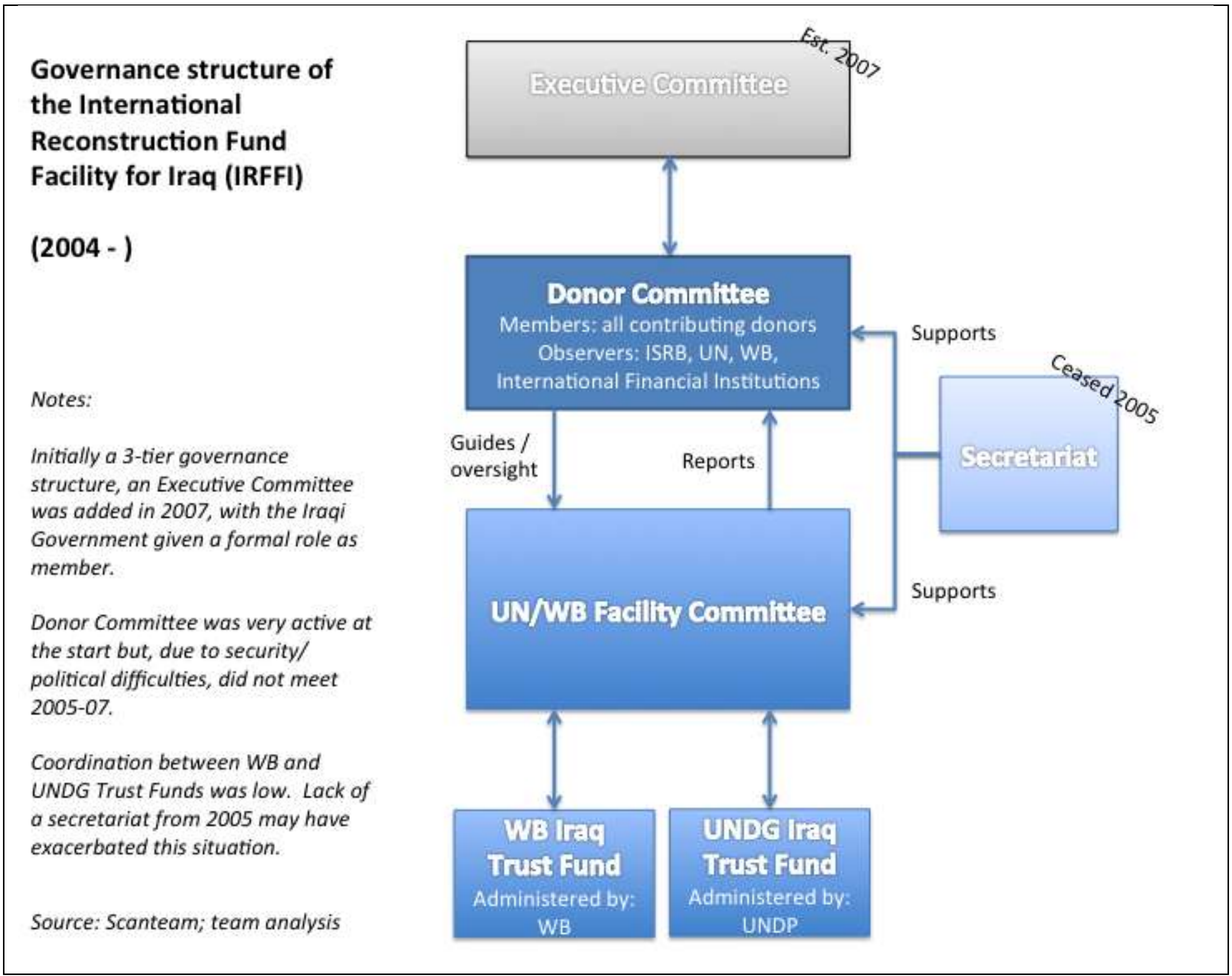
International Reconstruction Fund Facility for Iraq (IRFFI), 2004–

"In Iraq there was an attempt at the two window model taking the advantages of WB and UN – WB strengthens public sector, UN can work through NGOs directly with local communities. Idea was that the two competed for resources so money went where it was most needed, playing to relevant strengths of two organisations. But this didn't happen – they never agreed on division of labour, they both did their own thing, both going to the same donors and asking for money. The evacuation of Bagdad resulted in them never having a joint local location." (Interview, consultant)

"In Iraq, the structure was good, the idea was one of the best. But the reason it didn't work was the timing and the inability to establish a really good functioning secretariat. This would have helped with communication with client, with communication with donors and between the WB and the UNDP." (Interview, former World Bank)

76. The IRFFI (Figure 8 below) offers quite a different model with two windows: one for the World Bank focusing on economic management, public sector management and basic services, and one for the UN which covered humanitarian, peace-keeping, security and other areas the World Bank could not cover. Such a situation requires good coordination and management, but unfortunately this did not occur, with the secretariat withdrawn only a year into the fund's life.

Figure 8 Governance structure of IRFFI



77. The initial structure gave little room for the Government to be involved. However, in 2007, an Executive Committee was created to give a formal role to the Iraqi Government (elected December 2005).

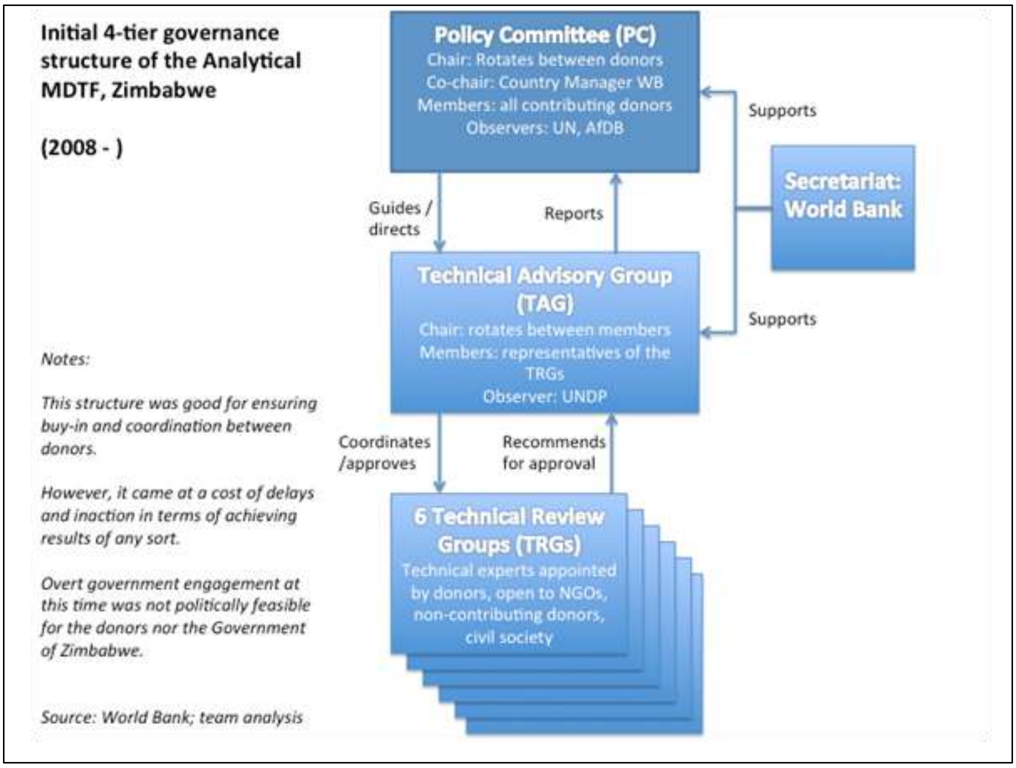
Analytical Multi-donor Trust Fund (A-MDTF), Zimbabwe, 2008–

"A-MDTF structure had a high level of involvement from donors because it was so highly political sensitive. There was a subtext: how do we justify aid to Zimbabwe when Mugabe in power, so needed a close role in implementation procedures. Working group met every two weeks, every new programme had comments, there was a high level of tinkering, extensive monitoring by donors. Made it possible for 11 donors to operate in this environment ... For other contexts, our management structure was too hands on with respect to donors, but for Zimbabwe it was necessary." (Interview, DFID staff)

"Government not engaged in design. TORs drafted in Washington DC. This was a weakness. The situation did not change after power sharing had commenced." (Interview, DFID staff)

78. The initial governance structure (Figure 9 below), which required each project to be approved twice by the Policy Committee, caused delays, even inaction, but may have helped coordination and buy-in at a time when the political environment was extremely difficult and international relations were strained.

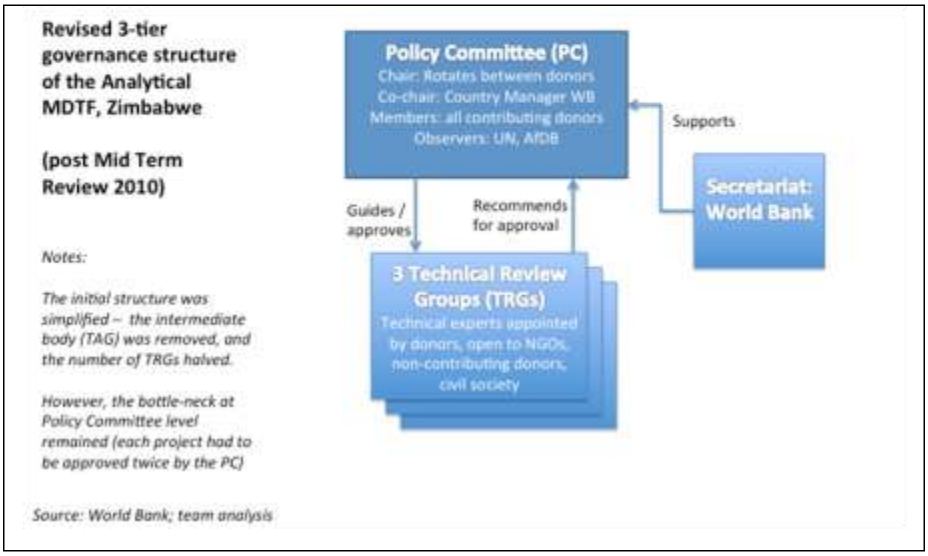
Figure 9 Initial governance structure of A-MDTF, Zimbabwe



79. Given the political context in Zimbabwe, only arms-length support of the Government was possible, both for the Western donors (domestic political considerations) and for the members of the coalition government who could not be seen to be engaging too closely with Westerners. Possibly, there is a trade off between ensuring buy-in between all the donors and swift action; on this viewing, the A-MDTF definitely went for the former.

80. The weaknesses of the initial structure were recognised in the Mid Term Review, and the structure was simplified soon after (Figure 10 below). The context had also changed by then – power-sharing had commenced, for example, which meant that relationship with the Government was possible but still difficult and it would not have be viable to formally include them.

Figure 10 Revised governance structure of A-MDTF, Zimbabwe



What are the options for government engagement?

"Pooled funds partly exist because there are concerns about government capacity and engagement." (Interview, consultant)

"These things take time – you need to take time to build relations with government – go on field trips with them, drink tea together etc, even if your agency isn't very supportive." (Interview, DFID staff)

"The more the government started to have a voice the more difficult it became to manage – their reform agenda wasn't necessarily in line with what donors wanted to fund. It did enable policy discussions, but you need to be realistic that if you want government to be engaged and to have a view it may not be in line with donors." (Interview, DFID staff)

81. Depending on the context and the goals of the fund, the degree of engagement from the government may vary a lot. At one end of the spectrum, the government leads. This is partially the case with the ARTF where, for a recurrent, smaller sums window, the government spends the money without requiring approval, and a private firm monitors the spend after it has occurred (ex-post evaluation to check the rules were being obeyed). Ethiopia's PBS is another example, where the government is the main executing agency and illustrates how a well-designed pool fund can keep open channels of communication with the government (Box 21 below). At the other end of the spectrum, some governments lack the capacity or the legitimacy to be so directly involved.

Box 21 Alignment and Government Engagement in Ethiopia

Components for the Ethiopia PBS included: funding to regional and local governments for service delivery channelled through the Ministry of Finance (Federal Block Grant); a social accountability fund (operated through a Managing Agent and implemented by NGOs. Government are involved in the oversight body); health commodities procurement (implemented by the MoH using World Bank procedures – but over time, donors have migrated to a separate Health Pooled Fund); PFM and transparency (TA implementation). The PBS framework has enabled donors to channel support to basic services through government systems while distancing themselves from the Federal Government. It has also helped strengthen decentralisation and made continued aid more politically defensible by including components on PFM and social accountability

82. The importance of taking time to build relationships with government was highlighted by a number of those interviewed. However, as suggested by the quotation above, this takes time and energy and often gets squeezed out by other 'urgent' priorities. In countries where time and effort was invested in building good relations with members of government the dividends were said to be high.

83. Where the government wishes the country to go politically and developmentally, and where the donors (and, indeed, other stakeholders) see as the direction of travel, may not completely align. Acknowledgement of the realities of this situation may be a good platform to commence negotiations. In some instances, where the government is seen as predatory to its own population for example, or lacks legitimacy, government ownership may not be possible or desirable (e.g. Zimbabwe and DRC, among others). Box 22 below shows a range of experiences in practice. However, the international OECD recommendations are clear that government ownership, and use of government systems, is best practice and thus should form part of the overall strategy of the fund, even where they cannot be implemented at the initial stages An intermediate step may be to design pooled funds in ways that provide shadow alignment with government systems.[10]

➔ See also *Working Effectively in Conflict-affected and Fragile Situations – Briefing Paper E: Aligning with Local Priorities*, (DFID, 2010a)

[10] *'Shadow alignment' is the practice of providing aid in such a way as to mirror national systems, to enable rapid conversion to 'real' alignment as soon as conditions permit*. (DFID, 2010a)

Box 22 Ensuring government buy-in

The range of fund experience in terms of government buy-in varies considerably, with knock-on effects for country ownership, efficiency of fund allocations and alignment to national priorities.

In Indonesia (Aceh Multi Donor Fund) and Liberia (Liberia Health Pooled Fund), the government was fully involved in objective setting from the outset, led the governance mechanism and participated in fund implementation, leading to strong country ownership.

In Iraq (International Reconstruction Fund Facility for Iraq) and Afghanistan (Afghanistan Reconstruction Trust Fund) by contrast, the government's initial involvement in decision-making was extremely limited, even though government was expected to be involved in implementation and the funds were intended to support national reconstruction, necessitating later revisions to the governance structures.

In Southern Sudan (Basic Services Fund), the government chaired the Steering Committee, but had no involvement in intervention planning and implementation, which was NGO-led, leading to frustration with the Fund in spite of its acknowledged role in improving service delivery coverage.

In Haiti (Haiti Reconstruction Fund), the decision to establish a separate government commission to provide guidance on Fund priorities limited the scope for dialogue amongst stakeholders on the Fund Steering Committee about effective fund utilisation.

G. Fund management

"With pooled funds, it all comes down to the management set-up, e.g. incentive structure in the WB; the hidden costs of set-up with the UN; private companies – who is best placed to deliver? NGOs – what is their real absorptive capacity?" (Interview, DFID staff)

"'Recipient execution' is the only model World Bank recognises, and this functioned badly – you need to operate only in sectors where this is possible. The government simply was not capable of this. In fragile countries you need people to sit in Ministries and hand-hold and even implement at the beginning. World Bank leadership was too hands off." (Interview, DFID staff)

Key messages:

- *Choosing the appropriate fund manager for the fund, and ensuring that they deploy adequate staff in-country in a timely manner is crucial.*
- *Flexibility of the fund manager to respond to the local context, adapting procedures where needed, is also important.*
- *Donors need to do more to make their funds predictable, so that pooled funds (and governments) can plan ahead.*
- *Earmarking a donor's funds to specific uses within a pooled funding arrangement should be avoided as much as possible.*

What makes a good fund manager?

"The importance of having a Fund Manager who has a good understanding of the country and has relationships on the ground. Contrast the BSF in Southern Sudan which was managed by a commercial company who had a history of working in the country and had already developed relationships there, with the UN Common Humanitarian Fund, which was managed by the Finance Manager in Khartoum and although they had field people in Southern Sudan, Finance could overrule them." (Interview, consultant)

"People do matter. You can't water down the whole system in case you have someone weak – you just shouldn't employ someone weak in the role." (Interview, former UN staff)

84. Leadership is a key factor, preferably backed up by good quality staff. In the Common Humanitarian Funds in both DRC and CAR, the presence of a good leader was noted, and their absence was felt when they left.

85. Context understanding and established relationships are also important. Evidently, this may narrow the field of potential fund managers considerably, so it is something to be fed into the equation rather than absolutely required. Perhaps a stronger requirement is the ability to place a sufficient number of quality people in the field to see and respond to the situation and who can build relationships with the government, with the implementing agents, with donors and with other stakeholders. Similarly, the ability of the fund manager to adapt its systems and procedures, such as procurement, financial management etc, to the country context is vital.

86. Remote management, and management directed from an HQ (situated outside of the country) is frequently problematic due to insufficient understanding of the context on the ground. This is particularly the case where there is inadequate staff in-country, who might otherwise be able to mitigate the issues. Compare WB-run funds, ARTF and MDTF-SS, both of which to some extent were "run" from Washington DC, but while the ARTF was strongly staffed in-country, the MDTF-SS was not, and thus suffered more from the effects of remote management.

What are the different options for fund management?

87. The main options for fund managers (pooled fund trustees) are the UN, the WB, the government itself, international NGOs, private firms, or a donor (delegated cooperation). Some pointers are given below, but often the key difference lies within the personal capacities of those actually in charge, rather than the organisation they are working for (although, an institutional culture can develop that outlives individuals). As ever, the context, the goals and objectives of the fund, and the underlying motivations of the organisation should be considered. For example, in a high profile situation the organisation may be more likely to staff the fund with high quality people and to ensure they have appropriate back-up.

88. The choice of the fund manager influences who the main implementing agents are likely to be. For example, UN-managed funds tend to use UN agencies to implement, alongside NGOs; NGO-run funds tend to use NGOs. World Bank-run funds used to have a reputation for securing funding for World Bank-led projects, but more recently they have been explicitly banned from doing so (e.g. in Afghanistan) to avoid conflicts of interest. Certainly, where the fund manager and the implementing agencies are closely aligned, the possible efficiencies of this situation (e.g. better mutual understanding and communications, consistent reporting procedures etc.) may be weighed against the lack of neutrality this may engender.

89. Table 4 below provides a summary of the general strengths and weaknesses of different fund managers.

Table 4 Strengths and Weaknesses of Different Fund Managers

Fund Manager	Strengths	Weaknesses	Context
World Bank	• Robust systems • Scalability • Lower cost and sustainability	• Less accountability • Less flexible • Less responsive • Less country ownership	Best suited to development contexts with a legitimate government but without unmet humanitarian needs.
United Nations	• Robust systems • Increased independence	• Less accountability • Less country ownership • Cost and sustainability	Best suited to large-scale humanitarian and development contexts lacking government legitimacy.
Government	• Increased country ownership • Increased accountability • Increased alignment • Lower cost and sustainability	• Potential capacity constraints • Increased politicisation • Less donor control	Requires sustained, strong political leadership and commitment.
Private Company	• Flexible systems • Increased accountability • Increased responsiveness	• Cost and sustainability • Less country ownership	Best suited to non-humanitarian contexts requiring increased flexibility and accountability.
Non-Governmental Organisations	• Increased responsiveness • Increased independence	• Less knowledge of country systems • Less country ownership • High cost and sustainability	Best suited to conflict-affected, humanitarian contexts requiring responsiveness and independence.
Donor (Delegated Cooperation)	• Increased harmonisation • Reduced transaction cost • Greater donor control	• Less country ownership • Less accountability • Less sustainability	Often used when there is limited in-country donor presence, but requires a strong and willing lead donor.

We're considering the World Bank as fund manager – what do we need to be aware of?

"The World Bank are so good at fiduciary risk that they are unable to spend any money." (Interview, consultant)

"Risk management [at the World Bank] is centralised and quite opaque. DFID should take some responsibility here: we have been pushing for quite a conservative approach – emphasis on due diligence, which makes us more cautious. But how much is our lack of appetite for risk causing delays, and how much risk could we tolerate?" (Interview, DFID staff)

"When it comes to World Bank administration of trust funds the donors are schizophrenic. On one hand they like the WB procedures and the capacity of the Bank to manage money in risky environments. On the other, they complain when the application of these procedures in all their glory slows down programme implementation... In practice the WB can do anything that does not violate its constitution, its Articles of Agreement, which are very flexibly worded." (Email, former WB staff)

"World Bank management – there were issues but I am not sure who else could have done it better. Managing different donor expectations, needs and approaches is very difficult." (Interview, DFID)

90. The World Bank (WB) has a good name and an excellent reputation when it comes to dealing with fiduciary risk. In some cases, they have allowed the latter to take priority over achieving programme goals (in risk terms: by being too cautious with fiduciary risk they increase the likelihood of programmatic failure – see section E above). In their defence, if the donors demand high fiduciary

standards then it is outside of their remit to challenge this – therefore, donors should negotiate the standards required and recognise the trade-off between different types of risk.

91. The WB is run out of Washington D.C. and in-country employees are answerable to the HQ. This means that there is sometimes a disconnect between what the country office promises and what the institution is prepared to deliver; this proved problematic for the A-MDTF, Zimbabwe, which had an extremely poor disbursement rate over its first years (see Box 23 below).

Box 23 Problems with the A-MDTF, Zimbabwe

Disconnect between local offices and H.Q. – *The World Bank (WB) "is not a homogenous institution and what WB Harare says it can/ will do is not necessarily what it can achieve unless relevant parts of the WB in Washington [D.C.] and the regional office in Mozambique also agree and support through the deployment of internal resources. This was not well understood initially either by donors in Zimbabwe or even by the WB MDTF team in Harare and there were a lot of commitments made that could not be delivered during the first 12 months."*

Lack of flexibility – *"WB ability/ willingness to develop local solutions was limited and there were strong internal incentives to use WB instruments rather than a tailored concept suitable to our current needs." This was, in the end, the reason why the A-MDTF failed in its primary objective of establishing a WB-run programmatic MDTF.*

Administrative hurdles – *Before funds could be disbursed, a nominated WB task team leader (TTL), based in Harare or D.C. had to be found and a notional budget assigned. This was not well-understood by donors or even by the in-country WB employee and caused significant delays: for some thematic groups, it took more than 18 months to assign a TTL and there were further delays while budgets were negotiated. "In other words, the lack of WB based TTLs paralysed the MDTF even though there was sufficient funding… The Washington based part of the WB did not feel (apparently) any sense of obligation in response to Harare's requests for support. This was apparently because the WB's official position in Zimbabwe was one of not lending and they were concerned about sending signals that indicated greater engagement than was intended."*

Technical quality – *"Despite repeated requests from numerous bilaterals, there has been a long wait for more senior technical leadership to be posted in country… Many of the staff newly recruited for WB work on the MDTF are too busy with other country responsibilities to provide even modest inputs so again this compounds the lack of coherent WB input and leadership."*

(Sources: internal papers from DFID)

92. WB is rule-bound, but there tends to be ways round the rules when funds are needed urgently – see Box 24 below – "*We managed to bulldoze a way through the operational manual"* (former WB staff); however, WB employees are not always aware of these exceptions, so the ability to take advantage of them may depend on having competent people in charge, or applying sufficient pressure at a high-level.

93. Despite their international mandate, the World Bank *"is a Bank"*. It is thus interested in granting loans and managing its own portfolio, and its internal management and incentive structure is based on this.

94. In countries where the WB is not engaged, placing them as a funding manager of a pooled fund has been seen as a way of bringing them in to engage with the country. However, this has not generally been successful, since WB employees are not motivated to work in countries where the bank is not lending (examples: A-MDTF Zimbabwe, MDTF-Southern Sudan), though the Holst Fund in WBG is a counter-example in this regard, perhaps because it was a high-profile, highly politicised case.

Box 24 Taking risks – the Afghanistan Reconstruction Trust Fund (ARTF)

Willingness to take risks *– In Afghanistan, the "danger of being so obsessed with fiduciary risk you don't get development done" was recognised and an attempt to strike the right balance was made. This was attributed to the fact that "Afghanistan was of such geo-political significance to so many of the WB Board. Within the WB it has to be careful of its reputation on risk and so it requires those running the fund to take decisions and this requires much management support – this wasn't there in the cases of Zimbabwe and Sudan."*

Unique solutions tailored to the situation *– When it became obvious that the Government was not able to pay salaries, the ARTF took on this role with the creation of a recurrent cost window. For this window, rather than first verifying the Government's request for funding and then approving it, the government spending was approved after it had occurred, which speeded up the process. In effect, the WB said to the Government: "you spend the money on recurrent costs and then we will do ex-post evaluation to check you followed your own procedures. We employed a monitoring agent who did risk based sampling and checked rules were followed. The Government were paying out from very little money and so had massive a incentive to follow rules."*

Flexibility *– Since the consequences of failure for the donors were high, this allowed "high levels of recurrent expenditures which were ineligible for financing and the Bank to agree special operating procedures which included using the policies tailored to natural disasters as the norm for more than 10 years. We also had a strong team managing ARTF for most (but not all) of the time and high levels of Bank management oversight."*

The advantages of being a single large fund *–Reduced transaction costs to the government and budget rigidities: "In the case of ARTF we were able to shift funds among ministries, sectors and programs depending on their relative performance and avoided having large uncommitted or unspendable balances."*

(Source: interviews & email correspondence)

95. More so than with other funds, funds managed by the World Bank appear to fall into two categories – very good or terrible, and this largely appears to be dependent on having sufficient quality people involved in-country with sufficient resources at their disposal including support from HQ. Thus, it may be better to use the World Bank only in cases where the incentive structure aligns to deliver sufficient quality of resources, and/or where there is significant international attention on the fund to motivate the WB to perform.

We're considering the United Nations as the fund manager – what do we need to be aware of?

"With the UN Humanitarian PF in DRC, the focus quickly becomes about bureaucracy and process – discussion is fixated on this, which limits the overall impact of the fund. If you are trying to plan widespread coverage on WASH in DRC, you end up focusing on windows and regulations rather than the real obstacles." (Interview, former UN staff)

"UNDP are not used to funding humanitarian projects and so their systems are not set up for this." (Interview)

"*I was worried about the speed of UNDP – but I felt it was better to be working with them on the ground rather than sending requests to Geneva (I know what it's like there) – so we put pressure on UNDP and combined the OCHA/UNDP unit to make it more efficient. UNDP has changed its own rules on dealing with some of this stuff – e.g. before every NGO that was getting a grant (even if $50,000 per year) had to do an audit for each project they did, which meant some were getting 10 audits per year, as each UN agency also needed a separate audit. The new system of Accelerated Cash Transfers meant that each NGO would have one audit for all agencies per year."* (Interview, former UN staff).

"[Working with CHFs were…] great for OCHA to understand that humanitarian work is not just about coordination – makes them more hands on. Gives them responsibility for funding and for reporting for what money has been spent on – this gives OCHA a new perspective and new learning." (Interview, UN staff)

"OCHA had a very good pooled fund unit, it was under-staffed, but very engaged – they travelled a lot to field to visit clusters and tried to be as transparent as possible." (Interview, consultant).

"I would say, they [donors] come in with a nice theory, they think they can change around everything [in the UN] because they are a donor – but these institutions are like elephants! They don't change quickly." (UN staff member).

96. The UN may be the natural choice in a humanitarian situation where UN agencies are the main implementers, though this may lead to a possible conflict of interest.

97. The UN is often presented as a monolithic entity but in fact it is composed of a multiplicity of funds, programmes and agencies, each with their own mandates, each potentially answerable to different headquarters (main HQs are NYC, Geneva and Vienna, and each region has its own HQ in addition to that).

98. The main UN entities to consider for fund management are:

- The United Nations Development Programme (UNDP) – the most experienced at managing funds, but criticised for being too slow for humanitarian situations (which fall outside their remit) – see Box 25 below.
- The Office for the Coordination of Humanitarian Affairs (OCHA) – generally said to be understaffed in-country, but has been gaining experience in the field through its involvement with the Common Humanitarian Funds.

Both these agencies may be involved in complementary capacities. UNICEF is another potential fund manager.

Box 25 UNDP modalities

"UNDP arranges for its support to projects or programmes to be provided in one of four ways:

(1) National Execution (NEX) - this refers to management by a government entity[11]

(2) Execution by other United Nations Agency

(3) Execution by Non-Governmental Organisation

(4) Direct Execution (DEX) - this refers to cases where management is by UNDP itself

The DEX modality is permitted only in exceptional circumstances where the national Government does not have the capacity to manage and implement programmes."

(Source: UNDP website)

99. Consider also who monitors the fund manager in these situations. For example, the pooled fund for Humanitarian Assistance to the DRC was managed by the Humanitarian Coordinator (OCHA), but the UNDP acted as Administrative Agent. OCHA could not monitor the work of the UNDP as it was outside their remit – it was up to donors to monitor the UNDP, and it is not clear that this occurred. Similarly, implementing UN agencies often monitor themselves, with no external verification – this is clearly not best practice.

100. Selecting the UN entails working with the cluster system (see Box 26 below) which brings with it its own set of advantages and disadvantages. The cluster system is designed to encourage better coordination between people working in similar sectors by bringing them together in "cluster meetings" where funding decisions are made. People interviewed who were involved with the cluster system agreed that it can provide a useful forum for workers from different entities (UN, government, INGOs and NGOs) to meet and talk face to face. However, they criticised it for being time-consuming, sometimes badly chaired (the chairperson is often a volunteer and may not have sufficient time to devote to the role; in addition, the chair may be concerned about securing funding for their agency, which can lead to a conflict of interest), and dominated by the UN agencies and major international organisations, and potentially excluding local organisations that do not have a representative in the capital city where the meetings occur.

Box 26 The UN cluster system

"Clusters are groups of humanitarian organizations (UN and non-UN) working in the main sectors of humanitarian action, e.g. shelter and health. They are created when clear humanitarian needs exist within a sector, when there are numerous actors within sectors and when national authorities need coordination support.

Clusters provide a clear point of contact and are accountable for adequate and appropriate humanitarian assistance. Clusters create partnerships between international humanitarian actors, national and local authorities, and civil society."

(Source: OCHA website)

101. The UN is seen as expensive and its fee structure is not always straightforward, though this can cut both ways. For example, with the PA-UN Trust Fund in West Bank & Gaza, administration cost could not exceed 8% + 1% UN management fee, i.e. 9% total, which compared favourably with directly contracting with UNRWA (fee of 12%), even though UNRWA still carried out the work (only one project has been carried out so far, and that was done by the UNRWA). The reason given for this saving was that UNSCO provided the secretariat support "for free".

[11] Note: even NEX does not involve using country systems, but requires a government agency to follow separate UN systems.

Is having the World Bank and UN together the best of both worlds?

102. This has only been tried out in Iraq, which was not particularly successful but perhaps due to other factors (e.g. the relocation from Baghdad and the lack of a functioning secretariat to coordinate, variable donor engagement, alongside a difficult security situation). Clearly, coordination can be an issue, and the incentive structures and operating procedures are quite different which could be problematic. A stocktaking review recommended that future 'two window' MDTFs should be based on:

> " - A coherent effort at the institutional level to define the respective contributions of the World Bank and the United Nations, and how these can be coordinated within an MDTF operational structure; and
>
> - Oversight from donors and Government, ensuring that their operationalisation is demand-driven." (Scanteam, 2009a)

We're considering having the government as the fund manager – what do we need to be aware of?

103. Where viable, this would seem to be the option most in line with the principles of the Paris Declaration and the New Deal. A thorough context analysis, including consideration on political dimensions, with particular reference to the legitimacy of the government and public policy format, would help inform whether this is an option.

104. Consider the amount of assistance the government needs to perform this role and how this is to be provided. Often the government's capacity is over-estimated. One option is for the government to contract firms (or other outside organisations) to perform specific functions under government authority. Financial controls are also a concern and would need to be handled with care.

105. Other considerations include the fund's relationship with the rest of the governmental structure, exit strategy and potential unintended consequences. In Yemen, for instance, the Social Fund for Development (SFD) was designed as an independent parastatal organisation, which was not subject to the usual civil service employment rules, including pay-scales, and thus was able to recruit competitively and pay a premium for good staff. The resulting fund has been successful at delivery of results and capacity building, particularly at a local level, but, lacking an exit strategy, it is unclear whether it is meant to have a finite life-span or to become a permanent feature of the aid landscape. Also, since it pays more highly, it has attracted the best staff, potentially at the expense of the national civil service; however, since the World Bank, the UN, INGOs and even donors are just as capable of poaching the best national staff, this criticism seems misplaced – at least this way they are more likely to remain in the country.

We're considering hiring a private firm as the fund manager – what do we need to be aware of?

106. Good contractual design is key here. A firm is answerable to this, and can be fired if it does not perform to agreed standards (which is an advantage they have over most other fund managers). Good monitoring and evaluation to check the firm is performing is useful here as they can be held to account more easily than, for example, the UN. For example, the performance of Liberia's Health Sector Pool Fund, managed by a private firm, was initially poorly monitored, and the quality of the fund management declined; however, once a new set of assessment criteria were established, and M&E was undertaken by an independent assessor, their performance improved.

107. Private firms are particularly useful where speed and responsiveness are important: their systems tend to be less burdened by bureaucracy, and they may have greater ability to tailor the procedures to the context rather than having to work within rigid government or multilateral procedures.

108. As with other fund managers, check capacity on the ground, knowledge of the region and relationships established. Do not assume that a large international corporate is necessarily better or more reliable than a smaller firm – the former may have trouble deploying its top flight staff to locations with few amenities (and its international branding does not necessarily guarantee consistent outputs and standards across territories); the latter may be more dedicated and cannot coast on its reputation.

We're considering having an international NGO as the fund manager – what do we need to be aware of?

109. International NGOs often already have an established presence at field level, and tend to be motivated to deliver results fast, which can be useful for humanitarian situations requiring a rapid response.

110. However, they also have a reputation for patchy coverage and lack of engagement with government and national-level partners. The pooled fund can become a case of "NGO proposes, funder disposes", where the funding is placed where the NGOs view the need to be greatest, rather than taking a strategic view or engaging with national stakeholders to discern priorities.

111. The Mercy Corps-led Joint Initiative in Zimbabwe is an example of this, which did well in terms of service delivery in a humanitarian context, but was less successful in building capacity and, perhaps as it was set up in response to government-sponsored violence against (opposition-supporting) urban-dwellers, did not attempt to engage with the government even after power-sharing commenced.

We're considering being the fund manager ourselves – what do we need to be aware of?

112. Delegated cooperation, where one donor signs agreements with other donors to manage execution of their money is another model to consider. For example, the new Health Pooled Fund in South Sudan is being run by DFID, but with a private firm to provide the secretariat, manage expenditure, reporting and fiduciary risk, in order to reduce the burden on DFID's country team. The government chairs the steering committee and the contracted private firm is required to work closely with government in implementation.

113. This can be a good option if you want to maintain close control over funds, but it is time-consuming, and there may be political considerations to take into account.

What should be considered when designing the financial management and procurement structure?

"Put in place controls which are credible in their own right, which are acceptable to donors (which is not the same thing), and which have a pedagogic value to the government – teaching them that there is value in not stealing money." (Interview, former World Bank staff)

114. The decision over which systems (procurement, financial management, etc.) to use should reflect the objectives of the fund, especially capacity building versus service delivery. If the context calls for swift, flexible funding, the fund manager's procedures must be able to respond. Conversely, if the priority is strengthening public confidence and capacity building, but timeliness is less critical, the robustness of procurement systems and public sector knowledge may be the prevailing priority.

115. Predictability is an area where donor performance has been chronically weak (including a poor response to the Paris Declaration commitments on predictability – see Lister and Carter 2011). Donors

in practice have been very bad at providing the forward commitments that can enable pooled funds (and recipient governments) to plan strategically (see Box 27 below for a positive example from Nepal).

Box 27 Making funds more predictable

In Nepal, one role was bringing financial predictability. The NPTF essentially sought to provide funding to facilitate the peace process. In order to do this successfully money had to be available when it was needed (unpredictably), this can be difficult for donors. So a mechanism was built into the NPTF to deal with the need for donors to release funds – there is a 2 tier funding process. First donor money goes into foreign currency account at central bank but government cannot use it. The funds can only be used when donors release those tranches to the government. Thus money is released in advance by donors (depending upon fiduciary requirements and project design). And internally for the donors as soon as it goes into the bank it is spent. But based on the Secretariat's assessment of the context and the government meeting pre-determined conditions, the Secretariat can still delay the process for further discussion and review.

116. A holding account is common for multiple reasons, especially risk management in the use of country systems. With a holding account, the bulk of funds can be managed with less risk than if they are held in the checking account of a government line ministry that is often under political pressure to pay for things it can't afford. But a holding account does not increase predictability beyond the short term. Ultimately, real predictability is established by signed, multi-year commitments to the fund. Most donors cannot transfer funds more than one year at a time, but the signed, multi-year commitment allows for lengthy planning and procurement processes to go ahead based upon committed funding. It is fairly standard procedure for donors to disburse into an international holding account managed by the fund administrator or trustee, and for funds only to be drawn down to a local (implementation) account when interventions are agreed. A major problem in the MDTF-SS was the large amounts of money sitting for long periods of time in the holding account, earning interest for the administrator (WB), due to the time taken to develop & approve projects

117. The flexibility and efficiency of many funds is undermined by donors (formally or informally) earmarking their contributions for a specific sub-set of its activities. Such earmarking should be minimised (and donors who avoid earmarking may mitigate the overall effects of this practice). Earmarking is often driven by an agency's desire to claim credit (often spuriously) for particular visible results. The pool fund's strategy for M&E, reporting and communication should seek to provide credible information on performance that reduces the temptation for donors to earmark their contributions. The degree of earmarking of a fund's disbursements to government bodies also needs to be carefully calibrated so as to encourage ownership and efficiency. Earmarking pooled funds constrains decision-making space, which is priceless in a context usually dominated by earmarked project funding. Earmarking is less of a problem if the sector or the fund has a clearly define set of priorities and the earmarking aligns with this prioritisation (e.g. earmarking funds for drug procurement in the health sector is potentially less detrimental than earmarking to build a 'white elephant' hospital).

118. For many pool funds, procurement has proved a major bottleneck, often with difficulties that could have been anticipated. The procurement bottleneck is not limited to pooled funds. It is usually a symptom of trying to deploy a development instrument in a humanitarian or transitional context. If it is not an emergency, robust procurement practices are in the public's interest.

H. Intervention design and implementation

Key message

- *With exceptions, it is good to involve the Government for reasons of sustainability, legitimacy and state-building. However, that does not necessarily mean that they need to implement themselves, but if it can be seen as emanating from them (e.g. via outsourcing), then that can be a good solution*

How to decide priorities?

119. The fund's goals and objectives, considered in the light of the context, should guide the priorities.

120. Consider who should be involved in the decision-making process: e.g. government (if they have sufficient capacity and their involvement is indicated), donors, civil society representatives, possible implementing agents such as NGOs, UN agencies, private firms (who may have useful inputs into viable design issues). Consider who should lead, who should have a vote, and who is present merely as an observer.

121. Bottom-up, demand-driven, is generally better at meeting local needs. Top-down, supply (or donor) driven, may be less likely to be sustainable or responsive. However, an overarching strategy is more possible with this approach.

Box 28 Supply or demand driven?

In Central African Republic, projects under the Common Humanitarian Fund have tended to be supply-driven, based on the proposals of implementing agencies, rather than guided by an overall needs analysis. Likewise, in Pakistan, the Emergency Response Fund's ability to prioritise has been affected by limited information on humanitarian needs in conflict-affected areas country-wide.

By contrast, in Yemen, the Social Fund for Development has a demonstrated track record in monitoring interventions to the level of outcomes, evaluating the sustainability of interventions ex-post and feeding back monitoring data into its funding allocation system. This, however, is an exception.

122. Where government involvement is possible, it is important to ensure that it is central rather than contingent to the planning approach. Planning processes are time consuming but can be a highly effective way of increasing participation, transparency, and country ownership. However, this is not always straightforward. When the IRFFI was being established there was a transitional government in place but with limited capacity following years of dictatorship, war and sanctions. The design of the IRFFI was based on certain assumptions about the Government of Iraq, e.g. that it would stabilise, build consensus on recovery and start to take a leadership role in the IRFFI. When instead security worsened and government capacity dropped, the IRFFI struggled. This lack of government input resulted in a feeling from some Iraqi officials that the IRFFI's strategy and priorities were more in line with donors' mandates and interests than those of the Iraqi people.

Which service delivery modality is most appropriate and who should sign the contracts?

123. Implementation modalities should reflect the context and be able to adapt to changing needs over time. It is important not to "lock in" a humanitarian mode of functioning, for example.

124. In some circumstances, the level of unmet human need and/or a lack of government legitimacy, may justify independently provided services, in other circumstances this may not be justified.

125. Establish clear lines of contractual accountability, from the fund manager to fund recipient, for the use of resources and achievement of results.

126. In some contexts where the government is not the fund manager or a contract signatory, it may be appropriate for government to set policy, standards, and be involved in monitoring and evaluation.

Who is best to implement the projects?

127. Options include:

(a) **Government (local or national)** – where appropriate and possible, depending on the context, this can be the best and most sustainable option, but in the short term other implementing agents may be needed.

(b) **UN agencies** – useful in humanitarian situations and likely to have a good presence on the ground; tend to be seen as accountable only to themselves (e.g. they perform their own M&E), not good at government engagement or building capacity, bureaucratic.

(c) **International NGOs** – often have an established field presence though coverage may be patchy; may have their own priorities; not generally good for capacity building, often stick to a humanitarian model of intervention when a more sustainable approach may be appropriate.

(d) **Local NGOs –** good for country ownership and building capacity (in themselves); can be time-consuming to assess organisation's capacity, they often have limited capacity for absorbing funds and can have difficulties scaling up – they should not be pushed too fast or there is a risk of adverse consequences (e.g. meltdown / corruption); can end up funding lots of small projects and the administrative cost to the pooled fund of doing this is proportionately greater. CHFs in DRC and CAR both used local NGOs.

(e) **Private firms** – can be useful where technical expertise, particularly financial, is required, for example, payroll; international firms may operate on a 'franchise' model so what you receive in a distant outpost may not be up to the standards that you would expect from their name; are generally fast and can be held accountable, providing the contract is well-designed.

(f) **Faith-based organisations**, e.g. churches – can have reach, coverage and human resources, and are often viewed highly by the recipients (populations of FCAS, with a few exceptions, tend to be highly religious). Context and the aims of the entity must be carefully considered, with particular reference to the political dimensions, and their relationship with other religious organisations present in the country (religious differences often play a role in conflict), while on a more operational level, the aims of some programmes may not mesh with the aims of the religions organisation (e.g. supporting family planning and reproductive health interventions may be problematic).

➔ See also *Handbook on Contracting Out Government Functions and Services in Post-Conflict and Fragile Situations*, Partnership for Democratic Governance, (OECD, 2010e)

How to design an intervention so that it is sustainable?

"Billions of dollars have been spent on infrastructure but no one has thought about maintaining them." (Interview, DFID staff)

128. Service delivery should, eventually, fall under the jurisdiction of the state; therefore, building up the capacity of local staff and of the government itself is key to sustainability. Thus, check that the range of potential recipients are given due consideration: government – central and local, public sector more generally – health workers, teachers and WASH workers, the role of civil society and local NGOs who may be able to assist in these sectors, as well as the diaspora. Similarly, consider the range of interventions – training, learning by doing, embedding technical assistance to "handhold" rather than replace nationals, and giving responsibility when ready.

129. Also, consider to whom the implementers are held accountable – the donors, the fund manager or the government.

How much should the government be involved in delivering services? Does it compromise state-building to have an NGO deliver services?

"There needs to be a balance between the need to deliver services against building capacity, and some prioritisation and sequencing. Studies suggest that citizens in Southern Sudan didn't care about who provided services as long as they were provided. There is no evidence that state provision of basic services is prerequisite to peace- building." (Interview, consultant)

"Visibility is important – who is seen to be delivering the services. No-one views improved services as a peace dividend if they just see some NGOs digging more wells, as they have done before." (Interview, consultant)

130. This is controversial, as the quotations, which are both talking about the situation in Southern Sudan, suggest. It may depend in part on sector and on government's wider profile.

131. A recent study commissioned by DFID, suggests that where the government has limited capacity, it is better for the state to outsource delivery entirely; as capacity improves, the state can provide oversight; the role of the state in coordinating and regulating the service delivery is more important, in terms of state legitimacy, than the question of who delivers.

➔ See *Synthesis Research Report: State-Building, Peace-Building and Service Delivery in Fragile and Conlict-Affected States*, (Ndaruhutse, 2012); also *Handbook on Contracting Out Government Functions and Services in Post-Conflict and Fragile Situations*, Partnership for Democratic Governance, (OECD, 2010e).

I. Managing the fund / results

Key messages

- *Donors need to stay engaged; ensuring that monitoring occurs may be an important role.*
- *M&E should check actual results not merely disbursement.*
- *Independent M&E is best practice.*

Once the fund is up and running, what is my role as a donor?

"You must be prepared to get your hands dirty, you must get involved and help. Don't just sit there and occasionally throw in advice. Donors need to be quite active – whether that's you or you buy in help. It won't happen by magic." (Interview, DFID staff)

"For the Afghanistan Reconstruction Trust Fund we established that the donors' role was strategy, accountability and policy. They would not have a role in day-to-day management of the TF or in the selection of individual projects… We would report on what we were funding, policies on overall management, and they would feed back. We kept the donors out of the kitchen. But if there was a problem in a sector we would expect their help in sorting things out." (Interview, World Bank staff)

132. Contributions to pooled funds are not grants which can be signed off and forgotten; the donor needs to stay involved and engage to help form consensus.

133. The optimal amount of donor engagement depends on the size of the fund and its political sensitivities. Large funds, with a large number of donors, may prefer to keep donors at a distance, only bringing them in times of crisis, e.g. the ARTF, while smaller funds may welcome and indeed require a much more hands on approach, e.g. the CHF in DRC.

134. Monitoring is an important role for donors. If the pooled fund is not performing, the donor should report this higher up – they may be the only partly in a position to do this (or to contract it out for an independent view).

What considerations should be taken into account when designing the monitoring and evaluation systems?

"M&E is very important. Pooled funds often just audit, ask you to fill in a monitoring form and that's it. That's not real monitoring. Monitoring must be done at field level – to check results, to motivate local staff to perform better (it builds their credit and self-esteem), and this also builds trust between us and the donors" (Interview, International NGO worker)

"Clearly when [a fund has] 11 donors, you risk having 11 M&E systems. Early agreement on which system [will be used] would be useful, and it should not necessarily be delegated to the World Bank. For example, each donor could take it in turns – there's a degree of diffidence in having WB carrying out evaluation, fear of internal stitch-up." (Interview, DFID Staff)

135. Real monitoring and evaluation is expensive – donors are reluctant to fund this, it is not seen as a priority. An auditing approach to evaluation may tick the right 'due diligence' boxes but is unlikely to result in improvements to the programmes. If the programmes are ineffective and there are ways to alter them, it is a false economy not to put sufficient funds into monitoring and evaluating, providing the results feed back into the programme (M&E which has no impact does not represent value for money).

136. It is important to think about M&E from the design phase of a pooled fund as it may affect your choice of fund manager, or the way in which you design the fund. In the DRC, the UN did not have security access to monitor a number of the places where the CHF was implementing. Security conditions, and the ability to monitor implementation remotely should be considered from the start.

137. Recognise the rationale behind the desire to show success in these evaluations. Showing failure can have negative consequences beyond the programme (e.g. a negative media campaign about rape in relief camps in Haiti led to pressure on the donors to withdraw support which makes the situation worse for everyone); giving constructive criticism that raises the game / improves the situation is difficult. For this reason, it may be worth considering the trade-off between transparency (how public the report is) and honesty. If an evaluation is only able to return a positive result, this limits its ability to feed back useful material.

Box 29 Data matters

The availability of quality data is a significant challenge in many fragile and conflict-affected environments, affecting the ability of interventions to be targeted in an effective and sustainable way, according to need.

In most pooled funds, insufficient attention has been paid to the role of monitoring and evaluation. Monitoring is often limited to the level of outputs, and in many cases, particularly for UN-managed funds, implementing agencies are left to monitor their own interventions and report back to the Fund Manager, with little or no external verification of their findings.

Some funds, including a number managed by the World Bank, have hired independent monitoring agents to keep track of project implementation, but their focus has tended to be on outputs rather than results. Even when information is available, the ability of a Fund to respond to it effectively can be impeded by weaknesses in the design of its governance structure, as was the case in the Multi-Donor Trust Fund for Southern Sudan, which only had an oversight body constituted at political level, without a supporting technical body underneath it.

138. Standard monitoring and reporting systems are needed and should be agreed at the outset. Lack of data can be a serious issue (see Box 29 above). Start with the data available to establish baselines and evolve as the data systems improve, rather than designing an ideal system which can never be used. If possible, avoid selecting indicators that require establishing new or parallel information systems in order to monitor progress. Limit the number of indicators to what is essential to monitor – if the information will not be used, there is no point in collecting it.

139. When choosing the indicators of success, beware of the danger of perverse incentives. Qualitative assessment in addition to quantitative measures may be helpful here.

140. To re-iterate: M&E should measure real outcomes, not merely check that funds have been disbursed.

141. When the context permits, use of national or sub-national information systems can reinforce country ownership, accountability, and sustainability. Therefore, investment in improving country information systems is preferable to establishing new ones.

142. Assessments should be made regularly, ideally continuously, perhaps combined with periodic independent reviews. M&E as well as being costly is also time-consuming – creating work for people who are already over-stretched. Therefore process of continual review should not be too onerous. Having independent assessors can also help in this regard.

➔ See *How to Note: Results in Fragile and Conflict-Affected States and Situations* (DFID, 2012c).

Troubleshooting: the fund is failing to deliver, what should be done?

143. This is when the role of donor can come to the fore – as the entity providing the funds, the donor is in a unique position to hold people accountable and demand results. This is not to say that the donor should be a "policeman" – a collaborative approach recognising the difficulties inherent in operating in that environment may be more fruitful – but, when necessary, the donor does have a credible threat – it can withdraw funding (as happened, eventually, with the MDTF Southern Sudan).

The fund manager is not performing?

144. If the fund manager is a private firm, there is the option of firing them, or penalising them financially, depending on the contractual arrangements.

145. Otherwise, it may be a question of applying pressure – e.g. asking the relevant HQ why the fund is not performing, and threatening to withdraw funding if the situation does not improve. As one interviewee from the UN stated: *"It would be good if donors said what they think about the service they receive. In 2007 they asked OCHA to step up. Now we have reached 2 billion (in CHF and PFs) is it not time for a check-in?"*

The objectives of the fund are not being achieved?

146. Check that the objectives are still relevant to the context, and are reasonable.

147. Seek to hold the relevant parties accountable. Look for ways to encourage a better performance, either contractually, through more thorough M&E, or changing the process to allocate funds.

How to manage the transition between humanitarian and development?

148. As a donor, ensure that the implementers are not being rewarded for keeping the work at a humanitarian level, e.g. check that capacity building is budgeted for and funding does not drop off too quickly if the situation transitions into development.

149. Consider whether the fund is appropriate to manage this transition. Might it be better to wind it down and pass it on to another mechanism, for example, a 'transition fund' may be a possibility, or a fund that is more closely aligned with the state.

150. Be aware that a country can transition to and fro from humanitarian to development and back again, it is rarely a straight-forward progression.

J. Exit strategy

"Exit strategies should be of paramount concern to ensure there is no gap in service delivery." (Interview, Government worker)

"Exit strategy is the first consideration. Before you do anything in this life, you must first plan your exit." (former World Bank staff, in conversation)

Key message:

- *Exit strategy should be considered at the outset.*

Is an exit strategy required and, if so, what should it include?

151. In many cases, no consideration is given to exit strategy at point of fund establishment. A good exit strategy is an important part of meeting the 'do no harm' principle for engagement in FCAS. Without an exit strategy, a fund may continue on without a clear vision of its purpose.

152. Virtually all the funds we studied (see Annex II) continued long after their initial exit date, e.g. the Afghanistan Reconstruction Trust Fund which commenced in 2002 was meant to have a life span of only 2 years – this has now been extended to 18. This may be due to unrealistic expectations about the protracted nature of these crises, or to lack of clarity about the goals of the fund and at what point they can be considered to have been achieved.

153. Establishing a vision and milestones for the potential evolution of the fund early on can set the direction, and this can be revisited regularly and revised where appropriate. For instance, consider what the role of government should be after the pooled fund has finished – should the government be delivering services itself, or be in a position to contract out service delivery and regulate it? Either way, the fund should be ensuring sufficient focused technical assistance is given so that the government, ideally, can take over when the fund ceases.

154. Options for an exit strategy may include dissolving the fund and wrap-up, or handing over to the government (possibly, subsuming it within a government department), or even shifting to another pooled fund depending upon the context. It is important to have an idea of the direction things should be going even if this changes over time. There is a danger of gaps in service provision and institutional knowledge being lost otherwise.

155. Exit should include advance planning, what do with fund balances, which could be returned proportionate to contributions, and potentially a final evaluation and dissemination of lessons learned.

Box 30 Envisaging a way out

Joint Initiative, Zimbabwe, was set up in 2005 specifically to deal with the effects of Government policy in urban areas; even though the governmental situation has changed significantly since and such policies are no longer pursued, the Joint Initiative continues well past its projected close date because there are still needs to be addressed in urban areas.

By contrast, the Multi Donor Fund for Aceh and Nias had a clear focus on exit strategy from the outset – transition to Government. This did not prevent flexibility, as the fund itself evolved from being an emergency fund to building capacity, the scope and timeline of fund were adjusted in line with findings of a mid-term review, but the end vision gave a clear goal and direction, and this fund successfully wound down in 2012.

The fund is due to close soon, what needs to be done?

156. Like the project cycle, what to do next, if anything, will require a review and update of the original needs analysis to determine what unmet needs remain and how best to meet them.

157. At least one year is usually required to ensure proper planning and a smooth transition to what will follow.

Annexes

Annex I. Research Approach

The methodology consisted of an iterative and mixed methods analytical approach. It included, in sequence:

- Scanning and taking stock of existing literature to identify key issues and gaps in existing knowledge (see the Bibliography at the end of this volume).
- Selection of particular cases for detailed review. The 18 case studies chosen are listed in Table 5 below and Annex II briefly describes each one. They were selected as a purposive sample including more and less successful experiences, and a spectrum of humanitarian and developmental funds from a geographical range of countries and with a variety of implementation arrangements (see Box 31 below).
- Follow-up interviews with key informants (see Box 32 below).
- Discussion of emerging findings with an expert roundtable.
- Drafting of the Policy Briefing Note, and Operational Guidance Note.

Both papers drew on the wider literature as well as case studies and interviews by the research team, but the emphasis was on capturing the knowledge that exists in people's heads, and so the particular focus of the research was on interviews and discussions with people involved in pooled funds.

Table 5 Pooled Funds used as case studies

Country	Pooled Funds
Afghanistan	Afghan Reconstruction Trust Fund (ARTF)
Central African Republic (CAR)	CAR Common Humanitarian Fund (CHF)
Democratic Republic of Congo (DRC)	DRC Common Humanitarian Fund (CHF)
Ethiopia	Protecting Basic Services Programme (PBS)
Haiti	Haiti Reconstruction Fund (HRF)
Indonesia	Multi-Donor Trust Fund for Aceh and Nias
Iraq	International Reconstruction Fund Facility for Iraq (IRFFI)
Liberia	Health Sector Pooled Fund (HPF)
Nepal	Nepal Peace Trust Fund (NPTF)
	United Nations Peace Fund for Nepal (UNPFN)
Pakistan	Multi-Donor Trust Fund for Crisis Affected Areas
	Pakistan's Emergency Response Fund (ERF)
Southern Sudan (as was)	Basic Service Fund Southern Sudan (BSF)
	Multi-Donor Trust Fund for Southern Sudan (MDTF-SS)
West Bank/Gaza	PA-UN Occupied Palestinian Territory (oPt) Trust Fund
Yemen	Social Fund for Development (SFD)
Zimbabwe	Zimbabwe Analytical Multi-Donor Trust Fund (A-MDTF)
	Joint Initiative (JI) Pooled Fund

Box 31 Funds overview by government engagement

Fund	**Type of engagement**	**Manager**
Yemen SDF, Nepal NPTF	Set up and managed by government	Government
Liberia HPF, Afghanistan ARTF, Iraq IRRFI, Southern Sudan MDTF, Indonesia Aceh MDF	Set up in contexts of limited government capacity to support government delivery, primarily using government systems:	World Bank and UN (IRRFI) World Bank (ARTF; S. Sudan MDTF; Aceh MDF) Private sector (Liberia)
Haiti HRF, Southern Sudan BSF, West Bank & Gaza PA-UN oPt TF	Set up to provide recovery/reconstruction financing with government oversight, but limited implementation role:	UN (oPt); World Bank (Haiti) Private sector (S. Sudan BSF)
Ethiopia PBS, Zimbabwe A-MDTF	Set up to enable engagement with government in contexts where direct support was politically problematic:	World Bank (Zimbabwe A-MDTF; Ethiopia)
Zimbabwe JI, Pakistan ERF	Set up to provide humanitarian response outside of government, in the absence of government interest/capacity:	UN (Pakistan) NGOs (Zimbabwe Jl)
CAR CHF, DRC CHF, Nepal UNPFN	Set up to improve coordination of UN-led humanitarian response, outside of government:	UN

Box 32 List of interviewees

Tom Adams, US State Dept
Olga Aleshima, UNDP
Tom Allan, DFID
Ian Attfield, DFID
Fiona Bayat-Renoux, UNDP
Allison Beattie, DFID
Jerome Caluyo, NGO
John Clarke, UNSCO
Eillya Costandinides, DFID
Desmond Curran, DFID
Andrea de Domenico, UNDP
Arne Disch, Scanteam
Marshall Elliott, DFID
Andy Featherstone, Consultant
Wendy Fenton, Consultant
Seb Fouquet, DFID
David Gardiner, Scanteam
Thomas Gass, Swiss Ambassador
Adaeze Igmoebeka, DFID
Ousman Jah, World Bank
Kieran James, NGO
Michelle Keane, World Bank
Marie Keenan, DFID
Josef Leitmann, World Bank
Moses Mabior Deu, Government
Richard Maconachie, DFID
Annina Mattsson, Channel Research
Simon McCoy, DFID
Kirsty McGinigal, DFID
Alistair McKechnie, ODI
Pascal Mounier, Donor
Ross Mountain, DARA think tank
Tasneem Mowjee, Consultant
Christine Mulamba, IMC
Ary Naim, IFC
Dominic O’Neill, DFID
Emily Oldmeadow, DFID
Dirk-Jan Omtzigt, Consultant
Sandra Pepera, DFID
Tia Raappana, DFID
Joe Read, NGO
Nigel Roberts, Consultant
Nicolas Rost, UNSCO
Joe Saba, Consultant
Peter Sollis, IDB
Sarah Spencer, DFID
Richard Taylor, DFID
Pietro Toigo, DFID
Bishnu Upreti, NGO
Juliet Wattebot O'Brien, DFID
Leni Wild, ODI

Annex II. Narrative overview of case study funds[12]

Afghanistan – Afghanistan Reconstruction Trust Fund (ARTF) (2002–)

Designed as a mechanism for providing coordinated funding for reconstruction activities in line with government priorities, while promoting transparency and accountability. Managed by the World Bank, implemented by government following World Bank procedures. Implementation support provided by a range of external agents, particularly on procurement. Two windows: recurrent and investment. Initially, major focus was on funding through the recurrent window (ensuring salaries were paid), but this has changed over time as government's own revenues increased. Government's role in the ARTF governance structure has increased over time (initially it was only an observer in the Steering Committee). Some concerns over conflict of interest in the World Bank's role, particularly with respect to the investment window. Not clear how projects are selected from the Afghan National Development Strategy for ARTF funding, which usually acts as additional funding for existing World Bank projects designed by World Bank staff. Lack of robust exit strategy (fund now extended to 2020). M&E tends to focus on outputs, and is complicated by the security situation.

Central African Republic – Common Humanitarian Fund (CHF) (2008–)

Led by UN RC/HC, supported by OCHA, and administered by UNDP. Objective of rapid humanitarian service delivery. No formal government engagement, although government were invited to participate in coordination at sector level and attend in some cases. Implementation by UN Agencies and INGOs. Funds allocated to priority areas in the UN Consolidated Appeal (CAP), via the cluster system. CHF initially enabled funding mobilisation from donors who would not otherwise prioritise CAR. The CHF has facilitated better coordination within and between clusters. However, projects are supply-driven (proposals from agencies/NGOs) rather than guided by overall needs analysis. M&E limited. NGO participation primarily by INGOs, due to weaknesses in local NGO capacity.

Democratic Republic of Congo – Common Humanitarian Fund (CHF) (2006–)

Led by UN RC/HC, supported by OCHA and UNDP, and administered by UNDP. Aim to improve humanitarian response and its coordination by providing a mechanism for funding activities in the UN Humanitarian Action Plan (HAP). Funds allocated via the cluster system, no government involvement, based on needs assessment conducted at provincial level within framework of HAP (some provincial government involvement in HAP prioritisation). Implementation by UN Agencies and NGOs (both international and local). Conflict of interest when a UN Agency chairs a cluster, but also wants to access funds? Monitoring primarily at the output level, and only for NGOs – UN agencies expected to monitor their activities themselves. Instances of mission creep – fund supposed to finance activities that are 'life-saving', but sometimes supported recovery/transition activities. However, projects allocated on an annual cycle, so no longer-term view. Decision making by the RC/HC and project board has tended to lack overall strategy (possibly due to insufficient information), focusing on the project level.

Ethiopia – Protecting Basic Services (2006–)

A framework/set of pooled funding arrangements managed by the World Bank. The main component is funding to regional and local governments for service delivery channelled through the Ministry of Finance (Federal Block Grant). Additional components have included: a social accountability fund (operated through a Managing Agent and implemented by NGOs, with Government a involved in the oversight body); health commodities procurement (implemented by the MoH using World Bank procedures – but over time, donors have migrated to a separate Health Pooled Fund); PFM and financial transparency (TA implementation); and additional trust fund supports the PBS secretariat. The PBS framework supplanted general budget support (GBS) in the wake of post-election violence

[12] See the Bibliography for source documents.

in 2005, and enabled donors to continue supporting basic services through government systems while distancing themselves from the Federal Government. It has also helped strengthen decentralisation and made continued aid more politically defensible by including components on PFM and social accountability. The Federal Block Grant is in many ways a form of sector budget support, but earmarked to recurrent expenditures to avoid the rigidities of World Bank rules on capital expenditure. Tensions around the role of the World Bank – some donors have felt that it tended to dominate dialogue with government, raising the question whether donors were involved in a joint programme, or simply co-financing the World Bank. In 2013 a third, five-year phase of PBS commenced, now re-titled Promoting Basic Services, with added emphasis on monitoring of results.

Haiti – Haiti Reconstruction Fund (HRF) (2010–)

Established in the wake of the devastating 2010 earthquake. Good government engagement at political level, but weak institutional capacity limited government participation/ownership at the level of implementation. Government set up the Interim Haiti Reconstruction Commission (IHRC) to guide HRF planning/implementation, but this led to a hiatus in fund activities when its mandate expired, and the body intended to replace it had not been established. The role of the HRF Steering Committee (SC) is to implement project allocations in line with the guidance issued by the IHRC. It is also responsible for overseeing project implementation, reporting etc. The separation between the IHRC, which is an entirely government entity, and the SC, which is chaired by Government but includes representatives of donors, implementers, civil society etc, has limited dialogue around fund utilisation. The scale of donor preferencing for fund allocations has also limited the efficiency of resource allocation. The HRF is implemented by the UN, World Bank and Inter-American Development Bank, under the administration of the World Bank (trustee). Each uses its own procedures, and is responsible for M&E. It is estimated that only 5% of donor funds go through the HRF.

Indonesia – Aceh Multi Donor Fund (2005–2012)

Good situational analysis prior to establishment, government adequately involved in objective setting and design. World Bank administered. Aligned to government plan/priorities, but implementing channels (Government, UN, NGOs) selected according to comparative advantage, with each using their own systems. Multi-system approach enabled both humanitarian and development needs to be addressed (approximately 73% of funds channelled to projects identified in the national budget, 23% to UN, 4% to NGOs). Steering Committee co-chaired by Government of Indonesia, European Commission (largest donor), World Bank (trustee) and Governor of Aceh. A Technical Review Group was introduced to the governance structure during implementation to enable a forum for technical review and analysis at project level, enabling the Steering Committee to focus on more strategic considerations. Clear focus on exit strategy from the outset – transition to Government. Scope and timeline of fund adjusted in line with findings of a mid-term review.

Iraq – International Reconstruction Fund Facility for Iraq (IRFFI) (2004–)

Fund objectives built on a series of assumptions with respect to the evolution of the security situation and government capacity (progressive improvement) which in the event did not hold true (security situation got worse, with knock-on effects for government ownership and capacity) – but the fund had no provision to adjust its objectives or modalities in response, severely limiting its effectiveness. IRRFI established as a dual-window facility – UN and World Bank, but insufficient joint planning between the windows limited their potential synergies. The Governance mechanism of the fund was adjusted three years into implementation: an executive committee was created (alongside the donor committee, which had not proved very effective), with government as a full member (previously it had had no formal oversight role). Procurement (by government, using World Bank procedures) was a significant implementation bottleneck for the World Bank facility. The World Bank used an independent monitoring agent, but monitoring focused on outputs not outcomes. Donors' initial enthusiasm for the IRRFI waned, as the security situation worsened and the Fund didn't meet its ambitious objectives of providing a 'flexible, coordinated and swift response'. Plus some donors wanted greater attribution for their funding than the funding mechanism allowed.

Liberia – Health Pooled Fund (HPF) (2008–)

Established to fund priority needs within the government health sector plan and provide a platform for increased government leadership in health sector coordination. Overseen by a Steering Committee chaired by the MoH. Managed by a contracted fund manager on contract to one of the contributing donors, and implemented through government systems. Role of the Fund Manager is to provide fiduciary safeguards and ensure effective fund implementation. The Fund Manager reports to the Steering Committee. However, the Steering Committee has not adequately managed the Fund Manager, leading to variable performance. Although a number of major donors remain outside the fund, it has provided a platform for increased allocative efficiency across the health sector, and government-led sector dialogue.

Nepal – Nepal Peace Trust Fund (NPTF) and UN Peace Fund for Nepal (UNPFN) (2007–)

Two funds under one governance structure chaired by government, complementarity of interventions. NPTF managed by the Government of Nepal, with two-thirds of funding coming from government, and one-third from donors. Implementation through government systems. UNPFN implemented through UN system. Some joint planning/working between the funds, but synergies not always maximised. Concerns expressed over whether a separate UN fund was necessary, or more could have been done to integrate it into the NPTF. M&E a weakness in both, PFM a concern for donors in the NPTF, no exit strategy for either. But joint monitoring by the funds is a positive development.

Pakistan – Emergency Relief Fund (ERF) (2010–)

Established to respond to the needs of communities displaced by both natural disasters and conflict, in the absence of adequate government capacity to do so, but initially mainly focused on flood-affected communities; focus was subsequently rebalanced following an evaluation. Managed by UN RC/HC, and implemented through the UN system, limited government engagement. Weak M&E. Limited information on humanitarian needs in conflict-affected areas and absence of a system to prioritise needs country-wide affected the ERF's ability to prioritise. Evaluation also found that donors needed to give greater scope/freedom to the Fund Manager to implement changes based on M&E findings. Nonetheless, projects generally well-received, though sometimes experienced implementation delays (related to the time taken to finalise partner agreements and disburse).

Southern Sudan – Basic Services Fund (BSF) (2005–2012)

Primary aim was to improve coverage of service delivery during the transition from humanitarian to development financing, whilst also building government capacity to plan, monitor and coordinate service delivery. Managed by a contracted fund manager on contract to the lead donor, and implemented by NGOs. Steering Committee chaired by government. Fund proved effective at increasing service delivery coverage and ensuring rapid implementation, but not successful in building government capacity, since no government role in intervention planning/implementation. Eventually closed to pave way for a Health Pooled Fund, with greater government involvement.

Southern Sudan – Multi Donor Trust Fund (MDTF-SS) (2005–2012)

Set up to provide a swift, flexible and coordinated donor response to Southern Sudan's priority recovery and reconstruction needs. Managed by the World Bank, implemented by government using World Bank systems. Tension at the heart of the MDTF's objectives, in that it was expected to simultaneously build government capacity, which was extremely weak, while also delivering services through government systems. World Bank also failed to deploy sufficient resources rapidly enough to assist implementation. Resulting implementation delays led to a proliferation of other funds/bilateral projects to fill the gap. Fund design not appropriate to context, based on inadequate understanding of the operating environment, & failed to build in flexibility to adjust in light of lessons learned. Reasonable M&E (by a contracted monitoring agent) at the level of outputs, but the scope of the fund (covering 14 sectors) and design of governance mechanism (no body below the Oversight Committee tasked with technical appraisal/review at the project level) inhibited its capacity to act effectively on the information provided. Eventually closed as planned, but without a transition to government.

West Bank and Gaza – PA–UN Occupied Palestinian Territory Trust Fund (oPt TF) (2010–)

Established to finance UN state-building and development goals in oPt, at request of the Palestinian Authority (PA). Two windows, one for the West Bank and one for Gaza. Donors can opt to fund either window or both, but no further preferencing allowed. Management Committee chaired by PA and UN Resident coordinator, ditto Project Approval Group. UNDP the Administrative Agent, signs MoUs with Participating Organisations, which are mainly UN agencies, but could be others (e.g. NGOs). Only one donor has so far committed funding & disbursed. Need to familiarise non-traditional donors on the potential benefits of the Fund. Gaza restrictions possibly discouraged donors from taking risks/participating in the Fund.

Yemen – Social Fund for Development (SFD) (1997–)

Established by government as a semi-autonomous governmental institution, able to set own rules and hire own employees. No donor involvement in the governance structure, which is led by government and includes representatives of the private sector and civil society. Highly successful in attracting donor financing, due to its track record of delivery at community level. Highly effective M&E system to the level of outcomes, with feedback into the funding allocation system (poverty targeting). Absence of exit strategy has potential to undermine government institutional coherence, as fund coverage is multi-sector and multi-level, potential for overlap with Line Ministries and decentralised administrations. Implementation through a range of actors: government agencies, NGOs, communities, private sector.

Zimbabwe – Joint Initiative (JI) (2005–)

Joint Programme by 7 INGOs to address the needs of vulnerable urban communities neglected by government. Overseen by a Steering Committee of the Country Directors of the participating NGOs, plus one donor representative. Separate donor group. Collaborative model for agreeing activities based on overall assessment of need. Funds managed by a lead NGO, and implementation supported by a Programme Management Unit. Activities implemented by individual NGOs (working in consortium with local partners); procurement according to Sida systems. Lead NGO responsible for consolidated reporting to donors. Donors pool funds without earmarking, disburse to lead NGO. M&E the responsibility of the individual NGOs, initially weak. No government or UN involvement. Criticism that there is insufficient capacity building of partner local NGOs by the INGOs, and insufficient joint working between the JI NGO partners.

Zimbabwe – Analytical MDTF (A-MDTF) (2008–)

Managed by the World Bank. Designed to support analytical work related to the World Bank's second Interim Strategy Note (ISN), in order to strengthen the Bank's operational readiness to engage in Zimbabwe when conditions warranted. Also intended to coordinate/harmonise donor support, and expected to facilitate dialogue with the Government of Zimbabwe. No government involvement in the Governance structure, but all contributing donors involved, plus the ADB and UN, therefore enhancing coordination. Governance arrangements restructured following a Midterm Review, to make them simpler and more effective. Implementation of activities (which are limited to studies, TA and pilots) was by third parties (consultants, research bodies, firms, NGOs) following World Bank procedures (which were not always well understood by World Bank staff in the relatively under-resourced World Bank office in Harare, sometimes leading to delays). Quality assurance was variable/insufficiently systematic, but outputs have in some cases provided opportunities for policy dialogue with government. Greater efforts are now in place to involve government in commissioning work. Focus has been on the research component – TA has been insufficient, and there have been no pilots.

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