Helpdesk Research Report: Trust Funds in Fragile and Low Capacity States

Date: 20.01.2011

Query: Please identify best practice, advantages/disadvantages and lessons learned from using 'Trust Fund' arrangements in delivering development, particularly in fragile or low-capacity states.

Enquirer: DFID Sierra Leone.

Contents

1. Overview

A 'Trust Fund' or 'Multi Donor Trust Fund' (MDTF) is a multi-agency funding mechanism, designed to receive contributions from more than one donor (and often also the recipient government), that is held in trust by an appointed administrative agent. There are many different types of trust fund, operating at a sector-wide, national, regional and global level. This query will focus on national-level trust funds and on those that are focused on delivering long-term development rather than short-term humanitarian issues. Trust Funds are commonly used in fragile states, and represent 'best practice' in post-crisis funding, in line with both the Paris Agenda for Aid Effectiveness, and largely also the DAC Principles for Engaging in Fragile States. Trust funds have been utilised to support development objectives in a number of fragile and low-capacity state contexts including Afghanistan, Sudan, Aceh and Nias, Timor Leste, Iraq and the West Bank/Gaza.

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 on behalf of 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. The following sections in this overview outline the main advantages and disadvantages associated with trust funds in fragile contexts, before highlighting some key lessons learned and best practices from the literature.

Advantages

There are a number of key advantages associated with MDTFs:

- Coordination: They facilitate donor coordination and harmonisation (Leader & Colenso 2005, Development Initiatives 2006, Barakat 2009, Guder 2009, GSDRC 2010).
- Ownership: They help to boost recipient government ownership of post-conflict reconstruction and development (Barakat 2009). They can allow recipient governments to fund its priority

needs including payment of salaries and provision of basic services, supporting statebuilding objectives (ODI 2005)

- Mobilising resources: They encourage a range of multilateral donors, bilateral donors and private sector actors to commit resources (Leader & Colenso 2005, GSDRC 2010).
- They have the potential to cut transaction costs and administrative burdens (Leader & Colenso 2005, NORAD 2007, Scanteam 2007, Guder 2009, GSDRC 2010).
- 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 (Barakat 2009).
- Simplifying procedures: They provide straightforward disbursement and recording procedures (GSDRC 2010).
- Accountability and information: They may create separate institutions for supervising and auditing assistance, boosting accountability (Barakat 2009) and improving access to information (Guder 2009).
- Spill-over effects: They may drive up overall standards in public financial management (Foster 2007, Guder 2009)
- 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 (ODI 2005).
- Absorbing political risks: They help to absorb political risks for bilateral donors of working with a recipient government directly (KC comments, Scanteam 2007). 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 (Foster 2007).
- Policy dialogue: They may provide a platform for policy dialogue amongst donors and between donors and the recipient government (Guder 2009).

Disadvantages

A number of disadvantages with MDTFs have been highlighted. Most of these stem from implementation failures:

- Complexity: They often produce complicated implementation arrangements (Barakat 2009).
- Cost: Despite promising to cut costs, MDTFs are often more expensive in practice (Development Initiatives 2006).
- 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 statebuilding objectives (Barakat 2009, UNDP 2010).
- Slow disbursement: In other contexts, MDTFs can be slow to disburse funds in practice (Leader & Colenso 2005, ODI 2005, ODI 2009). In South Sudan, this led to a decline in donor support and a proliferation of 'compensatory trust funds' (JB comments).
- Earmarking: Although trust funds should ensure that national governments set funding priorities in theory, in practice most resources to trust funds remain earmarked (Scanteam 2007). At the same time, funds that not allow sufficient earmarking, can cause significant legal and legitimacy problems for some donors and create allocation problems (Leader & Colenso 2005, Scanteam 2005).
- Poor ownership: Donors often continue to directly implement programmes (Scanteam 2007, Barakat 2009, ODI 2009, OECD 2010).
- Low commitment from donors: MDTFs often do not lead to harmonisation because only a small proportion of total funds are channelled through the MDTF (Barakat 2009).
- 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 (KC, CL comments).

Lessons Learned

- Strategic interests: The theoretical advantages of a MDTF often get overtaken by donors' strategic interests in post-conflict contexts (Barakat 2009).
- Development/ quick impact trade-offs: There is often a difficult trade-off between long-term statebuilding objectives and capacity building on the one hand and the quick delivery of services on the other (Development Initiatives 2006, ODI 2009, OECD 2010).

- Symbolic effects: Experience in South Sudan suggests, perversely, that recipient governments may prefer to work bilaterally as this modality is associated with 'strong recipient governments', while trust funds are associated with 'weak recipient governments' (JB comments).
- Cross-cutting analysis: There is a lack of systematic analysis of cross-cutting issues such as gender in Trust Funds (Scanteam 2005, Scanteam 2007, GSDRC 2010a).
- M&E: Monitoring and evaluation activities are improving but there is still a need for better preparation for the hand-over of M&E to national authorities (Scanteam 2007).
- Managing for Results: Many funds do not have clear objectives and monitoring indicators required to for managing effectively for results (CFPTO 2010).
- Scale: The Afghanistan Reconstruction Trust Fund's success was underpinned by its large-scale, multi-sectoral approach (Barakat 2009).
- Realistic costing: Donors should be more realistic about the costs of funding MDTF administration (Scanteam 2007).
- Simplicity of governance arrangements: There is some debate about whether simple governance arrangements are best. Scanteam (2007) argues that they are, while Shiavo-Campo (2003) argues that the usefulness of simple governance arrangements is heavily dependent upon context.

Best Practice

Ownership, participation and accountability

- Pursue a recipient-led approach: Donors should pursue a recipient-led approach to MDTFs. A broad consultation process that involves a range of government stakeholders is critical (Scanteam 2007, Barakat 2009, GSDRC 2010). Resources should be routed through the national budget where possible (Ball 2007).
- Prioritise handover: The roles of international actors should be clearly phased out and clear exit strategies established early on (Barakat 2009, GSDRC 2010).
- Devolve responsibility to the administrator: A locally-resident staff with the authority to adapt procedures to local conditions is a necessary precondition of a successful trust fund (Foster 2007, JB comments).
- Recognise the costs associated with too much ownership: Funds can easily become politicised by central government, and internal wrangling may lead to delays in disbursement. One way of overcoming this problem is to apply conditionalities at the outset (JB comments).
- Another solution may be to work through local rather than central government. Experience from South Sudan suggests that too much central government control may encourage delays as the centre has few vested interests in rapid disbursement. Allocating directly to local government may provide one way around this problem (JB comments).

Design and Management

- Think about who manages the fund: This issue is of critical importance. Private sector actors may be more effective than the UN, for example, since they have fewer conflicts of interest and can provide a dedicated support team (JB comments).
- Funds need to be flexible and responsive (GSDRC 2010, OECD 2010, JB comments). This usually requires a dedicated administrator, with the authority to change plans in accordance with shifting ground conditions. The steering committee should meet regularly. Trust funds design should be tailored to local conditions rather than simply following a generic international model (JB comments).
- Prioritise conflict and risk analysis (Scanteam 2007, GSDRC 2010a). Fund managers need to have a better understanding of context and costs (World Bank 2009). In particular, analysis should focus on the local causes of fragility (ODI 2009). Early planning is critical to ensure the trust fund becomes operational quickly (Shiavo-Campo 2003).
- Build capacity: Rapid-onset, intensive capacity building should be a priority (Scanteam 2007, Barakat 2009).
- A unified budget is of critical importance (Shiavo-Campo 2003). A realistic and comprehensive government budget can help to build an agreed programme of reconstruction activities, ownership by government and donors, transparency and citizen's voice (Leader & Colenso 2005). Efforts should be made early on to establish a consensus about donors'

respective roles and responsibilities (Shiavo-Campo 2003). Relevant and effective sequencing is also important (OECD 2010).

- The initial design of the financial management standards is of critical importance (CL comments). They should be synchronized to actual capacity and existing legal processes of the country and improvements should be phased over time. They should also ensure that decision making structures can align expenditure to the needs of the country, ensuring appropriate country ownership (CL comments).
- Focus on results: There is a need to focus on objectives and results rather than instruments and approaches (OECD 2010, CFPTO 2010). This requires timely and realistic planning based on a proper needs assessment. MDTFs should have long-term objectives and the tendency to seek to front-load spending should be avoided (Barakat 2009).

General principles:

- Weigh potential benefits against costs of establishing a trust fund: Trusts funds promise many potential advantages. They also hold a number of potential costs including the danger of slowing the disbursement of funds, trapping funds, leading to poorly targeted and poorly implemented programmes and projects. In South Sudan, for example, the most effective programmes were bilateral ones – implemented by donors with a good field presence (JB comments).
- Reduce donor interactions: In order to prove effective, the trust fund needs to result in a net reduction in the number of donor interactions (Foster 2007).
- Provide incentives to donors: Funds should provide incentives to donors. There is a trade-off between developing a coherent programme and providing donors with leeway to meet their own priorities and objectives. Too little consideration of the latter may lead to underfunding (Shiavo-Campo 2003).
- Monitoring and accountability: There is a need to balance accountability with learning (CFPTO 2010). An independent monitoring agent can help to improve accountability (Scanteam 2005).
- Manage expectations: Fund managers should manage expectations about what the fund can achieve (World Bank 2009, JB comments). This requires making a realistic assessment of what trust funds can and cannot achieve given prevailing conditions (Ball 2007).

2. Comparative Assessments

Ball, N., 2007, 'Financing Mechanisms For Post-Conflict Reconstruction', Netherlands Institute of International Relations, 'Clingendael', Conflict Research Unit, The Hague
http://www.peacecenter.sciences-po.fr/pdf/French_cycle/Sem_5/Clingen-Ball-financing_mechanisms_for_reconstruction.pdf

This paper surveys the various different mechanisms available for financing of post-conflict reconstruction. It finds that the advantages associated with MDTFs do not occur automatically and that problems of execution have arisen because of:

- Regulations and operational procedures of the two main pooled financing administrators, the World Bank and UNDP.
- Unrealistic expectations on the part of donors, governments and Fund administrators about what pooled funding can, and cannot, deliver in specific timeframes.
- The exigencies of post-conflict environments.
- The failure of donors to provide adequate oversight and political support to pooled financing mechanisms.
- The preference of donors for allocating resources bilaterally outside trust funds and/or earmarking contributions to trust funds.

It identifies two key best practices:

- Ensure that financing mechanisms are appropriate to country context/priority needs and a realistic assessment has been made of what financing mechanisms can and cannot achieve under prevailing conditions in a given timeframe.

- Ensure that mechanisms help to strengthen national ownership of recovery processes, in particular by fostering the capacity of national actors to engage effectively and accountably in recovery processes, including routing donor resources through the national budget wherever possible.

Leader, N. & Colenso, P., 2005, 'Aid Instruments in Fragile States', PRDE Working Paper 5 – March 2005, Poverty Reduction in Difficult Environments Team / Aid Effectiveness Team Policy Division, UK Department for International Development
http://ageconsearch.umn.edu/bitstream/12818/1/pr050005.pdf

This paper describes the limitations of current approaches to aid instruments and discusses the emerging understanding of their use within fragile states. It argues that in countries where there is little political will to invest in and account for pro-poor expenditure, 'programme aid instruments such as budget support will remain inappropriate'. It also argues, however, that budget support via Trust Funds can be effective in the early stages of state formation, as was the case in Timor Leste and Afghanistan (p.7). Budget support instruments (whether direct or via a Trust Fund), combined with technical assistance, are potentially a useful way to establish or sustain basic services and to build institutional capacity in contexts where there is high political will. 'In 'low will' scenarios, however, projects and externally managed pooled funding arrangements will be preferable to budget support' (p.24). The report highlights a number of pros and cons associated with trust funds. MDTFs:

- Can help to raise money.
- Help to coordinate and harmonise donors behind a government plan or budget.
- Ensure more equitable and efficient resource allocation.
- Reduce transaction costs.
- Have been slow to disburse funds.
- Do not allow sufficient earmarking, which can cause legal problems for some donors, restricting their ability to pool funds in trust funds.

The report highlights a number of lessons learned from past reviews:

- The key strategic criteria for a trust fund to fulfil its executive function are: An agreed programme of reconstruction activities, ownership by both government and donors, transparency, and citizens' voice.
- A realistic and comprehensive government budget is the best way of meeting these criteria.
- An MDTF can cover most civil expenditure, including salaries and pensions, operations and maintenance, and investments except very large flagship projects.
- There should be a presumption in favour of an umbrella fund as opposed to specific ones.
- An agent should be hired to verify payments and transactions to minimise fiduciary risk.

GSDRC Summary available at http://www.gsdrc.org/go/display&type=Document&id=1285

Barakat, S., 2009, 'The failed promise of multi-donor trust funds: aid financing as an impediment to effective state-building in post-conflict contexts', Policy Studies, 30: 2, 107 — 126
http://www.informaworld.com /content~content=a910605483~db=all~jumptype=rss

This article examines the growing use of MDTFs in fragile and post-conflict contexts, with a particular focus on the Afghanistan Reconstruction Trust Fund (ARTF). This examination finds that while the MDTF concept is 'fundamentally and theoretically sound', it is 'at odds with donor countries' primary attachment to the strategic rather than development impact of post-conflict reconstruction assistance'. It finds that these priorities 'limit aid effectiveness, hamper coordination and sideline the recipient state in the post-conflict reconstruction process' (p.107).

There are a number of potential benefits associated with the use of trust funds. They are often seen as a reliable long-term funding source, they allow donors to avoid the costs associated with creating separate institutions and processes to supervise and audit assistance, and they may help to facilitate donor coordination, and help to cede control of post-conflict reconstruction and development to recipient governments.

MDTFs evolved from two earlier models of coordination – joint programmes (which allowed donors to jointly fund a sector-wide programme) and social funds (which provided grant financing for small-scale public investments proposed by civil society or local government organisations). MDTFs aimed to overcome the small-scale nature of social funds, and allowed donors to centralise planning, coordination and oversight, whilst also meeting the need for financial accountability and the desire to engage state institutions in a more comprehensive manner. The article highlights a number of other benefits associated with MDTFs:

- In theory, MDTFs also 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, at a time when government capacity is at its lowest.
- MDTFs allow longer-term planning, ensuring that funds are consistently available and avoiding the tendency to spend quickly for fear that funds will not be available at a later date.
- MDTFs provide the capacity to earn interest on underutilised funds. In the Aceh case, $12 million was earned in interest and a similar figure is cited for a UN-administered MDTF in Iraq.
- MDTFs may also, in theory at least, be able to attract new investors, particularly those from the private sector

In practice, however, these long-term goals are often ignored as donors continue to push for immediate impacts and rapid disbursement:

- In Iraq and Afghanistan, MDTFs were given short time frames (they were due to expire within four years of being set up). There is a <u>tendency for expectations to be too high at the outset</u>, which leads to a decline in funding levels as donors conclude that governmental involvement is not possible and that the MDTF is ineffective.
- Another significant problem is the <u>tendency for donors to continue to directly implement programmes, without much involvement from the recipient government</u>. Although in principle government members direct the MDTF's activities through a steering committee or by outlining their national development agenda, in practice government involvement is often minimal. In Iraq, for example, the government has no formal role in the MDTF and in Aceh, the government has less than a third of the seats on the MDTF steering committee. The World Bank's Post-Conflict Fund, despite its intention to engage the state, has only channelled 16% of its assistance through national budgetary processes.
- MDTFs are designed to enhance donor coordination and harmonisation, but in practice this benefit is unfulfilled because a <u>small proportion of overall funds are channelled through the MDTF</u>. In Iraq, only 7% of total funds were channelled through the International Reconstruction Facility for Iraq (IFFRI) and similarly in Aceh, only 7% of post-tsunami funding was channelled through the MDTF. While coordination may not be improved, there appears to be more scope for administrative consolidation, leading to reduced costs for donors. These cost reductions are often not enjoyed by recipient governments, however, who continue to have to report both to the MDTF and to bilateral and multilateral agencies directly, adding an extra layer of bureaucracy.

The article's examination of the ARTF finds that one of its main strengths was its large-scale, multi-sectoral approach, capable of reaching every province in Afghanistan. The fund was also successful in building solidarity between citizens and the Afghan government, since they credited the government with coordinating international funds. The ARTF therefore performed an important and difficult nation-building function, consolidating sovereignty and building government legitimacy. While the ARTF helped to consolidate democratic institutions at the local level, it also hurt the credibility of the National Assembly, thereby undermining democratic institutions at the national level. The ARTF also led to inter-governmental divisions. Finally, the efforts of the ARTF were undermined by short-term funding – an evaluation conducted in 2006 claimed that what was essentially a 'development programme has been rolled-out with a relief mindset' (p.119). This limited the extent to which the fund was able to build government capacity.

A number of lessons can be learned from the ARTF experience:

- MDTF-funded activities should be fully integrated within the recipient state and its most participatory decision making structures.
- There should be broad consultation and involvement of government stakeholders, ‘not just as a nod to democracy but as a key factor in avoiding intra-governmental strife’ (p.121).
- Quick impact projects should be avoided – ‘MDTF financing should be focused upon long-term, population-specific or highly technical priorities such as public administration reform…[or] the establishment of regulatory institutions’ (p.121).
- The first priority must be rapid-onset, intensive capacity-building related to financial management and public-administration.
- Exit strategies for handing over of external roles to the state should be established early on.
- A more recipient-led approach to MDTFs, in which the role of international actors should be phased out and local and national democratic structures strengthened.

Foster, M., 2007, ‘Aid Instruments in Fragile and Post Conflict States: A Desk Review for DFID Nepal’ www.mickfoster/docs/Finalreport.zip

This paper reviews aid instruments in fragile and post-conflict states to provide DFID Nepal with ‘overview of experience on the relative strengths of aid instruments, and sectors for aid support, in promoting a sustainable exit from conflict’. The report includes a number of insights about trust funds, mostly drawn from case studies including Afghanistan, East Timor, DRC, Aceh and Nias, Iraq, Sudan and the West Bank and Gaza, which are assessed in section 4.3. This analysis generates the following lessons and recommendations:

- Effective trust funds require a sufficient share of external aid flowing via the trust fund and an administrator with experienced and locally resident staff with the authority to adapt procedures to local conditions.
- They also require donors willing to resist the need to ‘label’ their support. In order to prove effective, the trust fund needs to result in a net reduction in the number of donor interactions. This requires donors to commit considerable levels of resources to the trust fund and reduce bilateral spending.
- UN Trust Funds (e.g. in Timor Leste) have been slow to build government capacity.
- The World Bank has been successful at managing the transition from a donor-driven process towards one that is led and managed by Government.
- The best Trust Funds are those that adopt a flexible approach to working with government, even where capacity is initially very weak.
- Trust Funds have improved overall standards of public financial management (notably in the case of Afghanistan).
- Trust funds 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.

Shiavo-Campo, S., 2003, ‘Financing and Aid Management Arrangements in Post-Conflict Situations’, CPR Working Paper no. 6, World Bank, Washington D.C.:
http://www.peacecenter.sciences-po.fr/pdf/French_cycle/Sem_5/Schiavo-Campo_Financing_in_Post-Conflict.pdf

This report discusses issues related to financing modalities and aid management in post-conflict environments, focusing on four case studies: West Bank and Gaza; Bosnia and Herzegovina; East Timor (Timor Leste) and Afghanistan. It finds that each situation has different demands, requiring tailored design and sequencing of financing and aid coordination. Chapter 3 of the report provides detailed information on Multi-Donor Trust Funds (MDTFs), how to set them up, guidelines for sequencing, and specific recommendations. Chapter 4 sets out some general issues and recommendations. Key findings and recommendations include:

- A unified budget is of critical importance – an effective budget can help to consolidate donor relations and boost transparency and participation.
- Provide incentives to donors. Although too much fungibility can lead to an incoherent programme, too little flexibility will lead to underfunding.

- Coverage. MDTFs should not be too broad in their coverage – they should not try to cover every area and should not fund very large investment projects. There should not be a sharp separation between an investment trust fund and a recurrent cost trust fund (as happened in Timor Leste).
- The establishment of one umbrella MDTF is preferable. This can encompass – at a maximum – the following expenditures: start-up costs; salaries and pensions; operations and maintenance; investments (except large flagship projects); non-project technical assistance; and debt service.
- There is no correlation between trust fund effectiveness and governance simplicity. Complex governance arrangements can be effective, as has occurred in Afghanistan.
- Planning: The cases highlight the importance of early planning to ensure a funding mechanism becomes operational quickly. No commitments should be made before donor funding has been transferred. Efforts should be made early on to establish a consensus about donors' respective roles and responsibility.
- Trust administrators should not introduce overly complex management systems which might overburden local capacity.
- It is important for trust administrators and other donors to communicate effectively to puncture unrealistic expectations.
- There are no general lessons about whether to tackle hard political issues with recipient governments early on. In some cases, such as in Gaza and the West Bank, this was not appropriate, while in other contexts such as Timor Leste this approach was more feasible.
- Donors should 'aggressively encourage' other donors and the recipient government to incorporate local communities and NGOs into reconstruction plans.

ODI, 2005, 'Senior Level Forum on Development Effectiveness In Fragile States: Harmonisation and Alignment in Fragile States', Draft Report from a Meeting in London 13-14 2005, OECD, Paris
http://www.odi.org.uk/resources/download/2443.pdf

This report of a meeting on development effectiveness in fragile states highlights a few key general issues associated with the use of MDTFs:

- They can allow the government to fund its priority needs, such as payment of salaries and provision of basic services.
- They can provide the most effective basis for aligning with government systems to ensure predictability of funding flows, ensure donors do not cherry-pick their favourite projects leaving essential ones un-financed, and provide an additional layer of accountability.
- Some large donors have been unwilling to contribute to some funds, citing slowness of disbursement, and a lack of ability to show earmarking to their domestic constituencies.

OECD, 2010, 'Transition Financing: Building a Better Response', OECD, Paris
http://browse.oecdbookshop.org/oecd/pdfs/browseit/4310071E.PDF

This report maps donor approaches to financing in transition contexts and highlights the experience of MDTFs in a number of fragile and conflict-affected contexts. It also examines six case studies where pooled funding instruments have been used: Afghanistan, Burundi, CAR, DRC, Southern Sudan and Timor-Leste.

The report generates a number of general findings about aid financing in transitional contexts:

- An aid architecture system divided into humanitarian and development compartments limits effectiveness in transition situations. Humanitarian and development activities are governed by differing rules and principles despite being complementary in nature.
- Many donors do not have the procedural flexibility to provide effective and rapid support to transition situations.
- Coordination with and amongst different parts of donor governments remains a challenge.

- MDTFs have been helpful in enabling development partners to engage more holistically and strategically in transition environments. However, they often need to overcome major challenges such as the trade-off between quick delivery of services and capacity building.

It also makes a number of key recommendations:

- Focus on objectives: to facilitate more effective international engagement in transition situations, donors need to focus less on the instruments and approaches available within particular managerial structures and more on the actual objectives to be supported.
- Improve donor policies and procedures – specifically staff capacity and incentive structures in agencies: donor agencies need to better manage and mitigate risks associated with transition financing.
- It is important to adopt a long-term, non-linear approach to transition and to use an appropriate 'funding mix' of financing instruments relevant to the capacity and legitimacy of government counterparts.
- Identify the right priorities and objectives: undertake timely and realistic planning based on a proper needs assessment and a prioritised vision of what should be achieved.
- Base the choice of transition financing instruments on a clear understanding of the ways that different funding approaches and mechanisms affect national ownership.
- Improve the operation of pooled funding: international partners should commit to decreasing fragmentation, improving the participation of national authorities in the governance of funds, clarifying and managing expectations about what can be delivered through pooled funds, increasing the predictability of funding flows, and decreasing the earmarking of contributions into funds.

The case studies generated a number of important findings:

- In South Sudan, despite rhetoric about ownership, donors still prefer to provide most of their assistance bilaterally, owing largely to the lack of a comprehensive government plan.
- The importance of relevant and effective sequencing and prioritisation should not be underestimated in post-conflict situations. In Southern Sudan, the slowness of the MDTF led to the continuation of short-term mechanisms while in Afghanistan, the phasing of various instruments was more successful in Afghanistan.
- The cases of South Sudan, Afghanistan and Timor-Leste all demonstrate that there is a trade-off between quick delivery and the slower route of establishing funding mechanisms that work with and develop the capacity of nascent governments.
- The case of Timor-Leste highlights the tension between the need for long-term statebuilding and short-term demands for immediate improvements in daily life. This case demonstrates that delivering development will not automatically build a sense of 'nationhood', particularly if progress is slow. International donors' almost exclusive focus on statebuilding meant that they failed to address many of the key issues that led to the 2006 crisis.
- Donors need to identify proper fora for engaging with government on political issues, and should discourage technical mechanisms from becoming vehicles for wider policy dialogue.

These cases also highlighted a number of key lessons:

- Explore innovative ways to ensure greater harmonisation and synergies between different in-country funding mechanisms.
- Clarify the assumptions and comparative advantages of different funding mechanisms to ensure better co-ordination between humanitarian, development and security-driven funds.
- Improve the flexibility of funds to react rapidly and respond adequately to shifting circumstances in dynamic post-conflict situations.
- Improve the links between planning and financing.
- Clarify the relationship between global and country-specific pooled funding mechanisms for transition purposes.

GSDRC Summary available (http://www.gsdrc.org/go/display&type=Document&id=3848)

3. Donor Literature and Best Practice

CFPTO, 2010, 'Strengthening the Results Focus in Trust Fund Management', 28th January 2010, Global Partnership and Trust Fund Operations, Concessional Finance and Global Partnerships, World Bank
See attached document 'CFPTO10'

This report addresses the question 'What does it mean to develop a consistent results orientation in trust fund management?'. It assesses the challenges to managing for results in trust-fund activities and outlines a possible approach to establish a results-orientation in trust fund management. It is based on a review of the World Bank's programme and country-level trust fund portfolio. In 2008, the country-level portfolio consisted of $13.4 billion, spent in 138 countries.

Not all of the funds analysed had clear objectives and monitoring indicators necessary for managing effectively for results. Underpinning many of these issues was a lack of common understanding about what 'managing for results' means. The report makes a number of important recommendations:

- Develop a common understanding about what it means to take a results focus for trust funds and put systems and practices in place that provide the information needed to do so.
- A critical element in defining this common understanding is to define realistic results since 'trust fund results are often intermediate outcomes in a longer results chain' (p.viii).
- There is a need to balance accountability with learning. Learning is especially critical for funds that are used to finance innovative activities in areas where a rapid and flexible response is needed.
- At the country-level, fund managers should focus on ensuring that trust-fund activities achieve their results.
- At the donor-level, fund managers should focus on managing and understanding donor expectations on results and then ensuring that results are achieved and communicated.

Guder, L., 2009, 'Multi-Donor Trust Funds', Development Outreach, World Bank Institute.
http://elibrary.worldbank.org/docserver/download/deor_11_1_36.pdf?expires=1295016348&id=id&accname=guest&checksum=42580FCDB8C69280B00651557FEDDBCC

This short article summarises the World Bank's use of MDTFs. The Bank's involvement in MDTFs can reopen the door to countries that have not been eligible for Bank support (such as Sudan). The Bank's work with MDTFs focuses on two areas: reconstruction and development. MDTFs have common procedures which aim to ensure harmonization. In some cases, there has been a spill-over effect where the emerging public sector adopts an administrator's procedures. Donors participate in MDTFs for a number of reasons:

- They provide a platform for policy dialogue, both amongst donors themselves and between donors and national authorities.
- Strategic alignment: they provide opportunities to generate a common aid strategy.
- Cost and risk reduction: MDTFs reduce information, coordination and administrative costs.
- Access to information: MDTFs organise meetings which provide information which would not otherwise have been available to donors.
- Flexibility and predictability in funding: MDTFs can change funding channels, even after an MDTF has started its operation.
- Transparency and accountability: some efforts have been made to establish donor observers. MDTFs often publish progress reports, financial data, and meeting minutes on websites, which increases accountability and transparency.

Hughes, J., 2011, 'Why a New Multidonor Trust Fund, Managed by Aid Recipients in Liberia, Works', Guest Opinion, Devex.com
http://www.devex.com/en/articles/why-a-new-multidonor-trust-fund-managed-by-aid-recipients-in-liberia-works

This short opinion piece describes an innovative new MDTF in Liberia, which it argues has 'increased the overall resources and accountability of government, breathed life into dormant national systems and enabled continuity of basic services provided by NGOs during the relief-to-development transition' (n. pag.). It argues that this model, where the recipient government manages its own MDTF, could be used in similar contexts where recipient ownership and national systems are development priorities. Traditional approaches to MDTFs typically work around the recipient government and often compete with the recipient government for potential funds. Traditional MDTFs are often inflexible and perceived as inaccessible to NGOs delivering basic services.

The recipient managed MDTF model, pursued in Liberia's Health Sector Pool Fund, provides an opportunity for donors to engage a reform-minded government in a way that reinforces good governance and accountability. This approach reduces administrative burdens on recipient governments and strengthens national systems used to manage recipient governments' own resources. This approach can also increase government-civil society interaction, increasing mutual accountability. There are opportunities to apply this kind of model in Haiti and Southern Sudan.

4. Evaluations

General Evaluations

Development Initiatives, 2006, 'Review of Trust Fund Mechanisms for Transition Financing', Phase 2 Report, 28 April
http://www.unsudanig.org/workplan/mande/reports/docs/evaluations/mdtf%20phase%202%20report%20284.pdf

This evaluation for the UNDG concerns the financing of transition countries in all sectors and is based on case studies of Multi-Donor Trust Funds (MDTFs) in Iraq, Afghanistan, Indonesia and Sudan. The review makes a number of relevant points in relation to strategic organisation and policy:

- MDTFs allow for both emergency service provision and the fostering of long-term capacity in post-conflict environments. MTDFs are often involved in trade-offs between short-term needs and long-term developmental priorities such as building national capacity to lead recovery.
- Because MDTFs are not standardised it can take a long time for them to be operational. In the future this should change.
- Due to their situation-specific nature MDTFs are unlikely to replace direct agency funding from individual donors.
- While harmonising procedures have been a major obstacle to the establishment of MDTFs progress has been made, including formal agreements at corporate level between the World Bank and UN and the adaptation of rules and procedures to meet the demands of particular situations.
- It is important for recipient governments to be engaged with the MDTF.
- MDTFs are attractive to donors because they are often the 'only show in town' (p20) and promise increased harmonisation.
- Harmonisation is held back by different procedures between MDTF stakeholders, a lack of common vocabulary and a lack of knowledge between organisations about rules and decision-making authority.
- Issues surrounding cost recovery for donors need to be sorted out.
- Despite offering reduced transaction costs to alternative funding mechanisms in theory, MDTFs are often more expensive in practice.

Scanteam/ Norway, 2007, 'Review of Post-Crisis Multi-Donor Trust Funds: Final Report', Norwegian Ministry of Foreign Affairs and Norwegian Agency for Development Cooperation (NORAD)
http://www.norad.no/en/Tools+and+publications/Publications/Publication+Page?key=109604

This review assesses the experience of several MDTFs in post-crisis situations, with a particular focus on post-conflict cases. It focuses on cross-cutting issues such as governing structures, harmonization and coordination, timeframe for establishment, the relationship between the UN system and the World

Bank, the impact of donor policies, and the role of implementing agencies such as NGOs. Case studies examined include Iraq, Indonesia, Afghanistan, Timor Leste, and the West Bank and Gaza.

MDTFs can improve resource efficiency and effectiveness in post-conflict situations where risk, uncertainty and information costs are high. They can increase and untie funding for national authorities and bring legitimacy to the overall peace process, both nationally and internationally. They may also introduce political risks for conflict parties and for donors, when expectations are not met. MDTFs should be primarily considered a good risk management vehicle.

The various MDTFs analysed for this study have different governance structures. National authorities have both formal and informal means of influencing MDTFs, although the formal role is often weak. The administrator's role is critical to MDTF performance, although the multiple roles have raised concerns of possible conflicts of interest. Secretariats are also critical, although they have often been under-staffed and under-funded. The costs of secretariats should be more realistic. MDTFs often fulfil the role of a national policy forum, which is a satisfactory short-term solution but in the long term, efforts should be made to support the development of national decision-making structures and processes. Although in theory, national governments should set funding priorities, in practice, most funds (around 90%) to UN-administered funds have been earmarked.

The report presents a number of key findings based on the case studies:

- MDTF staff have <u>developed a number of "good practices"</u> that address different operational problems, such as 'having the Operations Manual as a "living document" on the fund's website which has allowed the fund to show how it has adjusted its operational policies as decisions are taken' (p.4).
- <u>Ownership</u> of MDTF programmes needs to be as broad as possible.
- <u>MDTFs direct most funds to the public sector</u>, in particular to operating costs including civil services salaries, capacity development and public goods infrastructure.
- While MDTFs provide for coordination, harmonization and alignment, there are <u>limited spill-over effects on donor resources outside the MDTF</u>. As such, since MDTFs usually are a small share of total aid, the impact on total transaction costs may be limited.
- <u>MDTFs do not have a clear capacity development policy</u>. This is in part because of the time limited nature of the funds. This lack of a medium-term vision for capacity building may reduce effectiveness, however. Capacity development should be a central concern in all MDTF programmes and some agreed-upon principles should to be in place from the beginning.
- <u>There should be particular attention to identifying the possible role the MDTF can play in financing the (re)building of core state functions and capacities</u>.
- <u>There is little systematic analysis of cross-cutting issues within trust funds</u>, including gender, which can lead to a lack of clear operational targets and goals. MDTFs should see themselves within the framework of overall international development support and take crosscutting issues seriously.
- The most important factor in determining the success of an MDTF is <u>the security situation</u>.
- Most funds operate in environments where conflict is ongoing (Iraq, Afghanistan, Sudan, Democratic Republic of the Congo, Palestinian Territories), or where countries still experience instability and the potential for violence (Timor Leste). <u>The lack of conflict and risk analysis as an integral part of MDTF risk management is thus of particular concern</u>. They should be incorporated at the strategic and project levels. In addition, greater consideration of the conflict prevention, peace promotion and economic development nexus is necessary in order to improve the MDTF's overall effectiveness as a post-crisis instrument.
- <u>Monitoring and evaluation activities for tracking performance are improving</u>, and other quality assurance steps are being taken by some MDTFs. There is, however, no evidence of planning for the hand-over of M&E to national authorities.
- <u>MDTFs must take into account a number of key external factors including</u>: (i) the needs to be addressed, (ii) political commitment by the national actors, (iii) the capacities available to deliver against the needs, (iv) the security situation and its likely dynamics, and (v) the international political context of support for the MDTF (p.7). External factors can deteriorate rapidly.

The report makes two key recommendations:

- MDTF designs should be as simple as possible. 'Where feasible, single-fund MDTFs are the simplest to manage, but may not be optimal under all conditions. If MDTF funding is for budget support only, a two-tier governance structure consisting of a Council and a Management Committee should be sufficient. If the MDTF is to provide project funding, a Project Committee should be established to provide flexible, directive support for quick project approvals' (p.10).
- Prioritise capacity building: 'MDTF secretariats need to be staffed up quickly with the requisite skills, to ensure that the start-up phase runs as smoothly as possible' (p.10).

See also:
Scanteam/Norway, 2007, 'Review of Post-Crisis Multi-Donor Trust Funds', Country Study Annexes, Commissioned by the World Bank, Norwegian Ministry of Foreign Affairs and Norwegian Agency for Development Cooperation (Norad)
http://www.norad.no/en/_attachment/107611/binary/6064?download=true

Country Level Evaluations:

World Bank, 2009, 'Report to the Southern Sudan Multi Donor Trust Fund Administrator: Fourth Quarter Report 2008', World Bank, Washington, DC
http://siteresources.worldbank.org/INTAFRMDTF/Resources/MDTF-S-Q4-2008-Report.pdf

This report assesses the performance of the MDTF in Southern Sudan for the fourth quarter of 2008. It provides a number of useful lessons about the implementation of MDTFs:

- The speed and operation of World Bank MDTFs depend on the level of government involvement and capacity. In South Sudan, the government took considerable time to establish itself and this hampered the MDTF's operation.
- Fund managers must manage expectations about what the fund can achieve. In Sudan donors and governments had unrealistic expectations about the speed and impact of MDTF-financed activities.
- Pooled funds need to have a clear strategy and to achieve a critical mass if they are to be effective.
- A pooled fund should use procedures that are appropriate for a fragile states environment. Staff members need to challenge existing organisational modes of working to generate greater flexibility.
- Fund managers need to have a better understanding of context and costs. The World Bank underestimated the costs of services such as basic health packages and this led to long delays in agreeing programmes.

ODI, 2009, 'International Engagement in Fragile States: Lessons from South Sudan', Opinion Overseas Development Institute, London
http://www.odi.org.uk/resources/download/4418.pdf

This short paper provides some insights into the South Sudan Multi-Donor Trust Fund. It finds that the two Multi-Donor Trust Funds (for the Government of National Unity and the Government of South Sudan) have failed to achieve any visible impact.

- The rate of disbursement has been 'excruciatingly slow', with most projects failing to deliver 'tangible goods' to the public even by year two.
- Implementation has been hindered by a number of factors including bureaucratic World Bank procedures, staffing problems and protracted negotiations on who does what.
- The government's inability to cope with the bureaucratic requirements caused serious delays and inefficiencies.
- Many donors now bypass these funds, channelling more resources bilaterally or through other pooled funds.

- The funds' rules and procedures appear more suited to medium-term reconstruction and development than post-conflict recovery.

The paper also addresses the establishment of a Joint Donor Team in Juba, which, according to a mid-term evaluation, has helped to promote ownership in Southern Sudan and strengthened donor alignment with government policies. The paper notes that:

- The partners failed to develop and operate under a common policy framework, and could not contain the proliferation of bilateral programmes and projects. This makes it difficult to coordinate aid and has limited the team's contribution to state-building.
- Although efforts have been made to build the Government of South Sudan's administrative capacity, these have been top down, with the emphasis on building institutions at the centre rather than building legitimacy and accountability.
- The provision of services remains limited and corruption is very prevalent in many areas. This poses a risk to peace-building.
- Although the OECD/DAC principles are useful, they can be contradictory. There are important trade-offs between statebuilding and donor coordination objectives and the rapid scaling up of basic services as peace dividends.
- Fragile state analysis is useful, but the local causes of fragility must be understood. The causes of fragility may vary considerably from region to region.

UNDP, 2010, 'Evaluation of UNDP Governance Projects Funded by the Iraq Trust Fund', UNDP
http://erc.undp.org/evaluationadmin/manageevaluation/viewevaluationdetail.html;jsessionid=07D2F7B2F800F58685C3CD00DB0BE063?evalid=4947

This report evaluates several governance projects funded by the UNDG Iraq Trust Fund. Although it is not an evaluation of the Trust Fund, section four discusses various aspects of the fund which impacted on the implementation of the projects under examination. The report highlights a number of key findings about the UNDG Iraq Trust Fund, which was established in 2004:

- It was front- loaded, with the bulk of donor deposits coming within the first two years. There was pressure on the Trust Fund to 'get projects through the system', to demonstrate to donors and the Iraqi Government that it was up to the task of using the funds effectively.
- Because of the pressure to disburse rapidly, projects sometimes went forward without due consideration to whether funds requested matched the work proposed or whether the UN organisation was prepared to execute the proposal.
- These problems were exacerbated by the fact that the Iraqi government was not willing to undertake a full review of proposals or to ensure projects fitted into a coordinated development plan.
- After two years, some donors began to suspect that UN organisations were taking advantage of the poor project review process, and lost trust in the fund. Funding from major donors such as the EC dropped considerably after 2006.

Scanteam, 2005, 'Assessment: Afghanistan Reconstruction Trust Fund', Scanteam Analysts and Advisers
http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1202156192201/4638255-1205807817685/4787643-1206387665799/ARTF1report.pdf

This report reviews the Afghanistan Reconstruction Trust Fund (ARTF), based on evidence collected in 2004. It finds that the ARTF mechanism has been successful in mobilising resources from a wide range of donors, allowing the Government of Afghanistan to continuously provide key public services across the country. It highlights the following key findings about the fund:

- Although permitting donor preferences where funding gaps exist has ensured continued donor support for the fund, the report argues that these preferences may create constraints around allocation.

- The World Bank is administering the fund effectively, improving the quality of monitoring and reporting, and helping the Government to accelerate implementation. The governance structure is comprehensive yet flexible.
- Having an independent monitoring agent is seen as positive.
- Disbursements initially grew slowly, but have recently increased rapidly as early capacity development has taken effect.
- Donor meetings are useful, but too focused on technical issues and do not facilitate policy dialogue.
- The Fund does not have a systematic gender policy.

5. Related GSDRC Reports

GSDRC 2010, 'Helpdesk Research Report: Support to Public Administration Reform in Central and Eastern Europe', GSDRC
http://www.gsdrc.org/docs/open/HD650.pdf

In general MDTFs are a popular way of organising donor support for public administration reform (PAR) in difficult transition environments. The perceived benefits are:

- Lower transaction costs for donors
- Coordination of donor priorities and approaches
- Attracting a wide range of donors to contribute
- Facilitating easier harmonisation with country strategies and structures
- Straightforward disbursement and recording procedures

Alongside examples from transition countries such as Sudan, Indonesia, Iraq and Afghanistan donors have contributed to joint funds to support PAR (and related sectors) in Central and Eastern Europe. Cases include pooled Capacity Building Funds (CBFs) in Serbia and Georgia and the establishment of the Public Administration Reform Fund (PARF) in Bosnia and Herzegovina. An assessment of the literature on these suggests that:

- It is crucial for recipient government actors to participate in the management of such funds.
- Articulations of coordinated donor strategies and action plans have had a positive effect on the capacity of recipient governments to undertake reform.
- Funds need to be flexible and responsive.
- Donors must possess an exit strategy when funds are first implemented.
- Coordinated donor funding can be subject to disbursement delays and are unlikely to replace single donor funding.

GSDRC, 2010a, 'Helpdesk Research Report: Trust Funds to Pay Security Forces Salaries', GSDRC
http://www.gsdrc.org/docs/open/HD719.pdf

Multi-donor trust funds (MDTFs) are instruments for improving resource efficiency and effectiveness by reducing transaction costs and managing the high risk levels inherent in post-crisis environments. MDTFs direct most funds to the public sector, in particular to operating costs including civil services salaries, capacity development and public goods infrastructure. Some key challenges and lessons of the LOTFA – and of trust funds to pay public servant salaries (including security forces), more generally – include:

- Accountability and monitoring: Trust Funds can play a crucial role in contexts with high levels of corruption and poor capacity, but they require intensive monitoring mechanisms.
- Capacity development: Trust funds have often failed to have a clear capacity development policy. Capacity development should, however, be a central concern in all MDTF programmes and some agreed-upon principles should to be in place from the beginning. There should be particular attention to identifying the possible role the MDTF can play in financing the (re)building of core state functions and capacities. This includes attention to

developing the capacity for internal revenue-generation, such that the government will be able to fund salaries out of its own budget.

- Cross-cutting analysis: There is often little systematic analysis of cross-cutting issues within trust funds, including gender, which can lead to a lack of clear operational targets and goals.
- There is also little conflict and risk analysis, which is particularly problematic given that most funds operate in environments where conflict is ongoing or where the potential for violence is high.

GSDRC, 2007, 'Helpdesk Research Report: Post-Conflict Recovery', GSDRC
http://www.gsdrc.org/docs/open/HD475.pdf

This Helpdesk Report identifies key literature on financing and coordination mechanisms to support post-conflict recovery. It finds that there has been a push in recent years towards greater coordination and pooled financing mechanisms to promote sustainable post-conflict recovery. Donor coordination is facilitated through negotiated strategic frameworks, which articulate a shared vision, action plan and productive division of labour; and through common needs assessments. Pledging conferences have been criticised for non-delivery or late delivery of funds and a donor-driven agenda. Pooled funds can correct for these shortcomings and foster greater coordination. They come in the form of Post-Conflict Funds (small grants for flexible, smaller scale interventions), Multi-Donor Trust Funds (for large scale collaborative programmes) and the proposed Strategic Post-Conflict Recovery Facility (a flexible fund that would bridge the gap after emergency relief tapers). These un-earmarked funds would also allow financing to be channelled through the local government.

The report highlights a debate around the sequencing of financing. Some argue that aid should be concentrated early on when the demands for multiple recovery programmes are greatest. Others argue that the absence of absorptive capacity in the immediate post-conflict period means that aid should peak a few years after in order to be used effectively.

6. Additional information

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This query response was prepared by Oliver Walton, oliver@gsdrc.org

Experts consulted

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Selected websites visited

Afghanistan Reconstruction Trust Fund, 'Clingendael' Conflict Research Unit, Crisis States, Development Initiatives, Devex.com, DFID, Eldis, Google, Google Scholar, Google Books, GSDRC, IDL Group, Informaworld, ITAD, JSTOR, ODI, OECD, Multi Donor Trust Fund for Aceh and Nias, Multi Donor Trust Fund for South Sudan, NORAD, Peace Centre: Sciences Po, Publish What You Fund, Scanteam, UNDG, UNDP, World Bank

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