Project Briefing

No 58 • August 2011

Overseas Development Institute

Fragile states: measuring what makes a good pooled fund

Erin Coppin, Marcus Manuel and Alastair McKechnie

The pooling of donor funds in fragile states is growing in popularity as a means to effective aid. At the same time, experience of pooled funds at country level has varied. Some funds have been widely praised; others fiercely criticised. This Project Briefing draws on ODI research to demonstrate that a more systematic comparison of pooled funds is feasible.

The starting point for our research is the Paris Declaration on Aid Effectiveness. The Declaration states that, in general, effective aid requires: ownership of national development strategies and policies by recipient countries; the alignment of aid with recipient government policies and systems; and the harmonisation of aid between donors to reduce transaction costs. It also emphasises management for delivery of results and mutual accountability. Without these elements, aid is fragmented. It erodes the capacity of the state to govern, and develops parallel systems without accountability to citizens.

These principles are no less relevant in fragile states, although they may be more challenging to put into practice. Aid in fragile states is subject to the same unintended consequences that gave rise to the Paris Declaration. Furthermore, the transition from fragile to robust states is by definition dependent on building capable, effective and legitimate institutions that can provide and oversee public services and be held accountable – ideally to their citizens, rather than donors (OECD, 2005).

Pooled funds aim to reduce the transaction costs of aid for recipients by channelling finance from multiple donors through one instrument (a multi-donor trust fund or MDTF, a pooled fund, or a basket fund). Synthesising the results of the last four years of cross-country research into pooled funds in fragile states (Scanteam/Norway, 2007; Ball, 2007; Ball and van Beijnum, 2010; Foster, 2007; OECD, 2010a, b, c, 2011; World Bank, 2011) highlights areas of consensus on what constitutes good practice for pooled funds.

Box 1: Pooled fund attributes

Past research stresses that a good pooled fund:

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

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

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

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

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

Primarily, there is agreement that pooled funds must get the money flowing quickly to get results on the ground, but that this is neither beneficial nor sustainable in the long term without capacity-building. There is also a striking overlap between the key conclusions of these studies and the broad categories highlighted in the Paris Declaration as shown in Box 1.

Key points

- Pooled funds can be assessed and compared in a systematic way to identify and replicate good practice
- A good pooled fund can both deliver results and build capacity in fragile states
- Further consultation among donor agencies and recipient governments on the choice of indicators and their respective weights would be useful

Overseas Development Institute

ODI is the UK's leading independent think tank on international development and humanitarian issues.

ODI Project Briefings provide a focused and specialised summary of a project, a country study or regional analysis.

This and other ODI Project Briefings are available from www.odi.org.uk

A systematic approach to measuring effectiveness

Despite the breadth of research in this area and the general consensus on the key features of a good pooled fund, there is at present no way to systematically compare different pooled funds. We have explored whether it is possible to synthesise this research into a practical quantitative assessment tool. To do this we have examined three pooled funds, two that are well known as successful and one that is generally criticised (Scanteam and Norway, 2007; Ball and van Beijnum, 2010; Pantuliano, 2009; 2010). We deliberately chose a range of regions – West Africa, Central Africa and Asia – and a range of sectors – two of them multisectoral and one single sector.

- **Afghanistan Reconstruction Trust Fund (Afghanistan RTF)** – a World Bank administered multi-donor trust fund, which is widely recognised to be an example of a successful MDTF. Although the original fund was only expected to reach $50-100 million, 30 donors have contributed over $3 billion since 2002.
- **Liberia Health Sector Pooled Fund (Liberia HSPF)** – a pooled fund managed by the Ministry of Health and Social Welfare in Liberia, with four donors contributing over $20 m. since 2008. This is a relatively new pooled fund, but generally agreed within Liberia to be highly effective.
- **Southern Sudan Multi-Donor Trust Fund (Southern Sudan MDTF)** – a World Bank administered multi-donor trust fund, with 14 donors contributing over $400 m. since 2006. The fund has been criticised on a number of occasions and is now being closed.

For all three funds we gathered information on 30 potential indicators of effectiveness. A full research paper to be published later in 2011 will detail the reasoning behind the preliminary choice of indicators, but we sought to cover all the key areas identified in the earlier research and ensure that we had indicators for all the broad Paris Declaration categories. Under 'alignment', for example, we have drawn on work by the Collaborative Africa Budget Reform Initiative (CABRI, 2009) on reporting aid on budget on the development of indicators for alignment with government systems. We chose not to measure traditional disbursement rates as we were comparing funds for recurrent expenditure with funds for infrastructure, the latter of which generally have much lower disbursement rates.

We aimed to use indicators that would be available to any desk-based researcher to ensure that our approach could be replicated for other funds (terms of reference, memoranda of understanding, procedures manuals, annual reports, and minutes of meetings). In a few cases, however, we also drew on the field experience of our researchers.

We then scored the extent to which the funds met each indicator. For most indicators we adopted a simple three box score (such as 'fully/partially/not at all') – while for a few indicators we used percentages (such as percentage of funds that are not earmarked). We also sent all the data we gathered to the pool fund managers so they could correct any misunderstanding and also comment on the methodology, which led to a further refinement of the definition and scoring of a few of the indicators.

Given the number of indicators we explored both weighted and unweighted combinations. As financial effectiveness in the short term and capacity-building

Table 1: Pooled fund indicators

Area	Indicator	Weighting 50% Financial effectiveness	Weighting 50% Capacity building
Ownership	Strong linkage to relevant government strategy	*****	
	National government is represented on committees		*****
	Ministerial accountability for expenditure to legislature		****
	Location of pooled fund financial management in ministry		****
Alignment	CABRI's 8 'on budget' indicators		
	...on plan		****
	...on budget		****
	...on Treasury		****
	...on Parliament		****
	...on procurement		****
	...on accounting		****
	...on audit		****
	...on report		****
	Low proportion of funds that can be earmarked	****	
	Flexibility of technical assistance to work beyond pooled fund		****
	Salary top-ups go beyond management unit staff		****
	Business conducted using national budget classifications		****
	Pooled fund documentation and reports made publicly available	***	
	Project preparation and approval guidelines available	***	
	Business conducted in national currency		***
	Business conducted in sync with the national financial year		***
Harmonisation	Regularised interface with wide group of donors	****	
	Experience of fund administrator	****	
	Protocol for misuse of funds includes national accountability processes	****	
Delivery of results	Finance: commitments to projects/financing received	*****	
	Finance: actual spend/planned spend	****	
	Flexibility to reallocate funds to different priorities within year	****	
	No requirement of counterpart funding	***	
Mutual accountability	Monitoring of pooled fund includes government processes	****	
	Timeliness of pooled fund reports	****	
	Independent (not joint) reviews	****	

in the long term are two of the most important features of any aid to fragile states we explored in particular the impact of grouping the indicators into these two categories. Each category was weighted at 50% of the overall score and the individual indicators were prioritised within these. Table 1 shows our preliminary and experimental prioritisation of these indicators using three, four and five stars.

Comparison of pooled funds

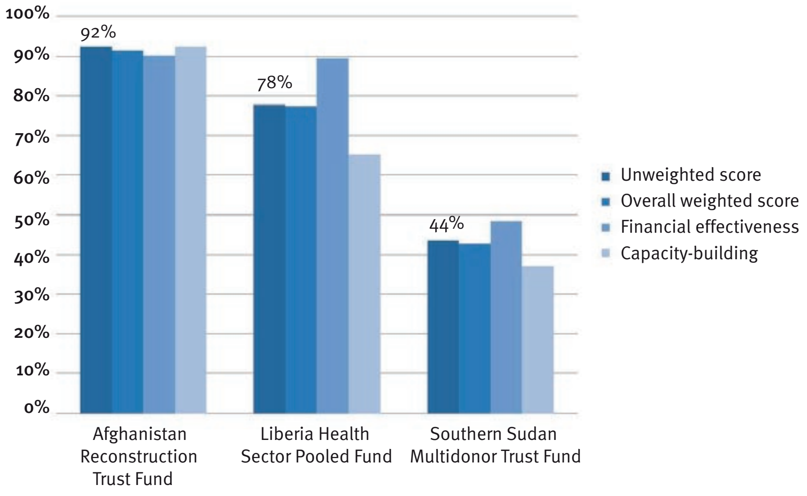
Figure 1 shows the results of the unweighted and various weighted combination of the indicators, with all measures revealing a clear difference in the scores of the three funds. It also illustrates the potential difference between the short-term financial effectiveness of a fund – how quickly and well the money is spent – and the longer-term capacity-building benefit.

The strong performance of the the Afghanistan RTF reflects the fact that it is financially effective, almost completely 'on budget' and uses government public financial management systems. In terms of financial effectiveness, it has committed over 90% of its finance to projects and has spent 95% of the money it planned to spend from 2007/08 to 2009/10. In terms of capacity-building, it is the only pooled fund in our sample that is included in the national budget, uses a national auditor (with World Bank oversight), has adopted the Afghan Solar Year and uses both the Afghani and US dollars (in line with government practice).

In comparison, the Southern Sudan MDTF scores badly for both financial effectiveness and capacity-building. Its funds are only partially 'on budget' and the management unit is not integrated with government systems. The Southern Sudan MDTF has a much weaker relationship to national policies and systems, with funds not reported in national budget documentation, and not using the national budget classifications or currency. Importantly, it has also had difficulty disbursing funds, committing less than a third of its total finance to projects over the years 2006 to 2009 (although its actual spend is 80% of its cumulative planned spend for 2008 and 2009).

The Liberia HSPF scores highly for financial effectiveness but has a lower score for capacity-building. It has committed all of its finance to projects since its inception, although it has only spent just over 80% of its planned spend (on a par with the MDTF-SS). The Liberia HSPF also has no earmarking or requirement of counterpart funding. It has a strong capacity-building focus at the sectoral level, with a project management unit embedded in the Liberian Ministry of Health and Social Welfare that uses government monitoring systems. The fund uses national procurement procedures and the Liberian national audit office (with donor oversight). Despite these features, there are gaps that reflect weak links to central public financial management processes. Although funds are disbursed into the Ministry account, they do not go through a Treasury account. Similarly, although pooled fund spending is integrated into the Ministry's planning and budget submission, it is not reported in national budget documentation or Ministry of Finance reporting and does not go before Parliament. A stronger focus on these links would improve the fund's score in capacity-building.

Figure 1: Pooled fund scores



The relative performance of pooled funds arrangements does depend to a certain extent on country specific factors, such as the difficult conditions in Southern Sudan after the Comprehensive Peace Agreement, and the willingness of donors to take risks in the country. However, our indicators capture elements of performance that are primarily the design of good pooled funds, and are not subject, primarily, to country contexts. It is unlikely that the design of a pooled fund would be so constrained by the country context that it was truly impossible to score well on these indicators.

It is striking that the funds we examined can manage to be financially effective whilst also building capacity to greater or lesser degrees. This calls into question the notion that delivery of results is always traded off against capacity-building. Our data above show that this may not be a zero-sum game in all cases.

Conclusion – systematic comparison is possible and useful

We aimed to find out whether it is possible to synthesise and quantify past research on the effectiveness of pooled funds. Our key conclusion is that even with a limited dataset and an experimental methodology, it is possible to assess and compare pooled funds in a systematic way with results that strongly reflect general perceptions of effectiveness. This suggests it is possible to benchmark the design and operation of pooled funds and, therefore, enable the identification and replication of good practice. The list of indicators identified here could form the basis of a preliminary checklist for the design of any new fund or the reform of any poorly performing fund.

There are areas where further research would be valuable. It would be useful to confirm that this analysis holds for a larger number of funds and to go into more detail on, for example, whether infrastructure-only funds require special treatment and whether large multi-sector trust funds should be treated differently to single sector trust funds. Indicators that capture accountability arrangements between donors, governments and fund administrators may be desirable. Current moves towards greater aid transparency would help to ensure that more data are readily available for analysis.

If this approach is to be useful for policy-makers, there must be an appropriate consultation process among donor agencies and recipient governments on the choice of indicators and their respective weights. One good forum would be the group of fragile states and donors that make up the International Dialogue on Peacebuilding and Statebuilding. In the meantime, as part of the Budget Strengthening Initiative programme, ODI has set up a webpage where anyone can download the scoring methodology, score their own fund and compare it with other funds (http://bit.ly/pooled-funds-scoring-tool). Scores can be confirmed and validated by ODI, and the fund added to the database for others to access.

Written by Erin Coppin, Research Consultant (bsi-research1@odi.org.uk); Marcus Manuel, Senior Research Fellow and Director of Budget Strengthening Initiative (m.manuel@odi.org.uk); and Alastair McKechnie, Senior Research Associate (a.mckechnie@odi.org.uk).

Overseas Development Institute

111 Westminster Bridge Road, London SE1 7JD

Tel +44 (0)20 7922 0300

Fax +44 (0)20 7922 0399

Email publications@odi.org.uk

ISSN 1756-7602

References and project information

References:

Ball, N. (2007) 'Financing mechanisms for post conflict reconstruction'. washington, DC: Center for International Policy.

Ball, N. and van Beijnum, M. (2010) 'Pooled funding for transition at the country level'. New York: UNDG/ECHA Task Team on Financing for Transition.

Collaborative Africa Budget Reform Initiative (CABRI) (2009) 'Putting Aid on Budget: Synthesis Report'. Pretoria: CABRI.

Foster, M. (2007) Aid Instruments in Fragile and Post Conflict States (Desk review for DFID Nepal). Kathmandu: DFID.

ODI (2010) 'Accelerating the transition out of fragility: The role of finance and public financial management reform'. Conference report. London: ODI.

OECD (2005) 'Harmonisation and Alignment in Fragile States' – Paper prepared by ODI. Paris: OECD.

OECD (2010a) 'Ensuring Fragile States are Not Left Behind'. Paris: OECD.

OECD (2010b) 'What are the advantages of using country systems?'. Paris: OECD.

OECD (2010c) 'Transition Financing: Building a Better Response'. Paris: OECD.

OECD (2011) 'The Use of Innovative Aid Instruments in Peacebuilding and Statebuilding'. Research paper prepared by ODI (www.oecd.org/dataoecd/39/43/48153575.pdf). Paris: OECD.

Pantuliano, S. (2009) 'International engagement in fragile states: lessons from Southern Sudan'. ODI Opinion 135. London: ODI.

Scanteam/Norway (2007) 'Review of Post-Crisis Multi-Donor Trust Funds, Final Report'. Report commissioned by the World Bank, Morwegian Ministry of Foreign Affairs and Norad in cooperation with the Canadian International Development Agency. Oslo: Norad.

World Bank IEG (2011) 'An Evaluation of the World Bank's Trust Fund Portfolio: Trust Fund Support for Development'. Washington, DC: World Bank.

Project Information:

This Project Briefing was prepared with support from the Budget Strengthening Initiative, a programme funded by the UK Department for International Development with support from AusAID, and originated during research work funded by OECD's International Network on Conflict and Fragility on aid instruments in fragile states. For more information visit:

http://bit.ly/budget-strengthening-initiative