Financing development together
The role of pooled financing mechanisms in enhancing development effectiveness
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For almost a decade since its establishment, the Multi-Partner Trust Fund Office (MPTF Office) has been at the forefront of the United Nations’ efforts to promote greater aid effectiveness. The International Reconstruction Fund Facility for Iraq, the first United Nations (UN) multi-donor trust fund administered by the MPTF Office since 2004, was designed to support the Government of Iraq and donors to collect and allocate financial resources in a coordinated, transparent and cost-effective manner to facilitate the country’s recovery and reconstruction. The emergence of such a pooled funding mechanism represented a major innovation to the traditional approach to crises and post-conflict situations: for the first time, a common framework was available to access a wide range of specialized UN agencies’ expertise in humanitarian assistance, recovery, reconstruction and development.

The financial architecture first developed to support Iraq’s reconstruction has since evolved considerably to support a diverse set of humanitarian, transition, development and climate funds and programmes. As of September 2013, the MPTF Office manages approximately one hundred pooled financing mechanisms, which represent more than 95 percent of the funds channelled through UN-administered multi-donor trust funds and joint programmes. The MPTF Office operates in 99 countries and has transferred close to $7 billion from 94 contributors to 44 implementing UN entities and, most recently, directly to national government implementing entities.

The design of pooled funding mechanisms keeps evolving to meet a growing demand for customized development finance solutions. Since its adoption in Busan in 2011, the New Deal for Engagement in Fragile States has influenced the discourse among national and international partners with its call to change the way development assistance is delivered to the 1.5 billion people living in countries affected by conflict and fragility. Through the MPTF Office, the United Nations is developing new pooled financing mechanisms to increase the proportion of funding channelled through country systems, fulfilling a key ambition of the New Deal.
Similarly, efforts to address climate change have ushered in strong growth in the number of public, private, national and international financial mechanisms. In response to this challenge, the MPTF Office is assisting national governments in establishing national climate funds to collect and pool new domestic resources, blend them with international funding, coordinate the financed actions and channel incentive-based payment systems.

Finally, the 2012 Quadrennial Comprehensive Policy Review resolution recalls the commitment of United Nations Member States to enhancing the relevance, coherence, effectiveness, efficiency, accountability and credibility of the United Nations system as a shared goal and interest. It also “urges Member States making non-core contributions” to “give priority to thematic and pooled financing mechanisms applied at the global, regional and country levels.” To this end, the MPTF Office is increasingly called upon to pool non-core resources that are more predictable, flexible, less earmarked and better aligned with the priorities of programme countries.

The aim of this publication is to update policymakers and development practitioners on recent developments in pooled financing mechanisms. The work of the MPTF Office rests on the conviction that pooled financing mechanisms will prove increasingly instrumental in enhancing aid effectiveness, strengthening UN coordination and supporting transformative change for sustainable development in a rapidly evolving development financing landscape.

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A pooled fund is a mechanism used to receive contributions from multiple financial partners and allocate such resources to multiple implementing entities to support specific national, regional or global development priorities. These open-ended funds operate as pass-through mechanisms and as such do not require all participating organizations to comply with the operating procedures of a lead agency. Instead, pooled funds offer a flexible mechanism that enables participating organizations to handle implementation according to their own operating procedures for procurement and financial management. By avoiding any duplication of operating procedures, pass-through mechanisms minimize implementation delays and transaction costs. A pooled trust fund typically comprises an oversight body, a secretariat, a fund administrator, implementing entities and donors working under common governance arrangements. The two main pooled mechanisms currently used by the UN system are multi-donor trust funds and stand-alone joint programmes.
Introduction

Established in 2003 and housed within the United Nations Development Programme (UNDP), the Multi-Partner Trust Fund Office (MPTF Office) facilitates UN coherence and development effectiveness in addressing multifaceted issues—such as humanitarian crises, peacebuilding, recovery and development—and engaging in collaborative international efforts on pandemics, climate change and biodiversity conservation.

These complex challenges demand the combined expertise and resources of multiple development partners. The MPTF Office assists the UN system and national governments in establishing and administering pooled financing mechanisms—multi-donor trust funds—to collect and allocate funding from a diversity of financial contributors to a wide range of implementing entities in a coordinated manner. These funding mechanisms build on the principles of the aid effectiveness agenda, which calls for country-driven, coherent, timely, flexible and result-oriented assistance.

UN and national pooled funding mechanisms do not follow a rigid template or provide a one-size-fits-all solution; programming priorities drive the selection of funding sources, governance, implementing and fiduciary arrangements. Implementation is similarly flexible and may involve UN agency, mixed or national execution—with an emphasis on using countries’ own public financial management systems to channel funds, an objective increasingly integrated into multi-donor funds, particularly in transition contexts.

Based on the MPTF Office’s experience in establishing and administering UN and national trust funds over the past ten years, this publication summarizes the benefits of pooled financing mechanisms and the various design options available to meet the unique requirements of different development partners. Chapter 1 chronicles the emergence and history of pooled financing mechanisms and outlines their main design features. Chapter 2 illustrates their application to a range of humanitarian, transition, development and climate programmes. Chapter 3 details MPTF Office’s three service lines—trust fund architecture design, trust fund administration, and advisory and capacity development services for fund initiation.
1 Emergence of pooled financing mechanisms

1.1 From Paris to Busan: pooled financing for aid effectiveness

Demand for pooled financing mechanisms has grown substantially during the last decade. The period witnessed increases in the fragmentation, earmarking, complexity and volatility of aid, raising concerns of potentially decreasing aid effectiveness. The average size of a donor-funded transaction declined from an average of $3 million in 1997 to $1.3 million in 2009, while the number of donor activities reached about 120,000 in 2009. At the same time, development efforts converged around a set of internationally accepted goals and the need to maximize the impact of aid. To promote better management of increasing levels of aid, the 2005 Paris Declaration on Aid Effectiveness defined—and the 2008 Accra Agenda for Action reinforced—the five pillars of aid effectiveness. In 2011, the Fourth High-Level Forum on Aid Effectiveness took place in Busan and resulted in the New Deal for Engagement in Fragile States, which once again

echoed the importance of developing country leadership and more effective, results-oriented resource management. (See Box 2.)

For more than a decade since the aid effectiveness agenda came into focus, the United Nations has been at the forefront of this global drive, launching the first UN multi-donor funding mechanism—the International Reconstruction Fund Facility for Iraq—in 2003 and investing in a new organizational unit to support it. The Iraq Trust Fund Office became operational in 2004 and has since facilitated the United Nations’ effort to ‘put Paris into practice’, becoming the United Nations Multi-Partner Trust Fund Office (MPTF Office) in 2006. The new name reflected an expanded mandate, with the launch of the One United Nations reform initiative designed to enhance the 2005 PARIS DECLARATION ON AID EFFECTIVENESS defined five pillars of aid effectiveness:

1. **OWNERSHIP** – partner countries exercise effective leadership over their development policies and strategies, and coordinate development actions.

2. **ALIGNMENT** – donors base their overall support on partner countries’ national development strategies, institutions and procedures.

3. **HARMONIZATION** – donors’ actions are more harmonised, transparent and collectively effective.

4. **MANAGING FOR RESULTS** – donors and partners manage resources and improve decision-making for results.

5. **MUTUAL ACCOUNTABILITY** – donors and partners are accountable for development results.

In November 2011 in Busan, the international community endorsed the NEW DEAL FOR ENGAGEMENT IN FRAGILE STATES, committing to take action in three areas:

1. **PEACEBUILDING AND STATEBUILDING GOALS** – development partners define a new framework to facilitate attaining the Millennium Development Goals in fragile and conflict-affected countries.

2. **COUNTRY LEADERSHIP AND OWNERSHIP** – aid recipients lead their own transitions out of fragility, playing a key role in agenda-setting and implementation.

3. **EFFECTIVE RESOURCE MANAGEMENT AND RESULTS ALIGNMENT** – development partners strive to improve transparency, use of country systems, national capacities, timeliness of aid delivery and predictability of funding.
country-level coherence, efficiency and effectiveness of support and reduce transaction costs for developing countries. (See Box 3.)

Since taking on the task of supporting UN system-wide trust funds in 2006, the MPTF Office has rapidly expanded its capabilities and the services provided to donor, government and UN partners, managing more than 95 percent of UN multi-donor trust funds and joint programmes by summer 2013. As of late 2013, the office services 44 participating organizations in 99 countries, managing 63 multi-donor trust funds and 40 joint programmes. A total of 94 contributors—ranging from traditional and non-traditional donors to foundations, private donors and individuals—have deposited approximately $7 billion in contributions to UN humanitarian, transition, development and climate change multi-donor trust funds (see Figure 1).

The growth in the financial resources channelled through MPTF Office-administered trust funds and joint programmes reflects the considerable benefits they deliver to all stakeholders. Pooled financing mechanisms co-mingle multiple contributions to support specific national or global development priorities and provide financial contributors with global reach, proven implementation capacities, reduced operating costs, robust fiduciary and result-based management, and mutual accountability through collaborative decision-making. Furthermore, pooled financing mechanisms facilitate country ownership, aid alignment and harmonization by using national systems, improve the predictability of aid and reduce its fragmentation (see Figure 2).
BOX 3. POOLED FINANCING: A TIMELINE OF INNOVATION

2003 United Nations and World Bank launch the FIRST POOLED FINANCING MECHANISM, the International Reconstruction Fund Facility for Iraq (IRFFI), to combine multiple donor contributions and coordinate support

2004 Japan, European Commission and others make contributions to the FIRST COUNTRY TRANSITION TRUST FUND, the Iraq Trust Fund (the United Nations-managed IRFFI funding window)
United Nations establishes the IRAQ TRUST FUND OFFICE housed within UNDP

2006 Secretary-General establishes the FIRST GLOBAL TRANSITION FUND, the United Nations Peacebuilding Fund, to support countries emerging from conflict in stabilization and capacity-building activities
Secretary-General creates High-Level Panel on United Nations System-Wide Coherence, leading to the ONE UNITED NATIONS REFORM INITIATIVE
The FIRST COUNTRY-BASED COMMON HUMANITARIAN FUNDS established in Sudan and the Democratic Republic of the Congo to advance reforms of humanitarian aid proposed in the UN Secretary-General’s 2005 report In Larger Freedom and endorsed by several UN bodies
United Nations Iraq Trust Fund Office becomes the MULTI-DONOR TRUST FUND OFFICE (renamed the Multi-Partner Trust Fund Office in 2011)

2007 Government of Spain and United Nations establish FIRST UN-WIDE GLOBAL DEVELOPMENT FUND, the Millennium Development Goals Achievement Fund
FIRST NATIONAL DELIVERING AS ONE TRUST FUNDS established by the Governments and UN Country Teams for eight pilot countries in Albania, Cape Verde, Mozambique, Pakistan, Rwanda, Tanzania, Uruguay and Viet Nam

2008 United Nations Development Group and the Governments of Norway, Spain and the United Kingdom launch the FIRST GLOBAL DELIVERING AS ONE FUND: Expanded Delivering as One Funding Window for Achievement of Millennium Development Goals
Food and Agriculture Organization of the United Nations, UNDP and the United Nations Environment Programme establish the United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD) and launch the FIRST UNITED NATIONS GLOBAL CLIMATE CHANGE FUND, the UN-REDD Programme Fund

2010 FIRST NATIONAL CLIMATE CHANGE FUND, to help Ecuador cope with loss of income resulting from its decision to forego oil extraction to avoid deforestation and conserve critical ecosystems

2013 FIRST NATIONAL STABILIZATION FUND established to assist in Mali’s transition from crisis
Pooled financing mechanisms also play an important role in shaping development discourse. By coordinating the inputs and aligning the priorities of the multiple partners involved, multi-donor trust funds provide a forum for policy dialogue and help channel funds toward a strategic vision based on programmatic realities and stakeholder needs. Robust quality assurance systems throughout the entire fund management chain are critical to achieving such benefits.

1.2 UN-supported pooled financing mechanisms

Pooled fund design

Pooled financing mechanisms operate in a wide range of humanitarian, transitional, development and climate financing contexts, as well as on different geopolitical scales (global, regional, national and sub-national funds). Furthermore, they can either be UN or nationally managed. UN trust funds, both global and country-level, aim to increase UN coherence and effectiveness in support of global and national development goals, or to enable an efficient deployment of UN assistance in crisis and post-crisis situations. UN trust funds are both administered and implemented by UN agencies. National trust funds are fully owned by their countries’ governments, are administered by the MPTF Office on their behalf, and are usually implemented by a diverse range of national and international implementing entities.

Both UN and national trust funds may operate through a single or multiple funding windows, based on the
**Figure 3. Trust Fund Design Considerations**

**Key Decision: Objectives**

**Considerations**
1. National priorities
2. Fund theory of change
3. Relation to other funds, entities and programmes
4. Timeframe
5. Expected financial flows
6. Stakeholders

**Key Decision: Governance**

**Considerations**
1. Governing bodies identified
2. Relation to existing bodies
3. Composition of bodies
4. Decision-making process
5. Proposal submission
6. Proposal approval
7. Oversight
8. Relation to other funds

**Key Decision: Results-based management (RBM)**

**Considerations**
1. Connection to existing RBM systems
2. Fund RBM requirements
3. Environmental and social safeguards
4. Audits
5. Oversight
6. Guidance materials

**Key Decision: Capitalization**

**Considerations**
1. General sources to be collected/blended
2. Innovative sources
3. Allocate funds to specific activities
4. Existing sources
5. Relation of capitalization to size, governance, implementation
6. Enabling environment (e.g. legislation)
7. Cycle for resource mobilization

**Financial Partners**
- Public domestic
- Public multilateral
- Public bilateral
- Private funds
- Innovative sources

**Governance Bodies**
- Secretariat
- Technical committee
- Steering committee

**Support** — Coordination — Funds

**Monitoring and Reporting**
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Key decision: Fiduciary management

Consignations:
1. Trustee selection
2. Government engagement with trustee
3. Services of trustee
4. Conflicts of interest/oversight
5. Relation to implementers
6. Fees
7. Capacity development to strengthen national trustee

Key decision: Implementation arrangements

Consignations:
1. Relation to lending institutions
2. Implementer selection and accreditation
3. Relationship of fund to implementers (e.g. oversight)
4. Implementation modalities (fund transfer arrangements)
5. Reporting and oversight
6. Relation to domestic and international funds
7. Fees

Sources: UNDG Guidance on Establishment, Management and Closure of Multi-Partner Trust Funds; UNDP, Blending Climate Finance through National Climate Funds, 2011.
scope and complexity of programmatic goals and the number and diversity of implementing entities.

**Single-window trust funds** represent the simplest pass-through mechanism, most appropriate in situations that involve a homogeneous set of implementing entities that share the same operating procedures. All contributions are managed by a single trustee/fund administrator who transfers approved resource allocations to UN and/or national implementing entities across all programmatic priority areas.

**Multi-window trust funds** provide the greatest flexibility for the most complex and challenging situations. Transaction costs of a single-window trust fund model can be prohibitive when applied to a diversity of implementing partners with often incompatible operating procedures. This can be particularly problematic in time-sensitive contexts. To eliminate this constraint, resources are often channelled through two or more funding windows, each serving a homogeneous subset of implementing entities and operating with distinct procedures under one multi-window trust fund with a common governance structure. For example, a UN system funding window can be established alongside others, which may be administered by international financial institutions, such as the World Bank, or other partners. As such, multi-window trust funds ensure that pooled trust funds continue operating as single-layer pass-through mechanisms, minimizing transaction costs and implementation delays.

Given the many trust fund design options and the diversity of pooled financing needs at the country,
regional and global levels, there are a number of key considerations to be examined when designing a trust fund. These include the fund’s strategic objectives, governance structure including leadership and coordination, administrative arrangements, financing sources and implementing entities. Figure 3 highlights the components used in the design of each unique trust fund model to meet the specific requirements of any context.

**Fund management and implementation: entities and functions**

Notwithstanding their diversity, various funds have a number of common design and governance features. These usually include an oversight and decision-making body such as a steering committee, a secretariat, implementing entities and fund administrator or trustee, ensuring a strong division of responsibilities between fund administration, operation and implementation (see Box 4).

**Fund administration** can be handled by one or be shared by several administrative agents, or trustees, which can be beneficial (but not required) in pooled financing mechanisms with multiple funding windows. The administrative agent concludes legal agreements for fund establishment, receives financial resources from contributors and then disburses such resources—in amounts approved by the fund’s steering committee—among the implementing entities responsible for carrying out programmes and
projects. The agent also holds and manages funds in trust, provides tools to ensure transparency and result tracking, and prepares consolidated programme and financial reports for the steering committee and contributors. While participating in steering committees as an ex-officio member, the administrative agent does not make project funding decisions.

**Fund operation** is directed by a steering committee with the support of a secretariat.

- **Steering committee**: As the governance body, the fund steering committee sets overall direction, makes resource allocation decisions and carries out independent reviews. The committee is usually comprised of representatives of the recipient government, the UN system and financial contributors. Steering committee responsibilities include establishing social and environmental safeguards, and fiduciary and operational standards. The committee also reviews and approves the operating budget for the fund secretariat; project proposals prepared by UN agencies, national governments and other implementing entities; and progress and financial reports.

- **Secretariat**: In addition to providing administrative support to the steering committee for fund operations, the secretariat can fulfil a technical function and provide some programmatic support. The main secretariat functions include preparing operational manuals with rules of procedures, facilitating steering committee meetings, managing project proposal submission and review, monitoring projects and coordinating...
evaluations, and overseeing and managing public communications. The secretariat also coordinates with the fund’s administrative agent to produce and distribute narrative and financial reports, and can directly appraise projects with the assistance of a technical working group.

**Fund implementation** is the domain of implementing entities that receive financial resources directly from the fund through its administrative agent and manage them to carry out a range of agreed activities designed to achieve the fund’s planned results. UN implementing entities use trust fund resources according to their own policies and procedures—for accounting, procurement of goods and services, financial management, and environmental and social safeguards—and non-UN entities may need to undergo a capacity assessment to confirm that such policies meet the fund’s minimum fiduciary and other requirements. Pooled financing mechanisms administered by the MPTF Office involve a wide range of implementing entities, including:

- **UN organizations**, which implement UN trust funds and, in doing so, partner with various national, international, non-governmental and private organizations to execute specific project activities;

- **National entities**, which are increasingly assuming implementation responsibilities in national trust funds and joint programmes. National implementation allows for financing to flow directly from the fund’s administrative agent to a country’s central and local (or sub-national) government entities that implement programmes, projects and activities. In such cases, a government body chairs the fund’s steering committee, coordinates all activities implemented by national entities, and assumes full programmatic and financial accountability for the resources received.

- **Other multilateral, bilateral, national and international non-governmental and private sector entities** can directly receive disbursements from the fund’s administrative agent under a national trust fund. Such implementing entities must first be accredited by the government. Under UN trust funds, non-governmental organizations can also receive funds for projects and activities through a UN implementing organization; however, overall accountability for such funds remains with the UN organization.
2 Examples of pooled financing instruments and models

This chapter provides examples of humanitarian, transition, development and climate multi-donor trust funds and joint programmes managed by the MPTF Office, as well as details on their structural configuration, programmatic work and results attained. Importantly, these mechanisms are flexible and may be modified over time to respond to changing contexts, capacities and strategic priorities, while ensuring a smooth transition from one type of financing or operational structure to another.

2.1 Humanitarian funds

At the request of the United Nations Office for the Coordination of Humanitarian Affairs (UNOCHA), the MPTF Office administers the Common Humanitarian Funds (CHFs)—a pooled funding mechanism that operates under the leadership of the United Nations Humanitarian Coordinator to finance the most critical humanitarian needs and enable a rapid response to unforeseen circumstances. In line with the principles of good humanitarian donorship, the Common Humanitarian Funds provide rapid, flexible and predictable financing on the basis of needs assessments. The mechanism also promotes greater
effectiveness, accountability and partnership in humanitarian response, improving planning and coordination.

The CHF portfolio has received more than $2.2 billion in total contributions, with $2.0 billion allocated to five countries: Central African Republic, Democratic Republic of the Congo, Somalia, South Sudan and Sudan. The UNOCHA Consolidated Appeal Process (CAP)—where aid organizations come together to jointly plan, coordinate, implement and monitor their emergency response and cohesively appeal for funds—serves as the primary CHF allocation framework. Funded priority programmes and projects are typically implemented by the UN system and international and national non-governmental organizations, which implement between 50 and 75 percent of CHF activities.

There are three prerequisites for establishing a CHF: (i) the existence of substantial humanitarian needs that are expected to remain over a period of at least three years; (ii) multi-year commitments from at least two donors to assure sustainable capitalization; and (iii) the existence of CAP or a similar humanitarian planning framework in the country. At a minimum, the size of a CHF should be 10 percent of a country’s annual CAP funding.

Established in 2012 by the Humanitarian Coordinator for South Sudan, UN agencies and financial partners to support the timely allocation and disbursement of donor resources to critical needs, the South Sudan Common Humanitarian Fund (CHF) raised $118 million before the end of that year. In the 2012 Consolidated Appeal Process (CAP), the health cluster prioritized South Sudan CHF allocations to projects that aimed to ensure continuity of basic services in high-risk counties, improve emergency preparedness and surge capacity, and respond to health crises. Health-related CHF-funded projects were implemented by four UN agencies (United Nations Population Fund, United Nations Children’s Fund, United Nations Industrial Development Organization and World Health Organization), four national and 17 international non-governmental organizations. The latter received close to half (49.5 percent) of the South Sudan CHF funding, and UN agencies received 36.7 percent.

The CHF provided crucial bridge funding for purchasing and delivering core pipeline supplies, accounting for 21 percent of all CAP-secured funding. Similarly, the CHF provided 23 percent of the funding secured for the provision of frontline services across the country. The South Sudan CHF ensured the continuity of basic health services at a time when longer-term funding streams were under development and implementing partners faced considerable funding gaps.

Implementing partners used South Sudan CHF funds to provide more than 408,000 consultations for under-five children and deliver emergency drug supplies to more than 734,000 people. CHF resources also facilitated curriculum development and training of health workers, contributed to improved immunization coverage with rehabilitation works and solar fridge installations, and
funded gender-mainstreaming interventions that assisted survivors of gender-based violence and ensured women’s participation in communities’ health promotion activities.

The South Sudan CHF is a single-window UN country fund. The Humanitarian Coordinator is supported by a Humanitarian Financing Unit, Cluster Leads who coordinate the work of participating organizations in each thematic area and a Technical Review Committee. The Humanitarian Financing Unit supports the Humanitarian Coordinator in overall CHF management and oversight, while the Cluster Leads and the Technical Review Committee provide technical support to the project review process. The Cluster Leads also provide strategic support, ensuring CHF alignment with cluster strategies.
2.2 Transition and peacebuilding funds

The context of a transition from crisis to recovery requires that life-saving priorities are addressed in parallel with building state capacity and promoting peace. During transitions, MPTF Office support focuses on improving the speed, flexibility, predictability and risk management of aid. Because needs typically fall between humanitarian and development, flexible fund design and sequenced financing are critical to delivering transitional support. To provide each country with the flexibility needed to meet its specific needs, fund design options and considerations vary in terms of the role and composition of the steering committee, the types of implementing entities and the number of funding windows.

**Box 6. International Reconstruction Fund Facility for Iraq**

The experience of the International Reconstruction Fund Facility for Iraq (IRFFI), established in 2004 and operationally closing in 2013, may be the best example of a two-window transition fund model. IRFFI established two separate funding windows—one administered by the United Nations and one by the World Bank—to support financing and implementation of national priorities as outlined in a joint needs assessment. IRFFI was designed by the two administering organizations in close consultation with Iraqi authorities and donors, in response to international requests to create a mechanism that enables donors to channel resources and coordinate support for Iraq’s reconstruction and development. As of 2010, $1.9 billion was allocated to IRFFI, including $1.4 billion allocated through the UN funding window, which the IRFFI terms of reference mandated would focus on quick-impact projects and transition activities to be implemented in a rapid and flexible way. A total of 25 donors contributed to the UN window through the MPTF Office as administrative agent.

Evaluations revealed that the UN funding window was an indispensable mechanism for the development efforts in Iraq for much of the period from 2004 to 2010. It enabled the United Nations to provide critical support to the Iraqi people in key areas and sectors of importance. In particular, projects made a significant contribution to establishing a modern electoral system and process and facilitated the emergence of the country’s democratic system, which was a unique outcome within the region. Funded projects also provided much needed services and goods for the health and education sectors, which resulted in the resumption of these basic social services across the country. Projects also addressed historical disparities between the 18 governorates, and UN agencies endeavoured to address the neediest and most vulnerable population groups. Overall, funded projects substantially contributed to recovery and rehabilitation across sectors.
ranging from agriculture and housing to electricity, water and sanitation, and cultural heritage.

In addition, evaluations and reviews highlighted key advantages of the Iraq financing model:

- The UN funding window demonstrated adaptability and flexibility to transition, over the span of several years, from reconstruction and recovery to capacity development activities. Further, its leadership and participating UN organizations were responsive to needing to learn and adapt in the process of implementation. As a result, the design, governance and processes of the UN funding window were reformed several times during IRFFI’s life span.

- Funding, although limited, was also made available to support emergency relief, when increasing violence and internal displacement posed new challenges.

- Increased coherence through the joint financing mechanism enabled the UN system to work in coordination with international financial institutions, avoiding fragmentation and duplication of financing and programming activities.

- Transparent and accountable pooling of resources reduced the political, fiduciary and corruption risks to donors and the government.

- National ownership reduced the burden and transaction costs for the government and donors.
The United Nations has administered more than $2.3 billion in transition funding since 2004, supporting activities that range from recovery and reconstruction, to promoting peace, stabilization and building sustainable state structures. Of this amount, $1.4 billion for Iraq reconstruction passed through the UN system during 2004–2012, resulting in Arab States receiving nearly half of the total disbursements of the MPTF Office transition portfolio.

During the past decade, one- and two-window country-level trust funds have accounted for the majority of UN trust funds and joint programmes in conflict and post-conflict situations. Such funds can be launched with a single window and incorporate additional windows over time. For example, a UN window can be established first, to leverage the rapid UN start-up operational capacities and support immediate response activities, while planning for medium-term UN and international financial institutions’ support through national systems.

The design of transition and peacebuilding funds keeps evolving to meet a growing demand for customized development financing solutions. Thus, since its adoption in Busan in 2011, the New Deal
for Engagement in Fragile States has influenced the way development assistance is delivered in countries affected by conflict and fragility. The New Deal partnership principles are grounded in the achievement of Peacebuilding and Statebuilding Goals\(^2\) through a country-led process, supported by aid that is provided more efficiently and increasingly through country systems. The New Deal outlines the strong international commitment to increasing the proportion of funding channelled through pooled funds using country systems, with emphasis on explicitly linking national priorities with financing and delivery instruments to ensure that priorities are realistic and based on available resources.

### 2.3 Development funds

In partnership with the United Nations Development Group (UNDG), the MPTF Office administers a variety of multi-donor development trust funds operating at the country, regional and global levels. Unlike their humanitarian or transition counterparts, development funds support a broad range of themes across all development sectors and levels, including eradicating poverty, tackling exclusion and inequality, empowering women and girls, ensuring inclusive and sustainable growth and decent employment, providing access to quality education and lifelong learning, improving health, ending hunger and malnutrition, and addressing urbanization challenges and opportunities. Development funds also leverage the strengths of numerous UN implementing entities.

As called for in the 2012 Quadrennial Comprehensive Policy Review,\(^3\) a number of these multi-donor development trust funds aim to strengthen system-wide coherence and effectiveness at the country level, notably through the One United Nations trust fund model. Of the approximate total of $1.9 billion in UN multi-donor trust fund disbursements that have supported development-related programming since 2007, $705 million have been allocated to Millennium Development Goals-centred programming and $829 million to One United Nations funds. The innovative One United Nations fund model enhances the effectiveness of UN responses to national needs and priorities by addressing funding gaps in the United Nations Development Assistance Framework. The One United Nations trust fund model is particularly valuable to supporting cross-cutting issues while encouraging UN organizations to work together. Whenever possible, both UN and nationally implemented country development funds, as well as regional or global development funds with country-level programming components, endeavour to utilize national systems and programmes to reduce transaction costs and avoid programme fragmentation and the proliferation of coordination structures.

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\(^2\) The Peacebuilding and Statebuilding Goals are: inclusive politics, security, justice, economic foundations, and revenue and services.

The Tanzania One United Nations Fund is one of the original One Funds that were established in 2007/08 with the aim of creating a single framework for all UN system support of national development priorities—with one leader, one programme, one budget and one office. One United Nations Funds complement the One United Nations Budgetary Framework, under which contributions received support gaps in the United Nations Country Teams’ programme financing.

Under the management and leadership of the Government of Tanzania and the United Nations Resident Coordinator, the Tanzania One United Nations Fund supports resource mobilization and the subsequent allocation and disbursement of resources to the unfunded portions of Tanzania’s One UN Programme and to new initiatives that respond to emerging needs. In line with Delivering as One objectives, the fund streamlines resource management by using government systems and procedures wherever possible.

Since its establishment, the Tanzania One United Nations Fund has received commitments of more than $170 million from 10 contributing donors. The fund currently supports activities under the 2011-15 United Nations System Development Assistance Plan.
2.4 Climate and conservation funds

The international community has responded to the climate change challenge by establishing and reforming existing global environment and climate funds, as well as developing new financial mechanisms—such as incentive-based payments for reducing emissions from deforestation, degradation and forest conservation (REDD+); carbon crediting and trading schemes; and payments for ecosystem services. In addition, developing countries have increased their own public spending on climate change and ecosystem management activities. UNDP estimates that developing countries currently allocate between 3 percent and 15 percent of their budgets to climate change-related expenditures.

The MPTF Office is increasingly requested to administer climate and/or conservation related funds operating at global and national levels. This portfolio is expected to grow as developing countries seek to collect and pool new domestic resources, blend them with international funding, coordinate the financed actions and develop incentive-based payment systems under national climate funds (see Box 8). Global and national climate funds can also have formal cooperation arrangements, as has been done for United Nations Collaborative Programme on Reducing Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD Programme) and national REDD multi-donor trust funds (see Box 9).

**BOX 8. NATIONAL CLIMATE FUND GOALS**

- **COLLECT** funds from traditional and innovative sources and direct financing in an accountable and efficient manner toward climate change activities that promote national priorities
- **BLEND** financing from public, private, multilateral and bilateral sources to maximize countries’ ability to advance national climate priorities
- **COORDINATE** country-wide climate change activities to ensure that effective prioritizing and implementation
- **INNOVATE** and pilot policies and technologies
- **ACCOUNT** for performance-based payments
- **DEVELOP** capacities for integrated management of off-budget mechanisms, and national ownership and management of climate finance, including for direct access to funds
The United Nations Multi-Donor Trust Fund to Reduce Emissions from Deforestation and Forest Degradation in Developing Countries (UN-REDD Programme Fund) was established to support the UN-REDD Programme in September 2008. The programme aims to assist developing countries in building capacities to reduce emissions and to participate in a forthcoming REDD+ mechanism, which will offer a climate change mitigation solution currently being developed and supported by several multilateral initiatives, including UN-REDD. The UN-REDD Programme builds on the convening role and technical expertise of its three implementing UN organizations: the Food and Agriculture Organization of the United Nations, the United Nations Development Programme (UNDP) and the United Nations Environment Programme.

Through its partnership with 46 countries in Africa, Asia and the Pacific, and Latin America and the Caribbean, as
well as related global activities, the UN-REDD Programme supports governments in preparing national REDD+ strategies, building monitoring systems, engaging stakeholders and assessing the multiple potential benefits of REDD+. Since its creation, the UN-REDD Programme Fund has received over $170 million in contributions from the European Union and the Governments of Denmark, Norway and Spain.

The UN-REDD Programme Fund is a single-window UN global fund. The UN-REDD Programme works in close partnership with other global REDD+ initiatives—such as two World Bank initiatives, the Forest Carbon Partnership Facility and the Forest Investment Program, and national forest and conservation funds—to fund transformative initiatives to reduce deforestation and degradation.

The National REDD+ Fund in the Democratic Republic of the Congo is a national fund administered by UNDP at the request of the national government. The United Nations is providing fund administration and project implementation services during the current inception period, with national implementing entities expected to increasingly take over implementation activities as the fund matures.
3 MPTF Office service platform

The MPTF Office supports development effectiveness and UN coherence through the efficient, accountable and transparent design and administration of innovative pooled financing instruments.

The MPTF Office services the entire United Nations system in support of One United Nations principles, which echo and reinforce the international consensus on the need to improve existing aid delivery processes. Although housed within UNDP, the MPTF Office is firewalled from all UN implementing entities, UNDP included.

The MPTF Office provides trust-fund establishment, administration and advisory services to and on behalf of the entire United Nations system and national governments, bringing together and capitalizing on the strengths of individual agencies. The MPTF Office service platform encompasses the entire trust fund management cycle, from needs analysis, fund architecture design and fund establishment to day-to-day financial management and, ultimately, fund closure (see Figure 5).
Financing development together: the role of pooled financing mechanisms in enhancing development effectiveness

Assessing the rationale for fund establishment through analysing the need, relevance and financial viability

Supporting the establishment process, including formulating fund policies and procedures

Developing integrated quality assurance and results framework

Maintaining a public online platform for monitoring and reporting programmatic and financial performance

Managing financial services, including treasury and investments, quality assurance, disbursements and reporting

Auditing

Closing joint programmes and trust funds in a timely manner

Preparation of resource mobilization strategies

Assessing non-traditional and innovative sources of finance

Developing fund operation manuals

Establishing technical secretariat

Figure 5. MPTF Office Support Cycle and Services
3.1 Fund architecture design and establishment

Assessing the rationale for fund establishment

Pooled funding mechanisms compete for limited financial resources. The benefits and drawbacks of such mechanisms are inherently tied to the quality of fund design and management. For example, the average financial management cost of a well-designed pooled fund is less than 11 percent of its total value—significantly lower than that of individual projects, where such costs typically exceed 20 percent. However, tailored design is critical; governance structures of pooled funds can be easily oversized or include unnecessary sub-contracting arrangements, increasing both transaction costs and operational complexity.

Multi-donor trust funds administered by the MPTF Office are formally established after a thorough assessment of the underlying rationale—the need, relevance and financial viability of using a pooled financing mechanism to attain a specific programmatic objective or further a broader development agenda. Oversight, administration and implementation modalities are flexible and can be customized to meet the unique requirements of varied geopolitical, thematic and socioeconomic situations. Over the past decade, the MPTF Office has developed a wide range of pooled funding mechanisms and continues to assist its clients—which include national governments, United Nations Country Teams, UN agencies and financial contributors—in assessing different governance options and sharing the experiences of best practices in similar situations. In addition, the MPTF Office has developed a series of decision-making tools to assist clients in identifying the most appropriate mechanism and governance architecture to meet each unique set of requirements.

Pooled funding mechanisms do not operate in isolation but rather function within a country-level financing architecture, or a regional or global sectoral framework. It is not unusual to find more than a dozen pooled funds operating in one country. As the primary UN-system administrator for a portfolio of humanitarian, transition, development and climate multi-donor trust funds and joint programmes, the MPTF Office is uniquely positioned to advise government counterparts and contributors on financing options that build on existing financing mechanisms and can help ensure a smooth transition from crisis to sustainable development (see Figure 6). Fund architecture can also be redesigned to facilitate this transition. For
example, during the nearly 10-year life span of the Iraq Trust Fund, the MPTF Office facilitated several redesigns of the fund’s governance structure and processes, demonstrating the mechanism’s adaptability and flexibility in transitioning from reconstruction and recovery to capacity development. At times, the fund rapidly financed emerging humanitarian needs. Such experiences, best practices and lessons learned are regularly recorded, institutionalized and applied by the MPTF Office when advising clients, from the start of the fund design process and for the duration of each fund’s life cycle.

**Fund establishment process**

The MPTF Office supports clients throughout the trust fund establishment process, from initial consultations to fund initiation. Following extensive initial consultations, key stakeholders prepare a concept note that outlines the main components of fund design, including strategic objectives, governance structure, programmatic review and approval procedures, monitoring and evaluation processes, and other pertinent factors. The concept note forms the basis for further discussion and clarification, ultimately leading to
finalizing the fund’s terms of reference that clearly outline stakeholder roles, rules and operational procedures, and the strategic results framework to guide resource allocation and monitoring.

Following the appointment of the multi-donor trust fund’s administrative agent—a role filled by the MPTF Office in more than 100 UN-managed pooled financing arrangements—the parties execute standard legal agreements, which typically include a Memorandum of Understanding signed between the fund administrator and participating UN organizations, Standard Administrative Arrangements signed between the contributor and fund administrator, or other instruments applicable to a given national context or fund structure. The time it takes to establish a fund depends largely on the duration of required stakeholder consultations until consensus is reached, and the establishment process can be concluded quickly thereafter, starting the flow of contributions.
Developing integrated quality assurance and results framework

Pooled financing mechanisms are tools that facilitate achievement of outcomes through predictable and efficient financing. Well-designed trust funds establish results-based management frameworks that integrate strategy, people, resources, processes and measurement strategies to improve decision-making, transparency and accountability. The approach works toward achieving outcomes, while measuring performance, learning and adapting to change, and reporting on progress.

MPTF Office’s result-management tools can help develop a transparent system for performance and risk management, enabling each trust fund’s leadership, contributors and partners to respond to challenges throughout the fund’s life span. Fund architecture design should always be based on a clearly formulated theory of change, which considers the beliefs and assumptions that guide selection of strategic initiatives, the actions needed to address the specific interests and needs of host countries or contributors, and the strategies and systems that facilitate such initiatives and actions. This theory of change is translated into a Logical Framework and a Fund Results Matrix. A fund’s financial architecture can be designed to directly link programmatic and financial performance indicators, enabling fund leadership to assess both fund efficiency and effectiveness. The same architecture can also lay the foundation for performance management, which could include incentive-based payments (Figure 7 illustrates the fund performance management structure provided by the MPTF Office to its clients).

3.2 Fund administration

Online public financial and programme results-monitoring platform: the Gateway

Managing for results and ensuring their efficient delivery implies frequent monitoring and reporting, which enables the UN system, its national counterparts and other implementing partners to better manage joint development programming from trust fund establishment to closure. In order to effectively provide fund administration services and facilitate monitoring and reporting to the UN system and its partners, the MPTF Office has developed a public website: the MPTF Office Gateway. Refreshed in real time every two hours from an internal enterprise resource planning system, the MPTF Office Gateway has become the standard setter for providing transparent and accountable trust fund administration services.

The Gateway provides financial information including:

- Donor commitments;
- Donor deposits;
- Approved budgets;
- Disbursements to implementing entities;
- Expenditures as reported by implementing entities;
- Interest income from unused funds; and
- Other expenses (e.g. administrative fees, direct costs, bank charges, refunds).

In addition, the Gateway provides an overview of the MPTF Office’s portfolio and extensive information
on individual multi-donor trust funds and joint programmes, including their purpose, governance structure and key documents—in excess of 9,600 documents as of late 2013. By providing easy access to the growing number of quarterly and annual narrative and financial reports, as well as related project documents, the Gateway collects and preserves important institutional knowledge and facilitates its sharing and management among UN organizations and their development partners.

Financial management services

Trust funds require considerable day-to-day financial management and administrative support, with tasks ranging from negotiating legal arrangements and fund disbursements to financial services, such as investing to generate additional revenue. Such services are performed by a fund’s administrative agent, and multiple UN agencies have and can continue to play this role. However, the volume of needed support and the highly specialized nature of required expertise have created an environment where UN agencies and their partners increasingly engage the MPTF Office as the administrative agent of their trust funds and joint programmes.

Financial services provided by the MPTF Office include receipt of contribution, investment management and risk control, auditing and quality assurance, funds disbursement and financial reporting.

Receipt of contributions. The MPTF Office facilitates and receives funds from almost 100 traditional and non-traditional contributors. The MPTF Office is in constant communication with financial partners to address legal and administrative issues and ensure a timely and predictable receipt of fund commitments.

Treasury and Investment management. Contributions received by the MPTF Office are expected to be passed through to implementing partners as soon as programmes and/or projects are approved. However, funds remaining in individual trust fund accounts are invested in interest-bearing investment vehicles and money markets by the UNDP Treasury Division, while ensuring sufficient immediate liquidity. The Treasury Division functions within the UNDP Office of Finance and Resource Management, providing services in the areas of cash and contribution management, investments, foreign exchange, and processing of payments and receipts.
The MPTF Office also monitors individual funds’ cash flow to enable investment of excess balances. Investments are prudently managed to seek the most favourable scenarios and currency exchange rates. Investment income at the fund level—which currently totals more than $90 million in earned interest—is used to replenish accounts and finance programming. The MPTF Office Gateway includes details on earned interest and fund administration and operating costs to facilitate steering committees’ decision-making. It is not unusual for fund-earned interest to fully offset fund administration and operations (i.e. technical secretariat) costs, maximizing fund efficiency.

**Fiduciary quality assurance.** In administering funds, the MPTF Office adheres to the highest international fiduciary and financial management standards. The MPTF Office is guided by UNDG, follows UNDP policies and procedures, and works closely with the UNDP Treasury Division, Office of Legal Support and Office of Budget and Finance to provide a comprehensive system of checks and balances in accordance with international standards.

Fund administration services also adhere to a comprehensive internal control framework. A variety of activities assure contributors that their funds are effectively managed, including a complete accounting separation between MPTF Office-managed funds and other UNDP funding.

The internal control framework also ensures that contribution agreements are properly reviewed and monitored, supporting documentation is reviewed prior to approval of fund transfers, contracts are monitored, required reporting is documented, and programmes and trust funds are closed in a timely manner.

The MPTF Office is under the accountability of the United Nations Under Secretary-General/UNDP Administrator, who also chairs UNDG. The UNDG Fiduciary Management Oversight Group and the Comptrollers of UNDP and sister organizations provide additional oversight and ensure accountability.

**Disbursements.** The aim of multilateral trust fund management is to ensure that received contributions pass through to approved implementing entities as expediently as possible. The MPTF Office ensures that the internal control review is completed and the funds...
are transferred within 3–5 working days of receipt of a decision to disburse funding. Implementing entities are also promptly notified of the transfer to facilitate project implementation, and each transfer’s details are published on the MPTF Office Gateway.

**Financial reporting.** Consolidated annual and final financial reports and Certified Sources and Uses of Funds Statements are completed and made available on the Gateway. The website is used as an additional monitoring tool and as the basis for determining performance-based payments through the online results-based management reporting system.

**Auditing.** Audit provisions are covered by the standard legal instruments entered into at the time of fund establishment. The Framework for Auditing Multi-Donor Trust Funds is designed to facilitate periodic summary reporting on the management of risks, the status of internal controls and the recommendations made by the internal audit services of UN implementing entities. Other audit provisions may also apply.

**Fund closure.** The MPTF Office closely monitors and supports closure activities to ensure the prompt and orderly conclusion of the fund and avoid unnecessary administrative and transaction costs. Programmes and projects close when their implementing entities have concluded all activities. A certified financial statement and the return of any earned interest or unspent funds to the trust fund account are required before a project or programme can be officially closed.

### 3.3 Fund advisory and capacity development services

A rapid initiation is often a major determinant of a fund’s success. As such, the MPTF Office provides fund advisory and capacity development for rapid fund initiation in addition to fund design and administration services. Advisory and capacity development services support the United Nations’ efforts to strengthen national ownership and build on national fund management systems. The services are optional and are customized to the specific needs of MPTF Office fund clients; service costs are itemized and recovered from fund resources.
3.3.1 Fund mobilization services

Formulating resource mobilization strategies and investment plans. For climate and conservation financing, the MPTF Office commonly participates in the development of financing strategies. MPTF Office-supported fund mobilization strategies seek to ensure efficient use of public resources through transparent priority-setting and promoting of blended financing whenever possible.

Assessing non-traditional and innovative sources of financing. To supplement conventional international sources, considerable attention has been paid to identifying non-traditional innovative sources of finance. A wide variety of innovative financing mechanisms have already been established for the management of global pandemics and climate change (e.g. international airline taxes, the International Financing Facility for Immunization, carbon levies, etc.). However, actual revenues raised from such innovations remain small, standing at only $57.1 billion between 2000 and 2008—or only 4.5 percent of total official development assistance and international finance institu-
tions’ bond proceeds. There are also high start-up costs and significant implementation capacity requirements associated with setting up innovative financing mechanisms. The MPTF Office assist clients in assessing the financial and operational feasibility of these innovative instruments.

### 3.3.2 Capacity development services

Capacity development services and programming are based on standard quality assurance processes at the design stage and are routinely tracked, monitored and evaluated over time to ensure meeting intended objectives.

**Developing fund operation manuals.** Comprehensive fund operation manuals facilitate efficient, effective and transparent fund management by technical secretariats. The main components of such manuals address the fund’s guiding principles and objectives, review and approval arrangements, programme implementation and reporting mechanisms, monitoring and evaluation processes, and communications and exit strategies.

**Assessing fiduciary capacity.** The use of national public financial management systems to channel pooled financing is increasingly integrated into multi-donor trust fund design, particularly in transitional contexts. In line with the Harmonized Approach to Cash Transfers (HACT), United Nations implementing entities work with national governments to assess their capacities to manage aid by relying on existing national systems. HACT was launched in 2005 to shift financial management from a system of rigid controls to that of risk management. Thus, information from HACT capacity assessments can be used to develop capacity-development programmes to enable national governments to fully integrate aid into national budgets.

**Establishing technical secretariats.** The timely establishment and smooth operation of a technical secretariat is critical for a fund’s success. The MPTF Office provides access to a roster of technical and thematic specialists to support new funds during their initial establishment phase, fulfil short-term needs (e.g. conducting a lessons-learned exercise) or address longer-term needs of institutional capacity building in finance or trust fund management. Fund secretariats can also play an important role in building national governments’ fund-management capacities. For example, a fund’s secretariat may be located within the offices of the relevant government ministry to provide capacity-development support related to planning and programming, including coaching and mentoring of staff to assume secretariat roles and responsibilities at a future point of the fund’s life cycle. In such cases, the secretariat would encompass staff with a variety of coordination, financial and technical skills and expertise, working closely with seconded staff from relevant line ministries.

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Conclusion and the way forward

The MPTF Office has been continuously refining its trust fund design, administration and advisory services to address emerging development challenges and the growing demand for customized pooled financing solutions. The coming decade is likely to see a continued increase in the demand for pooled funding mechanisms, alongside the continued drive toward higher development effectiveness and improved UN coherence. These trends stem from the focus on national ownership and use of existing country systems, an expanding number of non-traditional financial partners, and a greater reliance on innovative sources of funds and delivery instruments.

To respond to increasing demand, the MPTF Office is investing in information technology, innovative financing and delivery solutions, capacity development among its client base and partners, and expanding their range.
- **Information technology.** MPTF Office is upgrading its Web-based platform to provide greater flexibility and functionality for access to information and fund performance management. Notably, the upgraded Gateway will ensure the MPTF Office’s full compatibility with the International Aid Transparency Initiative. The MPTF Office is also expanding its online results-based management tools to enable closer monitoring of fund performance and support timely decision-making by fund proponents. The roll out of an improved platform for monitoring trust fund progress against intended outcomes and results is planned for 2014. Furthermore, the MPTF Office is assessing ways to improve the quality and visualization of programmatic information, including enhancing its Web-based data repository, reporting and analytical capacities.

- **Innovative financing and delivery solutions.** The MPTF Office will grow its capacity to assess and develop innovative financing mechanisms for development and climate and conservation finance. For example, the MPTF Office will broaden its Web-based crowd-funding capacity and directly link individual contributors to community initiatives. The MPTF Office also plans to further develop the capacity to account for incentive-based payments (e.g. carbon and ecosystems offsets). The MPTF Office will draw on the specialized technical expertise of the UN system to provide these services.

- **Capacity development for fund operations.** To support greater use of country systems in managing pooled financing mechanisms, the MPTF Office will further invest in codifying and disseminating its experience. Regular training sessions will be organized for all MPTF Office partners. Growth of such services will support the implementation of New Deal mandates and national financing initiatives for global environment management.

- **Expanding the range of partners.** UN-managed multi-donor trust funds are proving attractive to non-traditional donors, including net contributing countries, middle-income and emerging economies, the private sector and developing countries involved in South-South cooperation. Multi-donor funding mechanisms enable such non-traditional partners to contribute to global initiatives and intervene in challenging geopolitical settings in the absence of dedicated programming, delivery or monitoring capacities. For example, more than half of the 53 contributors that finance the United Nations Peacebuilding Fund are non-traditional donors. With a view to engaging middle-income countries in particular, the MPTF Office is designing cost-sharing arrangements that enable national partners to contribute to and benefit from pooled financing mechanisms in their own countries, while strengthening their involvement in priority setting for UN technical assistance around the world.
Visit the MPTF Office Gateway at mptf.undp.org for more information on contributors, trust funds and the programmes they support.