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FACT SHEET

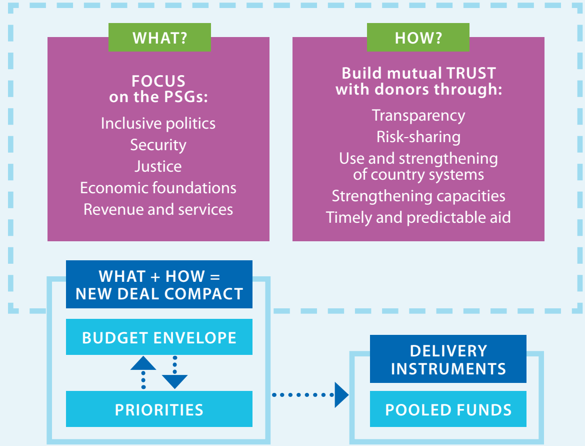
Pooled financing mechanisms for the New Deal

Background

Adopted in Busan in 2011, the New Deal for Engagement in Fragile States is influencing the aid effectiveness discourse between national and international development partners, with a particular emphasis on how support and results are delivered to the 1.5 billion people living in conflict-affected and fragile countries. The new FOCUS[1] and TRUST[2] partnership principles introduced by the New Deal are grounded in the achievement of the Peacebuilding and Statebuilding Goals (PSGs) through a country-led process, supported by an aid architecture that prioritizes efficient and increasing use of country systems.

A number of New Deal pilot countries (Afghanistan, Central African Republic, Democratic Republic of the Congo, Liberia, Sierra Leone, South Sudan and Timor-Leste)[3] are already making progress towards implementation. As of late 2013, the Democratic Republic of the Congo (DRC), Liberia, Sierra Leone, South Sudan and Timor-Leste have undertaken fragility assessments, and attention is now turning to Compact formulation. In September 2013, the Federal Government of Somalia and the European Union signed the first-ever New Deal Compact. The New Deal framework has defined such Compacts as instruments and processes that enable national and international partners to work towards nationally identified priorities for achieving the PSGs in a relatively short period of time. Compacts are also the mechanisms for delivering the practice and behavioural changes embodied within the FOCUS and TRUST partnership principles. One of the key Compact elements is the explicit link between national priorities and financing, which ensures that priorities are based on available resources. Compacts should also guide the choice of aid delivery instruments, including pooled financing mechanisms[4] that combine contributions from varying sources.

FIGURE 1. DELIVERING THE NEW DEAL COMPACT



Source: Based on Figures 1 and 2 from International Dialogue on Peacebuilding and Statebuilding, 'Compacts Guidance Note (draft)', Document 3, Meeting of the Working Group on New Deal Implementation, Dubai, May 2013.

1. FOCUS: Fragility assessments, One vision, One plan, Compact, Use Peacebuilding and Statebuilding Goals to monitor, Support political dialogue and leadership.
2. TRUST: Transparency, Risk-sharing, Use and strengthen country systems, Strengthen capacities, Timely and predicable aid.
3. The New Deal document highlights these seven self-nominating countries that agreed to pilot implementation. As of late 2013, members of the g7+ also include: Burundi, Chad, Comoros, Cote d'Ivoire, Guinea, Guinea-Bissau, Haiti, Papa New Guinea, Solomon Islands, Somalia and Togo.
4. The terms 'pooled financing mechanism', 'pooled fund' and 'multi-donor trust fund' are used interchangeably.

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Benefits of Pooled Financing for New Deal Implementation

Pooled financing represents a major innovation to the traditional approach to delivering aid in crisis and post-crisis situations. As joint instruments that facilitate access to a wide range of expertise, pooled financing mechanisms have fostered aid alignment and greater coherence of the international response to complex situations, as embodied by the first set of internationally agreed aid effectiveness principles—the Paris Declaration (see Box 1).[5]

The New Deal outlined the strong international commitment to increasing the proportion of funding delivered through pooled funds using country systems. The Development Assistance Committee of the Organisation for Economic Co-operation and Development also highlighted that pooled financing mechanisms have the potential to improve aid coordination and harmonization, institutional transformation and risk management.[6] Pooled funds operate as pass-through facilities that receive contributions from multiple financial partners and allocate such resources to multiple implementing entities, allowing the latter to continue to use their standard operating procedures

BOX 1. POOLED FINANCING MECHANISMS: PUTTING THE PARIS PRINCIPLES INTO ACTION

- Nationally led to strengthen **national ownership**.
- Use established national systems to foster **alignment** with national policy and processes.
- **Harmonization** of different funding reduces aid fragmentation and duplication, improves coordination, helps reduce transaction costs of foreign assistance and facilitates risk-sharing.
- Ability to fund scalable national programmes facilitates achieving measurable **results**.
- Enabling transparent resource allocation, streamlining monitoring and reporting, and increasing aid predictability through multi-year financing commitments and strategies increases **mutual accountability.**

5. MPTF Office, 'Financing Development Together: The Role of Pooled Financing Mechanisms in Enhancing Development Effectiveness', November 2013.
6. Organisation for Economic Co-operation and Development, 'International Support to Post-Conflict Transition – DAC [Development Assistance Committee] Guidance on Transition Financing: Key Messages', DAC International Network on Conflict and Fragility, March 2012.

BOX 2. THE USE OF COUNTRY PUBLIC FINANCIAL MANAGEMENT SYSTEMS: PUTTING AID ON BUDGET

The Collaborative Africa Budget Reform Initiative (CABRI) has defined ways in which development assistance can be integrated into the various phases of national budget processes to increase the use of country public financial management systems. International guidance agrees that, at a minimum, and regardless of implementation modality, all development assistance should be reflected in national planning ('on plan') and budgeting documentation ('on budget').[a]

Official development assistance (ODA) accounts for a significant proportion of national public resources in fragile and conflict-affected countries. For example, net ODA as a percentage of gross national income during 2009–2013 was 54 percent in Liberia, 39 percent in the Democratic Republic of the Congo and 37 percent in Afghanistan;[b] however, only 41 percent of government-sector aid was recorded in partner countries' annual budgets.[c] When aid is not 'on budget', it is difficult for national governments to strategically allocate domestic revenue. 'On plan' and 'on budget' development assistance is critical for stronger budgetary processes, greater alignment to country priorities, more strategic resource allocations, and greater accountability to legislatures and citizens. In alignment with such principles, the Somali Compact specifies the government's and development partners' mutual commitment to ensuring that by 2016, 66 percent of external financing will be 'on budget', fully recorded in governmental budgeting documentation.

Implementation of the New Deal also requires strengthening national capacity and increasing the proportion of external financing that is disbursed using national treasury systems ('on treasury'). The Tokyo Mutual Accountability Framework for Afghanistan reaffirms the international community's commitment to channelling at least 50 percent of development assistance 'on treasury'.[d] The New Deal also commits partners to putting aid 'on reporting' by, at a minimum, ensuring that comprehensive and timely information is available at the country level for inclusion in government reports; and by, increasingly over time, accepting country reporting systems and formats for their own financial and performance reporting purposes.

Notes: a) Fourth High Level Forum on Aid Effectiveness, 'Using Country Public Finance Management Systems: A Practitioner's Guide', Busan, 2011. b) World Bank Open Data, Net ODA Received (% of GNI), accessed January 2014. c) Organisation for Economic Co-operation and Development, 'Aid Effectiveness 2005–10: Progress in Implementing the Paris Declaration' (2011 Survey on Monitoring the Paris Declaration), Development Assistance Committee, 2011. d) Tokyo Conference on Afghanistan, The Tokyo Declaration: Partnership for Self-Reliance in Afghanistan – From Transition to Transformation; Annex: Tokyo Mutual Accountability Framework, 8 July 2012.

Source: Based on Collaborative Africa Budget Reform Initiative, 'Putting Aid on Budget – Good Practice Note: Using country budget systems', April 2009.

instead of requiring compliance with those of the lead administrative agency. This increases operating speed and flexibility, while reducing transaction costs by facilitating a coordinated response to a range of challenges.

Pooled funds operating in post-conflict contexts have often faced the challenge of limited government involvement in planning, decision-making and execution. Financing mechanisms for New Deal implementation are designed specifically to rectify this as soon as local conditions permit by strengthening national capacities and increasing the use of countries' public financial management systems. This fosters national ownership, further reduces transaction costs and improves overall aid effectiveness.[7]

The Pooled Financing Model

The establishment of a pooled financing mechanism is based on strategic frameworks that outline priorities across the five PSGs defined by the New Deal. Pooled funds can also channel resources towards supporting broader national frameworks. The combination of various strategic frameworks applicable to a given context defines each pooled fund's programmatic scope and results framework, which are fully articulated in the fund's Terms of Reference. The same document also sets out the fund's governance arrangements and outlines the roles, responsibilities and processes for project approval, monitoring and evaluation of the strategic results framework, and reporting. The possible architectural design options when establishing pooled financing mechanisms for New Deal implementation can vary—for example, in the role and composition of the fund's steering committee, the types of implementing entities or the number of funding windows—in order to provide the flexibility needed to meet country-specific needs (see Figure 2).

GOVERNANCE ARRANGEMENTS

A **steering committee** sets the fund's strategic direction and financing priorities based on the Compact and/or other national strategic frameworks. The steering committee is also responsible for transparent and accountable decision-making aligned with national priorities.

7. For more information on fund governance arrangements in post-conflict contexts, see: UNDP, 'The Role of Pooled Financing Mechanisms in Supporting Early Recovery', MPTF Office Discussion Paper, 2014 (forthcoming).

The chairing arrangements vary and can be customized depending on whether it is a global, UN or national fund. In funds established for New Deal implementation, the government (e.g. Ministry of Finance) typically chairs the steering committee, ensuring that the fund is 'on plan'. The steering committee also includes representatives of the UN, international financial institutions (IFIs) and contributing partners, and may also represent the concerned civil society and non-state actors.

The steering committee is supported by a **secretariat**. It is responsible for overall fund operations, portfolio cycle management (including partner engagement and support to the project review process), and coordination of monitoring and reporting processes. The secretariat can have the technical capacity to carry out project appraisals itself, or this function can be supported by an independent expert group. Resulting data—particularly that on indicators related to the use of country systems, strengthening capacities and aid predictability—can also inform the New Deal Monitoring Framework, which aims to collect evidence of implementation progress and challenges.

IMPLEMENTING ENTITIES

Implementing entities receive financial resources directly from the pooled fund and are responsible for the full project cycle management. There is a diverse range of implementing entities, and national governments may choose one or a combination of several bodies that possess distinct comparative advantages, in order to design a customized response that meets national priorities.

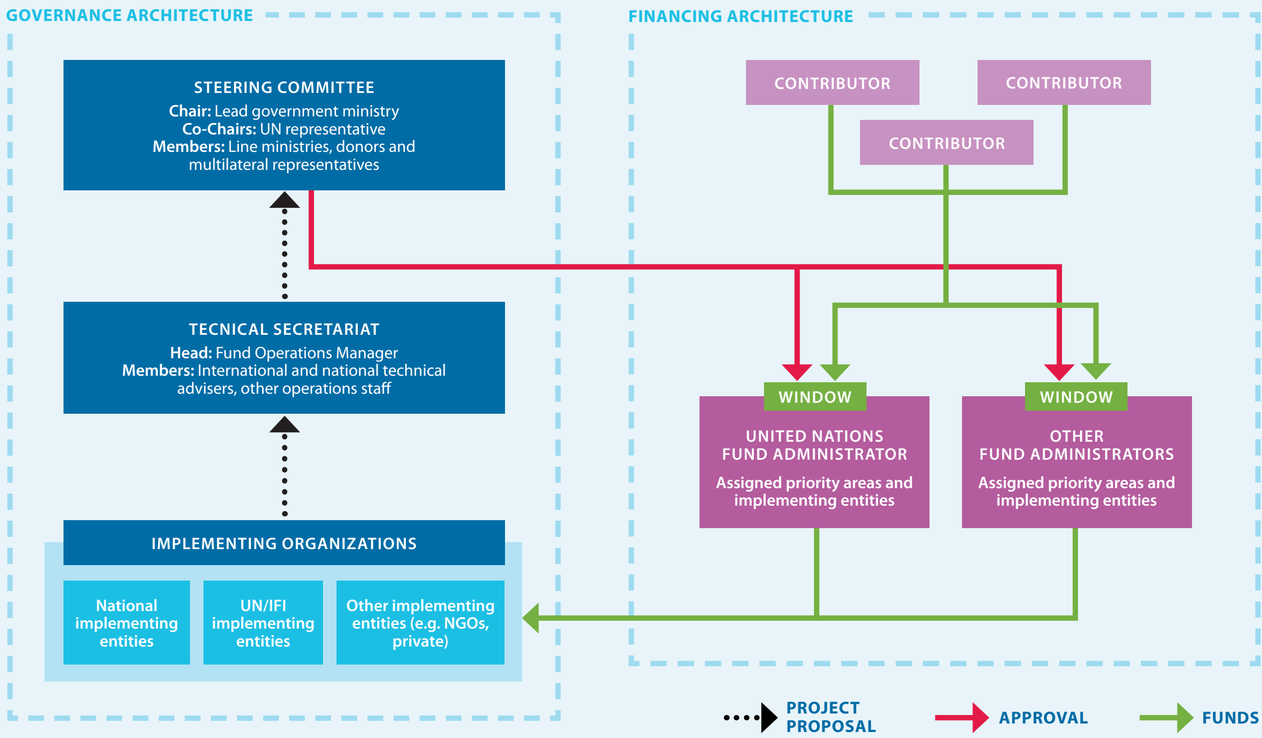
National entities

Fully in line with the New Deal TRUST principles, development assistance channelled directly to government entities uses all country systems and is thus 'on plan, on budget, on treasury and on report'. A financial management unit may be established to provide capacity support and oversight.

UN agencies

The UN system offers rapid operational start-up capacities to support implementation of quick-impact activities. UN agency implementation can proceed concurrently with institutional capacity development to facilitate a gradual transition of programme or project activities to national entities and increase the 'on treasury' proportion of the

FIGURE 2. POOLED FINANCING MECHANISM COMPONENTS



fund. The UN system has developed a number of assessment tools to facilitate preparing a capacity development plan, including United Nations Development Group's guidance and a harmonized approach for cash transfers to government and non-government implementing partners.[8]

Other implementing entities

Other implementing entities may include multilateral, bilateral, private-sector and non-governmental institutions. Working with a broad range of organizations can also foster partnerships, including those with important non-state actors that can help solidify national ownership and support the sustainability of results.

8. The harmonized approach for cash transfers has been adopted by the United Nations Development Group Executive Committee agencies (United Nations Development Programme, United Nations Children's Fund, United Nations Population Fund and World Food Programme), pursuant to the UN General Assembly resolution 56/201 on the triennial policy review of operational activities for development of the UN system.

FINANCING ARRANGEMENTS

Multi-year contributor commitments enable new funds to be 'on budget' through the formulation of multi-year financing strategies that can be reflected on time in the national budget. Multi-year commitments also improve aid predictability and timeliness in line with the New Deal TRUST principles.

The number of **funding windows** and the selection of the **fund administrator**(s) are important choices to be made during the fund design stage.

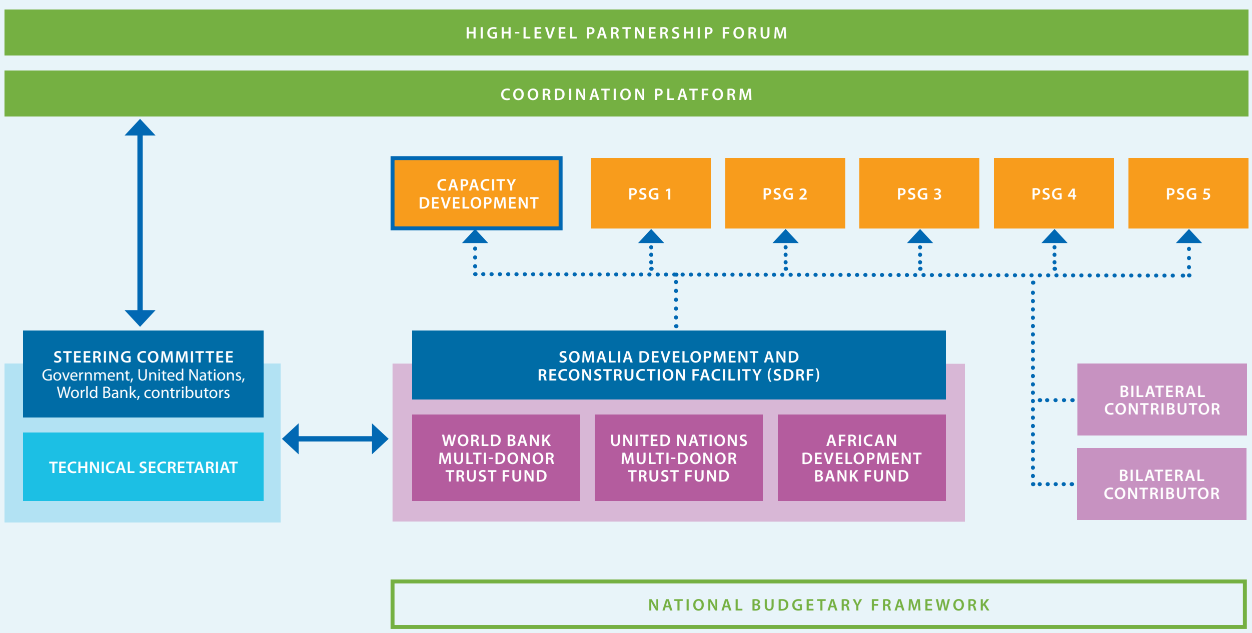
Funds can be structured with a single or multiple funding windows to streamline operations for entities with similar procedures. For example, a UN-administered fund can be established in isolation or as one of the funding windows in a larger-scope fund, where other windows are administered by IFIs, such as the World Bank and regional development banks.

The fund administrator—also referred to as an administrative agent or a trustee—manages funds held in trust, disburses

BOX 3. SOMALIA DEVELOPMENT AND RECONSTRUCTION FACILITY: A POOLED FINANCING MODEL FOR NEW DEAL IMPLEMENTATION

The Somali Compact clearly articulates the Federal Government of Somalia and development partners' agreement to establish the Somalia Development and Reconstruction Facility as the centrepiece of the New Deal partnership, in order to enhance the delivery of effective assistance to all Somalis. The new funding mechanism brings together a range of partners and financing instruments under a common governance framework to respond to a diverse range of needs and challenges in a coherent, coordinated and harmonized way. The multi-window facility is administered by the UN, World Bank and the African Development Bank. The UN-administered window is organized around the five Peacebuilding and Statebuilding Goals (PSGs) and the cross-cutting issues dictated by national priorities. The window is designed to be 'on plan', 'on budget', and increasingly 'on treasury' and 'on report':

- Under overall government leadership, development assistance channelled through the UN-administered widow will be reflected in **national planning**;
- Operating rules and procedures will ensure that fund allocation decisions on multi-year commitments feed into the **national budgeting process**; and
- Implementation entities include both UN and national organizations, and UN activities have a strong capacity development focus to ensure that funds are increasingly **channelled directly to national entities**.

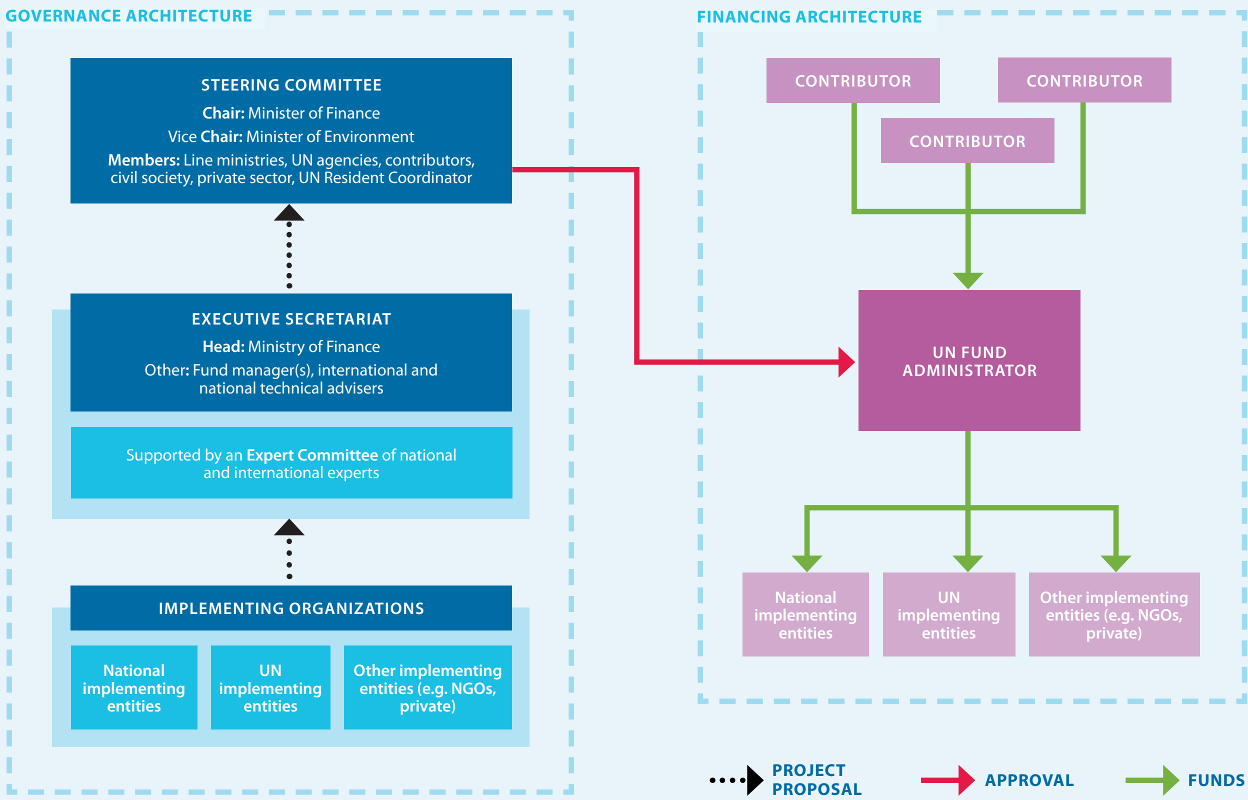


funding based on steering committee approval, provides fund management tools to ensure transparency, and consolidates programme and financial reports to provide accurate and timely information to all concerned stakeholders. As implementation by national entities increases over time, the fund becomes increasingly 'on report'.

A **single-window multi-donor trust fund** is the simplest pass-through mechanism, most appropriate in cases that involve a homogenous set of implementing entities with similar operating procedures. However, this model can result in substantially higher transaction costs and associated operational delays if applied to a diverse range of implementing partners with incompatible procedures. **Multi-window trust funds** eliminate this constraint by grouping similar implementing entities under different funding windows and tend to be the preferred pooled funding option for New Deal implementation, which

BOX 4: THE NATIONAL REDD FUND IN THE DEMOCRATIC REPUBLIC OF THE CONGO: A NEW DEAL FINANCING MODEL TO SUPPORT CLIMATE CHANGE

The National Reducing Emissions from Deforestation and Forest Degradation (REDD) Fund was established in the Democratic Republic of the Congo (DRC) to facilitate government efforts towards achieving sustainable development. The mechanism is a government-led national fund supported by the UN system. The DRC Ministry of Finance chairs the steering committee that makes fund allocation decisions to priority sectors ('on plan'). The UN Resident Coordinator, contributing partners and other stakeholders are also represented on the steering committee. Fund allocation decisions are supported by a long-term investment plan that seeks multi-year commitments from development partners, enabling the fund to be 'on budget'. The steering committee is supported by an executive secretariat that brings national and international experts together to ensure *ex-ante* and *ex-post* quality assurance throughout the portfolio cycle, including project technical reviews, monitoring and oversight of project implementation, and external audits. The government has requested project implementation and capacity development support from the UN system. The MPTF Office, as the fund administrator, channels resources to UN agencies and, increasingly over time, to government ministries and non-governmental partners using country systems and national regulatory frameworks ('on treasury' and 'on report').



typically unites a wide range of national, regional and global governmental and non-state actors.

Beyond allowing for smooth operations using existing procedures, the multi-window model enables the distinct but complementary competencies, experience and capacities of UN agencies and IFIs to be combined and sequenced across sectors and during different stages of a country's transition, responding to a broad scope of post-crisis needs and all five PSGs. Some of the collaborative advantages of a UN/IFIs model include utilizing rapid UN operational start-up capacities, while planning for medium-term UN/IFIs development support through national systems. The UN also has a stronger mandate for responding to urgent political, justice and security issues, while IFIs focus on long-term economic growth.[9]

The activities and financing of different windows operating within the same pooled fund are determined in accordance with the comparative advantages and institutional specialization of each window's administrator and implementing agencies, aiming to avoid overlap and increase synergies. Based on institutional priorities and pre-negotiated legal arrangements, financial partners may channel resources through any or all of the fund's windows.[10]

New Deal Fund Examples

In **Somalia,** the established financing facility operationalized the Somali Compact partnership principles, including commitments to national leadership, aid alignment and coherence, strengthening and increasing the use of country systems over time, and transparency (see Box 3).

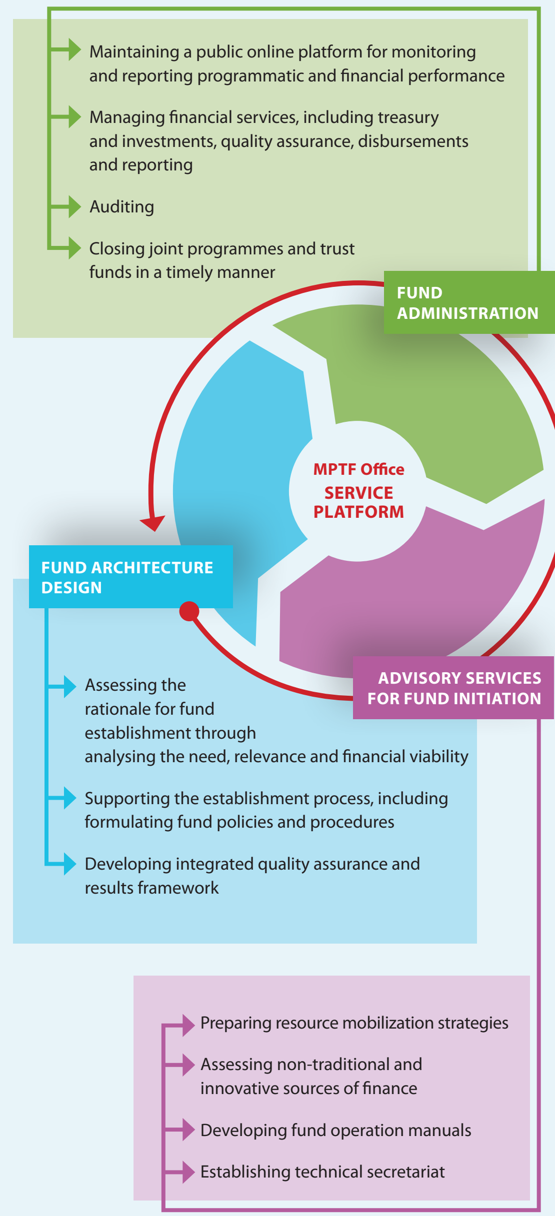
In the **DRC**, the New Deal principles and financing model are being applied in the area of sustainable development and climate change mitigation through the DRC National Fund for Reducing Emissions from Deforestation and Forest Degradation. This fund's architectural framework can facilitate a smooth transition from post-conflict reconstruction and peacebuilding to sustainable development (see Box 4).

Other fund examples are available at the MPTF Office Gateway (mptf.undp.org).

Technical Expertise in Fund Design and Administration

The MPTF office supports development effectiveness and UN coherence through the efficient, accountable and transparent design and administration of innovative pooled financing mechanisms. As of December 2013, the MPTF Office administers more than 100 joint funding instruments in 80 countries and has transferred about $7 billion from 96 contributing partners. Support provided by the MPTF Office falls into three categories: fund architecture design, fund administration, and fund advisory services. For more information, see the MPTF Office Gateway (mptf.undp.org) or contact: executivecoordinator.mptfo@undp.org.

FIGURE 3. MPTF OFFICE SUPPORT CYCLE AND SERVICES



9. Several reviews and reports have highlighted positive experiences with the multi-window pooled financing model. See, for example: Scanteam, 'Stocktaking Review of the International Reconstruction Fund Facility for Iraq', Norway, 2009; PricewaterhouseCoopers, 'United Nations Development Group Iraq Trust Fund Lessons Learned Exercise', 2011; Swiss Trust Fund, 'Review of the United Nations/World Bank Partnership in Fragile and Conflict-Affected Situations', 2013.
10. For more information on multi-window funds, see UNDP, 'MPTF Office Factsheet: Multiple Window Model', January 2014.

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