

Operational Effectiveness of the UN MDTF Mechanism

FINAL REPORT

Charles Downs

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Table of Contents**

Executive Summary.....	4
Introduction	7
Origin and Architecture of the UN MDTFs.....	8
Origin of the MDTF as a strategic instrument.....	8
Note on MDTFs within the global development funding framework.....	9
MDTF Mechanism and Architecture	10
Administrative Agent (AA)	10
Steering Committee	11
Standard Support Costs	12
Transparent Reporting.....	12
UN organizations other than UNDP/MDTFO acting as Administrative Agent for UN MDTFs	12
Alternatives to the UN MDTF financial mechanism.....	13
UN Agency Trust Funds and Joint Programmes.....	13
OCHA CERF	14
World Bank MDTFs	14
MDTF Experience and Trends	15
Funds and Donors	16
Participating Organizations.....	19
Note regarding humanitarian funds and inclusion of NGOs.....	21
Unsuccessful MDTF negotiations.....	22
Lessons Learned: Discussions of issues and possible resolutions.....	23
MDTFs, UN Reform and Aid Effectiveness.....	23
“Quality” of Funding under MDTFs.....	24
AA fee and the financial viability of the MDTF	25
Threshold size for MDTF	26
Transaction costs	27
Reducing transaction costs	30
Support cost issue with EU	31
Steering Committee: In-Country Governance and Management Experience	31
Accountability	32
Audit and Financial Oversight	32
AA Reporting to the UNDG ASG Advisory Group.....	34
Donors and the “accountability gap”.....	34
Agency Reporting.....	36

Financial reporting	37
Narrative reporting	37
Risk management.....	38
Recommendations	39
Promote UN MDTFs as an effective instrument to enhance UN coherence and donor coordination in support of strategic UN initiatives and programmes.....	39
Universalize application of UNDG standard documents and policies for MDTFs and other pass- through mechanisms among UNDG members	39
Ensure full effective application of accountability framework.....	40
Maximize operational flexibility and reduce transaction costs	40
Strengthen learning and spreading of best practices	41
Annexes.....	42
1. Study Terms of Reference.....	43
2. Persons Contacted	45
3. MDTF Operational Effectiveness Survey of Stakeholders.....	46
4. Documents and other materials consulted	47
5. MDTF funds administered by the MDTFO	48
6. Delivering as One funds administered by the MDTFO.....	49
7. MDTFs administered by other UN agencies	50
8. Donors recorded on MDTFO GATEWAY	51
9. Lowest transfer each year, by fund	53
10. Lowest transfer each year, by participating organization	54
11. Issues Raised for ASG Group Guidance in 2009 MDTFO Annual Report	55
12. Draft Guidelines for AA Reporting to UNDG FMOG.....	56
13. Summary of lessons learned from selected recent reviews.....	59
14. Abbreviations used	61

Executive Summary

In order to better inform discussions among UN organizations and with donors, in 2010 UNDG decided to carry out a Study of the Operational Effectiveness of the UN MDTF mechanism. Although there have been evaluations of several specific MDTFs, this is the first lessons learned study of this UNDG joint funding mechanism since its introduction in 2004. The UNDG Development Operations Coordination Office (DOCO) recruited a consultant through a competitive process to conduct the study.

The Study methodology included: initial briefing and later discussions with the UNDG Fiduciary Management Oversight Group (FMOG) and Joint Funding Sub-Committee; desk review of extensive documentation; interviews with agency HQ and field staff, RCs, donors and staff of the three agencies providing AA services for MDTFs (UNDP/MDTFO, UNICEF and UNOPS); and a web-based survey of an extensive email list of stakeholders. The survey received a very positive reception, with over 300 responses covering nearly all UN MDTFs, 36 RCO/HCOs, 28 participating organizations, 10 donors, 2 host governments and others.¹

Much of the fund information for this study came from the UNDP/MDTF Office (MDTFO), including most of the quantitative data which was downloaded from the MDTF Office GATEWAY². This study was not an evaluation of the MDTFO, but rather focused on the MDTF mechanism, a distinction that may not have always been clear to many stakeholders since the MDTFO is the AA for 95% of all UN MDTFs (representing 99.5% of their value), with a recognized high quality of service that in many ways sets the expectation for the AA role.

Following are some of the specific topics examined and conclusions of the Study:

- The UNDG MDTF model developed from the UNDG-Iraq Trust Fund beginning in 2004. The UNDG-ITF was part of the two-window International Reconstruction Facility Fund for Iraq, for which the UNDG-ITF handled roughly three-fourths of funding and the World Bank ITF one-fourth.
- Donors and the UN adopted this proven innovative mechanism to support coordinated action under strategic agendas related to the UN Reform to Deliver as One, Humanitarian Reform and Aid Effectiveness (national ownership and donor alignment). Stakeholders strongly agree that most of the MDTFs have contributed to strengthen coordination among UN organizations, between the UN and government, and by donors, particularly the UNDG-ITF, humanitarian funds and One UN funds.
- The UN MDTF mechanism was established to support high priority UN initiatives, such as Iraq reconstruction, peacebuilding, UN delivering as one and aid effectiveness. It has proven to be an effective mechanism to consolidate funding from multiple donors for implementation by multiple UN agencies. The 40 MDTFs have channeled nearly \$5 billion from 54 member states (and some private entities) to 36 participating organizations. While there is a broad donor base, 28 donors have contributed to only one or both of two funds: the UNDG-Iraq Trust Fund and the Peacebuilding Fund, which account for one-third of total funds received. 15 donors contribute to 5 or more funds, while 7 donors account for 83% of the total value.
- The MDTFs can be grouped into five categories: 40% of funding has been for reconstruction and peacebuilding, of which three-quarters went to the UNDG-ITF and the PBF; 30% has been for

¹ The email list contained very few host government contacts and the perspective of this partner was not directly included in the study. It would be important to survey host governments on the issues raised in this Study.

² <http://mdtf.undp.org/>

humanitarian funds, of which four-fifths went to DRC and Sudan; 15% is accounted for by the MDG Achievement Fund; 10% of value is represented by the One UN Funds, which account for half the total number of MDTFs; 5% of value is represented by other funds. About 20% of funds are dependent on funding from a single donor; the sustainability of these funds depends on the bilateral commitment of the primary donor and attracting other donors.

- Roughly 90% of MDTFs have a Steering Committee co-chaired by the RC and government, and which meets at least every semester. Steering Committees generally include all participating organizations (one third have 10 or more participating organization members) and the majority of SCs include donors as voting members. Roughly two-thirds of Steering Committees receive technical support from the RCO and agency staff, while slightly more than one-third of SCs are supported at least in part by staff funded as a direct charge to the respective MDTF.
- Increased coherence and coordination come at a significant cost of organizational and staff time. MDTFs were expected to reduce transaction costs for all stakeholders and they have been lowered for donors, in terms of time involved in negotiating and administering separate grants. In general they have been increased for RCO/HCOs and participating organizations; in some cases they have also been increased for government and NGO implementing partners. These increased transaction costs largely result from added processes to ensure greater coordination inherent in UN coherence, humanitarian reform and national ownership, and are greatest with the MDTFs that most directly promote those reforms (One Funds, UNDG-ITF, CHF).
- The UN MDTF was expected to increase the predictability and flexibility of funding, but they have had little noticeable effect. Funds that implement high priority initiatives of the UN system as a whole (Iraq reconstruction and peacebuilding) have experienced higher predictability of contributions; for other funds there is no indication that predictability is any greater for MDTFs than for other financing mechanisms. MDTFs generally have lower earmarking than other agency non-core funding, which provides greater flexibility for Steering Committee decision-making to allocate funding in line with agreed allocation criteria. But from the perspective of the agencies receiving funding there is generally less predictability and flexibility than under other non-core mechanisms.
- Based on the estimated lifecycle cost to administer the funds in its portfolio and the expenditures of the UNDP/MDTF Office as AA for the bulk of the MDTFs, the fee of 1% for the services of the Administrative Agent is a reasonable estimate of the total cost for the services required in the AA Protocol. On this basis there should be no subsidy from core funding, although there is likely to be cross-subsidization between MDTFs. AAs should monitor annually their total income, expenditure and likely time required and costs to close out the portfolio. Donors and agencies should accept the 1% AA fee as a reasonable total for lifecycle costs.
- The 7% agency indirect support cost rate should not be subject to negotiation in MDTFs or other pooled funding arrangements, as was done in 2010 negotiations with the EC. If there is a need to account for some costs as direct costs, the AA should be the one to do this.
- The UN MDTF accountability framework was designed carefully but has been more difficult to put in practice. There is a need to improve the role of the FMOG, the UNDG ASG Advisory Group and the interagency audit framework and to make them better known to the field for guidance and oversight purposes. The UNDG ASG Working Group should be more systematic in its oversight role and the FMOG should be more proactive to ensure that policy and guidelines related to MDTFs are widely known and applied. The audit framework requires further development. Only one MDTF coordinated audit has been conducted since the framework was established in 2007 and two are planned for 2011. Agencies audit some of their own programmes financed at least in part by MDTFs, but the extent of coverage is unknown.
- The UN MDTF guidelines provide for annual narrative and financial reporting, which is available only 1.5 years after the beginning of the period reported and half way into the following year. In

order to fulfill their role, Steering Committees require narrative and financial updates on a much more frequent basis – over 75% receive such updates locally every three or six months.

Recognizing that this is a complex issue (some donors are facing national requirements for more frequent financial reporting as a condition for further allocations; UN agencies can only provide accurate financial statements after annual closing of accounts, and most are concerned about the implications of providing inaccurate statements), UNDG should encourage local provision of scheduled unofficial narrative updates and financial summaries to empower Steering Committees to better allocate and monitor progress.

- AA annual reporting should address not only the development and use of the MDTF mechanism, improvement in AA service to support the MDTFs, but the contribution of the AA and MDTFs to strategic UN initiatives such as UN coherence, national ownership and aid effectiveness.
- Establishing and administering a MDTF requires significant organizational effort on the part of the AA, participating organizations and other stakeholders, regardless of the value of the MDTF. Establishment of an MDTF should be driven by programming needs, but larger funds managed more strategically will lower transaction costs for both the AA and participating organizations. On a pilot basis, UNDG should set a policy to require a minimum commitment of \$4.5 million for the establishment of a new MDTF, equivalent to the minimum required by the World Bank.
- The MA function for contracting with NGOs directly allocated financing in humanitarian programmes has been handled inconsistently. There are significant variations in range of services provided, exercise of programmatic accountability, and fee charged. This raises concerns for programme management, NGOs, donors and other participating organizations. FMOG should organize with OCHA an exchange of experience among the various units providing MA services to improve quality and identify specific areas of inconsistency; this should lead to clear policies to ensure consistency of services and fees for the MA function.
- The UN MDTF is a UN, national government and donor instrument and a number of donors have expressed interest to strengthen it as a central instrument in support of UN strategic goals. Key donors have a variety of concerns regarding a perceived “accountability gap” with MDTFs, while recognizing the intent of pooled funds as unearmarked contributions to be allocated according to national priorities. There is a balance to be struck between increased accountability and programmatic success of the MDTFs; closer joint review is required to identify solutions appropriate for both the UN and donors. Informal donor consultation and dialogue should be strengthened while also seeking an appropriate forum for strategic discussion with a wider range of member states.

The Study Report concludes with specific recommendations to strengthen the operational effectiveness of the UN MDTF mechanism. The recommendations, addressed to the UNDG ASG Advisory Group, FMOG, DOCO, donors, participating organizations and AAs, seek to ensure:

- Established MDTF norms and standard documents are widely known and applied appropriately.
- Increased transaction cost to support UN coherence, humanitarian reform, and national ownership are allowed for in future organization and staffing.
- Unnecessary transaction costs due to existing business process are reduced through redesign.
- The UNDG-Donor partnership is strengthened with regard to the use of the MDTF mechanism to support key UN initiatives including UN coherence, humanitarian reform, national ownership, donor coordination and aid effectiveness.

Introduction

“Operating on the principles of joint programming of the UNDG, MDTFs aim to provide more flexible, coordinated and predictable funding to support the achievement of nationally owned and determined priorities. By channeling donor contributions through one mechanism, MDTFs aim to facilitate and streamline donor contributions and align donor reporting. By improving coordination among all stakeholders, MDTFs can also provide a forum for policy dialogue, and programmatic coordination and harmonization.”³

1. Although the UN MDTF as a specific financing mechanism has been in use since 2004, there has been no overall evaluation or lessons learned study of it. In particular, there has been no review to determine what is the specific role of the MDTF mechanism, in what situations it adds value and how it may be made more cost-effective. This report seeks to address these questions, beginning by considering key factors at the origin and development of the current MDTFs and their architecture, identifying trends in the use of the instrument, and discussing specific issues for decision or further investigation (see Annex 1 for TOR). This study has focused on the operational effectiveness of the mechanism, based on desk review and interviews, including contacts with donors, agencies and RC offices. The actual funds considered are those administered by the UNDP MDTF Office (MDTFO), by UNICEF and by UNOPS, the only agencies providing an AA service under MDTF instruments.⁴ The Study contributes to the effort to learn lessons, highlight issues and recommend policies and actions that could improve the usefulness of the mechanism. Work was carried out with good cooperation from all concerned among agencies, donors and country offices (list of persons contacted in Annex 2), all of whom gave generously of their time and thoughts to strengthen this study. Thanks are due to the 325 individuals from RCOs, agencies, donors, governments and NGOs who responded to a request for information in a survey for this Study (see Annex 3 for survey instrument). Particular thanks are due to the Study Reference Group (composed of UNFPA, UNDP, UNICEF, WFP, UNIDO, MDTFO and DOCO) and MDTFO staff for their debate and thoughtful input.
2. The TOR identified three sets of issues for particular attention in the study: trends in the use of MDTFs, the cost effectiveness of the mechanism and the role and cost of the AA function. These points have all been addressed, although the degree varies according to the information available during the four weeks specified from the beginning of the study to the delivery of the first draft report. The study benefited greatly from evaluations and other studies that have been done on several of the larger MDTFs, related studies on international cooperation in humanitarian and post-conflict contexts, and the extensive fund and programme information available on the MDTF Office GATEWAY (see Annex 4 for list of documents consulted). The report focuses on those issues identified in the TOR and such other issues of importance that became evident during the course of the study. It provides sufficient background to understand the issues and their significance, and recommends specific actions to increase effectiveness and reduce cost where appropriate.

³ UNDG Guidance Note on Establishing, Managing and Closing Multi-Donor Trust Funds, January 2011.

⁴ The Study covered the MDTF Office’s existing Multi Donor Trust Fund portfolio (see Annex 5 for the list of MDTFO administered funds as of end 2010), including the Delivering as One Funds (see Annex 6 for list as of end 2010), and sought to include MDTFs administered by other UN agencies (see Annex 7 for the list included). The Study relies heavily on the information available from the MDTFO – which administers 95% of MDTFs and has the only information readily available – but the Study is not a review of the MDTFO itself. As per the TOR, the Study did not examine the Joint Programme Funds with pass-through funding, whether administered by the MDTFO or other agencies.

3. The Report is organized as follows. Part One provides background on the MDTFs, emphasizing their origin as support to strategic UN initiatives (Iraq reconstruction, Humanitarian Reform, UN Reform, Aid Effectiveness, and Peacebuilding), with brief reference to alternative funding arrangements. Part Two examines the experience with use of the MDTF mechanism, including different categories of funds, extent of donor involvement and range of participating organizations. Part Three discusses specific issues related to the operational effectiveness of the MDTFs, including to their cost, financial viability, and accountability and reporting. Part Four concludes with Recommendations.

Origin and Architecture of the UN MDTFs

Origin of the MDTF as a strategic instrument

4. The first UN MDTF was the UNDG Iraq Trust Fund (UNDG-ITF), established in 2004 as one of two windows of the Iraq International Reconstruction Finance Facility for Iraq (IRFFI) (the other window administered by the World Bank) to channel the large volume of assistance pledged at the Madrid reconstruction conference in October 2003.⁵ UNDP created a special unit to act as the Administrative Agent for the UNDG-ITF, to receive funds from donors and disburse them to UN agencies for implementation, according to instructions from the RC, upon advice of an inter-agency Steering Committee comprised of all participating UN agencies. The UNDG-ITF Unit developed most of the legal framework for this new instrument in response to the need to structure support to a single UN multi-agency programme funded by multiple donors. This included the basic MOU for participating organizations, the contribution agreement for donors, Terms of Reference for the Steering Committee, reporting procedures, website for communication, and more, all of which have been developed further and standardized in 2008 by the UNDG as the basis for current MDTF practice. The UNDG-ITF involved a total of 17 UN participating organizations (including IOM) and 25 donors. From its beginning in 2004 to the end of 2010, the UNDG-ITF received and disbursed \$1.4 billion, of which \$1.2 billion had been expended. Originally planned to be closed in 2007, it was extended that year to 2011; new allocations provided in 2010 are only expected to be fully implemented by end 2013. In the meantime a new Iraq MDTF has been created to receive funds for future UN activities within the UNDAF framework.
5. The UNDG-ITF was created and operated in the shadow of the Oil-for-Food Programme. While many lessons could be drawn from the OFFP, among the central ones were: (a) need for central decision-making regarding the overall UN programme (RC) based on open discussion and unified assessment (Inter-Agency Steering Committee); (b) need for close coordination among agencies working in related areas (cluster approach); (c) need for great transparency in use of funds; (d) need for timely reporting to donors; (e) need for effective oversight and regular audit.⁶ All of these issues were successfully dealt with by the UNDG-ITF, with only partial success at ensuring regular audit.
6. The primary growth of the MDTF portfolio since the UNDG-ITF resulted from the decision to use a proven fund administration instrument, with institutional capacity accumulated in the MDTF Office, in support of further UN and donor strategic objectives: (a) the Peacebuilding Fund was established and humanitarian reform initiative led to development of the Sudan Common Humanitarian Fund and the DRC Pooled Fund in 2006, with strong support from donors who advocated the Aid Effectiveness agenda; (b) the MDG Achievement Fund in 2007; and (c) UN Reform and the focus on national ownership and Delivering as One beginning in 2008. These were followed by creation of

⁵ The framework for its establishment was provided by the 2003 UNDG "Guidance Note on Joint Programming".

⁶ Downs, Implications of the Volcker Report for Multi-Agency Programmes, 2006.

several global thematic funds in 2009 and 2010. These factors can be seen clearly at work in the development over time of the MDTF portfolio as reflected in the Chart below. Once a fund was established it continued to develop and become a “category” of funds. If climate change adaptation financing becomes a major UN strategy, this may represent an area of future growth (also likely to be of interest to private sector financial management firms). While most of the MDTFs were established to support a strategic UN initiative for which there was also strategic donor support, some were created without both assured and have taken longer to obtain funds.

Chart 1 UN Strategic Priorities and Development of MDTFs								
	2004	2005	2006	2007	2008	2009	2010	2011
Climate Change National								
Global Thematic Funds								
Delivering as One Funds								
Peacebuilding and MDG-Fund								
Common Humanitarian								
UNDG-ITF								

7. Consistent with the UN strategic agenda to support Iraq reconstruction and peacebuilding, to support humanitarian reform and UN reform to deliver as one, donors have supported the MDTFs with their own strategic outlook. They have supported the broad UN priorities of support to Iraq reconstruction and to peacebuilding; they have supported humanitarian and UN reform; they have supported some thematic issues such as related to the fulfillment of the MDGs and climate change; specific donors have also supported funds dealing with countries of their specific interest. For some donors, the multi-donor aspect of these trust funds is itself of strategic importance, since it allows donors to better coordinate their own activities, to include smaller donors, and to support agreed UN strategies. It permits donors to be involved with broader policy issues without needing to negotiate, sign and monitor individual grants, or even be present in country. This instrument provides increased efficiency for donors individually and as a group, particularly in post-conflict and humanitarian settings where there is often greater coincidence of purpose. Many donors actively support strengthening the HC and RC systems, strengthened national ownership, increased aid effectiveness, and increased donor efficiency, all of which they have seen occur with the MDTFs.

Note on MDTFs within the global development funding framework

8. The 2010 Report of the Secretary General on funding for UN operational activities for development⁷ focused on the implications for the UN System of the continuing relative growth of non-core resources, which in 2008 already constituted 71% of all contributions to the UN agencies, funds and programmes. Core resources provide more predictable and flexible funding, and enable agencies and host governments to plan activities over a multi-year period, according to the organizational mandates and government assessment of problems and solutions. Non-core resources tend to be

⁷ A/65/79, Analysis of the funding of operational activities for development of the United Nations system for 2008.

less predictable, relatively short-term, and most often earmarked. The report notes that “Some 91% of non-core funding for development-related activities in 2008 was single-donor and programme- and project-specific, thereby contributing to the fragmentation of resource flows, with a consequent impact on overall programme coherence, efficiencies and transaction costs.” On the other hand, “newly developed pooled funding mechanisms such as multi-donor trust funds, including One UN Funds at the country level and thematic funds, have only recently begun to play a role in the overall financing of operational activities for development,” these funds reduce fragmentation in funding and support increased coherence in UN-government planning, and totaled roughly 9% of non-core funding in 2008, two thirds of which was through MDTFs. The SG Report calls on donor countries “to commit to maximizing the use of pooled non-core funding modalities such as multi-donor trust funds, including global, regional and country-level pooled funds and thematic funds, as a means of enhancing the coherence, effectiveness and efficiency of operational activities for development.” Contributions to UN MDTFs continue at about the same level.

MDTF Mechanism and Architecture

9. The Multi-Donor Trust Fund is a financing mechanism through which (a) two or more UN agencies can agree to work together in a common broadly defined programme in which each may have a lead role in different areas; (b) two or more donors can agree to pool their funds to finance the common programme; (c) a Steering Committee, lead by UN and Government and including the participating organizations sets overall strategy for the programme and for fund allocation; (d) participating UN agencies select one agency to act on their behalf with the donors (AA), administering and distributing the funds and channeling financial and narrative reports; and (e) the parties apply a standard support cost structure (1% for the AA, 7% for participating organizations’ indirect costs). At the country level it includes a Steering Committee co-chaired by the UN RC (or HC) and the government, comprised of participating UN agencies and sometimes government ministries, donors and civil society organizations as members or observers. The governance and accountability framework is based on agency accountability under their own regulations and rules for the funds allocated to them, with a Fiduciary Management Oversight Group (FMOG) to review variations from the standard legal and fiduciary elements of the mechanism and an agreed inter-agency audit framework to provide assurance regarding proper use of resources. From nearly the beginning the MDTFs have had further characteristics, many of which will be discussed below and which have been incorporated in the current UNDG approved standard documents. These aspects include the cluster/sector approach for programmatic coordination and allowance for a channel for NGO receipt of funds in humanitarian contexts.

Administrative Agent (AA)

10. According to the 2011 UNDG Guidance Note on Establishing, Managing and Closing Multi-Donor Trust Funds, the MDTF as a pass-through fund has an Administrative Agent to manage the funds deposited by multiple donors (each of which signs a Standard Administrative Arrangement for its contributions to the fund) and to distribute those funds to UN participating organizations (each of which signs a standard Memorandum of Understanding with the AA). The AA Protocol specifies the AA responsibilities as:
 - a) Receipt of contributions from donors;
 - b) Administration of funds received;
 - c) Disburse funds to each of the Participating Organizations in accordance with instructions from the Steering Committee/Resident Coordinator (on behalf of the Steering Committee);

- d) Consolidate statements and reports, based on submissions provided to the AA by each Participating Organization;
 - e) Provide final narrative and certified financial reporting, including notification that the MDTF/JP/One UN Funds has been operationally completed;
 - f) Disburse funds to any Participating Organization for any additional costs of the task that the Steering Committee may decide in accordance with the TOR/Joint Programme Document/One UN Programme.⁸
11. Any UN organization in principle could be AA for an MDTF, as per the UNDG-approved Protocol on the Administrative Agent.⁹ It has most often been the MDTF Office of UNDP, but both UNICEF and UNOPS have been AA. As indicated in the 2007 audit of the UNDG-ITF programme, the MDTFO has met and exceeded the above requirements. The Study received consistent comments that the MDTFO is very responsive to questions from country offices, donors and agencies, provides useful guidance regarding setting up funds, on interpretation of agreements and operational questions, keeps everyone well informed regarding disbursements, helps coordinate with donors when issues arise, and shares lessons learned from best practices in other countries. It also provides a range of services to ensure the effectiveness of the mechanism, including training, GATEWAY development and maintenance, and business process improvement. Its prompt responses and level of service are greatly appreciated by the RCOs, agencies and donors. It has set the expectation for AA service.¹⁰
12. The core AA role is to be a financial services provider which does not imply that it will be the lead technical agency. The MDTF Office is a fund administration office with expertise in UN system programme coordination; it does not exercise a role of development advisor. Similarly, when other agencies are selected as AA the choice should be based on their capability to provide the AA service, rather than the substantive orientation of their agency. The AA has a fiduciary responsibility to the donors to each MDTF and it has a responsibility to treat each participating organization equally. As per UNDG guidelines, UNDP has established a clear firewall between the AA and the rest of UNDP, in order to avoid any appearance of conflict of interest in the AA services. This has included ensuring that reporting lines do not cross with UNDP programme or resource mobilization and establishment of distinct bank accounts. UNICEF and UNOPS, with a single MDTF each, rely upon their normal internal management controls to ensure proper management and have not made special arrangements to ensure the AA firewall and on-line MDTF reporting.

Steering Committee

13. The key governance element of the MDTF architecture in-country is the fund Steering Committee. The Steering Committee is generally co-chaired by the RC¹¹ and government, comprises the participating UN agencies, and possibly donors, civil society and government ministries. It defines the overall strategic direction for the use of programme funds and may approve specific allocations of funds. The MDTF supports UN system coordination under the RC by providing funds to be allocated. While some complain that cluster meetings spend most of their time discussing fund allocation, others note that the meetings would not be held at all if there was no funding available.

⁸ UNDG Guidance Note on Establishing, Managing and Closing Multi-Donor Trust Funds, 7 January 2011.

⁹ UNDG Protocol on the Administrative Agent for Multi-Donor Trust Funds and Joint Programmes, and One UN Funds, 30 October 2008.

¹⁰ The preponderant role of the MDTFO as AA lead to some confusion in the effort to analyze the MDTF mechanism, since for many their understanding of the mechanism is bound together with the MDTF Office.

¹¹ This role is usually fulfilled by the HC in the case of humanitarian funds, such as the CHF.

Standard Support Costs

14. The UNDG-ITF permitted indirect agency support costs from 5% to 9%, considering agency rules and procedures. This reflected a significant reduction in the rate for some agencies, while for others it was the same rate they had been receiving for their Iraq programme under Oil-for-Food. The system-wide CEB decision in 2007 to establish a standard basic support cost rate of 7% for indirect costs was incorporated into template agreements endorsed by UNDG in October 2008. This was meant to simplify negotiations with donors and remove rate competition among agencies. On a system-wide basis, this rate was also consistent with the EU-UN FAFA, which set 7% as the top rate for indirect costs, although it did not consider the 1% AA fee under MDTFs.

Transparent Reporting

15. The vast majority of AA services are provided by the MDTF Office of UNDP, and through its work the MDTF mechanism is associated with a very high level of transparency regarding fund transfer and programme planning as most clearly reflected in the MDTF Office GATEWAY which provides easy on-line public access to current financial information, MDTF documents and reports. Donors and UN agencies offered very positive assessments of the MDTFO GATEWAY. All AAs are required to make MDTF information readily available on the web, but the other AAs do not at present provide the same level of information and it is unlikely they would invest in something like the MDTF Office GATEWAY for only a few funds. Donors expressed some concern that the information from other AAs was not readily available and suggested that it be linked to the MDTF Office GATEWAY. It would be very beneficial if fund information were all accessible on a single website. FMOG should consider the value to have a single web portal for public access to information on all UN MDTFs. Agencies providing AA services should explore the feasibility to provide such access through a single website, such as the MDTFO GATEWAY.

UN organizations other than UNDP/MDTFO acting as Administrative Agent for UN MDTFs

16. In principle any UN organization could be selected by the participating organizations to be the administrative agent of the MDTF. In fact, currently in all but two cases the AA service is provided by UNDP through its MDTF Office. For those two cases UNICEF and UNOPS are the AA.
17. The study reviewed documentation related to several trust funds managed by UNICEF, one of which fit the strategic concept of an MDTF and used the UNDG standard documents: Pakistan Humanitarian Response Fund which operated from 2008-2010 and is currently closing. The fund has been managed much the same way UNICEF would manage other trust funds. The study also reviewed other UNICEF pass-through trust funds and confirmed that they were either managed by UNICEF for transfer to a single government partner, or were Joint Programmes in which UNICEF acted as AA according to UNDG Guidelines; these situations were outside the TOR of the Study.
18. The study reviewed documentation related to 5 UNOPS managed funds, including minutes of review by the FMOG (responsible under the MDTF Accountability Framework to review proposals with significant deviations from the standard financial or legal terms of the template). The UN-Water inter-agency fund was determined by the FMOG to be an MDTF, since this was a fund established by UN agencies to provide a coordinated approach to donors and the international community. While UNOPS provides additional services, this does not change the nature of the fund, although it does raise concern about the need for a firewall to avoid any issue of conflict of interest between the AA fiduciary role and the other UNOPS programme services. Since UNOPS is not a programmatic participant, potential conflict of interest issues are less, but the mechanism may require

strengthening, including in terms of audit and UNDG oversight. The FMOG determined that two Myanmar inter-agency funds were donor-managed funding arrangements under which UNOPS provided services to the donor (rather than to the RC, the government or UN agencies), which is not the situation for an MDTF. These programmes were designed by the donors, the participating agencies were selected by the donors and the fund steering committees are comprised solely of donors. For two other funds (WSSCCC and WTO/EIF), UNOPS provides fund administration and programme support services previously provided by WHO and UNDP, respectively, for programmes that are not of an interagency nature. The Myanmar funds in particular raised concern because they appeared to significantly modify agreed UNDG standard documents, including basic obligations, reporting, and support costs. Upon further review, some of the differences were due to use of an outdated standard document for a different purpose and lack of clarity on how to distinguish an MDTF from other multi-donor, multi-agency funding instruments. The discussions left unanswered the question as to whether there are a variety of instruments possible for handling financing from multiple donors for multiple agencies, or whether the UNDG intended to standardize all such relationships as MDTFs (or Joint Programmes) and to supersede all other arrangements. UNDG should clarify as policy whether the standard documents agreed for MDTFs and JPs, and the specific roles, responsibilities, accountability and support costs specified therein, apply to all pass-through funding arrangements between two or more UNDG member organizations.

19. The UNOPS agreements for Myanmar caused particular concern because they undercut the CEB decision (2007) and previous interagency agreement regarding support costs of 7% for participating organizations. The standard MDTF agreement respects the agency support costs of 7% and adds 1% for the Administrative Agent fee. Under pressure from the donors (particularly the EC), the UNOPS agreements kept the added 1% indirect costs for its services and reduced the agency indirect support cost rate to 6% across the board with additional 1% for direct costs to be charged by each agency. It would have been better in such a case to respect the CEB agreement for 7% agency support costs and for UNOPS to charge for its services as a direct cost. This would have avoided one agency putting itself in the middle of support costs negotiations of other agencies. It would also have avoided the confusion likely to result from multiple agencies requesting reimbursement for direct costs, each with their own interpretation of how to identify and document those costs.

Alternatives to the UN MDTF financial mechanism

UN Agency Trust Funds and Joint Programmes

20. All UN agencies have trust fund mechanisms to manage non-core funds received from donors, and each agency applies support costs according to their respective policies. While some have policies that establish lower support costs for large trust fund projects, and may waive them entirely for in-kind and in-country contributions that do not imply additional administration, the support costs are generally at one of two levels. The UN Secretariat and Specialized Agencies (e.g., UN Secretariat, ILO, FAO, UNESCO, and WHO) generally have a standard support cost rate of 13% for funds-in-trust, while the UN programmes and funds (e.g., UNICEF, UNDP, UNFPA and WFP) generally have a standard indirect support cost rate of 7%.¹² These trust funds may be far more appropriate than an MDTF to receive funds from one or more donors when the funds are meant to be used solely by the recipient agency or to be used by partners working completely under the programmatic mandate and responsibility of the recipient agency.

¹² JIU (2010), Policies and Procedures for the Administration of Trust Funds in United Nations System Organizations

21. Several agencies manage donor-funded joint programmes, implemented by two or more agency partners with related projects; most of these programmes are funded by a single donor; some may be managed as pass-through funds. The Joint Programme mechanism (not covered by this Study), whenever it operates with a pass-through modality, is regulated by the same UNDG instruments as the MDTFs. There have been other programmes for many years under which several agencies implemented a programme funded by several donors; these have often been implemented under cost-sharing and management service agreement modalities. Some staff interpret that the UNDG adoption of the MDTF/JP standard documents was meant to supersede all other forms of pass-through joint funding, while others continue to use alternative instruments. UNDG should clarify whether its members should only use the MDTF or JP in such cases.

OCHA CERF

22. The OCHA Central Emergency Response Fund (CERF), which has a level of annual activity (\$400 million per year) comparable to that of the MDTF family portfolio as a whole (\$700 million per year) is a UN Secretariat managed fund which operates in some ways like the MDTF mechanism. It is managed as a single fund which is prefinanced to support UN response to emergencies worldwide. It has a large donor base, a single Advisory Board including donors and provides quarterly donor briefings. The CERF support costs generally include 3% for central UN support, of which approximately one-third is used for the budget of the CERF Secretariat, plus 7% for the organization receiving the funds. The CERF was not included in this Study.

World Bank MDTFs

23. The World Bank has managed several Multi-Donor Trust Funds, particularly for natural disaster and post-conflict recovery. The UNDG and the World Bank worked together on the Iraq IRRFI, with each administering a separate window, operating under a single Steering Committee. Although the World Bank window began with higher total pledges, the UNDG window administered by the MDTFO has processed roughly three-fourths of the total IRRFI funding. The Bank process was slower to start up and its procedures were less adapted for working in an immediate post-conflict setting, as demonstrated again in South Sudan.¹³ The Scanteam evaluation of World Bank MDTFs in conflict-affected situations highlights the value of the two window approach to bring to bear the respective strengths of both the World Bank and the United Nations organizations.¹⁴
24. To some extent, WB, UN and donor staff see the WB and UN MDTFs as competing models. A positive step for closer cooperation came in 2008 with the agreement between the World Bank and the UN to enable cooperation and participation in the respective funds managed by the other party, including the fiduciary principles that govern such cooperation.¹⁵ Unfortunately the high expectations for working together, perhaps with a two-window model like that of the IRRFI, were dashed by the decision in early 2010 to establish a solely WB-MDTF for Haiti reconstruction. Negotiations with the World Bank for UN participation under the WB-MDTF proved to be complicated, requiring nearly eight months to conclude (April to November 2010).

¹³ INCAF (draft), Guidance on Transitional Finance: Delivering better results during transition, April 2011.

¹⁴ Scanteam, Flexibility in the Face of Fragility: Programmatic MDTFs in Fragile and Conflict-Affected Situations, July 2010, Annex 2, pgs 27-29.

¹⁵ United Nations – World Bank Partnership Framework for Crisis and Post-Crisis Situations, 24 October 2008 and WB-UN Cooperation Agreement and Fiduciary Principles Accord, 5 December 2008.

25. The current draft INCAF evaluation of financing instruments for transition and post-conflict settings fails to clearly distinguish between the UN and World Bank MDTF mechanisms. It states that MDTFs are slow to setup and become operational, when that has been a problem primarily of the World Bank but not the UN MDTFs, as shown with the Common Humanitarian Funds. The INCAF study notes that infrastructure investments require considerable time to prepare, including the conduct of feasibility studies and strengthening capacity of technical ministries, steps which could be carried out during the first years before the WB MDTF becomes active. Analysis presented in the INCAF and Scanteam studies should be interpreted to imply that the UNDG MDTF should have precedence during the immediate post-conflict period and for the first three to five years thereafter, while the World Bank MDTF should become active for large scale infrastructure investments after that, with the possibility of mobilizing both organizations through a two-window fund.¹⁶ UNDG and donors should seek to ensure that policy discussions on financing mechanisms for post-conflict and transition settings (including the INCAF report) reflect an understanding of the respective strengths and valuable complementarities between the UN and World Bank MDTFs.

MDTF Experience and Trends¹⁷

26. The UN MDTFs of today developed with the convergence of three main factors: (a) successful experience with the UNDG-ITF, with a strong level of funding, efficient financial services and high quality of reporting to donors provided by the MDTFO; (b) the Good Humanitarian Donorship and humanitarian reform process lead by OCHA and supported by major donors (2005); and (c) the SG initiatives to increase the role of the United Nations in the area of peacebuilding and to enhance system-wide coherence and Delivering as One (2006¹⁸). These factors combined with a strong impetus of some donors to support these reforms and strengthen UN field operations. Over time the MDTF model was recognized as a good instrument for a range of other broad initiatives, including support to peacebuilding and to various UN global thematic initiatives.

¹⁶ The Report of the Secretary General (A/65/79) on the funding of development activities expresses a similar view.

¹⁷ Figures are taken from information available on the MDTF Office GATEWAY as of 1 May 2011 or provided by UNOPS and UNICEF. Deposits reflect amounts provided by donors to the end of 2010.

¹⁸ Stimulated by the Report of the High Level Panel on System-Wide Coherence: Delivering as One, 20 Nov 2006.

Funds and Donors

27. Current MDTF funds are indicated in Table 1, which includes the deposits received by the AA and total expenditure by the various participating organizations, as of the end of 2010:

Table 1		
UN MDTFs active through 2010		
Fund	Deposits 2004-2010	Expenditure 2004-2010
UNDG Iraq Trust Fund	1,358,392,474	1,193,109,839
Sudan Common Humanitarian Fund	734,448,881	664,440,250
MDG Achievement Fund	705,794,972	243,477,549
DRC Pooled Fund	580,901,410	469,948,340
Peacebuilding Fund	360,651,882	146,325,666
UN-REDD Programme Fund	93,798,577	19,914,190
Tanzania One UN Fund	92,097,139	55,807,007
Sudan Recovery Fund – South Sudan	90,571,800	18,156,504
Mozambique One UN Fund	59,095,693	37,873,965
Rwanda One UN Fund	55,482,012	27,411,282
Pakistan One Fund	52,144,347	25,974,731
Viet Nam One Plan Fund II	49,221,008	25,167,178
Lebanon Recovery Fund	45,857,496	28,539,762
CFIA Fund (Influenza)	40,082,909	28,907,602
CAR Common Humanitarian Fund	33,556,540	21,128,940
Darfur Peace & Stability Fund	33,523,350	8,516,461
Malawi One UN Fund	31,439,895	25,272,440
Somalia Common Humanitarian Fund	31,181,673	12,135,109
Viet Nam One Plan Fund I	30,913,791	37,304,296
Albania One UN Coherence Fund	23,261,788	11,893,608
Nepal – UN Peace Fund	22,417,076	13,540,168
Pakistan Recovery Fund (AA=UNICEF)	16,850,067	16,850,067
UNDG Haiti Reconstruction Fund	16,950,000	-
DRC Stabilization and Recovery	16,766,781	2,134,134
UN Trust Fund for Human Security	15,830,989	14,042,808
Uruguay One UN Coherence Fund	12,537,846	10,634,297
Cape Verde Transition Fund	12,042,905	6,862,351
Sierra Leone MDTF	10,218,080	5,700,753
UN Action Against Sexual Violence	6,878,851	2,184,439
PNG UN Country Fund	5,663,850	3,153,964
UNIFEM -EVAW Trust Fund	3,804,117	904,309
Kyrgyzstan One Fund	3,626,000	3,174,779
Lesotho One UN Fund	2,997,000	2,607,372
UN-Water (AA=UNOPS)	2,300,000	-
Bhutan UN Country Fund	1,538,000	1,471,008
Comoros One UN Fund	1,139,000	1,057,728
Montenegro UN Country Fund	1,064,000	441,782
Kiribati One UN Fund	1,000,000	534,360
Ecuador Yasuni Capital Window *	100,000	-
Grand Total	4,656,142,199	3,186,599,035
* This is a financial facility rather than an MDTF		
Source: MDTF Office GATEWAY – 15 May 2011		

28. The MDTFs fall into the main strategic categories referred earlier (Table 2):

Table 2		
Categories of Multi-Donor Trust Funds		
Category	MDTFs	Total commitments
Peacebuilding and reconstruction	UNDG-Iraq Trust Fund Iraq-UNDAF Trust Fund Peacebuilding Fund UN Peace Fund for Nepal DRC Stabilization and Recovery Fund Lebanon Recovery Fund Sudan – Darfur Peace and Stability Fund Sudan Recovery Fund for South Sudan UN Action Against Sexual Violence in Conflict UNDG-Haiti Reconstruction	\$2,044,000,000
Humanitarian	CAR Common Humanitarian Fund DRC Pooled Fund Pakistan Humanitarian Response (AA=UNICEF) Somalia Common Humanitarian Fund Sudan Common Humanitarian Fund	\$1,553,000,000
Delivering as One*	19 country funds - One UN Pilot countries (8) - Delivering as One Self-Starters (11)	\$650,000,000
Global Country Funds	MDG Achievement Fund (single donor) UN-REDD Programme Fund UN-Water Fund (AA=UNOPS)	\$806,000,000
Global (multi-country) thematic	Central Fund for Influenza Action (CFIA) UN Trust Fund for Human Security** UNIFEM – ERAW Trust Fund**	\$66,000,000
National Funds	Yasuni	\$2,000,000
* Includes funding channeled through the Expanded Funding Window (EFW)		
** Refers only to the portion of these funds administered by the MDTFO		
Source: MDTF Office GATEWAY, 1 May 2011		

29. The level of funding for MDTFs grew steadily from 2005 to 2009 and fell in 2010, even though the number of funds and donors continued to increase.¹⁹ Alternatively, the funding level was stable from 2004 to 2010, except for peaks in 2008 and 2009 which reflected primarily the approval of projects and transfer of funds under the MDG Achievement Fund. It is prudent to project 2011 and 2012 contributions at a level below that of 2009, reflecting the longer term trend (see Table 3):

¹⁹ The only MDTF in 2004 and 2005 was the UNDG-ITF; the CHFs (DRC Pooled Fund and Sudan Common Humanitarian Fund) and the Peacebuilding Fund were added in the first half of 2006.

Table 3		
Evolution of MDTF Contributions Received		
	Total Contributions Received	% Change from Previous Year
2004	628,820,832	
2005	274,592,089	-56%
2006	607,667,671	121%
2007	607,796,836	0%
2008	856,992,306	41%
2009	1,334,868,347	56%
2010	611,313,767	-54%
2011	650,000,000	(projected)
2012	650,000,000	(projected)

Source: MDTF Office Gateway, 1 May 2011

30. A total of 54 donor countries (including EC and WB/IDA) have made contributions to the various MDTFs, as have several private entities (see Annex 8 for list of countries and other donors reflected on the MDTFO GATEWAY – analysis herein only includes donor countries and international institutions).²⁰ The fund with the largest single number of donors is the Peacebuilding Fund, which has 47 donors, including 21 which contribute only to the PBF. The PBF is followed by the UNDG-ITF with 25 donors as the fund with the next largest number of donors. These two MDTFs, which both reflect high profile UN member states priorities, have attracted support from by far the greatest number of donors – 28 of the donors have contributed to only the PBF and/or the UNDG-ITF. The Common Humanitarian Funds for DRC, Somalia and Sudan are next with 9 to 10 donors each.

31. Fifteen donor countries have each contributed to five or more MDTFs (see Table 4):

Table 4		
Donors contributing to 5 or more MDTFs		
Australia	Ireland	Norway
Belgium	Italy	Spain
Canada	Luxembourg	Sweden
Denmark	Netherlands	Switzerland
Finland	New Zealand	United Kingdom

Source: MDTF Office Gateway, 1 May 2011

32. Seven donors have each contributed more than 3% of the total received by all MDTFO funds, and together account for 83% of total contributions (see Table 5):

²⁰ Most donor financing remains outside the MDTFs and some donors act almost entirely outside the MDTFs.

Table 5	
Donors Contributing more than 3% of MDTF total funds	
United Kingdom	21%
Spain	19%
European Union	12%
Netherlands	8%
Norway	8%
Japan	7%
Sweden	7%
Source: MDTF Office Gateway, 1 May 2011	

33. Nine donors have supported at least three One UN Funds (see Table 6):

Table 6	
Donor Countries supporting at least 3 One UN Funds	
Contributed to 4-5 Country Funds	Contributed to 9-10 Country Funds
Australia	Spain
Canada	Sweden
Finland	Switzerland
Netherlands	United Kingdom
Norway	
Source: MDTF Office Gateway, 1 May 2011	

Participating Organizations

34. A total of 36 UN participating organizations and IOM have received MDTF funds through the MDFTO. Table 7 indicates the amount of the approved budget and actual expenditure by each agency up to the end of 2010:

Table 7			
Participating Organizations with budgets			
Organization	Number of MDTFs	Budget 2004-2010	Expenditure 2004-2010
ECA	1	859,431	196,521
ECLAC	1	240,750	105,151
ESCAP	1	214,000	185,375
ESCWA	1	11,271,634	9,549,697
FAO	26	375,704,302	272,222,254
IAEA	1	20,000	-
ICAO	1	1,264,445	589,700
IFAD	2	500,040	385,900
ILO	18	69,798,683	36,891,418
IOM	12	75,065,189	51,354,665
ITC	4	2,220,159	894,255
NGO/OCHA	1	37,211,908	9,920,437
NGO/UNDP	7	575,754,212	428,834,644
OCHA	5	60,790,059	60,517,758
OHCHR	6	5,741,792	2,627,575
PAHO/WHO	4	17,358,308	5,911,311
UNAIDS	12	8,593,032	4,010,553
UNCDF	5	14,072,318	6,971,053

UNCTAD	5	1,763,490	1,219,229
UNDP	35	920,460,536	648,771,308
UNDP(UNV)	6	961,376	536,030
UNDPA	1	199,341	-
UNDPKO	1	7,785,564	3,604,817
UNEP	15	47,470,565	31,741,079
UNESCO	22	137,990,846	99,406,906
UNFPA	30	141,169,971	90,836,290
UNHABITAT	10	109,852,344	94,792,318
UNHCR	17	116,142,808	100,200,012
UNICEF	32	675,032,594	540,919,969
UNIDO	16	92,722,967	65,703,490
UNMAS	2	13,798,748	13,224,070
UNODC	7	10,999,599	5,450,472
UNOPS	11	296,696,158	234,284,039
UNRWA	2	1,332,700	782,433
UNWOMEN	21	48,674,436	29,545,069
UNWTO	2	6,320,740	3,209,839
WFP	21	243,361,486	188,738,429
WHO	25	238,256,870	183,782,443
Grand Total	36	4,367,653,400	3,227,916,510

Source: MDTF Office Gateway, 15 May 2011

35. While most of the agencies have received transfers from multiple funds, 12 have received funding from only 1 or 2 funds, most frequently the MDG-F (see Table 8):

Table 8	
UN Agencies which received funds from only one or two MDTF	
Agency	Fund
ECA	Rwanda One Fund
ECLAC	MDG-F
ESCAP	MDG-F
ESCWA	UNDG-ITF
IAEA	Malawi One Fund
ICAO	CFIA
IFAD (2)	MDG-F, Mozambique One Fund
UNDPA	UN Action Against Sexual Violence
UNDPKO	UN Action Against Sexual Violence
UNMAS (2)	DRC Pooled Fund, Sudan CHF
UNRWA (2)	CFIA, MDG-F
UNWTO (2)	CFIA, MDG-F

Source: MDTF Office Gateway, 1 May 2011

36. A total of 14 funds are reliant on a single donor for 75% or more of their funding (see Table 9)²¹. Four other MDTFs established in 2010 have yet to receive any funds. Such funds may not be sustainable over time, unless they remain a strong bilateral priority of the current donor or receive broader strategic adoption by the UN or other donors.

²¹ Some of these were never expected to have more than one donor, as is the case of the MDG-F (Spain). These funds are all administered by the MDTF Office according to the UNDG Guidelines agreed for MDTFs.

Table 9		
MDTFs Dependent on Single Funding Source (75% or more of funding)		
MDTF	Funding Source	Contribution to end 2010
Bhutan UN Country Fund	EFW	1,538,000
Comoros UN Country Fund	EFW	1,139,000
Kiribati One UN Fund	EFW	1,000,000
Kyrgyzstan	EFW	3,626,000
Lebanon Recovery Fund	Spain	45,857,496
Lesotho	EFW	2,997,000
Malawi	EFW	31,439,895
MDG Achievement Fund	Spain	705,794,972
Montenegro	EFW	1,064,000
Sierra Leone	EFW	10,218,080
UN Trust Fund for Human Security	UN (Japan)	15,830,989
UNDG Haiti Reconstruction Fund	IBRD/IDA	16,950,000
UNIFEM-EVAW	UN Women	3,804,117
UN-REDD	Norway	93,798,577
Total		\$935,058,126
Source: MDTF Office Gateway, 1 May 2011		

Note regarding humanitarian funds and inclusion of NGOs

37. The humanitarian funds in CAR, DRC, Somalia and Sudan provide a distinct model for NGO involvement. Donors and NGOs expected from the beginning for qualified NGOs to have direct access to MDTF funding in humanitarian contexts, although some donors had their own reservations regarding direct funding of NGOs. From the UN perspective, NGOs do not have an equivalent control framework to that of a UN agency, and they are not accountable to the member states of the UN but rather to a single country. Thus UN funds can only be entrusted to an NGO (or to a government) through a UN agency. The NGOs may be well-managed and regulated under the oversight of their home governments, but that is not the same thing. The UN agencies had large programmes in Iraq, which were typically implemented in the field with NGOs and other parties. When there was a clear UN programme area, the NGOs were included as contractors/partners to implement a specific portion. However, in some cases an NGO was actually the main actor – as was often the case of International Organization for Migration (IOM). Some NGO partners bristled under these restrictions and wanted to be able to receive funds directly – in many cases their home governments shared that intent. At the end of 2005 the GA created the CERF and for the first time recognized a non-UN international organization as having an acceptable control framework and able to receive funds directly (IOM),²² but this was the only exception made. This restriction against direct allocation to NGOs applies to the UN MDTFs and to the CERF as well as to World Bank MDTFs.
38. Strong concerns were raised by some NGOs under the UNDG-ITF, and key donors raised this issue with the creation of the Common Humanitarian Funds for DRC and Sudan, because it was clear that in both cases the major implementers in the field would be NGOs, and the donors expected NGOs to continue to receive funding even if donors directed their funds to the UN; this became a key focus of the first donor evaluation of the CHF conducted in 2006.²³ At the same time, the MDTF Office was

²² GA resolution to create CERF adopted 28 December 2005.

²³ Stoddard, Common Funds for Humanitarian Action in Sudan and DRC – Monitoring and Evaluation Study, 2006.

aware of the issue and contracted a study to look at alternatives among the UN agencies for contracts/grants with NGOs.²⁴ The decision was that NGOs could receive funds through a UN participating organization exercising an additional oversight function to contract with them, while maintaining full financial and programmatic accountability. When the NGOs are truly implementing partners of an agency programme, this is not a problem. But in cases in which an NGO seeks funding for its own activities under the broader UN humanitarian programme, a management agent (MA) role to contract with NGOs has been carried out by UNDP/CO in CAR, DRC and Sudan, and since 2010 by OCHA in Somalia.

39. The MA procedures used were criticized in 2006 as bureaucratic and inappropriate for humanitarian contexts. UNDP/COs worked to improve efficiency, and by 2010 the NGOs in Sudan generally considered the MA function at UNDP/CO it to have improved considerably and to be better than dealing with other agencies.²⁵ Nonetheless, while UNDP exercised financial accountability, it did not seek to ensure programmatic accountability. In DRC this was handled by a joint OCHA-UNDP M&E unit, but in Sudan OCHA did not exercise responsibility for the overall programme implementation. This raised questions regarding the legal framework under which UNDP operated as MA, the continuing need for programmatic monitoring, and the level of the support costs charged by the UNDP Country Office. Concern was even stronger since the MA service provided in the lower support cost DRC appeared to be greater than in the higher support cost Sudan. It is not clear why the services are different, or why charges vary, especially since they vary in opposite directions. FMOG (in coordination with OCHA as fund manager of the CHF) may wish to conduct a survey of the MA function and its implementation to encourage exchange of experience and document differences regarding services, programmatic accountability and costs. FMOG should review and clarify the policy and implications of “full programmatic accountability” with regard to the MA function in humanitarian contexts.

Unsuccessful MDTF negotiations

40. At least three possible MDTFs were subjects of negotiations that did not result in the creation of funds: Food Security, Liberia and Haiti Reconstruction. All three cases involved discussions with donors and the World Bank. In the Food Security case, the UN did not present a unified position and took months to respond; in the meantime the donor agreed for the World Bank to administer the estimated \$1 billion fund. This lost opportunity was presented in the MDTFO 2009 Annual Report to the UNDG ASG Advisory Group for lessons learned, but no discussion appears to have taken place. In the case of Haiti, the UN presented a much clearer case for a two-window approach, but a key donor exerted pressure for selection of the World Bank alone. In the case of Liberia, the UN and the World Bank were not able to agree on specific terms for the cooperation.
41. A few MDTFs have been created which have not yet attracted donor funding. To the end of 2010, the following are the cases: occupied Palestinian territory, Community Based Adaptation to Climate Change, UN Indigenous Peoples Partnership, and the UN Civil Society trust funds; there are also six One UN Funds which have received funding only from the EFW. Simply creating an MDTF is not a magnet for funds. If there are not at least two specific donors who have agreed to provide funding for a proposed MDTF, it generally would be advisable to wait before establishing the fund. The MDTF agreement will be relatively easy to conclude if and when funding becomes available; but an MDTF without funds may be less attractive to donors.

²⁴ Downs, Strengthening NGO Integration in Multi-Donor trust Funds – Review and Recommendations, 2006.

²⁵ Downs, Lessons Learned Review of the UNDP/FMU and NGOs under the Sudan-CHF, 2010.

Lessons Learned: Discussions of issues and possible resolutions²⁶

MDTFs, UN Reform and Aid Effectiveness

“[The MDTF] is a key pillar of the Delivering as One agenda and a driver of change in terms of harmonization and alignment of financial management practices and resource mobilization efforts. The planning process and implementation structure encourage coordination.”²⁷

42. The Multi Donor Trust Fund mechanism is a strategic instrument to support the UN family of agencies to Deliver as One, increase national ownership and increase aid effectiveness. As indicated by several donors interviewed for this study, the MDTF mechanism is also an instrument that enables donors to act in a more unified manner and to support the One UN effort. It significantly reduces transaction costs for both donors and government aid coordination offices (although it increases them for the RC, UN agencies, government line ministry implementing partners as well as NGOs in humanitarian programmes). It consolidates multiple reporting obligations into a single report, while ensuring public transparency. It enables the UN and government to plan more comprehensively – 86% of respondents to the MDTF Operational Effectiveness Survey said that the MDTF is “a good mechanism to encourage coordination between UN and government agencies”. It enables donors to reach many more local partners than they could ever have done with bilateral assistance, and it allows small donors without their own presence in a country to join the combined effort of support. The Study found repeated confirmation that the MDTF mechanism is believed to successfully support several interrelated UN and donor reform agendas (see table 10 and below).

	MDTF not nearly as good	About the same	MDTF much better
UN coherence – delivering as one (174)	6%	33%	62%
Donor coherence (177)	8%	34%	58%
Bilateral objectives (168)	19%	49%	32%

Source: MDTF Operational Effectiveness Survey

- The MDTF has proven to be an effective funding and coordination mechanism to support the implementation of national and global priority programmes established by the UN system, national authorities and donors in the context of humanitarian, transition, reconstruction and development operations.
- The MDTF mechanism – particularly through the UNDG-ITF, the Common Humanitarian Funds and One UN Funds – has strengthened the authority of the HC and RC by providing additional resources for allocation according to UN/Country Programme requirements.
- Inter-agency coordination under MDTFs is a best practice example of One UN action for programme planning and implementation generally.
- The governance structure (inter-agency steering committee, plus government and donor representatives) encourages national ownership, and government and UN agencies to plan

²⁶ Many lessons learned exercises have been conducted, whether on individual MDTFs – particularly CHF – on the Delivering as One pilots, and on aspects of the framework as a whole. Many of these studies are referred in Annex 4 – Documents Consulted – and key lessons from recent reviews are summarized in Annex 13.

²⁷ MDTF Operational Effectiveness Survey

- together for a common response to country needs, including with increased participation of non-resident UN agencies.
- MDTFs are an efficient and transparent mechanism for a wide range of donors wishing to support high-profile core United Nations initiatives, including in particular Iraq reconstruction and international peacebuilding.
 - The MDTFs provide an efficient and transparent mechanism for those donor countries that have decided to actively support increased coordination and coherence among UN agencies. This is especially clear with support to the Common Humanitarian Funds and One UN Funds, while also relevant for various thematic funds.
 - The MDTF is an effective instrument to coordinate the assistance provided by donors particularly in difficult and risky environment where direct programming may be either politically or physically difficult for most donors. Once established, other interested donors may contribute even if they do not have an in-country aid structure.
 - For some countries, the MDTF may provide an internationally recognized administrator to handle significant national resources, particularly in the context of financial flows expected under Climate Change funds. The Yasuni (Ecuador) MDTF signed in late 2010 is the first example of this model, which will be tested through donor commitments in 2011.
 - The MDTF Office GATEWAY and reporting have set a high standard of public transparency regarding flow of funds and timely reporting to stakeholders. Such transparency exerts pressure to improve programme management as well as reporting.

“Quality” of Funding under MDTFs

43. The MDTF mechanism was expected to improve the “quality” of funding to UN multi-agency programmes. Specifically, it was to increase the predictability and flexibility of funding through increased multi-year funding arrangements and decreased earmarking. MDTFs associated with high profile UN priorities have received greater continuing flow of contributions from a large set of donors – Iraq reconstruction, peacebuilding, and humanitarian response funds are examples of this. Some MDTFs have received multi-year funding (One UN Funds and MDG-F, for example), but there is no clear evidence that this is more frequent under the MDTFs than under other donor funding agreements. There is less earmarking in most MDTFs today than there was at the beginning of the UNDG-ITF. Earmarking seems to be less detailed under MDTFs than under many agency non-core programmes; it is discouraged but still accepted to the sector/cluster level.²⁸ The lower degree of earmarking, broader donor base and the explicit purpose of some MDTFs to support “underfunded needs” tend to provide greater flexibility for the Steering Committee allocation process which may in turn provide a little more short term predictability. For the UN participating organizations receiving allocations, however, the funding is often less predictable and more inflexible than their other non-core financial sources. Steering Committee decisions are often made quite late in the planning cycle, approvals are often projectized, and monitoring is often much tighter. Donor response to the specific fund concept and Steering Committee TOR are probably more important in determining the short term predictability and flexibility of the financing. The mechanism as such does not appear to increase predictability and it is often managed in a way that reduces flexibility, at least from a participating organization point of view.
44. There is a question as to whether the MDTF funds were “additional” to that which would otherwise have been entrusted to the UN. A study of the humanitarian financing instruments conducted in 2008 examined the CHF and concluded that there was substantial additional funding going into the

²⁸ The CFIA accepts earmarking to the agency level.

CHFs and that the donors most engaged with the CHFs were the most likely to have increased their level of funding even further.²⁹ On the other hand, the One UN Funds are supported in part by multi-bi funding which donors had already allocated to the same countries, but decided to put through the One UN Fund rather than through separate agency agreements. Some agencies' experience with the Somalia CHF and Haiti Reconstruction Fund suggests that donors held back direct financing to agencies pending clarification of whether the common funds would be established. There thus has been an increase in humanitarian funding, together with a reorientation of existing development funding under the One UN architecture.

AA fee and the financial viability of the MDTF

45. Standard MDTF indirect costs are 1% for the AA and 7% for the Participating Organization. A recent JIU report noted that there is "continuing discussion among the participating organizations whether the 1 per cent management fee for the services of the AA is adequate or excessive." The JIU further noted that "the established rate may be justified," given the long period of operation of MDTFs, reporting obligations and additional services such as the GATEWAY.³⁰ Donors expressed concern about the level of the fee and their lack of understanding regarding its use. At the same time, there is wide recognition that the timeliness of financial transfer, quality and timeliness of annual reporting, high degree of transparency with the MDTF Office GATEWAY, and the update of financial information are all provided much better by the MDTFO than by the regular work of any agency.
46. The MDTFO shares part of the 1% fee with UNDP for organizational central services (e.g., IT support, treasury services, internal audit, ATLAS) and as payment to UNDP Country Offices for delegated AA services. These services and payments are integral parts of the AA service provided by UNDP, although they are not reflected in the MDTF Office staffing. To date this internal distribution of income to enable or provide the AA service constitutes roughly 45% of the 1% fee received (0.45% of the funds processed), leaving about 0.55% for MDTFO expenditure (see Table 11).

	2004	2005	2006	2007	2008	2009	2010	2004-2010	%
Donor Deposits	629	275	608	608	857	1,175	576	4,726	100
AA Income	5.19	2.17	4.28	5.42	9.66	12.07	5.67	44.46	1%
AA Distribution									
a) UNDP Central Services	1.17	-	0.85	1.17	1.97	1.24	0.47	6.86	15%
b) UNDP Country Offices with delegated authority	-	-	1.46	2.43	3.05	3.98	2.16	13.08	29%
c) for MDTF Office	4.02	2.17	2.06	1.73	4.55	6.94	3.04	24.51	55%
Total	5.19	2.17	4.37	5.32	9.57	12.16	5.67	44.46	100%

Source: MDTF Office, April 2011

²⁹ Stoddard, International Humanitarian Financing: Review and Comparative Assessment of Instruments, 2008

³⁰ JIU Report on Management of Trust Funds by UN Agencies, 2010.

47. The MDTF Office is concerned that the cumulative income, while well above expenses thus far, risks being insufficient to cover the life cycle cost of the Office until all projects are closed. Every year through 2009 the MDTFO income was greater than expenditures, with the difference accumulated as a reserve fund maintained in the separate MDTFO bank account to cover short term fluctuations in income and fund the closing phase of the AA (see Table 12). To cover the current costs of the MDTFO at the expenditure level of 2010 would require new MDTF deposits annually of approximately U\$750 million, which was about 25% greater than actually received in 2010, the first year when there was need to utilize some of the accumulated reserve. If new funding were to stop immediately, there would still be at least two more years of operational activities under most of the funds, plus an additional two years for financial closure. The cost of maintaining the current level of services would exhaust the reserve in slightly more than two years. Since the actual level of AA services required with no new funds would be less than under current conditions, given the current cost structure and portfolio mix of the MDTFO, the 1% fee is in the range of reasonable. FMOG should revise MDTF documents to clearly state that the AA fee is 1%. Donors and other agencies should accept the rate. Agencies accepting to be AA should work within this fee for lifecycle costs.

MDTF Office								
	2004	2005	2006	2007	2008	2009	2010	Grand Total
Net Income	4.02	2.17	2.06	1.73	4.55	6.94	3.04	24.5
Net Expenditure	0.70	1.02	0.95	1.54	3.21	3.82	4.15	15.4
Balance/Reserve	3.33	4.47	5.59	5.78	7.12	10.23	9.12	9.12

Source: MDTF Office, April 2011

48. Agencies accepting the AA role should ensure they are prepared to accept the financial obligation to provide such service. In line with the principle that core resources not subsidize non-core activities, the agency should be convinced that the income received as funds are deposited will be sufficient to cover the life-cycle cost of the AA-services. More specifically, since the AA is funded by the pool of income, those funds where the income may not cover costs are subsidized by other funds (neither being subsidized by core funds). This may cease to work properly if the number of funds with income insufficient to cover costs were to increase greatly in proportion to the others, or if MDTFs are often extended beyond their planned closure date in order to complete projects without new funds or income being received. There are already examples of both types: some of the One UN Funds are quite small, and they are all significantly smaller than the post-conflict reconstruction, peacebuilding and humanitarian funds; the UNDG-ITF, MDG-F and CFIA have all been extended without new funding commitments. It will not be possible to maintain the same level of service without the corresponding income, although a reduced level of service will be appropriate for the period of financial closure. FMOG should coordinate an interagency study of project and programme closure procedures, to develop guidelines and propose an appropriate amendment to the MOU to facilitate prompt closure of projects and funds.

Threshold size for MDTF

49. There has been considerable discussion that there should be a minimum size for a new MDTF to be financially viable, and the issue has been considered in the course of the Study. This issue is important for the potential AA, but is somewhat misplaced as far as the participating organizations are concerned. The AA faces a clear calculus of costs to provide the service from the 1% income.

The financial threshold may be different for each AA, depending on its cost structures and service package. The threshold could also vary among types of funds, likely size and number of allocations, duration, etc. While the AA may wish to know its own cost structure and cost factors of MDTFs, it is unlikely that decisions will be made on the basis of such calculations. On the other hand a clear threshold could encourage donors to allocate a higher minimum amount to new MDTFs. The World Bank increased its minimum threshold for MDTFs from \$200,000 to \$1,000,000, and instituted an initiation charge of \$35,000 to set up a new fund.³¹ Since a 1% fee on \$3.5 million is \$35,000, the equivalent threshold for the UN would be \$4.5 million without a start-up charge. On a pilot basis, UNDG should set the minimum initial commitment required to establish a new MDTF at \$4.5 million.

50. Participating organizations have a looser cost calculation, since they may choose to accept small amounts of funding through the MDTF or regular channels with the same 7% support costs to be implemented by staff paid from diverse funding. From the perspective of the participating organization, the question is not one of financial viability but rather of organizational burden. The organizational burden of an MDTF is linked to the level of transaction costs resulting from the increased level of coordination – largely reflected as increased numbers of meetings – together with project management costs associated with tracking funds and any specific reporting. Guidance should be provided to make MDTF management more cost-effective. This would focus attention on improvement of consultation and allocation processes in-country (frequency of meetings, size of allocations, reporting requirements) and reporting detail between the AA and the participating organizations. Thus for the participating organization the important issue is to reduce transaction costs through improved business processes with the Steering Committee and the AA rather than to focus on a financial threshold. This leads to discussion of the transaction costs under the MDTFs.

Transaction costs

51. There has been considerable discussion of the transaction costs resulting from the MDTFs – referring principally to cost of organizational effort and staff time. For the agencies, the issue is whether the associated coordination and other transaction costs of an MDTF are particularly burdensome. MDTFs were expected to reduce transaction costs for all parties – donors, host governments and UN agencies. The general impression (supported by a 2009 study on transaction costs³²) is that especially under the larger funds (UNDG-ITF, PBF, CHF) the MDTFs reduce the transaction costs for donors (who no longer need the same level of staffing to negotiate and manage individual grants) and for host governments (who had fewer separate discussions with multiple partners doing similar work); but increase transaction costs for UN agencies and non-UN implementing partners (particularly government line ministries and NGOs in humanitarian programmes). The survey conducted for this study indicates that on the whole the stakeholders recognize there is an increased workload on the RC/HC and on the UN participating organizations, but the overall figures do not show a clear tendency regarding other actors (see Table 13), although the Sudan CHF responses indicated the highest burden of planning and coordination on the HCO, participating organizations, government line ministries and NGOs.

³¹ Trust Funds at the World Bank: A Guide for Donors and Partners, November 2009.

³² Salomons, Study of Transaction Costs Associated with Humanitarian Pooled Funds, 2009.

Table 13			
Compared with other financing mechanisms, does the MDTF require more time in planning and coordination meetings for each of the actors listed below? (All Respondents)			
	MDTF much less	About the same	MDTF much more
RC/HC	21%	37%	42%
Government coordinator	29%	39%	33%
UN participating organization	18%	34%	48%
Government partners	26%	44%	30%
Donors	35%	40%	25%
NGO/CSO partners	31%	48%	21%
Source: MDTF Operational Effectiveness Survey			

52. It may be that the increase is due less to the MDTF mechanism than to the humanitarian and One UN reforms with which it coincides. The MDTFs are meant to support the UN and humanitarian reforms to increase UN delivering as one, and this implies added costs for coordination, as the MDTF architecture insists on the presence of a steering committee of the UN, Government and others, together with technical coordination among the agencies involved (see Chart 2). While donor reporting has been largely harmonized, UN agency and MDTF reporting has not been. Transaction costs should fall over time as organizations learn better how to coordinate together, and adapt their structures, staffing and business processes to better fit more coherent UN action. UN agencies should recognize that increased transaction costs for coordination are part of UN delivering as one, and seek ways to manage them through improved organization and streamlined business processes. Donors should accept that the increased transaction costs may require increased staffing as a direct cost to the funds.

Chart 2	
Transaction Costs and Benefits Due to Increased UN Coherence and MDTFs	
Aspect	Transaction Cost (TC) and benefits
AA consolidates funding from various donors	Reduced donor cost (TC) to negotiate, standard terms, reduced earmarking, strengthened donor coordination
AA channels funds to various participating organizations	Reduced organization cost (TC) , standard terms
Participating organizations negotiate MDTF Concept and TOR	Increased staff time (TC) invested in planning Increased UN coherence in plan and with UNDAF
RC-Government co-chair Steering Committee	Increased national ownership
Inclusive Steering Committee	More comprehensive planning Decisions slower with more organizations and more people involved All participants interested in funds, pressure to allocate politically to all, rather than target technically
Participating organization involvement in Steering Committee (meet every few months)	Increased UN coherence in implementation Increased staff time (TC) to participate in SC Increased staff time (TC) to report to SC
Implementing partners on Steering Committee or sector work groups (line ministries, NGOs)	Increased comprehensiveness of planning Increased staff time (TC) to participate (line ministries and NGOs)
Donor involvement in Steering Com	Strengthen partnership support to programme Lower need for earmarking because better informed Risk of effort to micro-manage use of funds
Financial update to Steering Committee locally, 3 or 6 months	Empower planning, monitoring and allocation process Increased staff time (TC) to prepare estimate
Annual financial reporting with detail on each allocation	Increased staff time (TC) to monitor and report Information too late to be useful for monitoring
Annual financial reporting at programme level, consolidating all allocations	Lower staff time , increased programme coherence
Financial closure of MDTF	Dependent on closure of each and every component

53. One example of work processes that generate transaction costs for the AA and for the participating organizations is an increased number of financial transactions to manage, out of proportion to the funding concerned. That is, a greater number of lower value transactions. Table 14 shows for each year the number of disbursements under the MDTFO funds, the total and mean value of those transfers and the number of transfers per \$1 million of activity. Over time the size of payments has gone down and the number of payments up. This reflects smaller allocations which increase the workload for all staff involved in the financial approval and reporting process, whether issuing or receiving the transfers (see Annexes 9 and 10 for lowest). Increased numbers of smaller payments result from Steering Committee allocation decisions and impact on monitoring and reporting. These increased transaction costs can be reduced by more strategic allocation and reporting requirements.

Table 14				
Payment quantity growth 2004-2010				
	Number of payments	Total value of payments	Mean value of payments	Payments per \$1 million
2004	47	484,289,328	10,304,028	0.1
2005	82	270,421,615	3,297,825	0.3
2006	136	359,616,017	2,644,235	0.4
2007	291	554,130,579	1,904,229	0.5
2008	877	645,949,726	736,545	1.4
2009	1688	831,465,429	492,574	2.0
2010	1540	1,066,309,118	692,409	1.4
Total	4661	4,212,181,812	903,708	1.1

Source: MDTF Office Gateway, 1 May 2011

54. Comparison among categories of MDTFs shows very clearly the difference in average value of payment among categories of funds, with the DaO and MDG-F funds presenting by far the heaviest workloads for financial processing and reporting (see Table 15).

Table 15				
Payment quantities in different funds				
	Number of payments	Total value of payments	Mean value of payments	Payments per \$1 million
MDG-F	1,832	472,415,048	257,868	3.9
PBF	289	223,287,363	772,621	1.3
Sudan CHF	148	788,844,777	5,330,032	0.2
UNDG-ITF	896	1,343,712,427	1,499,679	0.7
Delivering as One	1,521	393,306,034	258,584	3.9
JPs	162	77,135,085	476,142	2.1

Source: MDTF Office Gateway, 1 May 2011

Reducing transaction costs

55. In the course of the Study, another area was identified where business processes could be modified to reduce costs to the AA and partners: detailed financial tracking and reporting on project activities. This area is a major draw on both AA and participating organization staff time. Steering Committee allocations received by the AA from the RC typically are for specific projects. The AA transfers funds for the respective project total for each agency allocation, and requires financial reporting on each allocation. While agencies prepare detailed budgets for review and approval by the Steering Committee, there does not appear to be any added value to track and report expenditures for each project separately. This represents added work for the AA to review the detail and for the participating organization to track and report the detail to the AA at the end of the year. Reporting should be at the level of programme allocations (allocations, receipts, commitments and disbursements) rather than detailed activity budgets. Participating organizations under each MDTF should discuss with the Steering Committee and potentially other stakeholders whether the detailed reporting through the AA provides useful information and controls that are not already exercised by the Steering Committee with local reporting. The Chair of the Steering Committee should advise the AA whether programme level figures are sufficient or project activity details are required for AA reporting. If the former, the AA should not record nor expect use of the project

budgets for participating organization reporting on use of allocations. The AA should provide global allocations and leave the tracking and management of detail to the field.

Support cost issue with EU

56. Financial viability depends in part on the support costs applied. The MDTF mechanism recognizes a 7% indirect support cost rate for participating agencies. The 7% figure included in the EC-UN FAFA proved to be a barrier in negotiations for EC participation under MDTFs, since the actual MDTF indirect cost figure was 7% plus 1%, which exceeded the FAFA agreement limit on indirect costs. In one case – Albania, flagged as not serving as a precedent – the MDTFO agreed to charge the AA fee as direct cost, enabling the agencies to receive their 7% indirect costs.³³ The issue arose again in two inter-agency funds for Myanmar negotiated by UNOPS with the donors including the EC, in which UNOPS took 1% and left 6% indirect support cost for the agencies, with 1% direct cost to be charged by each agency.³⁴ These cases were extensively discussed by the FMOG, and support costs were one of the issues. From the perspective of the MDTF mechanism, when the EC is the donor to an MDTF, and until such time as there is an agreement with the EC that allows for the full 1% plus 7% indirect cost, any AA should leave the full 7% to the agencies – thus not contravening executive board policy on support costs – and collect the costs of the AA as direct costs of 1%. This would also minimize the risk of having multiple agencies each requesting direct cost reimbursements, with differing interpretations of what is allowed and varied presentations of their costs. These issues have been under discussion for some time between FMOG and the EC, with most issues agreed, and the discussions should be brought to a successful conclusion.

Steering Committee: In-Country Governance and Management Experience

57. The Steering Committee typically meets quarterly or semi-annually, depending on the category of fund (see Table 16). Steering Committee work is supported by thematic or cluster teams including the corresponding agencies, government and in some cases civil society organizations (latter are important under the humanitarian funds). Three-fourths of survey respondents reported that the MDTF had a Support Office or technical secretariat staffed by the RCO, OCHA, involved agencies or specific recruitment. In many cases the technical support units may be understaffed in relation to the expected level of service. While there are costs in any solution, only a minority of funds have charged direct costs of the Steering Committee Support Office to the fund, a practice which is common to the PBF projects but relatively rare among the much smaller One UN Funds: 40% of respondents indicated it was financed at least in part by the respective fund, while 60% said it was supported by the RCO and technical working groups.³⁵ Such technical support is important to direct the planning and review process, as well as to ensure M&E and reporting. This has been recognized by the UNDG and donors, which accept such support as a valid direct cost against the MDTFs,³⁶ however it is often not charged locally due to questions from other agencies and donors regarding the value of such expenditures.

³³ EU contributed over 40% of the funds in the UNDG-ITF. Averaging of participating organization support costs (allowed under UNDG-ITF to be 5% to 9%) resulted in a combined rate with AA fee that was below 7%.

³⁴ Some specialized agencies with support cost rates of 13%; reportedly charge EU 7% indirect and 6% direct costs.

³⁵ MDTF Operational Effectiveness Survey

³⁶ Conclusions of the 2009 UNDG-Donor informal consultations in The Hague.

Table 16					
How often does the MDTF Steering Committee usually meet?					
	Never	Monthly	Three months	Six months	Annual
Summary (168)	1%	14%	38%	35%	12%
PBF (46)	2%	20%	65%	11%	2%
DaO (46)	2%	13%	26%	58%	9%
Sudan CHF (14)	7%	21%	64%	7%	0%
UNDG-ITF (21)	5%	33%	52%	9%	0%
Source: MDTF Operational Effectiveness Survey					

58. Based on the survey responses, the composition of the MDTF Steering Committee is quite inclusive: it is co-chaired by the RC and government (except in humanitarian cases which are typically chaired by the HC alone), it includes UN participating organizations as well as line ministries, with 10 or more UN representatives in fully one-third of the cases and 10 or more government ministries in nearly 10% of cases; donors sit on 90% of Steering Committees and are voting members on more than half; and NGOs/CSOs are on about one-half, usually as observers. This confirms that the Steering Committees have a broad representation, although they may sometimes be unwieldy in their size and generate expectations for all participants to be included in the division of resources.

Accountability

59. Considerable discussion went into establishment of the MDTF accountability framework and its several aspects, including: accountability of the AA for overall funds administration and other tasks, accountability of each agency for use of funds allocated to it, overall transparency, audit framework, and reporting. In addition, several frequent MDTF donors expressed concerns during the study about what they referred to as an “accountability gap”, discussed further below.

60. AA accountability has several aspects. The AA is accountable to its own agency for management of the respective office including the resources that pass through it, and to the UNDG ASG Advisory Group for management of the AA function. For example, the MDTFO reports annually to the UNDP Administrator and provided its Annual Report for 2009 activities to the ASG Group in mid-2010. The accountability holders are responsible to consider the reports submitted and provide appropriate guidance where needed or requested. Up to now, only the MDTFO has provided such reporting. Any other UNDG member agencies acting as AA have yet to fulfill the responsibility to report. The 2009 MDTFO Annual Report was referred by the ASG Group to the FMOG for review, but the MDTFO reports that it received no written feedback other than the eventual scheduling of the current Study (see Annex 11 for issues raised for guidance). The UNDG oversight and guidance to the AA should be strengthened, including timely written response to issues presented for guidance in the AA Annual Reports. As part of its oversight responsibility, the FMOG should follow-up with all agencies and request annual reporting on their progress, challenges and proposals as AA.

Audit and Financial Oversight

61. Regarding the management of the AA and its resources, the MDTFO has been subject to audit four times: audit of the UNDG-ITF conducted in 2006 by PricewaterhouseCoopers for UNDP/OAI, audit by the UN Board of Auditors in 2007 and 2010, and audit of the Sudan CHF by UNDP/OAI in 2010. The audits confirmed the general quality of the accounts and procedures reviewed and provided specific recommendations to strengthen identified issues. No improprieties were detected. It is

good practice that the MDTF Office, which handles transactions in excess of \$600 million per year, should continue to be subject to regular audit, including by the internal audit function.

62. While each agency conducts audits of its own programme according to its own control framework, individual agency audits by definition never provide full coverage of an MDTF. The Framework for Auditing MDTFs endorsed by the UNDG in 2007³⁷ provides for a risk assessment to be conducted at the beginning of each MDTF, with coordinated audits (each agency covered by its own audit entity according to the same methodology and at roughly the same time) to be conducted on the basis of the risk assessment. Only one audit has been conducted thus far under this framework (Sudan-CHF) and two are planned for 2011. The Sudan-CHF audit exercise is recognized as having been a useful first round, highlighting the challenge of ensuring a consistent audit approach and adequate audit coverage by the various audit offices involved.
63. The need to revise the current framework has been recognized by the various audit entities in the UN Representatives of Internal Audit Services (RIAS). When the current framework was developed by RIAS there were only a handful of MDTFs. Both the UNDG-ITF (prior to the Framework) and Sudan CHF audits proved difficult to coordinate. No agency has the resources to conduct the number of audits implied in the framework and the MDTFs do not provide funding for the crosscutting audit coverage specific to the MDTFs. Without additional resources dedicated to this oversight function, even an improved approach may not provide the level of assurance desirable for programmes of this magnitude. The RIAS audit entities should expedite revision of 2007 Framework for Auditing MDTFs to enable more effective assurance regarding MDTF-funded programmes, including appropriate consideration of the coverage provided by regular agency audits. UNDG should consult with donors on the acceptability of direct charges for MDTF audits, in case the RIAS audit entities propose an audit framework that requires additional resources to provide the desired level of assurance.
64. The UNDG Fiduciary Management Oversight Group (FMOG) was established in 2007 to review issues related to use of non-standard text or arrangements under MDTFs, brought to it by participating organizations or RCs/HCs, including proposed MDTF documents with deviations from standard text related to roles and responsibilities of the AA and of participating organizations, support cost levels, and reporting. It has also reviewed proposals to streamline administrative procedures (e.g., budget revisions and project extension) under existing MDTFs and donor proposals for specific clauses related to corruption and review of documentation.³⁸ It has generally tried to maintain the agreed standard text and avoid ad hoc changes, while considering specific changes in their context. It adopted the UNDG budget categories for use under all MDTFs, reviewed governance and accountability arrangements and particular donor roles on specific steering committees. It has also discussed specific agreements that were open to interpretation as to whether or not they were MDTFs, and has sought to protect correct “branding” and reputation of the instrument. The Board of Auditors observed that the FMOG could be more proactive to identify issues and provide guidance to interested parties, rather than waiting for others to bring issues to it. The FMOG Joint Funding Sub-committee has taken actions in this sense over the past 12 months. FMOG should proactively ensure that UNDG policy and guidance regarding MDTFs are known and applied.

³⁷ Framework for Auditing MDTFs, September 2007.

³⁸ One clause on disclosure of corrupt behavior was incorporated; another clause on right to initiate a “review” of specific funds has been incorporated in a side letter on non-precedent setting basis. This latter case derived from legal and financial requirements that apply to all aid provided by that donor, and the interim solution found is reportedly no longer acceptable to the central authorities of the donor.

AA Reporting to the UNDG ASG Advisory Group

65. The AA reports annually to the UNDG. The MDTFO 2009 Annual Report provided a good summary of the growth in the overall use of MDTFs, AA services provided by the MDTFO, initiatives to strengthen transparency, accountability and knowledge management, financial analysis of income and expenditures, identification of key challenges and issues proposed for decision. The information was clearly presented and useful. In addition to the current required information, it would be good if the report were to discuss the AA contribution to UN strategic outcomes related to the purpose of the MDTF mechanism as a whole (as distinct from that of individual funds). Although the MDTF is a financial service instrument and the AA is a service provider, the AA report should address the specific contribution of the MDTF as an operational mechanism to strengthen the ability of the UN to coherently deliver as one in the field. The UNDG ASG Advisory Group should confirm the strategic purpose of the MDTF mechanism, e.g., to support UN coherence, particularly in the context of programmes focused on Delivering as One, humanitarian reform and high-profile UN priorities (e.g., Iraq reconstruction and peacebuilding) and request the AA to propose and report on appropriate indicators for its contributions.
66. As with any other organization, the AA should report against results and targets established as part of its mid and long term planning cycle. The results framework should include two types of results: (a) performance objectives to improve the quality of the service provided and efficiency of the office itself and (b) strategic objectives related to the purpose which the mechanism is meant to serve. In the case of the MDTF mechanism, its purpose is to support strategic UN initiatives embodied in specific programmes (e.g., Iraq reconstruction, Peacebuilding, Humanitarian Reform, UN Reform, and Aid Effectiveness). As a service provider, the AA does not have direct development outcomes; unlike most UN service providers (finance, HR, procurement and central technical units), the AA does have a limited number of clients which do have development outcomes. Thus quality of service measures can be defined related to the basic actions of MDTF processing (indicators of the efficiency with which the work is done) and outcome measures can be defined related to the success of MDTF stakeholders to produce development outcomes (indicators of progress toward the strategic goals for which the MDTF as a financing mechanism has been selected). Results indicators for the MDTF contribution to development outcomes can be drawn in part from partner assessment as to whether the instrument helps achieve the goals for which the MDTF mechanism was selected, in particular strengthening the approach of working together among the UNCT, government and donors. The AA should report on indicators related to facilitation of these strategic efforts, comparing results with preset targets. This would reflect the work of the AA (rather than of individual funds) and the impact of the MDTF mechanism as distinct from what might have occurred with a different financial instrument. Preliminary guidelines for AA reporting are provided in Annex 12, which includes potential results indicators. The AA should develop results indicators, targets and baseline measures to manage and report on its work.

Donors and the “accountability gap”

67. Donors raised concern about an “accountability gap” inherent in the MDTF mechanism. There were distinct meanings given to the phrase, some of which have been resolved but others not. Many of these concerns are not specific to MDTF-financed programmes, but apply to UN programming broadly.
68. Netherlands and others noted that since the donor agreement is with the AA and the AA has a separate agreement with the participating organizations, the donor has no direct recourse with the participating organization in the case of nonperformance or improper use of funds. Dutch law

requires a direct relation with the participating organization in order to have the right of legal recourse. This was resolved with agreement that since participating organizations are all UN agencies, they have special status under Dutch law, including specified dispute resolution mechanism should cause ever arise. Furthermore, the UNDG standard MDTF agreements were amended to more clearly cross reference each other. This was a satisfactory resolution for those concerned about the legal issue, but the underlying donor concern regarding a gap in accountability continues and was repeatedly raised by donor staff contacted during the Study.

69. Donors expressed concern about the lack of comprehensive programmatic responsibility and oversight. This is also expressed as dissatisfaction with the lack of a clear results focus in many narrative reports. These comments reflect donor dissatisfaction with the weak planning and M&E function throughout much of the UN system.³⁹ This is a general programme issue and not an issue of the financial mechanism as such; nonetheless it should be an UNDG concern that proper M&E is carried out by the programmes funded. This issue has been discussed with donors under the One UN Funds, for which the use of programme funds for direct costs to properly support M&E has been agreed. Funding is built in for much stronger planning and M&E in some cases (PBF, MDG-F) and the issues should be addressed regarding other funds at the design and planning stages.
70. Some donors expressed concern that funds which they have provided could be used for purposes entirely different than agreed with them. If the Steering Committee has the authority to set a new strategy and priorities for use of funds, and if the donors are not represented on the Steering Committee,⁴⁰ some feel they could be taken advantage of and ignored – with negative implications for their reporting back on the use of funding which may have been extended with a fairly specific purpose. This risk is minimized through transparent Steering Committee deliberations and guaranteed by proper work of the AA, which is responsible to ensure that fund allocations are consistent with the TOR of the Fund, and cannot be revised by the Steering Committee alone, but only with the agreement of the participating organizations. Inclusion of donors on the Steering Committee or for review of the Fund TOR would greatly reduce the misperception risk on this issue. UNDG should revise standard documents to specify that changes to the TOR of any specific MDTF require approval by all formal stakeholders, including donors.
71. Donors are concerned that collectively they do not have a recognized role in oversight of the MDTF mechanism. They appreciate the annual informal UNDG-Donor consultations begun in 2009, but seek a more formal status, giving examples of standard quarterly donor briefings by the PBF, and membership in formal advisory groups for several funds. Some donors noted that this is particularly relevant since the MDTF mechanism is not reviewed by any governing body of UN member states, and recommended that it be placed on the agenda of an appropriate body.⁴¹
72. Donors have expressed concern regarding the lack of visibility and recognition given to their contribution. During the Study, donors explained that this is not a requirement to track their

³⁹ The DFID Multilateral Aid Review is particularly critical of the lack of results frameworks in the planning and operation of its UN agency partners.

⁴⁰ 90% of MDTF Operational Effectiveness Survey respondents indicated that donors are on the Steering Comm.

⁴¹ The Joint Inspection Unit Review of Trust Fund Management by UN Agencies (2010) also recommended that review of the MDTF be on the agenda of the UNDP Executive Board and ECOSOC. Various UN agencies recognize the need for intergovernmental review of the MDTF, although there is no agreement as to which Executive Board should have this role. They agreed that no single agency executive board can fulfill this role. Some suggested the Joint Executive Board with an invitation for all agencies to attend. The current DESA report to ECOSOC on UN Reform may bring a welcome request from that body for information.

individual contribution, but rather that the UN report results and recognize that support from specific donors contributed to the results – some donors referred to existing arrangements with the CERF as good practice. Even if parliamentary requests do not normally detail specific UN contributions, the text often does refer to major initiatives such as CERF, EFW, One UN, CHF, critical countries, etc, and later reports to Parliament must refer to the same specifics. While reporting on the MDTF Office GATEWAY and in annual reports provides considerable information on support of each donor, this does not appear to fully address the concern. UNDG, while reminding donors of the good donorship principles on which this funding mechanism was based, should discuss with them their concerns regarding visibility to identify together appropriate means to address them; the parties may wish to consider arrangements with the CERF as a good practice example.

Agency Reporting

73. There is some debate about the frequency of reporting that should be expected from agencies. The current UNDG guidelines and the general template SAA and MOU provide for annual financial and narrative reporting, normally issued in June of the following year – nearly 1.5 years after the beginning of the period covered by the report. The larger UN Funds and Programmes are generally concerned about any effort to insist on reporting more frequently than once each year, because their financial management systems and procedures are not set up to facilitate this, they do not have the staff to do it manually and they do not want to create expectations. Several specialized agencies have concluded that they can report more frequently and that it is beneficial to do so.
74. The Board of Auditors observed deficiencies in agency financial and narrative annual reporting to MDTFO and called for action to call attention to those agencies which are late and ensure timely reporting.⁴² Virtually all UN agencies that participate in the MDTFs have accepted more than one specific framework that requires at least semi-annual reporting: the MDG-F requires six-monthly reporting while the UNDG-ITF and PBF requirements are quarterly; both the CERF and the World Bank agreements require six-monthly reporting. Over seventy-five percent of survey respondents indicate that informal progress reporting is currently at least every six months and the most common frequency is quarterly (see Table 17).

		Monthly	Three months	Six months	Annual
Summary (199)	Narrative	8%	42%	35%	15%
	Financial	2%	42%	33%	23%
PBF (74)	Narrative	12%	48%	26%	14%
	Financial	0%	57%	24%	19%
DaO (65)	Narrative	11%	25%	36%	28%
	Financial	3%	33%	33%	31%
MDG-F (113)	Narrative	6%	33%	42%	19%
	Financial	3%	31%	42%	24%
UNDG-ITF (47)	Narrative	4%	56%	35%	4%
	Financial	0%	64%	27%	9%
Sudan-CHF (27)	Narrative	9%	46%	27%	18%
	Financial	0%	46%	18%	36%

Source: MDTF Operational Effectiveness Survey (Responses: RCO/HCOs, PUNOS, NGOs, Secretariats)

⁴² UN Board of Auditors Report, 2008-2009 Biennium

Financial reporting

75. There were no complaints about the quality of current AA annual financial reporting in the interviews or survey. It was found to be “acceptable” by 60% and “very good” by 30% of survey respondents, although one-fourth of donor respondents found it to be “too infrequent”. Some donors explained that the frequency of financial reporting is problematic because it means that each new contribution is made without knowledge of how much of the previous contribution has been utilized, and their procedures increasingly require that fund utilization be considered for new allocations. All parties agreed that at the country level it is important to know the approximate extent of use of funds and be able to relate it to programmatic progress. In addition, the majority of Steering Committees apply performance criteria (use of funds) in subsequent disbursements to avoid funds being parked for extensive periods when they could be used for other purposes and to reward better performing agencies. The MDTF Office has pushed for more frequent financial reporting, but agencies are concerned that they cannot deliver accurate reports at any time other than at annual closing of accounts, so reporting at any other time requires manual preparation and will be necessarily inaccurate. At the country level this deficiency is made up through provision of estimated financial status reports by local agency staff. More than 75% of survey responses indicate that participating organizations submit financial reports at least every semester. The reports are unofficial, and figures provided may often change, but they indicate the extent of use of funds and serve as an important basis for the next disbursement decision by the Steering Committee and authorization from the RC/HC to the AA. For this purpose an unofficial indication at least each six months of the total funds received, committed and disbursed would allow for improved programme and financial management. It will maintain the image of the UN MDTF as an alternative transparent and quality fund administration channel in comparison with the World Bank and others, and provide encouragement for participating organizations to improve their reporting. UNDG should set a best practice standard of scheduled local financial updates at the frequency appropriate to empower the Steering Committee to make informed allocation decisions. This should typically involve an estimated summary financial update (receipts, commitments and disbursements).

Narrative reporting

76. Survey respondents as a whole indicate that both the frequency and substance of current MDTF annual narrative reporting is “acceptable” (65%) or “very good” (29%). In interviews and survey responses, donors expressed some dissatisfaction with the quality of the annual narrative reporting. In particular, that there is too little effort to formulate the reports in relation to the appropriate results framework and discuss relevant outcome indicators. While donors see this as a generalized weakness of the UN system,⁴³ it remains a continuing concern which could be better addressed in MDTF programme planning and M&E. A positive example mentioned by DFID was that successful reporting of outputs and outcomes under DRC-Pooled Fund has led to reporting of outputs and outcomes under the full Common Humanitarian Programme.

77. Quarterly field progress reporting is fairly common, available at country level and through the MDTF Office GATEWAY. Agencies have begun using a quarterly narrative progress update template which draws attention to the results framework of the respective project, including expected outcomes, outputs and their measures, with indication of percentage progress. While not linked to financial indicators, it encourages managers to think in terms of results. These are unofficial reports and agencies should not be expected to “officialize” them. This is a useful tool and the RBM focus is quite welcome. Application of UNDG Results Framework guidelines and other materials will

⁴³ DFID, Multilateral Aid Review, 2010.

reinforce the effort to respond better. A results-focused reporting template should be used for all MDTF progress reporting and fed into the annual reporting for a strengthened results focus.

Risk management

78. Recent studies have focused on the implications of risk for humanitarian and development work in post conflict and other higher risk environments.⁴⁴ While not a direct focus of the present study, some of the analysis is relevant to the MDTF discussion. First, the INCAF study notes that to a significant extent donors transfer programmatic and fiduciary risk to the UN. UN agencies would like to manage that risk according to their own internal rules and procedures. Donors argue that they share the risk, that the UN underestimates the extent of continuing donor responsibility to their Parliaments and publics, and that they (donors) are not free of risk should something be reported as going wrong. UNDG should strengthen dialogue with donors at the central level on their respective understanding and roles in risk management.
79. The INCAF study recommends that donors should recognize the higher risk nature of post conflict and other transitional contexts, loosen their controls and accept more risk in order to increase the chance of programme success. The study notes that “while there is a high acceptance of programmes and interventions not reaching their objective, there is virtually no acceptance of financial resources being misused or funds being unaccounted for.”⁴⁵ Donors note that on the policy side they recognize the higher risk nature of such contexts, but that it is difficult to translate this into change in the fiduciary controls. Thus there is greater concern for financial risk than programme risk – perhaps resulting in better accounting for more poorly performing programmes. The INCAF study does not discuss specific measures that might reflect recognition of higher risk. A few possibilities have been identified in the course of this study and it would be good to identify more, for example: a narrower division of responsibility with fewer checks and balances, managed through appropriate record keeping and spot checks; additional direct costs for greater strategic planning to produce stronger results frameworks and to ensure more M&E site visits; donor acceptance of less earmarking and more trust of the Steering Committee; donor and Steering Committee acceptance of less detailed reporting on expenditure of allocations; and in humanitarian contexts it could involve donor request for the UN to waive its normal prohibition to provide funding directly to well-managed civil society organizations. UNDG should discuss with donors their willingness to apply specific measures such as the preceding in order to increase the opportunity for programmatic success. FMOG may wish to coordinate with OCHA for a survey of field experience to identify MDTF programme requirements and business practices that if modified within a risk management approach could increase the chance of programme success in humanitarian and post-conflict situations.

⁴⁴ INCAF, *The Price of Success: Aid Risks and Risk-Taking in Fragile and Transitional Contexts*, February 2011 and INCAF (draft), *Guidance on Transitional Financing: Delivering better results in transitional contexts*, April 2011.

⁴⁵ INCAF study: *Aid risks risk-taking in fragile and transitional contexts*, 28 February 2011, pg 43.

Recommendations

80. The Study examined in detail various aspects of the MDTF mechanism in order to feed into analysis of broader underlying issues. This concluding section returns to the broader concerns of the Study while summarizing the specific recommendations presented in the Report.

Promote UN MDTFs as an effective instrument to enhance UN coherence and donor coordination in support of strategic UN initiatives and programmes

81. The UN MDTF has proven to be an effective mechanism to support high priority multi-agency UN initiatives, including post-conflict reconstruction, peacebuilding, humanitarian response and key thematic areas, with over \$3 billion delivered through 36 participating organizations over the past seven years. Use of the MDTF mechanism simultaneously promotes UN coherence, national ownership and donor coordination, as evidenced by RC, agency, government and donor feedback.
- The UNDG ASG Advisory Group should affirm the specific strategic purpose of the MDTF mechanism (as distinct from other financing mechanisms) to support UN coherence, particularly in the context of programmes focused on Delivering as One, humanitarian reform and major UN priorities.
 - UNDG members should consider the MDTF mechanism as a proven effective mechanism for non-core resources when developing a financing strategy to support strategic multi-agency UN initiatives.
 - UNDG and donors should seek to ensure that policy discussions on financing mechanisms for post-conflict and transition settings (eg, the INCAF report) reflect understanding of the respective strengths and valuable complementarities between the UN and World Bank MDTFs.
 - UNDG should regularize the informal UNDG-Donor consultations on MDTFs.
 - UNDG and donors should identify an instance for formal consultation with Member States regarding the MDTF mechanism.

Universalize application of UNDG standard documents and policies for MDTFs and other pass-through mechanisms among UNDG members

82. The UNDG has been successful in agreeing on norms and standards for MDTFs, but less successful in disseminating them and assuring adherence to them by all UNDG member organizations. Adherence to the UNDG norms and standards is in the collective interest of the UN. Non-application of UNDG norms feeds confusion about the instrument among agencies and donors, requires considerable interagency effort to correct and risks undermining agreed policy.
- UNDG should clarify as policy that the UNDG agreements regarding roles, responsibilities, support costs, interactions among UN organizations in MDTFs and accountability apply to all pass-through arrangements between two or more UNDG organizations, and supersede previous pass-through financing arrangements for multi-agency programmes among UNDG organizations.
 - UNDG-Donor discussion should confirm agreement on MDTF guidelines and seek agreement on standard procedures for other concerns raised by donors, such as donor visibility, considering donor experience with the CERF as a good practice. Donors should engage with UNDG on these policy questions and respect the results by not seeking case-by-case changes.
 - FMOG should act proactively to ensure widespread understanding of the MDTF mechanism, policies and templates, such that all agencies taking on the MDTF AA responsibility comply fully with the AA Protocol, UNDG policies and guidelines, and seek to provide a high level of quality, responsiveness and transparency.

- The Joint Funding sub-committee of the FMOG should promote outreach and training regarding the MDTF mechanism, targeted specifically at the UNDG ASG Advisory Group, RC/HCs, RCOs and UNCTs in the UNDAF rollout countries.
- UNDG members should respect the 7% indirect support cost rate for participating organizations. In the case of the EC as a donor to pass-through funding mechanisms, until full agreement regarding support costs has been reached, the AA fee should be the element subject to reporting as direct costs.
- The 1% AA fee is as good an approximation as possible to cover the lifecycle costs of an AA functioning per the agreed AA protocol, particularly considering the need to cover unknown future lifecycle costs and the impracticality of charging them later. Agencies accepting to act as AA should accept the 1% fee level and not seek to increase the fee but rather adjust its services if necessary. Donors and other agencies should accept the 1% fee level and not seek to lower it.
- FMOG should revise MDTF documents to state that the AA fee is 1% of contributions.
- FMOG should amend standard documents to indicate that any substantial change in the TOR of a specific MDTF requires approval of all formal stakeholders, including donors.
- FMOG should affirm the value to have a single web portal for public access to information on all MDTFs. Agencies providing AA services should explore the feasibility to provide such access through a single website, such as the MDTFO GATEWAY.

Ensure full effective application of accountability framework

83. The UNDG high level accountability framework for the MDTFs was designed carefully but has proven more difficult to carry out.

- All MDTF AAs should report annually to the UNDG/AG through the FMOG on their activities, management results and contribution to furthering UN strategic objectives; the FMOG and UNDG/AG should provide timely written response to requests for guidance in the reports.
- AA financial reporting should be at the overall programme expenditure level rather than project or activity detail.
- The RIAS audit entities should expedite the revision of the 2007 Framework for Auditing MDTFs to enable more effective assurance regarding MDTF-funded programmes, including appropriate consideration of the coverage provided by regular agency audits.
- UNDG should consult with donors on the acceptability of direct cost charges to cover the cost of coordinated MDTF audits, in case the RIAS audit entities propose an audit framework that requires additional resources to provide the desired level of assurance.
- UNDG should encourage as best practice the local provision to the Steering Committee (SC) of scheduled results-based narrative updates and financial estimates (receipts, obligations and disbursements) to empower the SC to make informed allocations and monitor progress.
- FMOG should review and clarify the policy and implications of “full programmatic accountability” with regard to the MA function in humanitarian contexts and provide guidelines to ensure consistency among MAs.

Maximize operational flexibility and reduce transaction costs

84. The MDTF mechanism has not significantly increased the predictability or flexibility of funding to UN organizations. While the MDTF mechanism has increased the flexibility of funding at the level of the UN system overall, for individual participating organizations, MDTF funding is often less predictable and less flexible than most other non-core funds. The management arrangements put in place to support strategic UN goals, such as Delivering as One and the Humanitarian Reform, and their related funding instruments have entailed a cost of increased demands on staff and organizational

time. Recent trends have increased the cost of managing MDTFs for both the AA and its partners. Increasing numbers of small MDTFs and of small transactions suggest that the mechanism may be being used less strategically. These problems would be reduced if UN organizations, Steering Committees and donors would organize larger fund packages and manage them at the level of programme allocations rather than project activities.

- Donors should make longer term funding commitments to MDTFs whenever possible, but not at the expense of their core funding contributions.
- In setting up a new MDTF, the key stakeholders should carefully consider the impact of their programmatic and operational decisions on the overall transaction costs of running the Fund. This should include a clear assessment of the financial viability of the new MDTF, including total expected contributions, in line with the 2011 UNDG guidance on establishing, managing and closing MDTFs, and communicate this to the prospective AA.
- To support strategic use of the MDTF mechanism, stakeholders should ensure that total fund contributions and distinct fund allocations are large enough to have meaningful impact on programme activities.
- On a pilot basis, the FMOG should require a minimum initial commitment of \$4.5 million with an expected three year budget of at least \$10 million to establish a new MDTF. In case the MDTF does not meet the threshold amount, the Steering Committee and the AA should agree on the acceptability of direct cost charges for specific AA-related tasks.
- To increase operational flexibility, Steering Committees should allocate funds and accept financial reporting on a programme rather than project basis whenever possible.
- UN agencies should recognize that increased transaction costs come with the preferred way of doing UN business (delivering as one) and should continuously seek to cooperate more efficiently and streamline business processes to reduce such costs.
- Donors should recognize that while MDTFs have reduced transaction costs for donors, they have increased transaction costs for the UN and implementing partners, eg for coordination activities, and donors should accept some charges for coordination as direct costs to the respective funds.
- Donors and Steering Committees should accept direct costs for agreed strengthening of Fund level planning and M&E functions for improved results management.

Strengthen learning and spreading of best practices

85. There is a continuing need for a HQ level group to act as a learning and best practices centre regarding MDTFs, to collect best practice and provide good advice regarding such issues as the development of programme agreements, functioning of steering committees, importance of M&E, results-focused planning and reporting, development of the MA role, etc.

- Building on the recent work of the Joint Funding sub-committee, the FMOG should enhance its comprehensive lessons learned and best practices advice capability regarding the establishment, management and closing of MDTFs. This should include coordination of studies that may be necessary to better specify issues and identify solutions.

Annexes

1. Study Terms of Reference

Duty Station:	Home Based and New York, USA
Languages Required:	English
Starting Date:	21-Mar-2011
Duration of Initial Contract:	2 months
Expected Duration of Assignment:	2 months

Background:

The UNDG Multi-Donor Trust Funds (MDTF) is a multi-agency funding mechanism which is designed to receive contributions from more than one donor for UN programmatic activities as determined by its terms of reference. Donor resources are co-mingled to fund programmes/projects implemented by UNCT members in a specific country in support of the achievement of nationally owned and determined priorities, or by UN organizations working together at global or regional levels. Donor contributions to an MDTF are held in trust by the appointed Administrative Agent (AA) and disbursed in accordance with the governance and decision-making process of the MDTF. Considering the importance of MDTFs in improving aid effectiveness and an upward trend in establishment of MDTFs, the study is being commissioned to add to the analysis.

Purpose and Scope

The purpose of the study is to examine the operational effectiveness of UN MDTFs. The study will assess efficiency and effectiveness of administrative, managerial and accountability arrangements for MDTFs, their management procedures and systems and impact on transaction costs. To the extent possible, it will be based on the available data covering MDTFs in development, transition and humanitarian situations. Its findings and recommendations will inform further refinement of MDTF related policies and tools as appropriate. The scope of the current study will focus on issues of operational effectiveness, notably of the MDTF as a financing mechanism.

Description of Responsibilities:

Tasks

Tasks to be accomplished will include reviewing available information, lessons and experiences. To adequately reflect on the perspective of key stakeholders the study will also include interviews with representatives of host governments, UN agencies at headquarters, regional and country level, and the donors. The consultant is expected to explore and address the following areas and issues to be covered by the study report:

Trends in UN MDTFs:

- Analysis of trends in the UN's use of MDTFs: overall interest in use of UN MDTF concept 2006-2010; primary purpose for establishment (e.g. EFW), pipeline development MDTFs that actually materialized versus those that did not; trends in size, location, purpose of actually established MDTFs; planned size and duration of MDTF upon establishments versus actual size and duration by end 2010; size of projects being funded; size of transfers; size and info on establishment of the SCSO; frequency of SC meetings;
- Predictability and flexibility of MDTF funding;

Cost Effectiveness:

- Analysis of the value for money of an MDTF as a pass-through funding mechanism with a specific cost structure (AA fee, Participating Organization's indirect costs, direct costs), and effectiveness and efficiency gains specific to this funding mechanism, in comparison with:
 - (a) similar pass-through funding mechanisms established outside of the UNDG framework;
 - (b) single UN agency funding mechanism (e.g. trust funds);
- Additional costs (coordination costs; AA fee) associated with the MDTF as financing mechanism and the arrangements in place for covering these costs;
- Analysis of transaction costs for national partners, donors and UN agencies as a result of participating in MDTFs based on review of existing trends and analysis (no new data collection or methodology will be explored);
- Cost-benefit analysis and issue of cost effectiveness of MDTFs; Factors that determine the financial viability of an MDTF, following a definition of financial viability of MDTFs; and
- Recommendation on MDTF threshold, funding allocation size thresholds (notably for project support

MDTFs) and thresholds for transfers to Participating Organizations.

Administrative Agent function:

- Mandated versus actual functions and role of Administrative Agent;
- Performance indicators Factors for efficient AA performance: timely involvement in establishment of MDTFs; analysis of timeliness of transfers; timeliness and quality annual reporting; timely public disclosure of information; timely annual reporting to UNDG ASG Advisory Group;
- Cost of rendering AA services versus actual AA income for services rendered; and
- Proposed guidelines for AA reporting to UNDG ASG Advisory Group.

Deliverables:

The consultant is expected to fulfill the following deliverables:

- Work plan and timeframes for tasks of the consultancy.
- Draft Report: within 4 weeks of commencement.
- Final Report: on/before expiry of contract.

Competencies:

- Strong analytical skills with conceptual understanding;
- Strong proven functional skills in analytical writing, and producing reports and, research and assessments;
- Excellent demonstrated ability to be flexible and work under tight deadlines in an independent working environment;
- Ability to analyze financial information and analytical capacity to compile quantitative and qualitative data;
- High level of communication and interpersonal skills and experience in working effectively in a multi cultural environment; and
- Proven capacity to conduct interviews.

Qualifications:

- Masters degree or equivalent in a relevant discipline.
- At least 15 years of professional development related work experience at the international level;
- Good knowledge of UN system functioning and rules;
- Good understanding of UN common system and policies;
- Good technical knowledge of funding issues and UN funding mechanisms; knowledge of pass-through funding modalities, including joint programming and pooled funding mechanisms, including respective frameworks and instruments;
- Fluency in written and spoken English;
- Excellent technical writing skills; and
- Computer literacy.

2. Persons Contacted

DOCO

Deborah Landey (UNDG – DOCO Executive Director)
Olga Abramova, DOCO
Liudmila Barcari, DOCO
Nane Avetisyan, DOCO
Anja Bahncke, DOCO

MDTF Office

Bisrat Aklilu, MDTFO – Executive Coordinator
Henriette Keijzers, MDTFO
Mahrukh Nalavala, MDTFO – Finance
Anders Thomsen, MDTFO
Mari Matsumoto, MDTFO
Olga Aleshina, MDTFO
Farnaz Shemerani, MDTFO

UN Agencies and Programmes

Darshak Shah, UNDP – BFA
Helen Hall, UNDP – BFA
Mari Simonsen – UNFPA
Philippe Grandet – UNFPA
Jean-Yves les Saux – UNIDO
Alexander Volkov, UNICEF – Finance
Sandra Corredor, UNICEF – Finance
Lisa Doughten, UNICEF - PAMRO
Leslie Young, UNICEF - PAMRO
Denise Brown, WFP
Harald Bredesen, UNDP – PB/DRM
Jenny Karlsen, UNDP – PB/DRM
Roswitha Newells, UNOPS
Sanjay Mathur, UNOPS
Silvia da Rin Pagnetto, RCO Uruguay
Gonzalo Guerra, RCO Uruguay

Audit

Egbert Kaltenbach, UNDP OAI
Yuichiro Ogino, UNDP OAI
Zachary Ikiara, UNDP OAI
Mika Tapio, OIOS/IAD - Geneva

Technical Secretariats

Sophie de Caen, MDG-F
Brian Williams, Peacebuilding Fund

Donors

Caroline Smit, Netherlands
Ben Green, DFID
Andrew Preston, DFID
Scott Gardiner, DFID
Kelley Wright, DFID
Elisabeth Schwabe-Hansen, Norway

3. MDTF Operational Effectiveness Survey of Stakeholders

The attached survey was sent to an extensive email list of over 1500 contacts compiled from lists provided by DOCO, the MDTFO and a prior lessons learned review related to the Sudan-CHF. A total of 325 responses were received, of which about 10% were blank. Email comments received suggest that in some cases the respondent had difficulty with the survey tool and in other cases the recipient felt they had nothing to respond to the survey.

Responses from key groups and large funds are indicated below.

Table 18		
MDTF Operational Effectiveness Survey Respondents by Role		
	Number of responses	Number of entities
RCO/HCOs	51	36
Participating organizations	145	28
Government	2	2
Donors	17	10
AA	27	19
Source: MDTF Operational Effectiveness Survey		

Table 19		
MDTF Operational Effectiveness Survey Respondents by Funds with highest response		
	Number of responses	% of total responses
MDG Achievement Fund	129	45%
Peacebuilding Fund	91	32%
One UN Country Funds (grouped)	86	30%
UNDG-ITF	54	19%
Sudan-CHF	38	13%
All funds	285	100%
Source: MDTF Operational Effectiveness Survey		

The survey questionnaire is in a separate PDF file.

4. Documents and other materials consulted

Background Note for the UNDG-Donor Meeting on Multi-Donor Trust Funds, 14 January 2010
Background papers to donor consultations in 2009 and 2010
Ball, Nicole and Mariska van Beijnum, Review of Pooled Funding for Transition at the Country Level, 8 November 2010
CERF, Performance and Accountability Framework, August 2010
DFID, Multilateral Aid Review, 2010
Downs, Charles, Implications of the Volcker Report for Multi-Agency Programmes, 2006
Downs, Charles, Lessons Learned Review of the UNDP/FMU and NGOs under the Sudan-CHE, 2010
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Goyder, Hugh, Synthesis Report (First Draft): Evaluation of the Common Humanitarian Fund, Jan 2011
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Salomons, Dirk, Monette Van Lith and Taleen Vartan, Study of Transaction Costs Associated with Humanitarian Pooled Funds, June 2009
Scanteam, Flexibility in the Face of Fragility: Programmatic MDTFs in Fragile and Conflict-Affected Situations, July 2010
Stoddard, Abby, International Humanitarian Financing: Review and comparative assessment of instruments, July 2008
Stoddard, Abby, Dirk Salomons, Katherine Haver and Adele Harmer, Common Funds for Humanitarian Action in Sudan and the Democratic Republic of Congo – Monitoring and Evaluation Study, Dec 2006.
UN (A/65/79), Analysis of the funding of operational activities for development, 14 May 2010
UN – World Bank Partnership Framework for Crisis and Post-Crisis Situations, 24 October 2008
UNDG Delivering as One Stocktaking, Kigali and Hanoi Meetings
UNDG Guidance Note on Establishing, Managing and Closing Multi-Donor Trust Funds, 7 January 2011
UNDG Multi Donor Trust Fund Fiduciary Management Oversight Framework, 20 September 2007
UNDG Protocol on the Administrative Agent for Multi Donor Trust Funds and Joint Programmes, and One UN Funds, 30 October 2008
UNDG, MOU – Standard participating agency agreement under MDTFs, 30 October 2008
UNDG, SAA – Standard donor agreement under MDTFs, 30 October 2008
UNDG-World Bank, Fiduciary Principles Accord, 29 June 2009
Van Beijnum, Mariska, Non-paper on Pooled Funding Mechanisms in Post-Conflict Situations (2009)

5. MDTF funds administered by the MDTFO

Table 20 UN MDTFs active through 2010		
Fund	Deposits 2004-2010	Expenditure
Albania One UN Coherence Fund	23,261,788	11,893,608
Bhutan UN Country Fund	1,538,000	1,471,008
Cape Verde Transition Fund	12,042,905	6,862,351
CAR Common Humanitarian Fund	33,556,540	21,128,940
CFIA Fund (Influenza)	40,082,909	28,907,602
Comoros One UN Fund	1,139,000	1,057,728
Darfur Peace & Stability Fund	33,523,350	8,516,461
DRC Pooled Fund	580,901,410	469,948,340
DRC Stabilization and Recovery	16,766,781	2,134,134
Ecuador Yasuni Capital Window *	100,000	-
Kiribati One UN Fund	1,000,000	534,360
Kyrgyzstan One Fund	3,626,000	3,174,779
Lebanon Recovery Fund	45,857,496	28,539,762
Lesotho One UN Fund	2,997,000	2,607,372
Malawi One UN Fund	31,439,895	25,272,440
MDG Achievement Fund	705,794,972	243,477,549
Montenegro UN Country Fund	1,064,000	441,782
Mozambique One UN Fund	59,095,693	37,873,965
Nepal – UN Peace Fund	22,417,076	13,540,168
Pakistan One Fund	52,144,347	25,974,731
Peacebuilding Fund	360,651,882	146,325,666
PNG UN Country Fund	5,663,850	3,153,964
Rwanda One UN Fund	55,482,012	27,411,282
Sierra Leone MDTF	10,218,080	5,700,753
Somalia Common Humanitarian Fund	31,181,673	12,135,109
Sudan Common Humanitarian Fund	734,448,881	664,440,250
Sudan Recovery Fund – South Sudan	90,571,800	18,156,504
Tanzania One UN Fund	92,097,139	55,807,007
UN Action Against Sexual Violence	6,878,851	2,184,439
UN Trust Fund for Human Security	15,830,989	14,042,808
UNDG Haiti Reconstruction Fund	16,950,000	-
UNDG Iraq Trust Fund	1,358,392,474	1,193,109,839
UNIFEM -EVAW Trust Fund	3,804,117	904,309
UN-REDD Programme Fund	93,798,577	19,914,190
Uruguay One UN Coherence Fund	12,537,846	10,634,297
Viet Nam One Plan Fund I	30,913,791	37,304,296
Viet Nam One Plan Fund II	49,221,008	25,167,178
Grand Total	4,636,992,132	3,169,748,968
* These are financial facilities rather than MDTFs themselves		
Source: MDTF Office GATEWAY – 15 May 2011		

6. Delivering as One funds administered by the MDTFO

Table 21	
Delivering as One Funds – Deposits received to end 2010	
Fund	Deposits 2004-2010
Albania One UN Coherence Fund	23,261,788
Bhutan UN Country Fund	1,538,000
Cape Verde Transition Fund	12,042,905
Comoros One UN Fund	1,139,000
Kiribati One UN Fund	1,000,000
Kyrgyzstan One Fund	3,626,000
Lesotho One UN Fund	2,997,000
Malawi One UN Fund	31,439,895
Montenegro UN Country Fund	1,064,000
Mozambique One UN Fund	59,095,693
Pakistan One Fund	52,144,347
PNG UN Country Fund	5,663,850
Rwanda One UN Fund	55,482,012
Sierra Leone MDTF	10,218,080
Tanzania One UN Fund	92,097,139
Uruguay One UN Coherence Fund	12,537,846
Viet Nam One Plan Fund I	30,913,791
Viet Nam One Plan Fund II	49,221,008
Grand Total	445,482,354
Source: MDTF Office GATEWAY, 1 May 2011	

7. MDTFs administered by other UN agencies

Table 22		
MDTFs administered by Agencies other than UNDP		
Fund	Agency	Approximate Annual Budget
Pakistan Humanitarian Response Programme (closed)	UNICEF	\$8,500,000
UN Water	UNOPS	\$3,000,000

8. Donors recorded on MDTFO GATEWAY

Table 23	
All Donors recorded on MDTFO GATEWAY	
Donor	Deposits received as of end 2010
AGENCIA ESPANOLA DE COOPERACION INTERNACIONAL.	61,641,256
AUSTRALIA, Government of	7,437,150
Australian Agency for Int'l Development	44,396,854
AUSTRIA, Government of	3,753,350
BAHRAIN, Government of	10,000
BELGIUM, Government of	29,633,323
BRAZIL, Government of	590,000
CANADIAN INTERNATIONAL DEVELOPMENT AGENCY	118,420,166
CHILE, Government of	362,899
CHINA, Government of	4,000,000
Colgate Palmolive PNG Ltd	17,850
CROATIA, Government of	123,000
CYPRUS, Government of	40,000
CZECH REPUBLIC, Government of	346,682
DENMARK, Government of	59,465,962
DEPARTMENT FOR INT'L DEVELOPMENT (DFID)	946,644,438
DEPT OF FOR AFF & INTL TRADE GOV CANADA	494,080
EGYPT, Government of	45,000
EUROPEAN UNION	597,669,315
Expanded DaO Funding Window	165,228,000
FINLAND, Government of	30,225,033
FRANCE, Government of	3,881,600
GERMANY, Government of	29,496,690
GREECE, Government of	3,629,820
ICELAND, Government of	1,500,000
INDIA, Government of	7,000,000
INDONESIA, Government of	80,000
INTERNATIONAL DEVELOPMENT ASSOCIATION	16,950,000
IRELAND, Government of	14,823,725
IRISH AID	80,145,414
ISRAEL, Government of	10,000
ITALY, Government of	50,381,218
JAPAN, Government of	380,950,526
KUWAIT, Government of	5,500,000
LIBYAN ARAB JAMAHIRIYA, Government of	100,000
LUXEMBOURG, Government of	13,233,317
MEXICO, Government of	150,000
MOROCCO, Government of	15,000
NETHERLANDS, Government of	413,179,386
NEW ZEALAND, Government of	7,364,850
NIGERIA, Government of	8,039
NORWAY, Government of	341,685,751
ORG. ISLAMIC CONFERENCE	20,000
PERU, Government of	5,000
POLAND, Government of	144,316
Population Services Intl.	200,000
PORTUGAL, Government of	1,000,000

PRIVATE SECTOR	18,933
QATAR, Government of	5,200,000
REPUBLIC of KOREA, Government of	24,500,000
ROMANIA, Government of	806,741
RUSSIAN FEDERATION, Government of	6,000,000
SAUDI ARABIA, Government of	500,000
SLOVENIA, Government of	41,688
SPAIN, Government of	1,063,161,370
SWEDEN, Government of	83,348,847
SWEDISH INT'L DEVELOPMENT COOPERATION	229,154,287
SWISS AGY FOR DEVELOPMENT & COOPERATION	5,994,590
SWITZERLAND, Government of	1,277,708
THAILAND, Government of	20,000
TIMOR LESTE, Government of	500,000
TURKEY, Government of	10,300,000
UN DEVELOPMENT FUND FOR WOMEN	3,804,117
UNITED ARAB EMIRATES, Government of	500,000
UNITED NATIONS	15,830,989
USAID	29,093,567
Grand Total	4,922,051,850
Source: MDTF Office Gateway, 1 May 2011	

9. Lowest transfer each year, by fund

Table 24					
Lowest transfer each year, by fund					
Fund	2006	2007	2008	2009	2010
Albania One UN Coherence Fund			14,850	10,000	20,000
Bhutan UN Country Fund				20,000	20,000
Cape Verde Transition Fund				12,375	20,000
CAR Common Humanitarian Fund			169,800	79,998	100,000
CFIA Fund (Influenza)		162,488	250,000	6,780	100,000
Comoros One UN Fund					50,000
Darfur Peace & Stability Fund			1,032,519	282,500	230,000
DRC Pooled Fund	100,000	200,000	972,654	152,220	160,000
DRC Stabilization and Recovery					292,296
Kiribati One UN Fund				36,016	40,000
Kyrgyzstan One Fund					11,229
Lebanon Recovery Fund		270,000	747,122	200,000	380,890
Lesotho One UN Fund					63,922
Malawi One UN Fund				20,000	20,000
MDG Achievement Fund		16,000	10,000	2,995	11,779
Montenegro UN Country Fund					10,700
Mozambique One UN Fund			62,190	25,000	7,701
Nepal - UN Peace Fund		195,218	348,462	20,049	50,000
Pakistan One Fund				20,000	15,469
Peacebuilding Fund		400,000	48,150	25,000	5,898
PNG UN Country Fund				20,000	19,800
Rwanda One UN Fund			11,250	629	9,352
Sierra Leone MDTF					25,740
Somalia Common Humanitarian Fund					197,441
Sudan Common Humanitarian Fund	200,000	550,000	168,669	67,179	143,680
Sudan Recovery Fund – South Sudan				13,038,163	2,760,000
Tanzania One UN Fund			23,228	18,300	12,000
UN Action Against Sexual Violence				55,005	53,190
UN Trust Fund for Human Security			42,195	44,138	47,080
UNDG Haiti Reconstruction Fund					16,780,500
UNDG Iraq Trust Fund	62,538	496,453	300,000	627,657	22,000
UNIFEM -EVAW Trust Fund				88,981	253,838
UN-REDD Programme Fund				192,814	120,005
Uruguay One UN Coherence Fund			8,025	4,280	7,918
Viet Nam One Plan Fund I			40,660	12,509	25,134
Viet Nam One Plan Fund II				20,000	12,000

Source: MDTF Office Gateway, 1 May 2011

10. Lowest transfer each year, by participating organization

Table 25 Lowest transfer each year, by participating organization					
Fund	2006	2007	2008	2009	2010
ECLAC			75,649		90,000
ESCAP			149,800	64,200	
ESCWA	856,553	2,038,192			1,448,695
FAO	1,718,393	20,000	25,000	10,000	18,200
ICAO		201,800	399,960		112,725
IFAD			100,461		272,130
ILO		250,000	11,250	2,250	15,000
IOM	673,604	162,488	20,000	10,002	42,801
ITC			265,756	45,045	58,000
NGO/OCHA					316,324
NGO/UNDP	15,361,419	109,000	120,000	135,676	42,800
OCHA	7,346,487	6,650,000	320,000	158,778	63,198
OHCHR	1,972,000			53,500	19,800
PAHO/WHO			20,000	18,000	40,000
UNAIDS	200,000		39,590	20,000	25,740
UNCDF			100,900	20,000	21,400
UNCTAD			97,000	60,000	20,000
UNDP	100,000	20,000	10,000	13,375	5,898
UNDP(UNV)			188,458	58,677	22,500
UNDPA					199,341
UNDPKO					141,240
UNEP			8,025	4,280	7,918
UNESCO	2,325,116	20,000	20,000	629	17,000
UNFPA	2,560,000	16,000	24,000	11,527	9,661
UNHABITAT	2,385,917	2,000,932	31,000	32,670	25,000
UNHCR	5,401,000	700,000	21,225	4,850	6,584
UNICEF	1,058,652	20,000	20,000	2,995	9,202
UNIDO	1,481,964	586,880	82,500	20,000	11,235
UNMAS	1,843,750	200,000	3,011,928	1,857,500	1,125,000
UNODC			63,201	32,100	38,520
UNOPS	62,538	550,000	351,540	5,029	27,536
UNRWA				99,510	464,164
UNWOMEN	300,000	20,000	35,845	4,505	9,352
UNWTO		20,000	104,860	48,312	131,450
WFP	2,194,839	400,000	12,750	2,129	22,000
WHO	1,718,281	1,757,280	51,750	7,575	11,229

Source: MDTF Office Gateway, 1 May 2011

11. Issues Raised for ASG Group Guidance in 2009 MDTFO Annual Report

The UNDP MDTF Office strives to advance the broader UN reform agenda and assist UNDP to deliver on its UN coordination results outlined in the UNDP Strategic Plan 2008-2011. As the 2009 summary of achievements shows, the Office is well placed to provide the UN system with proven, efficient, accountable and transparent fund administration services.

In line with its mission, the Office will continue to assist the UN system to enhance its coherence, efficiency and effectiveness in delivering strategic humanitarian, transition and development services at country and global levels. It will also contribute to ensuring that the full potential of UN MDTFs in reducing transaction costs for donors, governments and UN organizations and in improving coordination among all stakeholders are realized. In order to facilitate the continued smooth operations of the MDTF Office's (and other UN organizations') AA services, the undg Advisory Group is requested to provide guidance on the following issues that have been outlined as key challenges at the undg level affecting the AA operations:

- undg dialogue, also within the broader framework of the CEB, on the appropriateness of establishing UN MDTFs at global, regional and/or country level whenever a UN wide strategic position on need to 'Deliver as One' on key development, recovery and humanitarian operations is agreed to. The Global Food MDTF that was under extensive discussion within the UN but ended being established in the World Bank is one such case that may merit a review. This could include a undg high-level discussion on the role of undg joint funding mechanisms in reaching the 2010-2011 undg strategic priorities, aimed at ensuring the coherence and effectiveness of UN operations and results at the country level.
- Systematic undg-wide awareness and capacity building programme for Participating Organizations to increase the knowledge within the UN system of the modus operandi of undg MDTFs. This will facilitate the timely recognition of MDTF opportunities and streamlining of MDTF-related business processes.
- Adoption of a undg Guidance Note regarding a minimum donor contributions threshold for the establishment of new MDTFs. Exceptions can be made for cases where the undg considers the establishment of MDTFs, irrespective of their financial amount, is needed to facilitate the provision of cohesive and coordinated UN system support to national or global challenges. In such cases, "direct costs" from the MDTF account can be used – as is consistently done by the World Bank. The necessary analysis could be carried out as part of the value-for-money study on MDTFs, proposed during the 2010 undg-donor dialogue.
- Agreement on how the costs of AA services will be compensated when MDTFs, for objective and legitimate reasons, end up extending their lifetime beyond the initial duration agreed without receiving additional contributions.
- Introduction by the end of 2010 of unofficial and uncertified Quarterly Financial Updates by Participating Organizations that permits Steering Committees adequate information to enable them exercise their expected oversight and monitoring roles and to objectively guide their 'performance based' release of approved allocations in tranche or approval of additional funds. This has become particularly urgent in the current world economic environment where donors are requesting MDTFs to demonstrate the use of available funds before making additional contributions or releasing committed funds.

12. Draft Guidelines for AA Reporting to UNDG FMOG⁴⁶

Introduction

As part of the MDTF Management and Accountability Framework, each AA is to report on “fund allocation, disbursement, as well as achievements and challenges in acting as AA.”⁴⁷ The report should provide a solid understanding of the range and extent of the use of the MDTF instrument supported by the AA, describe the extent and significance of AA activities, identify achievements obtained and challenges being faced by the AA and in the use of the MDTF mechanism in the field, and highlight issues of policy or practice for which decisions or guidance are required. This understanding and identification of areas for decision or guidance should orient UNDG discussion to resolve issues and improve the further use of the mechanism. In the absence of further guidelines, the UNDP/MDTF Office reported to the UNDG Advisory Group on its 2009 activities in July 2010. It is expected that in 2011, the three agencies providing AA services (UNDP, UNICEF and UNOPS) will all report on their 2010 activities.

Frequency of reporting

- Scheduled reporting

The AA shall report annually on a scheduled basis. The AA may bring specific issues for discussion or guidance at any time, without waiting for a scheduled reporting date.

The AA will provide a formal written annual report for review in July of each year for the previous calendar year. The annual report shall follow the suggested outline attached below, with such modifications as may be approved by the UNDG. The AA may include other information that it deems relevant, including suggestions to adjust the outline for future reports.

The AA Annual Report is to be submitted to DOCO at least two working weeks prior to the meeting scheduled for its review.

The AA Annual Report is to be posted on an easily accessible dedicated public AA webpage.

- Unscheduled reporting

The FMOG may request a verbal progress report from the AA with reasonable notice at any time.

The AA may bring issues to the attention of the UNDG ASG Advisory Group at any time, normally through the FMOG. The FMOG will promptly review such issues, providing decision or guidance when it is able to do so, and forwarding other issues to the UNDG ASG Advisory Group with its recommendation. The AA is responsible to advise the FMOG of any substantial modifications to standard documents requested, and to receive FMOG “no objection” prior to finalizing negotiation on any such modifications. The FMOG is responsible to promptly review and respond to the request.

⁴⁶ These guidelines have been developed for MDTF AA reporting; they may also be relevant for JP AA reporting.

⁴⁷ UNDG Management and Accountability System, 27 August 2008.

Review of the AA Reports

As specified in the UNDG Management and Accountability Framework, the AA Annual Report will be reviewed by the Fiduciary Management Oversight Group (“MDTF oversight committee, technical”). To the extent practical the FMOG will review the Annual Reports of all AAs at the same meeting, in order to have a more complete picture of the use of MDTFs and the perspectives of the various AA.

The FMOG will promptly review the Annual Report or progress report, comment on each of the issues brought for guidance or decision, take such decisions as fall within its purview and forward to the UNDG ASG Working Group with its recommendation any points that require their guidance or decision.

The FMOG will respond to the AA regarding its review and decisions and advise the UNDG ASG Advisory Group of the same, with information to all AAs.

Potential Results Indicators

- Performance indicators
 - MDTF setup promptly processed
 - Client satisfaction indicator of prompt support and establishment of MDTF
 - Payment: target of all payments within 3-5 days of receipt of RC instruction
 - % < 6 working days
 - % > 10 working days
 - Receipt of donor contribution promptly reflected
 - % correctly reflected on GATEWAY within 10 working days
 - Annual reports – timely MDTF reporting
 - % of participating organization annual narrative reports received by 31 March
 - % of participating organization annual financial reports received by 30 April
 - % of MDTF Annual Reports issued by 31 May
 - Annual reports – quality MDTF reporting
 - % of donors confirming that annual reports meet their expectations
 - Annual report – AA to UNDG ASG Advisory Group
 - AA Annual Report submitted by 30 June
- Outcome indicators
 - MDTF is intended to support UN coherence, donor coordination and national ownership – possible measures of PUNO/RC satisfaction with MDTF contribution (Survey response with scale of agreement in 5 points, very negative to very positive; allow “not apply”)
 - Would you prefer to receive funding for this programme next time through the (MDTF) or as agency non-core funding? Why?
 - Does (MDTF) support UN coherence (delivering as one)?
 - Does (MDTF) support UN-government coordination?
 - Does (MDTF) support donor coordination and engagement?
 - Does (MDTF) support national ownership?
 - How could (MDTF) be improved?

Suggested outline for AA Annual Report to UNDG ASG Advisory Group⁴⁸IntroductionOverall summary of annual and cumulative activity of the AA through the MDTF mechanism

- Status of MDTF portfolio administered by AA
 - o *Growth of portfolio (number and value of funds; donors; PUNOs)*
 - o *Trends in portfolio development (differential development by category of funds)*
- AA services delivered and achievements
 - o *Signature of SAAs and MOUs*
 - o *Contributions received (indicator of time lapsed for from contribution to GATEWAY)*
 - o *Transfers to agencies (indicator of % within 3 to 5 days; % over 10 days)*
 - o *Annual Reports prepared (indicator % on-time)*
 - o *Fund management services delivered*
- Management results supporting administrative agent functions
 - o *Initiatives to improve transparency and accountability*
 - o *Initiatives to improve knowledge management and outreach*
 - *Internal efforts to strengthen knowledge management*
 - *External efforts including training*
- Financial analysis of administrative agent income and expenditure
 - o *Current situation*
 - o *Projection of future requirements for AA services, funding requirements and reserve*

Oversight

- Evaluations conducted which comment on role of AA or MDTF mechanism
- Audits of AA or MDTFs which took place or are planned

Review of contribution to UN strategic objectives (*drawn from surveys, reports and evaluations*)

- o *Strategic objectives, indicators and targets of the AA regarding MDTF mechanism*
- o *Evidence whether MDTFs have supported UN coherence in delivering as one (survey)*
- o *Evidence whether MDTFs have supported donor aid coordination*
- o *Evidence whether MDTFs have supported national ownership*
- o *Discussion of extent to which MDTFs support reform processes*
- o *Discussion of contexts/issues for which the MDTF is appropriate*

Issues encountered which inhibit smooth utilization of the MDTF mechanism

- o *Bottlenecks and policy concerns encountered by AA at the central level*
- o *Issues identified through MDTF implementation at programme and country level*

Points for UNDG ASG Advisory Group guidance and decision

- Update on issues raised during year and in previous Annual Report
- Current issues for UNDG ASG decision

Annexes (as appropriate to above)

⁴⁸ Information in *italics* illustrates the suggested content

13. Summary of lessons learned from selected recent reviews

Lessons learned – Hague (2009)

- a. MDTF best used to support coherent nationally-owned strategy for short and long-term financing
- b. MDTF can limit the burden on national governments in first period after conflict and provide right incentives for donors and international organizations to harmonize and align their efforts with national and international actors
- c. MDTFs have proven to be an important tool to share risks, to reduce transaction costs and to avoid discontinuity in financing
- d. Need to be realistic with regard to time needed to set up new MDTFs
- e. Agreement between WB and UNDG needs to be operationalized at country level
- f. Costs of Technical Secretariat can be funded as direct costs

Lessons learned – DaO stocktaking (2008)

- g. Provides government with overall view on what UN is doing, facilitating national leadership of strategic direction of UN and international cooperation
- h. Promoted UN coherence, enhanced inter-agency collaboration in monitoring and financial reporting and improved division of labour among UN system agencies
- i. Improved UN strategic focus, brought better management for results, enhanced compliance with the Paris Declaration principles
- j. Strengthened coordination with donors, acting as group
- k. Reduced transaction costs for government and donors, but increased for UN
- l. Developed mid-year financial allocation process based on financial performance
- m. Improvements needed: predictability of funding; un-earmarked funding

Lessons learned – Kigali inter-governmental meeting (2009)

- n. One Budgetary Framework has improved coherence and improved division of labour among UN agencies
- o. Need improvement in predictability and not earmarking
- p. Improved UN strategic focus
- q. Enhanced compliance with Paris Declaration principles
- r. Remain significant funding gaps
- s. Driven by availability of donor funds at country level, often earmarked
- t. Issues for improvement
 - i. Multiyear un-earmarked contributions
 - ii. Broadening and deepening the base of donors in MDTFs
 - iii. Harmonized approach to framework documents (SAA)
 - iv. Threshold for setting up MDTFs
 - v. Value for money in MDTFs
 - vi. Need for well-staffed MDTF Steering Committee Support Offices (DaO?)
 - vii. Coordination among MDTFs in same country
 - viii. Composition of steering committees
 - ix. Leadership and staffing for RC offices (SCSO)
 - x. Additionality of MDTF funding?
 - xi. Reporting on AA fee
 - xii. Replace One Fund Report with One Report
 - xiii. Adjustment of annual reporting cycle to fit national budget cycle
 - xiv. Guidelines for establishment of MDTFs (governance, RBM, evaluation and audit)
 - xv. Proper coding of donor contributions to MDTFs

Non-paper on Pooled Funding Mechanisms in Post-Conflict Situations – Mariska van Beijnum

Focus on post-conflict settings and DaO countries

Pooled funding mechanisms are considered to improve resource efficiency and effectiveness by reducing transaction costs and by managing the high-risk levels inherent to post-conflict situations
Proper order of development, humanitarian and recovery funds (S Sudan bad example)

Reviews of CHF concluded

- a. Need for more regular and flexible donor financing
- b. Monitoring and evaluation mechanisms should be improved and harmonized
- c. Need for greater clarity on the mandate of CHFs themselves, with a clearer specification of the criteria of what transition activities they can support
- d. Too little local ownership and NGO participation, lowering the impact of the needs-based approach
- e. Allocation procedures need to be sped up

Humanitarian and development assistance have different rules and often involve different parts of donor bureaucracy – not respond well to recovery

Lessons and recommendations

1. Donors should identify the bottlenecks to contribute to pooled funds
2. Donors should improve the predictability of their donations, and refrain from earmarking
3. Donor expectations in terms of results of pooled funding mechanisms in post-conflict situations are often unrealistic. Donors need to accept higher risks by agreeing to fiduciary standards that are applicable to post-conflict contexts
4. Donors need to accept higher overhead costs in terms of technical support and secretariats to coordinate the transition process
5. Donors need to accept universal reporting and accountability lines
6. Overall lack of capacity in terms of fund management, at headquarters level but most importantly at field level, in terms of numbers of staff as well as knowledge and experience
7. Donors need to be more actively engaged in fund management
8. Pooled funding mechanisms lack formal, systematic involvement of NGOs and civil society actors – they should have structural involvement in fund oversight/advisory bodies
9. There is an overall lack of clarity on roles and responsibilities of pooled funding mechanism stakeholders
10. Regular updating of needs assessments is of vital importance, resulting in an emphasis on monitoring and evaluation; ie feeding back lessons learned into fund in a timely manner
11. Pooled funding mechanisms should work with shorter time-frames for the early stages, building in an incremental approach with different stages. Depending on the stage, leadership should shift accordingly.
12. The rules and regulations for engagement in post-conflict situations (fiduciary standards) of the fund managers need to be adjusted to include a higher level of risk-taking.
13. There needs to be a mandated leading organization within the UN structure that takes responsibility for coordinating international engagement in transition phases. If UNDP is to play this role, UNDP needs to be supported in making several adjustments in transforming from an organisation mainly focused on 'traditional' development cooperation into an organisation that can also provide effective assistance to post-conflict countries in transition from conflict to development
14. What seems to be lacking is not so much a mechanism that can cover the immediate post-conflict needs (early recovery), but rather it seems to be an issue of an overall lack of funds. Something like the CERF for recovery is needed. If it is to be the PBF, it will require considerably more funds.

14. Abbreviations used

AA	Administrative Agent
CSO	Civil Society Organization
DaO	Delivering as One
DESA	UN Department of Economic and Social Affairs
ECOSOC	Economic and Social Committee of the UN General Assembly
EVAW	Programme to End Violence Against Women
HC	Humanitarian Coordinator
HCO	Office of the Humanitarian Coordinator
IRFFI	International Reconstruction Fund Facility for Iraq
M&E	Monitoring and Evaluation
MA	Management Agent
MDG-F	MDG Achievement Fund
MDTF	Multi-Donor Trust Fund
MDTFO	UNDP Multi-Donor Trust Fund Office
NGO	Nongovernmental Organization
PBF	Peacebuilding Fund
RC	Resident Coordinator
RCO	Office of the Resident Coordinator
UNDP	United Nations Development Programme
UNDG	United Nations Development Group
UNDG/DOCO	UNDG Development Operations Coordination Office
UNDG/FMOG	UNDG Fiduciary Management Oversight Group
UNDG-ITF	UNDG-Iraq Trust Fund
UN-REDD	Programme on Reducing Emissions from Deforestation and forest Degradation
WB	World Bank