

Multi-Donor Trust Funds

Instruments of first choice for post-crisis situations?



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IN THE 1990s, more than one billion people worldwide were affected by natural disasters, with direct economic losses totaling US\$ 630 billion. Since then, the cost of disasters has grown as their social and economic impacts have increased, driven by the growing concentration of assets and people in highly disaster-prone areas.

War and civil conflict are also uprooting the social and economic foundations, on which prospects for sustainable development, poverty reduction and the achievement of the Millennium Development Goals are based. As a result of war, Afghanistan and Iraq, among others, have suffered severe degradation of their physical infrastructure, public services and general indicators of human development. In response to these post-crisis situations, the international donor community has decided to pool its financial support for crisis regions in Multi-Donor Trust Funds (MDTFs). MDTFs often have significant comparative advantages over other forms of emergency assistance, making them an attractive and effective channel.

The World Bank's mandate in responding to post-crisis situations

IN POST-CONFLICT SITUATIONS, governance is often weak, both with respect to political will and capacity to deliver. For the World Bank Group, administering an MDTF is in line with its focus on strengthening the institutions and processes of governance, and promoting economic growth. Most post-crisis MDTFs are



used in fragile states, defined as low-income countries, eligible for credits from the International Development Association (IDA), the World Bank Group's concessional window offering low-interest long-term finance. Such countries typically have weak state policies and institutions, and face a high risk of conflict and instability.

Bank studies and other research have found that strengthening governance and promoting growth can be effective in reducing the risk of renewed conflict. The Bank's involvement in MDTFs (usually as administrator), can also reopen the door to countries that have not been eligible for Bank support (such as Sudan), helping them to address arrears, and thus assisting them in becoming IDA-eligible once again.

In post-crisis situations, the Bank—in contrast to the United Nations agencies—works primarily on two aspects of the conflict spectrum: reconstruction and development.

MDTF governance

WHILE WORLD Bank-administered MDTFs vary in their governance structures and membership, all MDTFs have certain features in common: A MDTF usually has a deliberative body which sets policy (policy forum), a funding decision-making body composed of donor representatives and sometimes national authorities (Steering/Management Committee), and, if project funding is involved, a project review body as well as a secretariat that services the other three bodies. MDTF donors participate in the decision-making structures of most Bank MDTFs. Some MDTFs also give observer status to non-contributing donors and civil society organizations, but this status is usually restricted to the general policy forum.

As a general rule, contributing donors and national authorities have formal decision-making power. Donors also influence the selection of the MDTF administrator. The administrator, who is selected by key stakeholders, usually the government or conflict parties in consultation with the donors. If the Bank is appointed as administrator, donors are involved in the full decision-making cycle of Bank-administered trust funds.

Having a common administrator ensures harmonization of procedures for the application of MDTF funds (planning, budgeting, accounting, auditing). In several cases, a spill-over effect can be observed, in which the emerging public sector of the respective post-conflict country has been adopting the administrator's procedures, knowing that they will be internationally accepted.

MDTFs offer benefits

FOR DONORS, the MDTF may be a funding channel for countries or situations in which they would not otherwise have become engaged. Sometimes, an MDTF is a complementary vehicle to activities that are funded bilaterally. Donors participate in Multi Donor Trust Funds for the following reasons:

- **Platform for policy dialogue:** Even if donors have access to national authorities based on their bilateral activities, MDTFs provide an information collecting and sharing

mechanism, a forum for donor discussion and coordination, as well as a platform on which to enter into dialogue with national authorities. On a larger scale, MDTF governance structures also allow to engage in dialogue with representatives from civil society, or other parts of the public administration.

- **Strategic alignment:** As members of the MDTF Steering Committee, donors not only meet to exchange information, but also to endorse a common aid strategy. At the same time, a common strategic approach towards the post-crisis situation by donors also supports the alignment of the MDTF with national priorities of the recipient country.
- **Cost and risk reduction:** Through their pooling of resources and the application of a set of common procedures under one administrator, MDTFs reduce information, coordination and administrative costs. They enable joint, coordinated support to fragile and failing states, and reduce fiduciary and political risk exposure when interaction involves possibly corrupt parties to a post-conflict process.
- **Access to information:** MDTFs organize meetings, such as briefings and missions, which provide information which would not otherwise have been available to donors and which guide them on internal priority setting for their bilaterally-managed funds. Likewise, the MDTF secretariats prepare background documents, manage data and provide analyses which are useful to donors.
- **Flexibility in funding:** MDTF financing has been primarily to the public sector, either in the form of budget support, on-budget project funding, or off-budget project funding (typically implemented by non-public entities). Some financing has also been channeled outside the public sector, directly to UN agencies, or through them or government bodies to NGOs. As a resource channeling mechanism, MDTFs provide the flexibility of being able to change funding channels, even after an MDTF has started its operation.
- **Predictability of funding:** Another important argument for MDTFs is that they contribute to predictability of funding and thus the Mutual Accountability principle of the Paris Aid Effectiveness agenda.
- **Visibility and spill-over effects:** MDTFs in a post-crisis setting are highly visible bodies in a typically weak governance environment. Hence, they often influence and impact their environment beyond their given mandate and beyond their original membership. The Multi Donor Trust Fund for Aceh and Nias (MDF), established in 2005, serves as an example. Under the roof of the MDF, 15 donors support Indonesia's earthquake and tsunami-related recovery programs. Looking at the role of the Steering Committee from an aid effectiveness perspective, the Committee,



which owes its existence to the creation of Multi Donor Trust Fund, not only makes the financial decisions and steers the discussion among donors, government and civil society toward common and mutually trust funded activities, but it is also well-positioned to respond to emerging recovery needs which are not being met by other sources of finance (government, bilateral donors, multilateral institutions, NGOs, and the private sector). It also serves as a platform for dialogue and a potential forum to discuss future cooperation, beyond the life of the trust fund.

- **Transparency:** While the formal Steering Committee is not open to other actors, efforts have been made to include larger donors in the Advisory Committees of MDTFs as observers, even if they were not channeling resources through the MDTF itself. Apart from the attempt to include other actors and stakeholders in the informal discussions, the information generated by the MDTF is usually easily accessible to the public through websites. Agendas and minutes from meetings, project and quarterly progress reports, and detailed financial data provide a degree of accountability and transparency that no other bilateral actor in those countries can match. Moreover, accountability and transparency in turn increase the credibility of the respective aid interventions.

Conclusion

In a post-crisis environment, risk, uncertainty and information costs are high. Thus, the delivery of basic services tends to be costly. MDTFs can enhance aid effectiveness by reducing transaction costs and by mitigating and managing the high risk levels inherent to post-crisis situations. Though much smaller than national and bilateral relief contributions, MDTFs have served as important instruments for resource mobilization, policy dialogue, and risk and information management. As post-crisis funding mechanisms, they represent "best practice," in line with the Paris Agenda for Aid Effectiveness, and largely also the DAC Principles for Engaging in Fragile States. 🍀

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References

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