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## Exploring International Development Cooperation Funds

### International Experiences on Governance and Design of Funds

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# FOREWORD

One of the most interesting debates in the field of international development cooperation (IDC) undoubtedly focuses on the characteristics and management of international cooperation funds. There are, in fact, as many types of funds as categories in which they are focused on. Most of them are dedicated to collect and mobilise financial resources in order to boost socio-economic development, enhance human resources, promote significant improvements in IDC sectors, supply common global goods and/or coordinate multi-stakeholder participation. But how and with whom they do it, still remains a whole cataloguing and categorisation challenge.

The circumstances of their creation, the particular environment that gives birth to an international fund and the sort of needs it is meant to meet, also play an important role in the shape it adopts. As multilateral but also bilateral cooperation make use of international funds in financial, scientific and technical cooperation, their mission is related to the administration and management of resources. Consequently, they usually offer a range of assistance that centres on attracting resources and allocating them into its beneficiaries. The execution of programs, projects and activities fall in the hands of the specialized bodies created for this purpose in the beneficiary countries.

The Mexican System of International Cooperation Development, according to the Law on International Development Cooperation (LCID for its initials in Spanish), is based in the following pillars: (1) the LCID itself, which provides legal certainty to the system; (2) the Mexican Agency for International Development Cooperation (AMEXCID), which provides the institutional structure it requires to operate; (3) the Programme for International Development Cooperation (PROCID) that represents the strategy on international cooperation that Mexico follows; (4) the National Registration and Information System for International Cooperation for Development (RENCID), which represents the statistical tool of cooperation; and (5) the National Fund for International Development Cooperation (FONCID), which is the financial instrument that serves as a vehicle for the financing of activities of the Mexican IDC.

According to the law, FONCID attracts funds from the Mexican national budget and other actors such as foreign governments or international organizations. As a financing instrument, it ensures the availability of resources intended to be used in Mexican IDC –even though it is not the only one, because AMEXCID also manages three bilateral funds: the Mexico-Spain Joint Fund, the Mexico-Chile Joint Fund, and the Mexico-Uruguay Joint Fund.

In order to contribute to the strengthening of AMEXCID, and at the request of the Mexican government, the German Federal Ministry for Economic Cooperation and Development (BMZ) commissioned the Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) to implement a shared project. The Institutional Strengthening Project for AMEXCID includes four fields of action: widening of the Mexican cooperation policy, intra-agency coordination, inter-agency coordination and development of cooperation tools and training for AMEXCID's specialists, directors, interlocutors and other stakeholders.

In this context, the study “Exploring International Development Cooperation Funds. International Experiences on Governance and Design of Funds” analyses different types of IDC funds. Through the

investigation on traditional donor funds such as the International Climate Initiative (IKI) and the Regional Fund for the Promotion of Triangular Cooperation in Latin America and the Caribbean (Regional Fund), non-traditional donor funds like the Economic Development Cooperation Fund (EDCF) of Korea and the Amazon Fund, as well as financial intermediary funds such as the Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), the authors present conceptual frameworks on the creation and design of funds, and identify good practices in the management of IDC funds.

Mexico and Germany have developed a strategic partnership in which this study represents an important contribution to decision-making processes and to the implementation of tasks that may impact on the Mexican IDC. It informs of best practices and organizational procedures that could effectively strengthen the performance of FONCID in the field of international development cooperation.

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# LIST OF ABBREVIATIONS

ADB	Asian Development Bank
ADF	Asian Development Fund
AfDB	African Development Bank
AfDF	African Development Fund
AFI	Alliance for Financial Inclusion
AMEXCID	<i>Agencia Mexicana de Cooperación Internacional para el Desarrollo</i> Mexican Agency for International Development Cooperation
AusAID	Australian Agency for International Development, now part of the Australian Department of Foreign Affairs and Trade, DFAT
AWID	Association for Women's Rights in Development
BCCSAP	Bangladesh Climate Change Strategy Action Plan
BCCTF	Bangladesh Climate Change Trust Fund
BfN	<i>Bundesamt für Naturschutz</i> German Federal Agency for Nature Conservation
BMGF	Bill & Melinda Gates Foundation
BMUB	<i>Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit</i> German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Security
BMZ	<i>Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung</i> German Federal Ministry for Economic Cooperation and Development
BNDES	<i>Banco Nacional de Desenvolvimento Econômico e Social</i> Brazilian Development Bank
BOC	Basis of Commitments
BRICS	Brazil, Russia, India, China and South Africa, sometimes also BRIC (Brazil, Russia, India, China) or BICS (Brazil, India, China, South Africa)
BRL	Brazilian Real
BZ	Ministerie van Buitenlandse Zaken Ministry of Foreign Affairs of the Netherlands
CAR	<i>Cadastro Rural Ambiental</i> Environmental Registry of Brazil

CCM	Country Coordinating Mechanisms of the GFATM
CEC	Eligibility and Credit Committee of BNDES
CIDC	Committee for International Development Cooperation of Korea
CIF	Climate Investment Funds
CNI	Brazilian National Confederation of Industry
CO2	Carbon Dioxide
COFA	<i>Comitê Orientador do Fundo Amazônia</i> Amazon Fund Guidance Committee
COIAB	Coordination of the Indigenous Organizations of the Brazilian Amazon
CONTAG	National Confederation of Agricultural Workers of Brazil
COP	Conference of Parties to the United Nations Framework Convention on Climate Change
CTFA	<i>Comitê Orientador do Fundo Amazônia</i> Amazon Fund Technical Committee
DAC	OECD Development Assistance Committee
DEFAM	<i>Departamento de Gestão do Fundo Amazônia</i> Amazon Fund Management Department
DEPRI	Departamento de Prioridades e Enquadramento
BNDES	Priorities Department
DGIS	<i>Directoraat-Generaal Internationale Samenwerking</i> Directorate-General for International Cooperation of the Dutch Ministry of Foreign Affairs
ED	Reduced carbon emissions resulting from deforestation - Amazon Fund
EDCF	Economic Development Cooperation Fund of Korea
Eximbank	Export-Import Bank of Korea
FBOMS	<i>Fórum Brasileiro de ONGs e Movimentos Sociais para o Meio Ambiente e Desenvolvimento</i> Brazilian Forum of NGOs and Social Movements for the Environment and Development
FCCMC	<i>Fondo Conjunto de Cooperación México-Chile</i> Mexico-Chile Bilateral Fund for Cooperation
FIF	Financial Intermediary Fund
FLOW	Funding Leadership and Opportunities for Women

FNBF	<i>Fórum Nacional das Atividades de Base Florestal</i> Brazilian Forum of Forest Activities
FSO	Fund for Special Operations (IDB)
GAC	Grant Approvals Committee of the GFATM
GAVI	Global Alliance for Vaccines and Immunisation
GCF	Green Climate Fund
GCPF	Global Climate Partnership Fund
GEF	Global Environmental Facility
GFATM	Global Fund to Fight AIDS, Tuberculosis and Malaria
GHG	Greenhouse Gases
GIZ	<i>Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH</i> German Agency for International Cooperation before 2011: <i>Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, Deutscher Entwicklungsdienst (DED) und Internationale Weiterbildung und Entwicklung GmbH (InWent)</i>
IBSA	India, Brazil, South Africa Dialogue Forum and Fund
ICT	Information and Communication Technologies
IDB	Inter-American Development Bank
IDC	International Development Cooperation
IDFI	International Development Financial Institutions
IEKP	<i>Integriertes Energie- und Klimaprogramm</i> Integrated Energy and Climate Programme
IFAD	International Fund for Agricultural Development
IFFIm	International Finance Facility for Immunisation
IKI	<i>Internationale Klimaschutzinitiative</i> International Climate Initiative
INPE	<i>Instituto Nacional de Pesquisas Espaciais</i> Brazilian Space Research Institute
ISA	International Standards on Auditing
KfW	<i>Kreditanstalt für Wiederaufbau</i> German Development Bank

KOICA	Korea International Cooperation Agency
KRW	South Korean Won
M&E	Monitoring and Evaluation
MDG	Millennium Development Goals
MDG3	Millennium Development Goal 3
MDTF	Multi-Donor Trust Fund
MIA	Multilateral Implementing Agency
MOFA	Korean Ministry of Foreign Affairs, also called MOFAT
MOSF	Korean Ministry of Strategy and Finance
NAMA	Nationally Appropriate Mitigation Actions
NDA	National Designated Authority
NGO	Non-Governmental Organization
NIE	National Implementing Entity
NOK	Norwegian Krone
ODA	Official Development Assistance
ODI	Overseas Development Institute
OECD	Organisation for Economic Co-operation and Development
OECD-DAC	OECD Development Assistance Committee
OFID	OPEC Fund for International Development
OPEC	Organization of the Petroleum Exporting Countries
OTCA	<i>Organización del Tratado de Cooperación Amazónico</i> Amazon Cooperation Treaty Organization
PAME	Protected Area Management Enhancement in the Philippines
PAS	<i>Plano Amazônia Sustentável</i> Brazilian Sustainable Amazon Plan
PCT	Technical Cooperation Project, Amazon Fund

PGTA	<i>Planos de Gestão Territorial e Ambiental em Terras Indígenas</i> Territorial and Environmental Management Plans for Indigenous Territories of the Amazon Fund
PMO	Korean Prime Minister's Office
PPCDAM	<i>Plano de Prevenção e Controle do Desmatamento na Amazônia Legal</i> Brazilian Action Plan for Prevention and Control of the Legal Amazon Deforestation
PPG7	<i>Programa Piloto para a Proteção das Florestas Tropicais no Brasil</i> Pilot Program for the Protection of the Tropical Rainforests of Brazil
PPP	Private Public Partnerships
PRODES	<i>Programa Despoluição de Bacias Hidrográficas</i> Project Satellite Monitoring of Brazilian Amazon Rainforest
PwC	PricewaterhouseCoopers
RD	Rate of Deforestation per year for a period (in hectares/ ha), Amazon Fund
Red CT	<i>Red de Capacitación en Cooperación Triangular entre América Latina y el Caribe y Alemania</i> Support Network for Triangular Cooperation between Latin America, the Caribbean and Germany
REDD+	Reducing Emissions from Deforestation and Forest Degradation
RSQA	Rapid Services Quality Assessment of GFATM
SBPC	Brazilian Association for the Advancement of Science
SDTF	Single-Donor Trust Fund
SIIC	Strategy, Investment and Impact Committee of GFATM
SMART	Specific, Measurable, Accepted, Realistic, Time-bound
SNV	Monitoring, Notification and Verification
SSC	South-South Cooperation
tC/ha	Tons of carbon per hectare – Amazon Fund
TD	Annual deforestation rate for the period – Amazon Fund
TDM	Average deforestation rate – Amazon Fund
TEEB	The Economics of Ecosystems and Biodiversity Initiative
TF	Trust Fund
TRP	Technical Review Panel of GFATM

UBA	<i>Umweltbundesamt</i> German Federal Environment Agency
UN	United Nations Organization
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDG	United Nations Development Group
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNEP-FI	United Nations Environment Programme Finance Initiative
UNFCCC	United Nations Framework Convention on Climate Change
UNICEF	United Nations Children's Fund
UNOSSC	United Nations Office for South-South Cooperation
WHO	World Health Organisation

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# 1. INTRODUCTION

## 1.1 FUNDS FOR INTERNATIONAL DEVELOPMENT COOPERATION

A strand of the current debate on the future of international development cooperation (IDC) focuses on the potential of funds to pool resources and mobilize additional financing, to achieve significant changes in traditional IDC sectors, and to provide global common goods. Funds also raise expectations as vehicles to overcome the crisis of traditional multilateralism and strengthen the multi-stakeholder participation and coordination in IDC.

Between 2007 and 2008, around 10% of the Official Development Assistance (ODA) was channeled through funds entrusted to multilateral organizations, mainly the World Bank and the United Nations Development Programme (UNDP), and they have become a significant source of income for these organizations (The Independent Evaluation Group, 2011).<sup>1</sup> Over the last 20 years, the number of such funds has significantly increased. A recent evaluation of the World Bank, as the largest trustee organization in IDC, listed a total of 700 funds entrusted to the bank, worth a total of USD 30 billion for the fiscal year 2013, compared to USD 11.5 billion ten years before (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2014).

However, the impact of these funds is not easy to measure, and to date there are not enough studies available to prove whether or to what degree they meet the range of expectations mentioned in the above paragraph.

It should be noted that funds are not exclusive to multilateral cooperation. Bilateral cooperation also makes frequent use of them, in the areas of both financial and technical cooperation. Depending on the circumstances and reasons for their creation, funds can adopt many forms and the term is generally used to a range of very different concepts. This is, in part, a linguistic issue – the *Real Academia Española* dictionary lists at least 31 different meanings for the word “fund”. Its English language equivalent, the *Oxford Dictionary*, provides just one: “A sum of money saved or made available for a particular purpose” (Oxford Dictionary, 2014).

Basically, a fund in IDC can be any amount of financial resources intended for a specific sectoral, geographical, or instrumental purpose, to be distributed between to a number of not yet defined activities. When, by whom, and under what conditions these activities are conceived and implemented, has to be specified according to the particular criteria of each fund. Funds mainly act as a facility to channel resources from one or several sources to one or several beneficiaries. A fund’s services comprise the administration of these resources, but not the implementation and execution of activities, which are rather the responsibility of specialized bodies located in or outside the beneficiary country. However, the management of a fund cannot simply be reduced to the task of collecting and transferring resources, but rather encompasses a wide range of program management tasks.

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<sup>1</sup> It should be mentioned that many of those funds do not provide additional development resources, but rather stock up from established Official Development Assistance (ODA) quotas. Therefore, the financial allocation of these funds might be at the expense of other purposes (bilateral aid, voluntary contributions to the core budget of multilateral organizations, etc.) (The World Bank Group, 2011).

In financial assistance, the first funds emerged in the 1960s to create concessional funding windows for international financial institutions, such as the Inter-American Development Bank's Fund for Special Operations (FSO), the African Development Fund (AfDF) of the African Development Bank (AfDB), or the Asian Development Fund (ADF) of the Asian Development Bank (ADB).<sup>2</sup> At the same time, new financial institutions were also established without a specific geographical focus, such as the Fund for International Development (OFID) of the Organization of the Petroleum Exporting Countries (OPEC), or the International Fund for Agricultural Development (IFAD) (Droesse, 2011). In the case of technical cooperation, the first funds were created to reserve a predetermined amount of resources to carry out feasibility studies, research missions, and other preparatory activities in a specific sector or area, as a means to identify and plan future programs and

projects. In comparison to programs and projects, IDC funds are much more flexible. A program or project receives a fixed budget to finance a series of activities that are agreed upon from the start.<sup>3</sup> A fund also has a determined capital stock (which can be replenished over and over again, just as a program or project can be renewed several times), but when and how these resources are used remains to be determined.

Over the years and for a number of reasons, a variety of different funds has been created. These structures can be formalized in different ways, resulting in different management models and formats. Some specific United Nations Organization (UNO) programs such as the United Nations Children's Fund (UNICEF) call themselves "fund". By doing so, they unintentionally contribute to the prevalent conceptual ambiguity. (The World Bank Group, 2011).

## 1.2 OBJECTIVE AND METHODOLOGY

The aim of this study is to explore different cases of IDC funds and give a conceptual orientation on the creation, design or reform of funds. Despite the existence of a multitude of hybrid cases, this study attempts to introduce in a systematic way different basic types of bilateral and multilateral IDC funds and present selected international examples to showcase opportunities and challenges funds may face in different contexts. IDC funds from bilateral and multilateral public sources are at the center of the analysis. In order to expand the landscape and identify innovative trends, a case of national funds will be presented, as well as some ideas on private philanthropic donors, whose role in international development cooperation is becoming increasingly important.

The study, carried out from August to December 2014, and updated in July-September 2015, presents seven case studies which were chosen together with the Mexican Agency for International Development Cooperation (AMEXCID) and combines different methodological approaches such as expert interviews, desk study and literature review which included an intense examination of documents and other information issued by the funds.

Research has revealed abundant literature on multi-donor funds entrusted to multilateral organizations. By contrast, bilateral, joint and basket funds are rarely featured in comparative and conceptual studies. Therefore, this study draws mostly from the interviews, documents provided by the funds themselves and, eventually, external evaluations.

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<sup>2</sup> While the FSO was created as a special fund without an own legal personality, administered by the IDB, the AfDF is an organization affiliated to AfDB with its own independent legal status. As with the FSO, the AfDF lacks its own legal status and is managed by the ADB. However, it is kept separate from the Bank's ordinary capital (Droesse, 2011).

<sup>3</sup> However, with the adoption of the Paris Declaration, attempts have been made to introduce the principle of results-based management. In practice, the emphasis should no longer be on what it is done, but on what it is achieved.

In total, twenty interviews were conducted with experts from/ on the respective funds. For some of the cases presented here, it was not possible to obtain interviews with the invited experts, due to information barriers. The interviewees requested not to be identified and were promised anonymity of their input, for which reason the information obtained from these interviews will not explicitly be quoted as such.

The study is divided into four sections: the first chapter embarks on a general exploration of the definitions of funds as financing mechanisms for IDC. Through the analysis of seven case studies presented in chapter two, a series of reflections on the design of funds have been extracted and systematized and are presented in chapter three. Finally, chapter four presents a number of recommendations for decision makers.

### 1.3 TYPES OF FUNDS FOR INTERNATIONAL DEVELOPMENT COOPERATION

Funds as financing mechanisms for International Development Cooperation can be differentiated according to a range of criteria: where the fund is located, how many donors the fund has, by whom the fund is managed, and so on.

For the purposes of this study, it is necessary to first differentiate between national and international funds. **National funds** are located in and often initiated by the beneficiary country itself. Especially in the field of climate finance, several developing countries have set up national funds in order to channel national and international public and private climate financing. The Bangladesh Climate Change Trust Fund (BCCTF), for example, was established by the Government of Bangladesh to

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implement the Bangladesh Climate Change Strategy and Action Plan (BCCSAP).<sup>4</sup> However, national funds are not necessarily administered by the beneficiary country. In **international funds**, on the other hand, leadership remains with external donors and stakeholders. Nonetheless, it is not always easy to differentiate between national and international funds, especially in cases of mixed governance which involve both beneficiaries and donors.

In a second step, funds can be classified according to the following criteria:

- ▶ By the use of resources: horizontal or vertical funds<sup>5</sup>
- ▶ By the origin of resources: single-donor or multi-donor funds

<sup>4</sup> Due to potential fiduciary risks, the World Bank created a competitive fund, which gained greater acceptance among traditional donors (Hedger & Rabani, 2012). The Governments of the Netherlands and Costa Rica created the Foundation Fundecooperación as a bilateral contribution to the objectives of the Rio Earth Summit in 1992. Once its assets had been exhausted, Fundecooperación managed to obtain financing from a range of other international sources to carry out its own projects. Over time, the range of issues addressed by Fundecooperación has expanded significantly. Also, the organization qualified as a National Implementing Entity (NIE) by the Adaptation Fund (Partners in South-South Cooperation, n.d.).

<sup>5</sup> Here, the terms "horizontal" and "vertical" do not carry any connotation regarding the degree of asymmetry between different cooperating stakeholders.

**Horizontal Funds** are designed for a single country. This type is very common in post-conflict and/or natural disaster situations, to finance reconstruction and lay again the foundations of functioning states. Generally, these funds are created to organize and coordinate emergency assistance and short- to medium-term projects with – sometimes – a specific sectoral focus such as public administration (United Nations, 2014). **Vertical (or thematic) funds** are open to a number of eligible beneficiary countries, and finance projects in a specific sector (or sub-sector) such as e.g. climate change, health or education. There are also funds related to a specific modality, such as the Regional Fund for the Promotion of Triangular Cooperation in Latin America and the Caribbean (also known as Regional Fund), which aims to expand and disseminate good experiences of triangular cooperation with partners such as Mexico, Chile and Brazil.

With regard to the criterion of the origin of the resources, a distinction can be made between single-

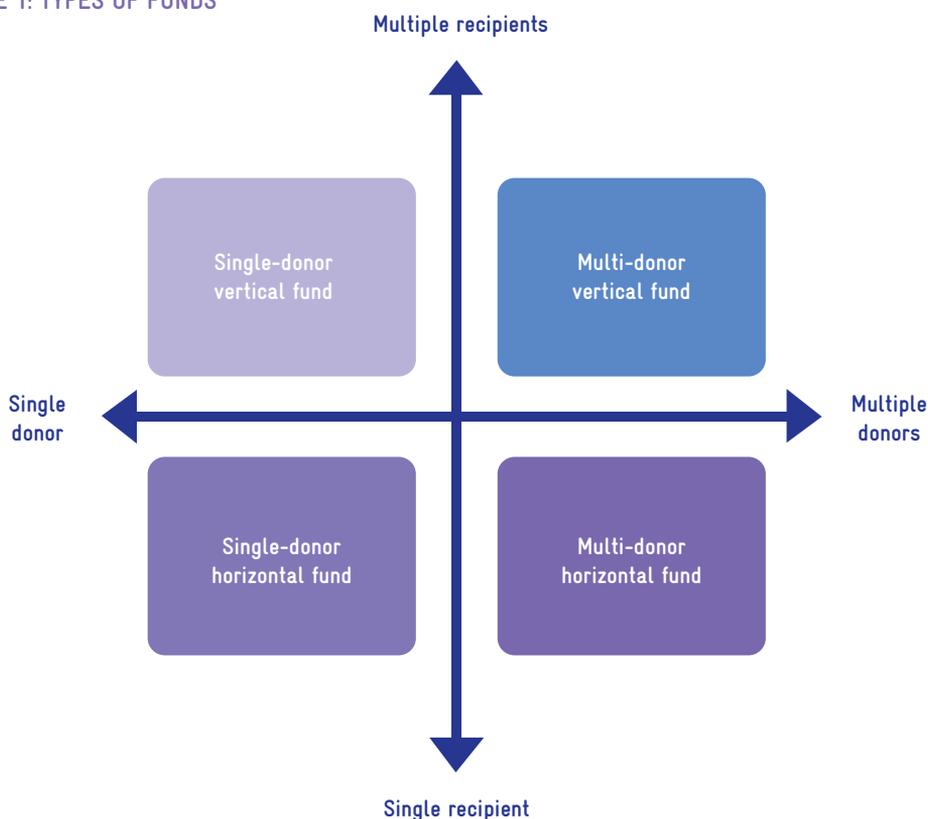
donor funds, on the one hand, and multi-donor funds on the other. **Single-donor funds** are financed by a single (or principal) donor, while the resources of **multi-donor funds** come from the pooled resources of a group of donors. If private donors such as businesses and philanthropic foundations participate in a fund, this may also be considered a multi-stakeholder or multi-sectoral fund.

Therefore, from this classification, four prototypes can be obtained (see figure 1):

- ▶ SINGLE-DONOR VERTICAL FUND
- ▶ SINGLE-DONOR HORIZONTAL FUND
- ▶ MULTI-DONOR VERTICAL FUND
- ▶ MULTI-DONOR HORIZONTAL FUND

It should be mentioned that in practice, the transitions between the different prototypes may be fluid, thereby creating a large number of hybrid forms.

▶ FIGURE 1: TYPES OF FUNDS



Source: Adapted by the authors, based on (Lázaro Rüter, Müller, & Peláez Jara, 2014)

In general, traditional and non-traditional donor countries finance most of their IDC through specific budget items in their national annual budget. IDC resources are usually split into a bilateral and a multilateral “chapter”. Depending on from which chapter the resources come from, international funds can be further subdivided into bilateral or multilateral funds.

**Multilateral funds** are generally administered by multilateral trustee organizations such as World Bank, UNDP or regional development banks; and are therefore subject to the host organizations principles and procedures. This can be an advantage in terms of efficiency and coordination (especially in case of multi-donor funds), but the possibilities for the contributing countries to shape and steer the fund are often limited. In contrast, **bilateral funds** allow them more direct control and freedom in the design of the funds. They are administered by a bilateral implementing agency or a contracted service provider (consulting firms, NGOs or consortia of both). The Regional Fund for the Promotion of Triangular Cooperation in Latin America and the Caribbean, for instance, is administered and executed by GIZ. There are also mixed forms, where the cashier is an external, often financial institution while the program management lies with a governmental body. The scope of the responsibilities and duties transferred to the administrating entity are specified in legal a document such as internal directive, commission or service contract (Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, 2008/ a).

### 1.3.1. BILATERAL FUNDS

Most traditional donors and an increasing number of non-traditional donor countries<sup>6</sup> hold

a portfolio of differentiated bilateral funds which reflect their priorities in IDC and national interests. By definition, bilateral funds are single-donor funds but can be co-financed by supporters, and could eventually evolve into multi-donor funds over time. Further, bilateral funds can focus on one country (horizontal fund) or a number of eligible countries in a specific sector (vertical funds). Vertical funds are a common instrument for promoting issues of strategic interest on a worldwide or regional scale. Horizontal funds, in turn, allow strengthening the bilateral relations with one particular partner country, engage with a broader range of stakeholders at national level, and stimulate innovation and competition among them.

Horizontal funds with one beneficiary partner country are usually formalized within the framework of bilateral inter-governmental consultations or existing cooperation agreements. At a later stage, individual implementation agreements or work plans can be negotiated with the respective partners at project level. In case of vertical funds, there are two options for formalization: often, the vertical fund focusses on a specific region and is embedded into the broader cooperation agreement with a regional partner organization. At a later stage, individual implementation agreements will be established with the eligible beneficiary country or executing organization. In other cases, there is no predetermined political partner. The donor country establishes the fund unilaterally, and the fund will then negotiate separate implementation agreements with the selected project partners.

The degree of formalization may vary greatly: the legally most complex structure is a trust fund where the trustor (donor)

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<sup>6</sup> DFor pragmatic purposes, the term “traditional donor” is used here to refer to those donors who entered the Organisation for Economic Co-operation and Development – Development Assistance Committee (OECD-DAC) prior to 2010, while the term “non-traditional donor” is used for cooperating partners who are not OECD-DAC-members or joined after 2010. Many non-traditional donors are or have been eligible to receive ODA in the past. It should be pointed out that such a classification is highly simplified as it implies a dichotomy that is often unjustified, as well as tending to overshadow the strong, long-lasting commitment of many emerging donors to South-South cooperation.

“[...]transmits and directs determined assets (goods and rights) to a trustee institution, giving it the responsibility of carrying out predetermined, legitimate purposes for the benefit of a third party or its own benefit”<sup>7</sup>”

(Centro de Estudios de Finanzas Públicas, 2005).

Other bilateral funds don't have a deliberate legal form but are organized in the same way as other bilateral programs. In these cases the administration is transferred to a rather technical IDC organization for international development cooperation (like GIZ in the German system, or a consultancy firm) that then transfers the funds to the implementers of projects. As funds do not strictly comply with the logic of project cycles, integrating funds into standardized planning, implementation and accounting processes may challenge the organization in charge.

GIZ has long experience in the management of these “program-funds”. To better reflect the characteristics and peculiarities of funds in the internal project management and accounting systems, a new coding was introduced which allows registering funds as umbrella programs. The overall umbrella account can be split into individual project accounts. This is the case of the Regional Fund for the Promotion of Triangular Cooperation in Latin America and the Caribbean (see section 2.1.2.)

### 1.3.2. MULTILATERAL FUNDS

Multilateral development cooperation is carried out by a number of designated and often highly-specialized international and regional organizations. Contributions to the core budget are mandatory for member states. In addition, many countries provide voluntary contributions to selected organizations or support global initiatives. Over the last years, the share of earmarked voluntary contributions has

significantly increased while the core budget of most multilateral organizations has remained at the same level. This trend contributed to a rapid growth of funds entrusted to a multilateral organization by individual or collective donors.

Between 2007 and 2008, around 10% of ODA was channeled through both single- and multi-donor trust funds (The World Bank Group, 2012; The Independent Evaluation Group, 2011). The largest part is still provided by traditional donors, though recent years have seen a strong rise in the participation of Arab and non-OECD-DAC donors. While Arab donors tend to prioritize issues like reconstruction and trade, BRICS (Brazil, Russia, India, China, and South Africa) countries have a strong presence in issues of health, and non-DAC European donors show a preference for environmental issues. In addition to bilateral donors, other multilateral institutions, NGOs and private sector organizations can also contribute to multilateral funds (The Independent Evaluation Group, 2011).

Providing trustee services has become a new source of income for multilateral organizations which are often also recipients of multi-bi aid.<sup>8</sup> The World Bank is the largest multilateral trustee organization, responsible for a total of USD 57.5 billion held in trust between 2002 and 2010, followed by UNDP and regional development banks. At the same time, stagnating core budgets limit the margin for maneuver in the “bread and butter business” of multilateral organizations. Contributions to multilateral funds barely provide additional resources for IDC and come mainly from already-established ODA quotas. (Eichenauer & Hug, 2014).

The proliferation especially of multi-donor trust funds (MDTFs) over the last decade is closely linked to the aid effectiveness debate and the Paris Declaration of 2005:

<sup>7</sup> Own translation.

<sup>8</sup> In the fiscal year 2009/ 2010, the World Bank held in trust USD 29.1 billion while receiving USD 57.5 billion as an implementing agency of trust fund activities. Multi-Bi-Aid refers to contributions that have the characteristics of bilateral and multilateral aid (Eichenauer & Hug, 2014).

“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” (Dawns, 2011).

MDTFs are seen as a promising opportunity to mobilize and coordinate resources, to support multilateral development policy, to anchor the fund’s activities in a wider political context, to include smaller, less experienced donors, to take advantage of the presence of a multilateral organization in the beneficiary country, to build on economies of scale, to reduce transaction costs for beneficiaries through the harmonization of cooperating partners, to mitigate financial risks (especially for smaller, less experienced donors), and directly link public spending to the fund’s objective, the beneficiary group and – hopefully – tangible results.

Yet, following a number of systematic evaluations, it has been found that the high expectations cannot always be met. The beneficiary’s participation, at different levels, is often insufficient, undermining the principles of ownership and alignment. In many countries, MDTFs act as an additional donor, and are not always sensitive neither to the partner country’s priorities and strategies, nor to the need of donor coordination and harmonization (Lázaro Rüter, Müller, & Peláez Jara, 2014). Others criticize that multilateral funds hardly use national systems, and emphasize the lack of transparency and absence of participatory elements (Hughes, 2011). Eichenauer and Hug point out:

“Despite the rapid increase in the volume held in earmarked aid and the number of funds accounts in which it is held, evaluations of the reasons for and consequences of these trends are still largely missing” (Eichenauer & Hug, 2014).<sup>9</sup>

As a recent study on the German World Bank Trust Fund Portfolio shows:

“[m]ost TFs [trust funds] are initiated by donors and World Bank staff, based on commonly identified needs, whereas in other TFs, either the World Bank or the donor has a more pronounced interest in establishing it. World Bank staff also has to follow Bank operational rules in deciding whether or not to accept a TF” (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2014).

Whereas MDTFs can be initiated by one donor alone and later joined by other donors, single-donor trust funds (SDTFs) cannot transform into MDTFs. Taking the example of the World Bank as a trustee organization, the establishment of a SDTF or a MDTF comprises the following steps (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2014):

▶ I. Donor(s) and bank initiate a dialogue to determine the global objectives and governance structure of the prospective fund. As soon as a first concept note is created, the responsible World Bank Director or Vice President has to endorse it.

▶ II. The bank carries out a two-step internal assessment to verify, among other aspects, whether the trust fund provides value added and complies with the Bank’s mandate and strategic priorities, as well as to identify possible risks and any possibilities for mitigating them. This process takes up to three months and involves several central units, including legal and controlling.

▶ III. Upon internal approval, the bank proposes a draft Administrative Agreement detailing the trustee’s role and the responsibilities as well as the donors’ rights and obligations. The standard agreement is completed by three annexes of which

<sup>9</sup> Assumed reasons why bilateral donors prefer funds over voluntary core budget contributions are: less bureaucratic processes, increased visibility and enhanced financial flexibility across years. In literature, this trend is often “labeled as multi-bi aid because they [the funds] exhibit characteristics of bilateral and multilateral aid. (Eichenauer & Hug, 2014)

only the first one on objectives, activities and results as well as the third one on decision-making bodies are negotiable.<sup>10</sup> The second annex specifies the fund's management which is subject to the bank's general rules and principles. Formally, earmarking is not possible in MDTFs. However, the bank tries to meet previously expressed preferences of donors. Once the negotiations are concluded, the donor(s) sign the agreement.

► IV. As soon as the World Bank receives the signed copies, the fund is activated and all the necessary management and accounting units are set up to ensure its proper functioning. Then, the Bank sends a written call for funds to the donor(s).

In order to meet diverse governance needs, three basic models – which, in practice, split up into 70 different combinations – have been developed: for free-standing trust funds the most common model is a single-tier governance structure with a management team responsible for program management, selection and implementation of projects, and reporting to donors. For programmatic trust funds a governing body is added to the administrative team (two-tier model). Bank, donors, and sometimes beneficiaries are represented in the governing body which provides strategic guidance, assesses the fund's overall performance and distributes the resources to different funding windows. The work of the governing body might be supported by a technical committee. More complex structures with a large number of involved stakeholders and/ or implementing agencies operate under a three-tier governance model which foresees an additional management committee chaired by the World Bank which assumes a variety of tasks including grant approval, budget allocation, coordination of implementing partners and secretariat services for the governing body (Deutsche

Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2014).

Operations may differ widely between different types of trust funds. With regard to the allocation of funds, there are two options: free-standing trust funds co-finance or complement existing World Bank activities (mainly technical assistance). The commitment of funds and their disbursement to projects is simultaneous (single-stage allocation process). In contrast, programmatic funds follow a two-stage allocation process: first, donors determine the focus area; second a technical committee selects projects to be supported and allocates resources to these projects. There are also two models for execution (which may simultaneously work within a fund): the large share of funds (86%) are executed by the beneficiary (recipient-executed funds) with appraisal and supervision by the bank. Nevertheless, the bank's policies and operating procedures apply. Bank-executed funds, on the other hand, are linked to its knowledge, preparatory and secretariat services.

For trustee services, the bank charges an administrative fee. In the beginning, this fee varied between 2% and 7% of the fund's resources. However, this did not reflect the real cost. An analysis carried out by the World Bank revealed in 2006 cross subsidies with a value of approx. USD 50 million per year. Also, the large number of both MDTFs and SDTFs leads to high transaction costs within the World Bank. Therefore, this organization has undertaken a reform program as a means to make a better strategic use of its trust portfolio, better align funds to operation standards, and reduce costs. Today, the majority of organizations have carried out and are carrying out reforms (Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, 2008/ b).

<sup>10</sup> Among the negotiable aspects are the contract duration and the contract schedule: if funds don't have an end date the problem of "dormant funds" may occur where remaining resources can neither be allocated nor reimbursed. Another challenge arise if donor contributions can be disbursed in several tranches: "In general, donors must be aware that the World Bank is obliged to make its own disbursements to grant recipients on the actual cash basis of commitments (BOC), which implies that it cannot accumulate liabilities against future contributions as this would violate its fiduciary duties of care. This might lead to delays in implementation" (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2014).

## I. SPOTLIGHT: FINANCIAL INTERMEDIARY FUNDS (FIFS)

A deliberate sub-group of multilaterally-administered multi-donor trust funds are Financial Intermediary Funds (FIFs):

Financial Intermediary Funds (FIFs) are financial arrangements that typically leverage a variety of public and private resources in support of international initiatives, enabling the international community to provide a direct and coordinated response to global priorities. Most FIFs have supported global programs often focused on the provision of global public goods, including communicable diseases, responses to climate change, and food security. Whereas MDTFs can be both, horizontal and vertical, FIFs are always vertical. FIFs often involve innovative financing and governance arrangements as well as flexible designs which enable funds to be raised from multiple sources, both sovereign and private. Funds can be channeled in a coordinated manner to a range of recipients in the public and private sectors through a variety of arrangements (The World Bank Group, n.d.).

The rise of FIFs is closely linked to the creation of new international regimes since the 1980s addressing major global challenges such as the hole in the ozone layer, climate change, and global pandemics. Nonetheless, not all the member states are in a position to translate these global policies into concrete action at national level. In order to support the implementation of global policies, subordinated finance mechanisms have been created, such as the Multilateral Fund for the Implementation of the Montreal Protocol (1987), and the Global Environmental Facility (GEF, 1991). A key characteristic of this first generation of FIFs is their lack of an independent legal identity, for which reason they cannot maintain legal or contractual relationships with third parties. To overcome these limitations, FIFs of the second generation are established as legal entities under national law of the hosting country. In addition, they enjoy similar privileges as international organizations. The nascent Green Climate Fund (GCF), constituted under Korean law, is the most recent example of this new generation (Heimans, 2002).

From an administrative viewpoint, the main difference between MDTFs and FIFs is the implementation role for the World Bank: *“Whereas for FIFs, the Bank provides trustee, fiscal agent and financial management services, without having an implementing role from the outset [...], the World Bank is the sole implementation agency”* (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2014) *for regular trust funds.*

The large majority of FIFs, is implemented by a rather limited group of accredited multilateral implementing agencies (MIAs). Only recently, direct access becomes more important with the Global Fund to Fight Aids, Tuberculosis and Malaria (GFATM) being the first facility to disburse directly to the designated executing agencies in the beneficiary countries (The World Bank Group, n.d.).

With a portfolio of 18 FIFs, the World Bank is also the most important trustee organization in the FIFs segment. The total volume of the World Bank’s FIFs has more than doubled between 2006 and 2011, going from USD 8.9 billion to USD 18.3 billion. Responsible for 85% of the total amount, the four most important FIFs are the GFATM, the Global Environmental Facility (GEF), the Climate Investment Funds (CIF), and the International Finance Facility for Immunisation (IFFIm) (The World Bank Group, n.d.).

### 1.3.3. BASKET AND JOINT FUNDS

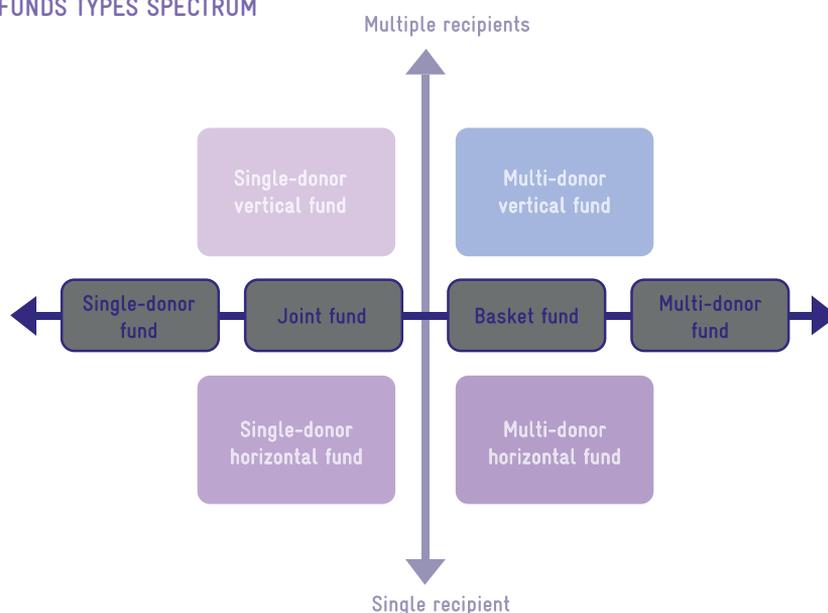
In the case of basket funds, several donors deposit resources into a single account without the possibility to individually track the spending of each contribution. Similar, joint funds are *“jointly set up by two or more countries, institutions and organizations to carry out specific actions of cooperation within the framework of cooperation programs/projects, specifying the percentage and amount of the financial contribution by each participant”*<sup>11</sup> (Secretaría de Relaciones Exteriores (SRE), 2010).

Basket funds and joint funds share attributes with different types of funds and are therefore hard to grasp. Basket funds are a product of the aid effectiveness agenda<sup>12</sup> and seek to enhance national ownership, make greater use of country systems, and harmonize donors. Even if initiated by donors they are strongly aligned to the beneficiary’s priorities and policies, and often administered by a domestic entity. In order to fulfil this task, the government

often receives complementary technical assistance. In the event that the government lacks even minimal capacities, the donors or a contracted organization take responsibility for administering the fund. In other cases, the responsibility is shared and gradually handed over to the beneficiary country (or countries) (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2011). Therefore the dichotomy of national funds, at one side, and international ones at the other does not apply for basket funds. The same holds true for joint funds – strongly rooted and generally executed in both countries. Joint funds also allow the joint implementation in third countries. The traditional differentiation between donor and recipient is blurred and they can be best described as “bi-national funds”.

Basket funds are by definition multi-donor funds. Joint funds are mainly initiated by two partner countries but can be co-financed by additional donors, therefore basket and joint funds are to be classified in between single-donor and multi-donor funds (see figure 2).

► FIGURE 2: FUNDS TYPES SPECTRUM



Source: Elaborated by the authors

<sup>11</sup> Own translation

<sup>12</sup> The signatory governments of the Paris Declaration (2005) agreed to adopt new instruments, such as general budgetary and sectoral support, which should go beyond financing projects and programs. In practice, however, many donors had “*insufficient faith in the ability of the [partner country’s] Finance Ministry to earmark funds for priorities in poverty reduction*” (Belgian Development Agency, n.d.). Hybrid modalities such as basket funds combine the characteristics of budgetary support with key elements of project assistance, and promise a step by step approach to strengthening and consolidating the beneficiary country’s capacity to receive budgetary support (Belgian Development Agency, n.d.).

Basket funds are often vertical but can also have a regional or global orientation with several eligible beneficiary countries. In the context of South-South cooperation (SSC), projects funded by joint funds principally aimed to benefit the populations of both partner countries. The Mexico-Chile Bilateral Fund for Cooperation (FCCMC), for example, has carried out a total of 52 projects, including initiatives to enhance footwear industries or indigenous communities in both countries. Following its success, the FCCMC is gradually opening up to implement joint projects in third countries. Nonetheless, the added value of the FCCMC goes far beyond the mere project-level results:

“On the other hand, the fund itself has contributed methodologically to the regulations of SSC between the two countries. Adopting a format consistent with international standards of project planning; financial predictability that supplies resources periodically and the focus on efforts in strategic sectors for both countries, make the mechanism a successful SSC practice in the region. Thus it inspired the creation of similar funds, such as the Mexico-Uruguay Joint Cooperation Fund, that somehow emulates the operation of FCCMC without becoming an exact replica thereof” (Soto Narváez, 2014).

Recently, with the classification of a number of countries as middle-income economies, traditional

donors have begun to adopt this modality to explore new, more horizontal forms of cooperation with the former. Commissioned by the German Government and in close cooperation with its counterparts at country level, the *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH*, for example, manages or has managed an important number of triangular cooperation funds with different governments, including the Governments of Chile (completed), Brazil (ongoing) and South Africa (completed) (Bundesministerium für wirtschaftliche Zusammenarbeit und Entwicklung (BMZ), 2013). Another successful and illustrative example for GIZ was the German-Chilean Fund for Strategic Reforms (finished in 2010), which financed administrative reforms and innovation in institutions in Chile based on a country-led bidding and selection process (Ashoff, et al., 2012).

The formalization of joint funds mainly follows the agreed standards for bilateral cooperation as outlined in section 1.3.1. Basket funds are frequently based on individual agreements between the beneficiary government and any of the involved donor governments and, in parallel, on a memorandum of understanding or joint financing agreement between the donors (Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, 2008/ a).

## 1.4. REASONS FOR CREATING AND CONTRIBUTING TO FUNDS

As explained in the introduction, the main function of a fund is to allocate and reserve a predetermined amount of money to a specific purpose to be achieved through a series of non-predetermined activities. However, there may be other aspects such as political and financial interests which influence the decision to create or participate in a fund. Also, donor's limited implementing capacities may be a reason for contributing to pre-existing funds. Although the following list is not exhaustive list, it includes different reasons which may vary depending

on the specific situation and the final goal the fund seeks to reach. This should help identify some of the key characteristics of funds.

### 1.4.1. POLITICAL REASONS

**Rapid response in crisis situations<sup>13</sup>:** In the event of natural disasters or post-conflict situations, for example, the international community must react in an immediate and organized manner. In these

<sup>13</sup> This study considers the official international perspective, without forgetting that the management of past crisis situations in many countries often created more complexity and “bottle-neck” situations, than organized flow of resources. Therefore, the stated above pictures the ideal response in such catastrophe situations.

circumstances, multi-donor funds allow to pool technical capacities and financial resources, and to coordinate the activities of emergency-response and reconstruction. This may be especially attractive for smaller donors, who have limited resources and/ or experience – and are therefore less prone to risk (United Nations Development Group (UNDG), n.d.).

**Political and administrative flexibility:** Unlike public development cooperation programs and projects, funds do not necessarily require a political (government) counterpart in the beneficiary country and are authorized to cooperate with different stakeholders. Therefore, they may be an appropriate tool in politically-sensitive contexts (e.g. absence of a reliable government in the beneficiary country), or as a means to stimulate cooperation between historically-opposed neighboring countries (United Nations Development Group (UNDG), n.d.).

**Promoting competitiveness:** Funds are not only used to stimulate cooperation, but also healthy competition between a range of stakeholders, contributing in a decentralized manner to the creation of competitive, promising, new solutions. Similarly, funds can be used to reduce investment costs, thereby stimulating the development of market solutions to be adopted by the private sector at a later phase.

**Earmarking:** In the face of frequent criticism by public opinion on the multilateral system as being ineffective and highly bureaucratic, many donor governments find it increasingly difficult to justify transferring their resources through traditional multilateral channels (such as specific international organizations and programs belonging to the United Nations). In fact, it has lately been observed that the core budgets of these organizations stagnate. The consequences may be dramatic:

“Several such funds already have annual disbursements that exceed the core budgets of major UN agencies, and new funds with even broader mandates are currently being proposed” (Heimans, 2002).

In public debate, global contributions to the core budget of an international organization may

appear relatively unattractive, considering that the possibility of having a direct influence on the final use of resources is diminished. Contributing to trust funds administered by multilateral institutions, in contrast, equals “earmarking” resources for specific beneficiaries or highly visible, emblematic projects, which may more easily satisfy the domestic electorate: “[...] to address limitations in bilateral aid, donors use trust funds to pool funds for particular programs, tap into the capacities and systems of the trustee organization, and distance themselves from politically controversial activities” (The Independent Evaluation Group, 2011).

**Increasing influence in global sectoral debates:** Some funds are created to generate greater visibility and involvement in global debates for donors. While the resources available are modest, the financial and technical cooperation generated within the framework of the fund opens spaces for sectoral and political dialog, and keep donors active in the exchange of experiences and lessons learned.

## 1.4.2. FINANCIAL REASONS

**Budgetary flexibility:** At national level, a major challenge for both domestic public policy and IDC policy is the principle of annuality of budget allocations. The fact that these resources are assigned yearly, while cooperation is agreed upon and scheduled in multi-year cycles with the partners, can mean a real challenge for accounting. Indeed, resources held in funds are not necessarily to be spent within the same household year. In this sense, funds can help decouple budgetary means from annuality and project them into future years. Resources deposited in a fund can be managed independently from political events (such as a budget gap or a change in government). Also, funds offer greater flexibility in terms of accounting and allow responding on an *ad-hoc* basis to unforeseen windows of opportunities. As they have their own rules and principles of operation, funds are not subject to the extensive process of political decision-making. Given the high degree of autonomy, especially of FIFs, negotiations at global level tend to be exhausting and time-consuming (Lázaro Rüter, Müller, & Peláez Jara, 2014).

**Attracting additional resources:** In many cases, the creation of a fund is closely related to the expectation of raising additional funds. The higher degree of accounting flexibility enables rapid, effective absorption of third-party contributions (by international and private donors) and additional public income, for example, from the sale of state companies, investment returns or interest earnings. Additionally, the possibilities for investing part of these assets in

capital markets may be higher depending on the applicable domestic law and the rules of operation.

**Predictability:** The creation of a multi-annual financial facility can contribute to increase predictability in the targeted sector (such as health, climate, education, etc.), and, assuming the fund has sufficient assets, it enables the planning and implementation of high-volume, long-term projects.

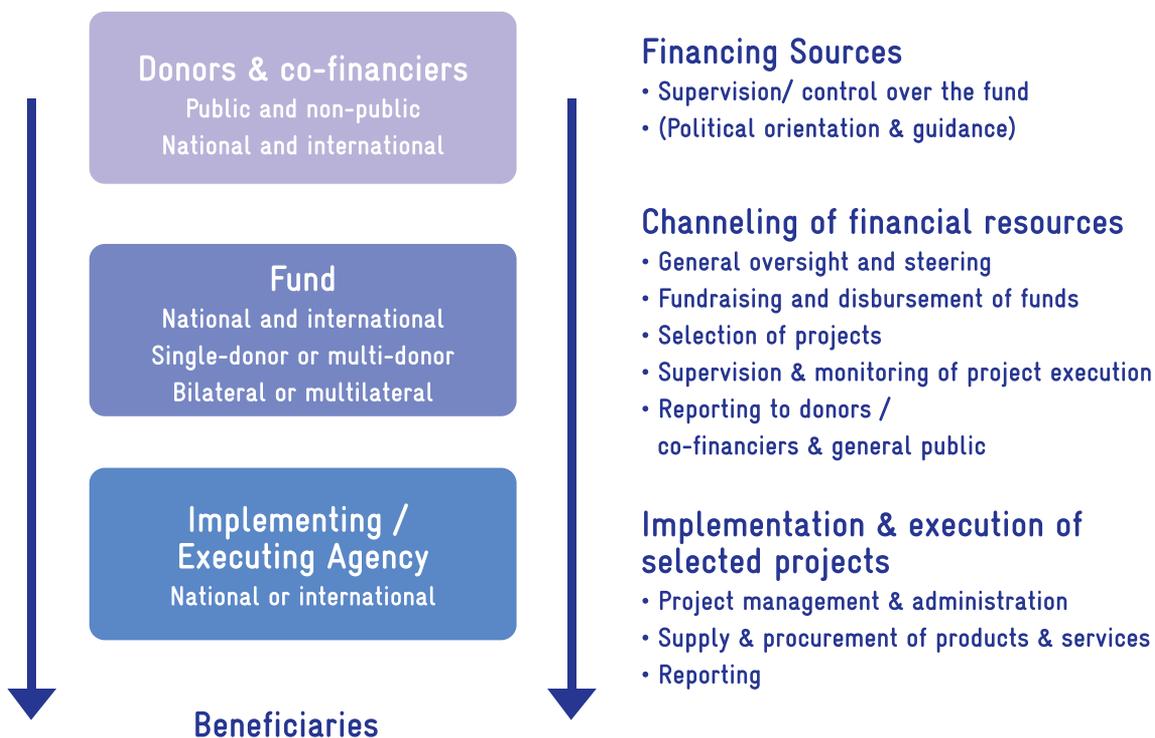
## 1.5. STRUCTURE AND FUNCTIONING OF FUNDS

### 1.5.1. GOVERNANCE MODEL AND ORGANIZATIONAL STRUCTURE

As mentioned in the introduction, funds provide financial resources but do not manage directly their execution which is commissioned to designated agencies inside or outside the beneficiary country. Therefore, the cooperation logic of funds comprises four elements:

- ▶ FUNDING SOURCES (DONORS AND CO-FINANCIERS)
- ▶ THE FUND ITSELF WITH ITS RESPECTIVE BODIES
- ▶ IMPLEMENTING/EXECUTION AGENCIES
- ▶ BENEFICIARIES (see figure 3).

▶ FIGURE 3: COOPERATION LOGIC OF FUNDS



Source: Adapted by the authors, based on (Bird, Billet, & Colón, 2011).

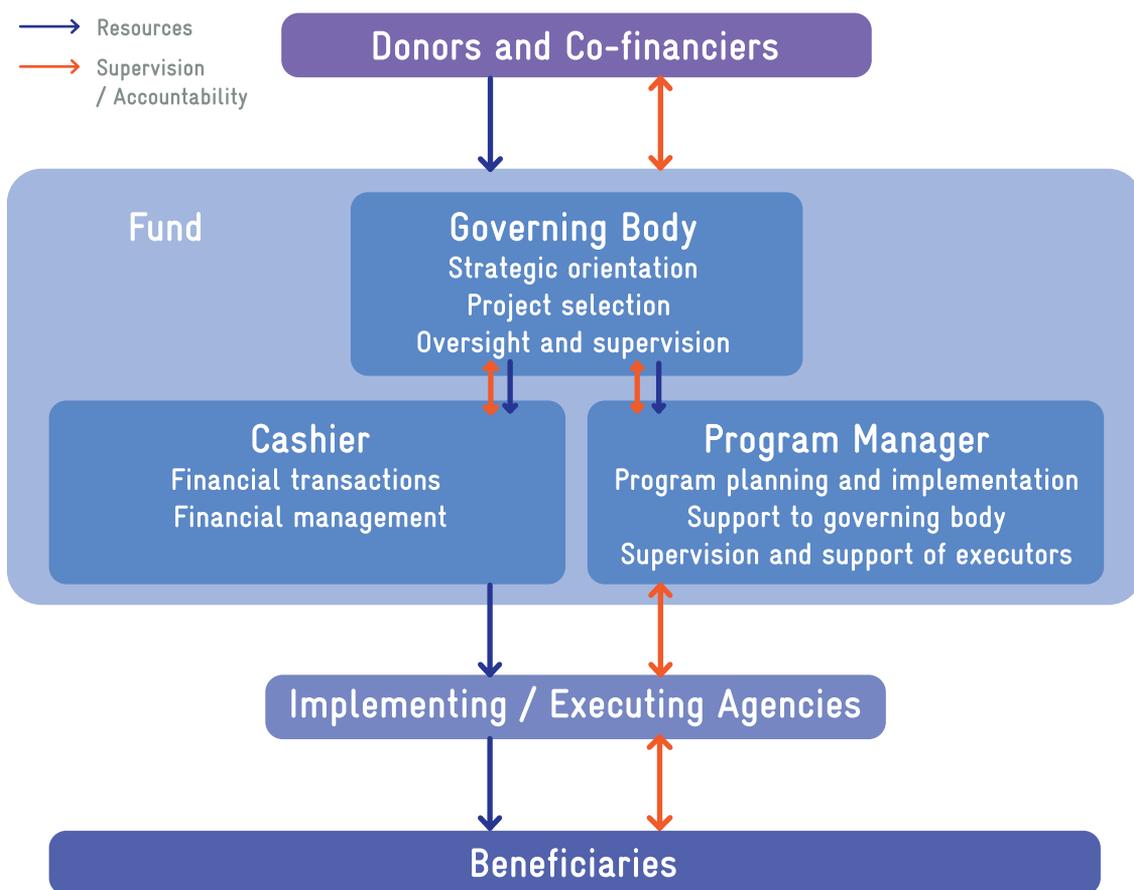
Nevertheless, a fund is much more than just a tool for channeling financial resources from donors to recipients; its proper functioning implies demanding tasks that go far beyond mere financial transactions. Generally, every fund has to fulfil two major functions: general oversight and steering, on the one hand, and administration, on the other. The latter involves cashier services and program management (see figure 4). Depending on a fund's complexity, these three functions are not necessarily covered by three different bodies and in practice the internal organization does not always reflect a clear division of tasks. Often, a single entity is responsible for the fund's administration as a whole (management and cashier function), in other cases, both functions are split between two separate

units. As seen before, in FIFs, the administrating multilateral agency provides “trustee, fiscal agent and financial management services” whereas program management (implementation) is restricted to a multilateral implementing agency (MIA)<sup>14</sup>.

Anyhow, the overall governance of a fund is ensured through a smooth interaction of the different bodies.

Also, the terms used may vary significantly. In many funds, for example, the governing body is called Executive Committee or Board of Trustees, while the administrative body may be known as Secretariat or Management Unit (Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, 2008/ a).

► FIGURE 4: MAJOR FUNCTIONS OF FUNDS



Source: Elaborated by the authors

<sup>14</sup> Only in the FIFs-literature a clear distinction is made between implementing and executing agencies. In other funds, both terms are often used in a synonymous manner.

Depending on the design and size of each fund, these functions may be divided into a plethora of sub-functions. In many cases, the governing body carries out strategic, long-term planning activities, the definition of program guides, the fund's political representation, the accreditation of intermediaries, and the selection of projects to be funded. It also supervises the cashier and the program manager, and is accountable to donors, beneficiary governments, and the general public. Donors are often involved in the governance – be it explicitly, as a member of the governing body, or implicitly by allocating resources for certain funding priorities and holding the fund accountable.

The manager is responsible for proper operations and carries out a multitude of tasks, including long-term planning and implementation, fund-level monitoring and evaluation, identification, evaluation and pre-selection of project proposals etc. Often, the manager is also in charge of low-volume projects. Optional activities include providing technical support to executing agencies regarding the application process, establishing and maintaining communication with donors and other strategic partners, coordinating the different stakeholders, etc. The fund's manager is accountable to the governing body and, based on the financial and progress reports submitted by the executors, the manager also prepares synthesis reports for the governing body and donors.

The cashier administers the fund's accounts. At the request of the governing body, it receives, deposits, invests and disburses funds. In order to receive a planned instalment, the executing agency has to comply with a set of criteria established in the grant agreement, such as having used the previous instalment in a justifiable way, or having achieved certain milestones. As a next step, the governing body approves the request and instructs the cashier to disburse the requested amount. The cashier provides regular reports on the financial situation to the governing body.

In addition to internal supervision and control mechanisms, many IDC organizations opt for voluntary, external audits to show their commitment to financial integrity and transparency. As a means to avoid corruption scandals and misuse at all levels of a fund, independent external audits have become an indispensable prerequisite for many donors and co-financiers.

## 1.5.2. LEVELS OF CO-FINANCING

One fundamental principle of IDC is that the beneficiaries or counterparts must also contribute their own resources in cash or in kind, according to their possibilities. This principle of co-financing also applies to funds. Both public domestic as well as third-party contributions can be taken into account here.

Apart from the beneficiary's contributions, the term "co-financing" is also used to describe a situation where one or more cooperating partners that are not part of the group of regular donors subsidize a fund through a co-financing agreement. This co-financing can come in at two levels (see figure 5):

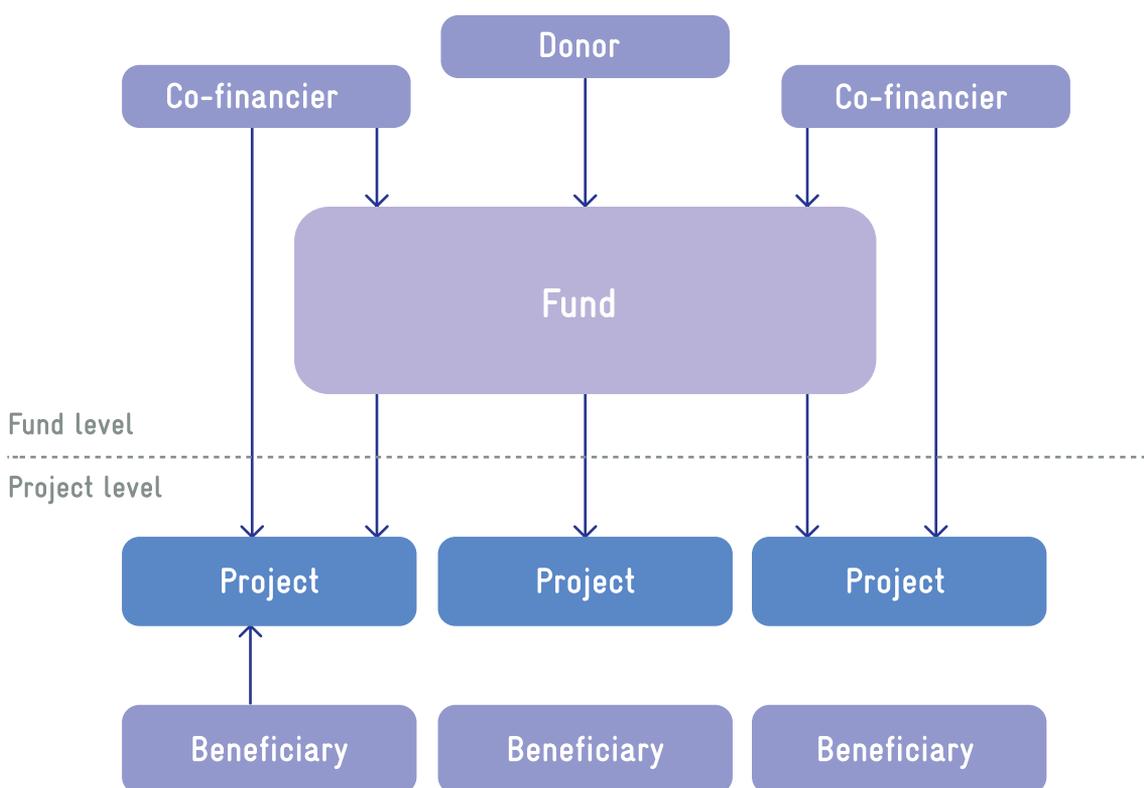
- ▶ THE PROJECT LEVEL AND
- ▶ THE FUND LEVEL.

In most cases, co-financiers have no voting rights and cannot participate in formal decision making. Nonetheless, many co-financiers, especially public ones seek to maintain some influence over the final use of their contributions. Some funds have an advisory council where co-financiers have the right to speak but not to vote at official governing body meetings. Another option for co-financiers is to pre-label their contribution for exclusive use in a particular sub-area or geographical region (earmarking). This limits the fund's autonomy and complicates its financial management. Many funds try to avoid earmarking or establish a minimum quota for earmarking. The World Bank, for instance, does not allow donors to decide over the use of the pledged funds.

The development of attractive co-financing offerings for the private sector (e.g. public-private partnerships, strategic alliances etc.) are a fund raising priority for many funds (see Spotlight II, p. 24) in order to effectively tackle the world's most

pressing challenges. Nevertheless, the involvement of business organizations as well private foundations or philanthropists is not undisputed, especially when they have an active role in the governance of a fund and are granted with voting rights.

► FIGURE 5: LEVELS FOR CO-FINANCING



Source: Elaborated by the authors

### 1.5.3. ACCESS

Especially conflictive in case of FIFs, the question of which actors or institutions are eligible to submit proposals and execute projects financed by the fund can become a sensitive topic between the donors and beneficiaries, especially when the latter feel that domestic institutions are structurally discriminated.

Funds can be accessed directly by an executing agency based in the beneficiary country or indirectly by an intermediary entity such as World Bank, UN agencies or regional development banks.

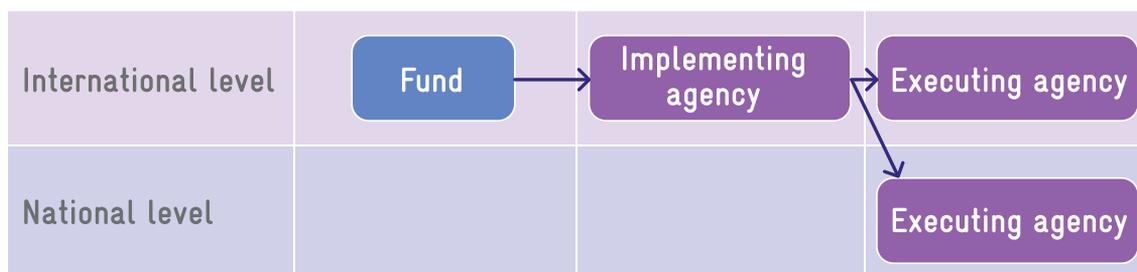
In case of direct access, a national designated authority (NDA) or a national implementing

agency (NIE) endorsed by the national government coordinates and supports the submission of project proposals, facilitates project selection and negotiates the implementation agreement with the fund. Additionally, the NIE administers and distributes the received grants among the different executing agencies, and provides financial and progress reports

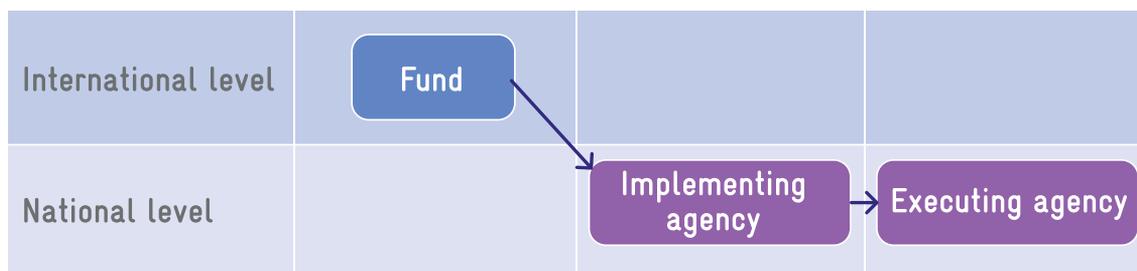
to the fund. In the case of indirect (or multilateral) access, an officially accredited implementation agency<sup>15</sup> acts as intermediary between the fund and the recipient country, and takes responsibility for the different implementation activities mentioned above (see figure 6)<sup>16</sup> (The World Bank Group, n.d.).

► FIGURE 6: INDIRECT & DIRECT ACCESS

### Indirect / Multilateral Access



### Direct Access



Source: Adapted by the authors, based on (Bird, Billet, & Colón, 2011).

<sup>15</sup> For multi-donor trust funds, implementing agencies are almost exclusively other multilateral organizations. Due to the growing amount of ODA quotas channelled through global funds, these have become a major source of income for many multilateral organizations. It can be assumed that funds that are self-managed by donors show preference toward their own implementation agencies, but there is no clear evidence to prove this.

<sup>16</sup> This figure represents the access modalities for prototypic FIFs, e.g. the GEF or the CIFs.

For a long time, indirect access was the rule: assuming inadequate or insufficient implementation and absorption capacities in beneficiary countries, many donors showed a preference for indirect access. Ideally, implementing agencies should work in close consultation with beneficiaries to ensure that projects are aligned with the country's strategic priorities and involve, as much as possible, domestic stakeholders who can be trained to gradually take on greater responsibility for the different phases of implementation. In practice, however, coordination with the national government is often limited. Many beneficiary countries have expressed a certain level of discontent and frustration over processes of indirect access especially in large MDTFs and FIFs, making even more persistent the demands for greater direct access (Lázaro Rüter, Müller, & Peláez Jara, 2014).

With the imminent creation of the GFATM back in 2002 and the debate on aid effectiveness starting in 2005, the situation began to change. As specified in the respective case study (see chapter 2.3.1), the GFATM applies direct access at all levels: at national level a so called Country Coordinating Mechanism (CCM) involves the relevant stakeholders in the management and implementation of the country's quota. Only on exceptional occasions will a multilateral organization, such as the UNDP, assume the role of implementing agency, and when this is the case, an exit strategy is always in place to ensure the "(re)-nationalization" of responsibilities as soon as possible (Bird, Billet, & Colón, 2011).

Those who advocate for direct access highlight that it strengthens national ownership, the use of local systems, as well as the channeling of funds through national budgets (Brown, Bird, & Schalatek, 2010). The GFATM is a pioneer in terms of direct access and given its volume, 54% of today's total funding provided by FIFs is accessed directly by the beneficiaries (The World Bank Group, 2012).

Nonetheless, other funds are more reluctant to replicate: in spite of having launched a pilot program to explore direct access options, the GEF still gives priority to indirect access. The Adaptation Fund has a direct access funding window for national and regional implementing entities, however the process of accreditation has been described as highly demanding and since the year 2010, when the direct access option was initiated, only 20 NIEs have been approved by today (as of September 2015) (The Adaptation Fund, 2015). After intense negotiations, the Green Climate Fund (GCF) has included both indirect access through multilateral organizations and direct access through (several) national entities, a contrast to the Adaptation Fund that allows only one national entity per country for accreditation (Vivid Economics, 2012; Schalatek, 2015).

In the beginning, FIFs only offered indirect access, giving a quasi-exclusive priority to multilateral organizations as implementing entities, principally the World Bank, specialized agencies of the United Nations, and regional development banks. The GFATM was the first fund to set new example: at country level, public stakeholders, representatives of the private sector and civil society, and international organizations form a "Country Coordination Mechanisms" (CCM), playing jointly the role of local coordinator and oversight body for the implementation of projects. Only in exceptional cases are intermediaries such as the UNDP sought to take on these responsibilities. The Adaptation Fund and the newly-created Green Climate Fund also have funding windows that are exclusively reserved for direct access by previously-accredited National Implementing Entities (NIE). Nonetheless, for many developing and emerging countries, the process of accreditation represents a major challenge. Since the creation of the Adaptation Fund, only twenty agencies have managed to become accredited as NIEs (as of September 2015) (The Adaptation Fund, 2015).

## II. SPOTLIGHT: PRIVATE DONORS

The term “private donors” can refer to all those placed along a broad spectrum that includes private businesses and corporations, non-profit foundations, religious organizations, and national and international civil society organizations. Furthermore, private businesses include not only large corporations, but also small and medium businesses; NGOs are not only grassroots organizations, but also include international NGOs with a presence in many countries. This means that there are several types and sub-types of non-governmental private organizations, all with different interests. This suggests that the type of non-governmental organization will determine the reason for interest in collaborating with a fund, and even the kind of contribution it will make.

For example, many charitable foundations and civil society organizations mainly consider non-profit goals, such as social welfare and development, and tend to make their contributions at fund level. This is the case of large private foundations such as the Bill & Melinda Gates Foundation (BMGF). On the other hand, many private businesses may consider priorities beyond social benefits (corporate social responsibility) when investing in a fund, such as conditions of cost-benefit, visibility and improving their public image, and therefore prefer to contribute at project level where they may play a role in implementation. This is the case with many businesses that cooperate under the public-private partnerships (PPP) model, or strategic alliances for private sector development in developing countries.

Also, there are some charitable foundations that contribute at project level; or private businesses that make donations at fund level without taking an active part in a project. This diversity of organizations from the private sector and options for cooperation indicate the need to map the different types of major private actors in a fund, their current or future interests, the type of cooperation possible for both parties, and eventual risks to reputation. In IDC, many stakeholders refuse to collaborate with businesses involved in the production and sale of arms, alcohol and other sectors, or with companies that appear on the World Bank’s Listing of Ineligible Firms and Individuals. A preliminary analysis of this type would enable a fund an opportune response to an expression of interest of cooperation by the private sector, and in proactively seeking new sources of financing. There are clearly differences between the corporate culture of a private firm and an IDC organization, which is reflected both in their processes and the use of different languages, something which is not always evident from the beginning. Nonetheless, the emphasis on efficiency, or achieving the greatest impact at the lowest cost, and the “business thinking” of the private sector can prove highly energizing to all parties involved. Achieving the greatest impact may not only imply achieving the sustainability or development goals proposed in the most efficient way, but also achieving corporate visibility and the possibility of mass replication. In the case of cooperation with private businesses, there may also be interest in implementing their technology within a project framework, through technical training and even the use of their equipment and infrastructure.

One of the most exemplary cases of financing by a private organization to international funds is that of the Gates Foundation, which was created in the year 2000 as a merger between the Gates Learning Foundation of the well-known entrepreneur Bill Gates, and the William H. Gates Foundation of Bill Gates’ father. From its beginning, the Gates Foundation has given a special focus on the health sector and global development, as well as the needs of communities in the United States. To date, the BMGF funds projects in more than 100 countries worldwide and in all 50 states of the United States. The BMGF has a range of priority funding areas, with strategic policies for the allocation of funds to each program: the Global Health Program, the Global

Development Program, the Global Policy and Advocacy Program and country programs, and the United States Program. The foundation only gives funding to programs and projects with strategies aligned with the foundation's specific priorities. In general, the foundation directly contacts organizations, initiatives and even funds that meet this requirement, in order to hold dialogues and negotiate the implementation of the foundation's resources through specific projects, as long as there is capacity to absorb and implement large-scale projects.

While its legal status prevents it from implementing projects directly, the Gates Foundation gives close support to implementing partners, whether on a technical, organizational or control level, thereby ensuring the fulfilment of proposed objectives. The foundation's proactive attitude has placed it internationally in global discussions in the areas of health, food security, financial inclusion and women's rights, and in global networks on a political, economic and technological level. The BMGF's resource-implementing partners are mainly NGOs, such as the Alliance for a Green Revolution in Africa, or research institutes such as the International Food Policy Research Institute, London School of Hygiene and Tropical Medicine, the World Health Organisation (WHO), different universities, OXFAM America, and many others (Bill & Melinda Gates Foundation, 2014/ a). The BMGF cooperates to a lesser extent with bilateral governmental organizations.

One particular example is its cooperation with GIZ, an organization contacted by BMGF directly for the implementation of resources in the fields of financial inclusion, agricultural development and health. Today, the BMGF is one of the largest donors to global and national programs and initiatives, including contributions to: the Global Alliance for Vaccines and Immunisation (GAVI): USD 1.5 billion; PATH Malaria Vaccine Initiative: USD 456 million; Rotary International's Global Polio Eradication Initiative: USD 355 million; the World Food Programme: USD 66 million; Alliance for Financial Inclusion (AFI): USD 51 million; the Latvian Ministry of Culture's campaign to provide public computers with internet access, training in specialized equipment and implementation support for public libraries: USD 19.8 million; Opportunity International Inc., for the development and expansion of a network of commercial banks in Africa: USD 15.4 million (Bill & Melinda Gates Foundation, 2014/ b). Experts interviewed highlight that the Gates Foundation has a particular preference for investing in innovative projects with the potential for replication, especially in the health and agricultural sectors.

Unlike government donors, the BMGF is a source of venture capital, granting substantial donations to enable promising ideas to be implemented as quickly as possible. After an initial phase, the foundation gradually but substantially reduces its support to the project, as the expectation and demand placed on implementing partners is to create a business plan that allows them to function without aid.

Other private foundations, such as the Swiss AVINA Foundation, the Spanish Telefónica Foundation, and the Mexican Carlos Slim Foundation have a large presence in Latin America. The AVINA Foundation focuses on energy, water and sanitation, the Amazon region, sustainable cities, extractive industries, migration and governance. Between 2004 and 2008 alone it invested USD 186.5 million in Latin America (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2013). The Telefónica Foundation, present in most Latin American countries, invested USD 108.5 million over the same period (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2013) in projects for education and digital innovation, digital art and culture, and in the inclusion of persons with disabilities through innovative projects. Both foundations implement their own resources and also cooperate with other organizations at local and project level.

## 2. CASE STUDIES

The cases presented below were chosen together with AMEXCID in order to offer a differentiated, illustrative overview. These cases were chosen considering the type of fund they represent, as well as their ability to provide learning experiences for this study with regard to organization and governance. A general mapping of cases enabled the authors to identify and determine the analytical structure, which formed the basis for the subsequent analysis of each chosen case. This analytical structure pays attention to the following elements at the different levels of fund structure and functioning:

- ▶ SOURCES OF FINANCING
- ▶ ORGANIZATIONAL STRUCTURE AND GOVERNANCE MODEL
- ▶ FINANCIAL MANAGEMENT
- ▶ PROJECT SELECTION PROCESS
- ▶ IMPLEMENTATION AND PROJECT MANAGEMENT
- ▶ MONITORING AND EVALUATION (M&E), AND ACCOUNTABILITY
- ▶ BENEFICIARIES
- ▶ RESULTS
- ▶ STRENGTHS AND CHALLENGES

The case studies analyzed are listed below:

### ▶ TRADITIONAL DONOR FUNDS

- International Climate Initiative (IKI)
- Regional Fund for the Promotion of Triangular Cooperation in Latin America and the Caribbean (Triangular Fund)
- Funding Leadership and Opportunities for Women (FLOW)

### ▶ NON-TRADITIONAL DONOR FUNDS:

- Economic Cooperation and Development Fund (EDCF) of Korea
- Amazon Fund
- India, Brazil and South Africa (IBSA) Fund (short study)

### ▶ FINANCIAL INTERMEDIARY FUNDS:

- Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM).

The availability of information, whether from documents or interviews, has been different for each case. Among others, this depended on the different structures within each organization and the communication policies of each fund. In some cases, there are innumerable regulations, guidelines, and requirements published in their respective web sites. In others, such documents are either kept to a minimum, or are not available for public access, or they are available only to organizations in search of funding. The description of the cases that follow is the most accurate summary possible, in consideration of the quantity and quality of information available, and the complexity of each case. The different uses for terms e.g. implementing agent, executing agent, impacts, results, etc., reflect the diversity of concepts that each and every fund defines for its functioning. Considering the above, the differences of information in the different cases below should not be understood as a value judgment on these funds, but rather the reflection of the diversity of this field, and the different information barriers and quality of information encountered by the authors.

The opinions and analyses expressed in this chapter do not necessarily reflect the views and official policies of neither AMEXCID and GIZ, nor of the different organizations involved in each fund.

## 2.1. TRADITIONAL DONOR FUNDS

### 2.1.1. INTERNATIONAL CLIMATE INITIATIVE (IKI)

The International Climate Initiative<sup>17</sup> (IKI) was created by the German Government in 2007-2008 through the approval of the Integrated Energy and Climate Programme (IEKP) by the Council of German Ministers and the German Parliament, as a response of the Federal Republic of Germany to the global challenges of climate change. This initiative is part of the German Government's efforts to meet its obligations within the context of the United Nations Framework Convention on Climate Change (UNFCCC), as an industrialized country listed in Annex I of the Convention, and as signatory to the Kyoto Protocol.

The IKI Initiative is a non-refundable funding program with a specific focus on projects and programs tackling climate change and promoting the protection of biodiversity. This fund channels Germany's climate finance resources to global projects and to those in developing and emerging countries. The International Climate Initiative's goal is to execute low-cost, effective, and innovative measures for climate protection, adaptation to climate change, the protection of biodiversity, the protection of forests within the REDD+ framework (Reducing Emissions from Deforestation and Forest Degradation), energy efficiency and renewable energy.

#### FINANCING SOURCES

The IKI's only financing source is the German Government, through the budget of the Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety (BMUB).

Since its creation in 2008 until the end of 2013, the IKI was financed through two internal sources:

- ▶ The BMUB Budget: at least EUR 120 million per year (Fuentes & German Ministry for the Environment, 2008).

- ▶ Resources coming from the auctioning of carbon emission allowances, provided for by the Law of Trade of Greenhouse Gas Emissions Certificates. These resources were used to finance biodiversity projects, and varied from year to year depending on the fluctuations in the carbon certificates market. Due to the unfortunate development of this market scheme and drastic drop in the prices of these certificates, which generated a decrease in resources available for IKI from this source, the BMUB decided to dedicate at least USD 159 million from its budget to secure sustainability of the fund (Pistorius & Kiff, 2014). Later, the German parliament decided to fully fund the IKI as part of its fiscal budget starting in 2014.

#### ORGANIZATIONAL STRUCTURE AND GOVERNANCE MODEL

##### Laws, regulations and legal status

Officially launched in 2008, the IKI functions in accordance with the decision by the Council of Ministers in December of 2007 – the Integrated Energy and Climate Programme (IEKP), the IKI Initiative is governed according to the laws of the Federal Republic of Germany, forms part of Germany's Official Development Assistance (ODA) system.

##### Governance model

The BMUB is in charge of the strategic, political and technical guidelines, in coordination with other relevant federal ministries (Ministry for Economic Cooperation and Development, Federal Foreign Office, Ministry of Finance) according to the context of the different projects or programs, and in coordination with the manager of IKI.

<sup>17</sup> For more information see: <http://www.international-climate-initiative.com/en/>

Since the beginning, the BMUB determined the creation of a Programme Office for the management of the fund. The Programme Office supports the German Ministry for the Environment in the execution of IKI through the following functions:

- ▶ Reviewing projects which apply for IKI funds and submitting them to BMUB for a final decision.
- ▶ Advising BMUB on IKI's technical and administrative design, and provide technical and financial administration for project implementation.
- ▶ Supporting IKI's technical work and networking, and preparing the necessary information for international negotiation processes.

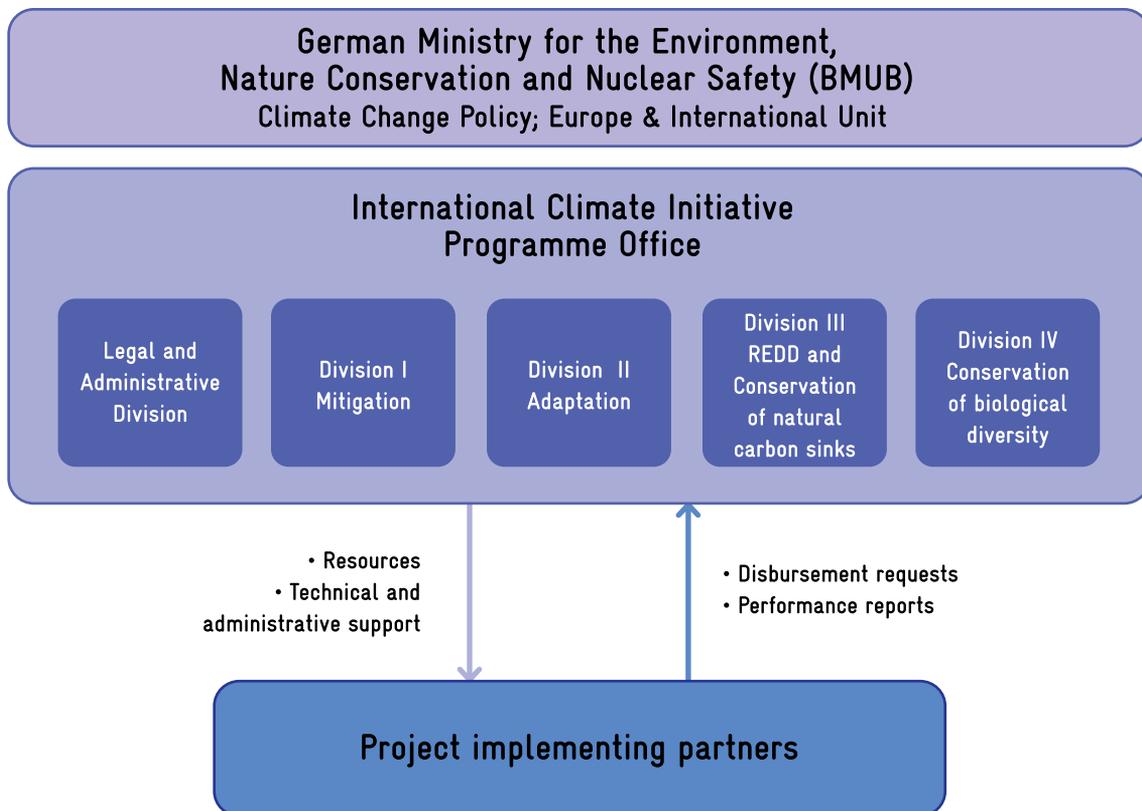
The Programme Office maintains constant communication with the team responsible for IKI within the BMUB, and reports on its activities and

general progress on IKI. A graphic visualization of IKI's governance can be found in figure 7.

### Volume of operations

The German Parliament allocates a part of the State's yearly budget to IKI, as part of the budgetary line item assigned to the Ministry for the Environment-BMUB. The quantity is defined each year according to the strategic and political criteria of the German Government, which consider the trends in the international dialogue on climate change, and new trends with regard to strategies for mitigation, adaptation and biodiversity conservation. From 2008 until the end of 2013, a total of EUR 1,450 million was delivered to 411 projects worldwide (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ d).

▶ FIGURE 7: IKI GOVERNANCE & FUNDING MODEL



Source: Created by the authors, based on (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ a)

Furthermore, the BMUB, as the governing body of IKI, decides the amount of resources to be assigned each year to projects for mitigation, adaptation and biodiversity. At the beginning of the Initiative, half of all its resources were set aside for mitigation and half for adaptation and biodiversity (Fuentes & German Ministry for the Environment, 2008). Presently, resources are distributed according to the strategic orientation decided by the Ministry for the current funding year. Resources are distributed according to the greatest potential for impact offered by projects. The Programme Office gives technical advice to the ministry's decisions, but does not take part in the final funding decisions.

## FINANCIAL MANAGEMENT

The BMUB decides each year what percentage of resources are to be channeled through the IKI and what percentages will be channeled through other international funds for fighting climate change and protecting biodiversity. Any resources supplied by the BMUB to other funds are administered according to the criteria of each fund, such as the Adaptation Fund and the Green Climate Fund (GCF) (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ d).

The IKI, through its Programme Office, is responsible only for assigning resources to specific bilateral and global projects and programs selected by the BMUB. In other words, the selection of projects to be funded is taken by the BMUB, while administrative and financial aspects are handled by the Programme Office.

The Programme Office operates through a system of disbursement requests for the delivery or transfer of the assigned resources to its implementing partners. In other words, the implementing partner must send a formal resources request to the Programme Office indicating the amount of resources needed for a specific period of time, and the project activities to be carried out with the requested resources.

## Co-financing

IKI's legal framework does not consider additional funding from public or private donors for the fund's budget. However, at project level, there have been cases of co-financing by different project implementation partners (governments, organizations, private sector, etc.). In the event that an international, government or private organization expresses formal interest in co-financing a specific project or program financed by IKI, the implementing organization has the responsibility and faculty to establish a cooperation agreement with the co-financier. In these cases, the implementer and the co-financier agree on the technical, strategic and financial support to be given, in accordance with the project's context and circumstances. The IKI does not require that its projects seek co-financing, but does welcome such support due to the positive effect that cooperation with the private sector or with other interested organizations can have on the project's results. According to the Programme Office, projects financed by IKI have managed to raise approximately EUR 3,890 million in additional resources (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ d).

## PROJECT SELECTION PROCESS

From the call for applications up to the conclusion and post-evaluation of a project, five stages of interaction between the Programme Office and project implementers can be identified. For a graphical visualization of these stages, see figure 8.

### Call for applications

The call for applications to resources is usually published on the Initiative's web page every year between the months of March to June or July. The implementation of selected projects begins (on average) 18 months after the initial application phase. In 2013, no calls for applications were held since a sufficient number of eligible applications had already been shortlisted for the previous period. The most recent call for applications ended on the 1<sup>st</sup> of June, 2015.

## Eligibility

Any international or multinational organization can apply for resources, i.e. UN agencies or programs, German federal agencies (GIZ, KfW Development Bank), NGOs, research institutions, universities, private companies, development banks of developing, emerging and industrialized countries. An organization is eligible as long as the proposed projects are meant to be implemented in developing and emerging countries listed in the DAC's list of ODA recipients. The selection of projects is based mainly on the criterion of competitiveness, which considers the projects that best address the proposed objectives and include factors of innovation and ownership. While it is desirable for implementers to be from developing and emerging countries to ensure due ownership, the criterion of competitiveness takes precedence. There are special cases of countries which do not fall into the categories of developing or emerging, where a high potential for mitigation, adaptation or protection of biodiversity is identified, for which the BMUB may approve projects and funding<sup>18</sup>. The following are sine qua non requirements which must be met by an applicant to be considered eligible:

- ▶ Preference is given to any project proposals showing innovation, with quality objectives that promise improvements toward the achievement of national climate change goals.

- ▶ All projects must be supported by a government body (political counterpart). In other words, they must show clear support and interest by the government in the recipient country.

- ▶ Applications for resources must be based on the national and political strategies of the recipient country, and they must take into account any pre-existing programs and projects in the sector.

- ▶ Applications for resources must be based on an analysis of gaps in the implementation of climate change strategies in the recipient country. Furthermore, they must be oriented toward achieving the objectives of the recipient country and its obligations under the UNFCCC and the Convention on Biological Diversity. Projects must be carried out in developing and emerging partner countries.

- ▶ Similarly, the BMUB, advised by the Programme Office, defines specific criteria for each thematic sector to be financed by the IKI Initiative. These criteria are updated each year according to regional and global development on the issue of climate change, and also in consideration of the work carried out or being implemented by other funds and financing programs. For each focus area, every year the Programme Office updates the criteria and objectives on the IKI's website, where they can be viewed by applicants. To see criteria for the most recent application period, see the links list in the annex.

Currently, the average duration of projects funded by IKI is 2.5 years. Projects which have already begun implementation or projects of a duration longer than six years are not eligible (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), 2014). The IKI Initiative does not set maximum or minimum limits for financing, meaning that projects requiring a smaller sum such as EUR 90,000, or projects of EUR 2 million or even EUR 32 million, are financed depending on their foreseeable implementation time and their sectoral, regional or global scope.

## Selection

The Programme Office together with the BMUB carry out the selection process, comprising the following phases (figure 8):

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<sup>18</sup> One exception is the case of Russia, which receives financing from the IKI Initiative, but is considered neither a developing nor an emerging country.

### PHASE ONE:

▶ 1. Once the BMUB has published its call for project outlines, applicants can submit their proposals written in German or in English, and must comply with the formalities indicated by the BMUB on the Initiative's website. If applicants have concerns or need support in drafting their proposal, they can contact the Programme Office for assistance on specific questions.

▶ 2. Once the applications period has concluded, the Programme Office conducts an initial evaluation and categorization of project outlines. During this step, applications are reviewed according to criteria on both form and content.

▶ 3. Based on the preselection by the Programme Office and on the funds available for the period, the BMUB carries out a final evaluation and decides on the projects to be funded. Depending on the

case, the BMUB coordinates with the Ministry for Economic Cooperation and Development and the Federal Foreign Office for its final decisions.

### PHASE TWO:

▶ 4. The BMUB, through the Programme Office, asks the applicants selected in phase one to submit a full formal funding application i.e. a detailed estimate of the costs and investments to be covered by the fund if the project is chosen.

▶ 5. Based on available resources, as well as on the viability of the financial proposal, the BMUB selects the projects to be financed.

▶ 6. The beginning of the implementation of selected projects will depend on whether any of the projects need political support in partner countries, or any other measure of guarantee under international law.

▶ FIGURE 8: IKI SELECTION & IMPLEMENTATION PROCESS



Source: Created by the authors, based on (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ a)

## IMPLEMENTATION – PROJECT MANAGEMENT

Neither the BMUB nor the Programme Office execute or implement projects. GIZ, followed by the KfW, are the organizations that implement the majority of IKI funded projects. Specialized agencies of the United Nations such as the United Nations Environment Programme (UNEP) and the United Nations Development Programme (UNDP) are also frequent implementers. Implementers or project leaders can subcontract executing agents in beneficiary countries to carry out certain activities under contractual relationship, or may provide resources to organizations involved in activities which form part of the project's focus (contribution or donation against results).

On an implementation level, the Programme Office motivates project leaders to exchange experiences with similar projects which are also financed through IKI. To facilitate this exchange, IKI also finances projects whose main objective is the creation of knowledge exchange networks, with platforms that can be accessed via the internet (see links list in the annex). Additionally, the Programme Office organizes workshops and training sessions for implementers and executors on thematic sectors.

Depending on the interests and technical and political objectives, the Ministry for the Environment can also propose events for exchange with ministries for the environment in beneficiary countries. The main objective of these activities is to motivate high-level dialogue around the fight against climate change.

## ACCOUNTABILITY – M&E

### At fund level

According to the Programme Office, the Initiative as a whole is regularly monitored to

ensure quality standards through the monitoring and evaluation information submitted by projects (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ e). The work and performance of the IKI as a whole is evaluated by independent external auditors hired by the Programme Office or by the BMUB itself. To date, one independent evaluation of the program has been carried, which comprised the evaluation of 115 randomly selected projects (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ e). The evaluation was carried out from 2010 to 2012 and it assessed the performance of projects approved for financing during 2008 and 2009. This evaluation was ordered by the Programme Office through the German Federal Environmental Agency (UBA), and was carried out by a private consulting firm chosen through public tender.

Currently, an expanded system of monitoring and evaluation is being developed, which would allow the measurement of positive and negative impacts of projects funded by IKI, over both the short and long term. This improved evaluation system will be operational in 2015. Since IKI is a public program of the German Government, it is also subject in principle to parliamentary controls and to oversight by the Federal Audit Office.

Additionally, at the request of the BMUB, between 2011 and 2013 a consortium of independent civil society and research organizations<sup>19</sup> developed a methodological and process manual for evaluations and reports to be used at project level. The viability of this manual was already tested in several projects under implementation. Currently, the BMUB is evaluating the results of this exercise, and specific elements are being incorporated into the IKI's processes (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ e). One similar procedure was carried out for the development of indicators and criteria for biodiversity protection. At the request

<sup>19</sup> Germanwatch e. V., Ecofys GmbH, and the Wuppertal Institute for Climate, the Environment and Energy GmbH.

of the BMUB, the German Federal Agency for Nature Conservation (BfN) assigned the United Nations World Conservation Monitoring Centre the task of developing criteria for the evaluation of biodiversity as a means to help improve the positive impact of mitigation projects aimed at biodiversity conservation. The results of this project will be as well included in the monitoring evaluation processes for IKI projects (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ e).

### At project level

IKI requires each funded project and program to have its own monitoring system. The M&E data of each project feeds into the monitoring of the fund as a whole, under supervision of the BMUB. Starting at the project planning phase, M&E information must include a logical framework of objectives, indicators, expected impacts and results together, which constitute the basis for subsequent monitoring and evaluation. This impacts logic is based on the criteria given by OECD-DAC, plus two more criteria applied in development aid activities:

- ▶ EFFECTIVENESS
- ▶ RELEVANCE
- ▶ EFFICIENCY
- ▶ SUSTAINABILITY
- ▶ IMPACT
- ▶ COHERENCE AND COORDINATION
- ▶ PLANNING AND CONTROL

Each project must include measures for monitoring and evaluation of its activities to ensure adequate quality achievement of its goals. Furthermore, projects must submit progress reports (interim reports) on their activities of the previous year to the Programme Office, which are due on the

21st of April of each year. These reports must include a description of the status of project implementation, progress on indicators and activities, as well as a financial report proving the appropriate use of resources. At the end of the project implementation, project leaders must send a detailed final report on all activities carried out, indicators and results achieved, accompanied by a detailed financial report on the use of resources. These documents (final reports) must be prepared using the templates made available by the Programme Office on its web page (see links list in the annex). The Programme Office has the authority to ask project implementers for further information regarding M&E of funded projects.

Once a project has concluded, the Programme Office may request a full evaluation of the project, which is usually pursued by an external auditor. If authorities in the recipient country require a report, it should be solicited directly to project leaders.

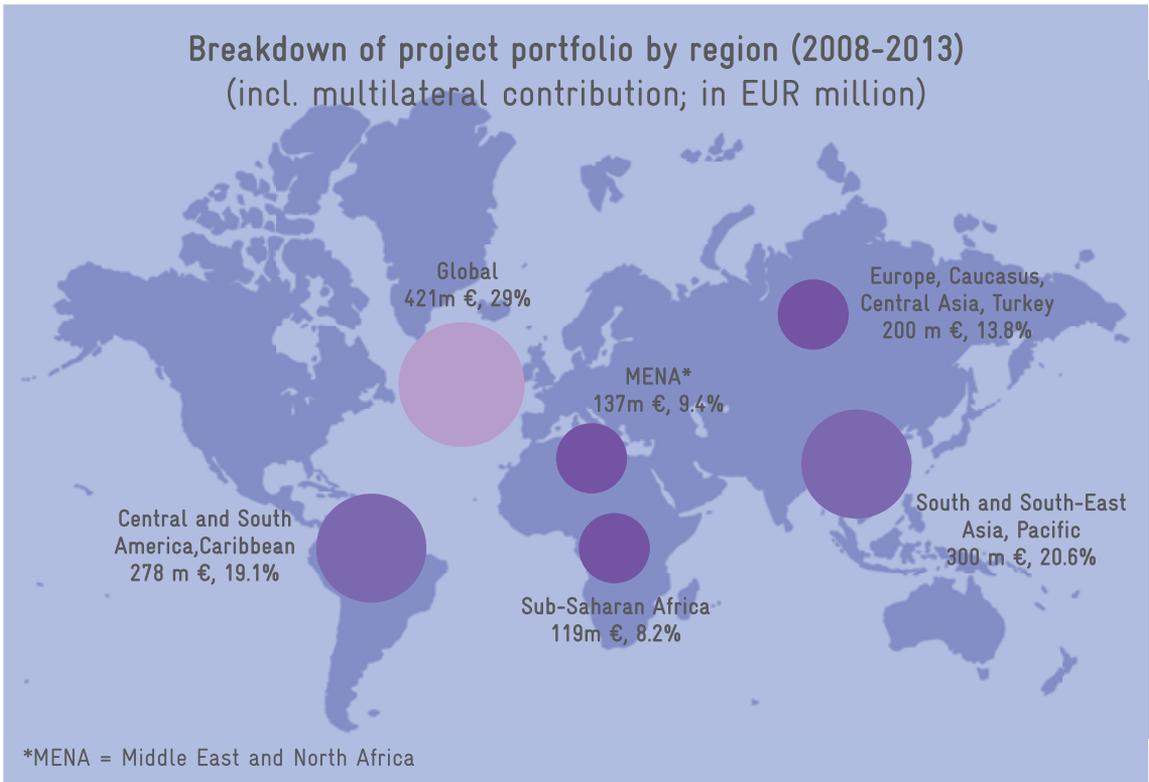
In the event of misappropriation of resources, action will be taken in accordance with German administrative legislation and law. Similarly, each funding agreement signed by the Programme Office with project leaders includes clauses referring to misappropriation, which take into account the applicable laws of the country in which the project is to be carried out.

## BENEFICIARIES

### Countries and regions

Between 2008 and December 2013, the IKI Initiative financed 411 projects in 106 countries and 5 regions (see figure 9) (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ c).

► FIGURE 9: DISTRIBUTION OF IKI RESOURCES BY REGION 2008-2013



Source: (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ d)

### Focus, priority sectors

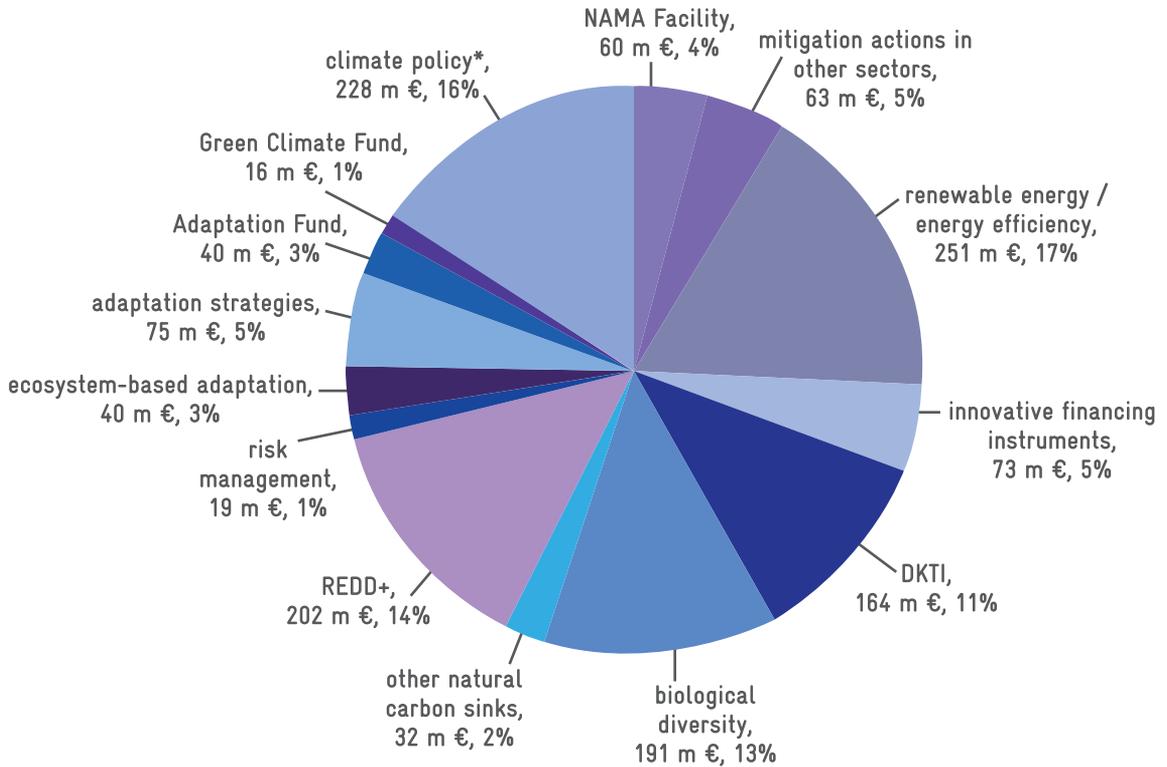
The IKI Initiative's funding focus are:

- Mitigation of greenhouse gases emissions
- Adaptation to the impacts of climate change
- Conservation of natural carbon sinks, with a special emphasis on projects with a REDD+ focus
- Conservation of biological diversity

Between 2008 and 2013, most resources financed projects for mitigation through energy efficiency and renewable energy sources, with an amount of approximately EUR 251 million. The second most important focus are projects related to REDD+ and natural carbon sinks, with EUR 240 million (see figure 10).

► FIGURE 10: DISTRIBUTION OF IKI RESOURCES BY SECTOR 2008-2013

## Breakdown of project portfolio by region (2008-2013) (incl. multilateral contribution; in EUR million)



\* incl. i.a. NAMAs, LEDS, MRV dialogue platforms

Source: (Bundesministerium für Umwelt, Naturschutz, Bau und Reaktorsicherheit (BMUB), n.d./ d)

## RESULTS

Some exemplary projects from different funding focus were:

### Mitigation:

- Supporting Costa Rica's Climate Neutral Strategy, EUR 3.6 million.
- Mexican-German program for Nationally Appropriate Mitigation Actions (NAMA), EUR 7 million.
- Capacity Development for greenhouse gas inventories, and monitoring, reporting and verification in Tunisia, EUR 1.9 million.
- Global Climate Partnership Fund

(GCPF), for the promotion and facilitation of funding for climate change by local financial institutions in partner countries, EUR 32.5 million.

### Adaptation:

- EbA Flagship Programme - Ecosystem-based adaptation in mountain ecosystems, global, EUR 11.5 million.
- Risk management strategies for adaptation to climate change in Kenya, EUR 2.8 million.
- Pilot program for an integral adaptation

strategy in Granada, EUR 4.9 million.

- ▶ Inventory of methods for adaptation to climate change, global, EUR 3.3 million.

#### Conservation of natural carbon sinks and REDD+:

- ▶ Utilization of the potential of REDD mechanisms for the conservation of biological biodiversity, Southeast Asia, EUR 2.4 million.
- ▶ Development of integrated monitoring systems for REDD, global, EUR 3.7 million.

#### Conservation of biological diversity:

- ▶ Conservation of biological biodiversity through the Integration of Ecosystem Services in Public Programmes and Business Activities (TEEB/ The Economics of Ecosystems and Biodiversity Initiative), global, EUR 4 million.
- ▶ Protected Area Management Enhancement (PAME) in the Philippines, EUR 9 million.

## ANALYSIS

### Success factors – strengths

Since its creation, IKI's greatest strength has been its clear orientation toward issues of combating and adapting to climate change, with a geographical focus that is not strictly regional, but also multi-regional and global. Furthermore, IKI has developed its strengths in the course of its operations, through fostering networks for the exchange of experiences, making use of the presence and good reputation of Germany in international climate networks, its increasing transparency, and through the growing availability of technical assistance by the Programme Office for implementers and executing agents. The inclusion in the fund's strategy of new developments in the fight against climate change at international level, both at a technical and a political level, as well as its tendency to extend the implementation periods

(Pistorius & Kiff, 2014) for projects to ensure medium- and long-term sustainability of results shows that the fund has incorporated a system for internalizing lessons learned.

Another factor for success has been the political and strategic coordination between BMUB and the Ministry for Economic Cooperation and Development (BMZ), mainly to ensure a joint strategy around climate change efforts and commitments within the UNFCCC. The improvements of their coordination is even mentioned in the latest evaluation of the German development cooperation system published by the OECD in 2010, as an example of coherence in the creation of strategies and policies around the German contribution to the fight against climate change at international level (Organization for Economic Cooperation and Development (OECD), 2010). Yet, there is still the need to keep improving the coordination between both ministries, and the need to consolidate the focus of the cooperation with key partner countries (Pistorius & Kiff, 2014).

Finally, further success factors of IKI are the development of an evaluation system for the fund as a whole based on the evaluation of individual projects, and the increase in technical support and political advice to its implementers and partner governments.

### Challenges

One of the most critical challenges faced by IKI was the gradual reduction in available resources from the trade of carbon certificates. The lack of these funds led to the decision to charge the financing of the fund to the National German Budget, in order to assure Germany's fulfillment of commitments under the UNFCCC.

The first evaluation of 115 projects and the IKI as a whole suggests a range of action points to better face the challenges of the fund, one of these being greater and better use of program-level indicators, as well as a greater differentiation of priority areas to improve effects on a program level. Also, the extension of the time available for the preparation of project proposals between countries that are strategic

partners for Germany and the BMUB, stands out as an appropriate recommendation. This implies a way to include not only the best or most competitive projects, but also those with long-term implications for national strategies and policies, and to consider the internal political processes of each country (Federal Environmental Agency (*Umweltbundesamt*), 2013). The evaluation also suggests strengthening the support offered to projects by the fund through more resources and staff for the fund's administration, a measure which may be costly in the short term but strategically beneficial over the long term.

As with other examples of funding mechanisms, information and knowledge management must be strengthened through a system which covers all projects and programs, and makes available the information on the impacts and experiences of all projects. Finally, although significant progress has been made, the alignment with national policies and strategies against climate change continues to be a challenge for German cooperation, including the IKI, especially at the level of project drafting and preparation.

### 2.1.2. REGIONAL FUND FOR THE PROMOTION OF TRIANGULAR COOPERATION IN LATIN AMERICA AND THE CARIBBEAN (REGIONAL FUND)

Around 2005, triangular cooperation gained in importance in Germany's bilateral cooperation with a number of Latin American countries, especially Chile, Mexico and Brazil. Specific approaches were established for these three countries in order to expand the existing bilateral cooperation to third beneficiary countries (for example, umbrella programs or bilateral funds). For *Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH*, as one of the executors of German cooperation international cooperation for sustainable development, and its partners, these prior

experiences in triangular cooperation were essential to exploring and advancing this new modality, and thereby gaining shared practical experience.

In the spring of 2010, the Federal Ministry for Economic Cooperation and Development (BMZ) requested an analysis mission to evaluate the viability of a regional fund for triangular cooperation, and given its positive result, GIZ was invited to make an implementation offer. In December of 2010, the Minister commissioned the Regional Fund for the Promotion of Triangular Cooperation in Latin America and the Caribbean<sup>20</sup> (also known simply as the Regional Fund). The first round of projects began in 2011.

The program's objective is to carry out triangular projects with the involvement of one Latin American or Caribbean provider country and Germany as cooperation partners, plus one beneficiary country located inside or outside Latin America. The Regional Fund defines itself as an instrument for establishing strategic alliances and promoting collaboration under conditions of equality. Funded projects must be based on the beneficiary's demands and reciprocity among/ of all partners— in other words, costs and responsibilities are divided among the three partners as it is expected that each provide their own technical and financial contribution. Therefore, the fund only finances the German contribution (up to EUR 300,000 per project) executed by GIZ. When a triangular project is initiated, the partners jointly elaborate a work plan specifying activities, intermediate objectives and indicators, which is then managed in parallel, i.e. each partner manages its responsibilities in parallel with the two other partners.

The creation of the Regional Fund responds to the increasing role of emerging countries in IDC, and the international attention drawn to South-South and triangular cooperation. Mentioned in the Accra Agenda for Action and the Busan Outcome

<sup>20</sup> Official Webpage: <https://www.giz.de/en/worldwide/12942.html>

Document, the topic of triangular cooperation is also present in the Coalition Agreement of the current and former German governments, and in their strategy for Latin America and the Caribbean.

## FINANCING SOURCES

Since its launch in 2010, the program’s duration and total volume have been extended several times. The resources for this fund come from the regional technical cooperation quota, assigned to BMZ in the National German Budget. The total amount reaches EUR 11,150,000 for the period 2010-2016. It should be noted that around 20% of the total volume is set aside for activities of knowledge exchange and capacity building. It is very likely that the program will be extended or begin a new phase beyond 2016.

Due to the demand and interest that triangular cooperation has generated among other traditional donors, the Regional Fund is seeking to expand its financial base by raising third-party funds (preferably at fund level). For the period 2011-2014 the then Australian Agency for International Development (AusAID) provided support with EUR 1.1 million to

the already concluded project “Paraguay entre todos” (2011-2014) where Paraguay was the beneficiary and Chile and Germany the cooperating partners. Some traditional donors have shown interest in co-financing and joining the Regional Fund.

It should be reiterated that the Regional Fund only gives financing to the German contribution, and that each project is financed jointly by the three partners involved (whether in cash or in kind). According to the regulations, the contribution by the Latin American collaborator should at least be equal to the amount provided by the Regional Fund. No fixed quota is in place for the beneficiary country, but it should be significant in accordance with its possibilities, and there are cases when its contribution is actually larger: for example, in the aforementioned project “Paraguay entre todos”, the collaborators Chile and Germany provided EUR 400,000 each, Australia as co-founder gave EUR 1.1 million whereas Paraguay, the beneficiary country, mobilized EUR 2.5 million. In total, the partners in Latin America and the Caribbean, and Africa have mobilized almost double the amount awarded by the Fund itself (see table 1).

► TABLE 1: REGIONAL FUND - AGGREGATE CONTRIBUTIONS BY PARTNERS

Aggregate contribution by Latin American and Caribbean cooperation partners	Aggregate contribution by beneficiary countries	Aggregate contribution of Germany financed by the Regional Fund	Other contributions
EUR 9.23 million	EUR 5.37 million	EUR 8.97 million	EUR 3.5 million

Source: Elaborated by the authors, based on (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, n.d.)

## ORGANIZATIONAL STRUCTURE AND GOVERNANCE MODEL

### Laws/regulations, legal status

The foundational document for the Regional Fund is the commission by which BMZ confirmed the proposal submitted by GIZ. This agreement carries a series of standards and principles linked to the execution of the Fund.

The Regional Fund adheres to the fundamental guidelines and principles of German technical cooperation, financial, fiscal and control standards for the use of national budget resources which determine the operations of GIZ as a non-profit organization, as do its internal regulations and quality standards.

As a regional program, the Regional Fund lacks a political counterpart at regional level. On a country level, however, established relationships exist with political counterparts responsible for the planning of triangular cooperation. Often, the issue of triangular cooperation is the object of Joint Commissions and Bilateral Consultations between Germany and its partner countries in Latin America and the Caribbean. However, the concrete proposal is created among the participating stakeholders.

### Organizational structure and governance model

When compared with other examples, the Regional Fund's organizational structure and governance model are lean: the BMZ makes the final decisions regarding the financing of projects and defines the fund's basic guidelines. In its role as administrator, GIZ prepares and reports on decisions and provides strategic advice to BMZ, and is therefore responsible for the financial and program management of the Regional Fund. The accepted implementation agency (for the German contribution) is GIZ, which facilitates the linkage of triangular projects with the German bilateral portfolio in partner countries. It should be noted that there is no external cashier – financial transactions are carried out by GIZ. At first glance, this peculiarity – which was also seen in the case of IKI – seems surprising and perhaps raises questions around the fiduciary quality of the fund. However, as when submitted to the German budget's control systems, which are carried out by the Federal Audit Office under a strict internal financial regime, GIZ has a trust and credibility reputation for meeting national and international standards. Taking this into account, it appears acceptable to forego the strict division of roles between the cashier, the administrator and the implementer.

## FINANCIAL MANAGEMENT

As part of GIZ's regional portfolio for Latin America and the Caribbean, the Regional Fund does not differ from other funds and projects carried out by GIZ on behalf of BMZ, with financial management lines generally being the same.

To date, the German contribution has always been implemented with the support of structures already established by other GIZ programs and projects in the partner countries involved. The Regional Fund internally assigns one or several professionals from GIZ to implement the German contribution to a specific project. These professionals are often not exclusively hired, but rather “borrowed” from other projects and programs to carry out concrete activities within a particular timeframe. Implementation costs, including labor costs, are charged directly to the Regional Fund's account, thereby fostering, on one hand, technical ties between the triangular project and the bilateral portfolio in partner countries. On the other hand, for the project that “lends” their staff, this working model can “relief” fixed personnel costs.

In other words, GIZ does not release the fund's resources unless third-party services have been hired or the necessary supplies have been stored for carrying out specific activities.

The financial and program management costs are estimated at around 8%<sup>21</sup> of the program's total resources. This quota does not only include direct administration services, but also supports services provided by other units within GIZ, such as the finance or human resources departments.

The Regional Fund's program as a whole, as well as the programs and projects which implement the German contribution, are submitted to GIZ's internal control system which combines voluntary and randomized evaluations. Also, GIZ participates every year in a voluntary external audit. Parallel to this, GIZ and all of its activities can be reviewed at any time by the Federal Audit Office. To date, the Regional Fund has not been audited though.

## PROJECT SELECTION PROCESS

### Call for applications and project selection

Twice a year, in May and November, the Regional Fund calls for the submission of project proposals.

<sup>21</sup> Without overheads and taxes.

At the beginning of a new round of projects, the German Federal Foreign Office requests German Embassies and GIZ offices in Latin American and Caribbean countries to spread the call, among local partners. Today, the Regional Fund is very well-known, and counterpart institutions often proactively approach GIZ to present and discuss an imminent project initiative. GIZ provides assistance in drafting proposals and helps liaise with possible partners in interested institutions or third countries.

The proposal is submitted and presented to the respective German embassy in both partner countries. This implies the endorsement of all three partners, although not all of them are always actively involved from the very beginning. In many cases, the initiative arises from a prior cooperation between two partners, and only at a later stage when the initial idea has matured and taken form the third partner is contacted. As the elaboration of a proposal is an iterative process the third partner has still many opportunities to bring in own priorities. Having collaborated in the past can be seen as an asset which often facilitates the preparation of the proposal and, further on, the joint management of the project.

The German Embassies evaluate and comment on submitted proposals, and then send them to the Federal Foreign Office, which must declare the absence of any political objection on a case-by-case basis. The Regional Fund's administrator at GIZ reviews proposals and prepares a listing of recommendations for project selection. Based on the evaluations carried out by the Embassies and the administrator, BMZ takes the funding decision. In previous calls a total of 70% of submitted proposals were accepted. Proposals failing to qualify can be re-submitted in the following round, and GIZ offices can assist in improving the proposals.

When informed by the Federal Foreign Office, the Embassies communicate the funding decision to applicants and indicate whether the proposal has been approved on condition of adjustments. Finally, GIZ and both partners formalize and officially launch the triangular cooperation project.

In total, the selection process takes approximately 5 to 8 weeks.

For a proposal to be accepted it is expected that the German contribution is clearly visible and that helps advance and anchor the concept of triangular cooperation in the region and globally. Also, there is a set of relatively broad selection criteria:

- ▶ The proposed cooperation must involve Germany, one Latin American or Caribbean country as a cooperating partner (provider) and one Latin American, Caribbean, African or Asian beneficiary country eligible for German ODA. Also, "the beneficiary country must assume a leadership role in the undertaking and coordinate the trilateral project during its planning and execution" (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, n.d.).

- ▶ The project focus is on technical cooperation by providing, above all, advisory and training services.

- ▶ The financial contribution by the Latin American or Caribbean cooperating partner must represent at least the same amount as provided by the Regional Fund. The maximum amount provided by the Regional Fund to finance the German contribution is EUR 300,000, with the possibility of extending for a second phase.

- ▶ There are no priority areas of action, and projects from virtually all possible sectors are considered. The project must reflect the demand of the beneficiary country and be aligned with the development strategies of the partner countries. Also, there is a certain preference for areas in which some of the partners "have collaborated before in order to take advantage of possible synergies" (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, n.d.).

- ▶ The Latin American or Caribbean cooperating partner (provider) and the beneficiary country must have the institutional capacity to ensure

the outset and implementation of the project. It is also preferable that both countries have prior experience in South-South or triangular cooperation.

- ▶ The cooperation must be developed within the framework of international law.
- ▶ The proposal must be presented in a way that is clear and realistic, determining the areas of focus and the project's objectives.

When it comes to the evaluation of the proposals, the Embassies, the BMZ and the fund's manager at GIZ pay special attention to facts like the demand and leadership by the beneficiary country, alignment with its development priorities, the complementary nature of contributions by cooperating partners and the added value of the German participation, the ties of the triangular project with Germany's bilateral portfolio in the partner countries, the relevance of the project for the South-South cooperation and triangular cooperation agenda in the Latin American or Caribbean cooperating partner, and harmony with the principles of sustainability, results-orientation, significance and relevance.

### **Budget line and funding windows**

The fund has only one budget line, and there are no thematic priority areas. As mentioned before 20% of the fund's budget is set aside for knowledge exchange and capacity building activities.

## **IMPLEMENTATION – PROJECT MANAGEMENT**

Triangular cooperation activities are managed in parallel by three or more involved parties. At the beginning of many projects, partners meet at a planning workshop to jointly elaborate a work plan which determines responsibilities, activities and intermediate objectives. Then, the project is jointly implemented while financial management of the different contributions is kept separate. This implies that the parties meet with a certain frequency to coordinate their activities and make the necessary adjustments to the work plan.

The GIZ team responsible for financial and program management accompanies these processes very closely, providing advice when needed. In many cases, the institutions involved in a triangular cooperation project have limited financial and human resources. Therefore, it is a task of the management team to minimize as possible administrative procedures and provide practical assistance. Another task of the management team is advising the BMZ on contributing to the conceptual debate, advancing the political strategy of triangular cooperation, and positioning itself internationally.

Also, the management team is responsible for designing and organizing regional exchange, training and systematization activities. In order to promote and anchor triangular cooperation on a political level, two high-level regional conferences have been held (Bogotá 2012, Mexico City 2013), each organized in collaboration with the counterpart cooperation agency. In April of 2015, the third high-level conference took place in Santiago de Chile.

Since the program's beginning, training for experts involved has been a central element. 2013 saw the launch of the Training Network for Triangular Cooperation between Latin America, the Caribbean and Germany ("Red CT") for the purposes of consolidating prior training efforts and promoting a community of practice in triangular cooperation.

Based on the demand by projects under implementation, virtual courses are designed and taught through online learning. The global e-learning platform "Global Campus 21" provides the technical infrastructure for courses and, additionally, face-to-face courses were run in 2014 in El Salvador and the Dominican Republic. The first cycle, completed in 2014, addressed varied issues ranging from project and knowledge management, roles and functions, and M&E. The workshops offer has been updated for 2015.

Courses are open to institutions involved in projects supported by the Regional Fund. At the beginning of a new cycle of seminars, partner institutions are invited to designate participants, some of whom are involved

in triangular activities with other traditional donors. This diversity of experiences enriches the content of courses, which emphasize interactive learning.

At the beginning, a parallel program was in place to foster the development of specific skills necessary to the management of triangular cooperation. However, in 2014 this program was formally integrated into the Regional Fund's general offer, reserving around 20% of its budget for the respective activities.

## ACCOUNTABILITY - M&E

### M&E

Each project has its own M&E system agreed upon and established by the three parties involved. If not otherwise agreed, each partner is responsible for monitoring and evaluating its own contributions, although ideally this is done jointly. The fund's administrator closely follows triangular projects, especially during the launching phase, and actively promotes M&E as a shared task of all three parties. In some projects, effectively, common M&E standards have been agreed upon. Prior to the establishment of the "Red CT," which provides courses with a special emphasis on M&E, a conference was held in Mexico in 2013 on the issue of impact and a workshop in Lima in 2012 on M&E.

For the operational units implementing the German contribution of the triangular cooperation projects, there is a monitoring (tracking) procedure that supports results-based management, and which is mandatory for all GIZ programs and projects. Activities carried out within the framework of triangular cooperation are integrated into this system.

Once a year, the administrator asks projects to provide a small summary of the activities carried out over the previous 12 months. To keep efforts to a minimum, a relatively simple form is used, and based on the information provided, the administrator creates a progress report on the project i.e. BMZ's standardized reporting tool. At fund level, work is currently being done on the consolidation and

systematization of the M&E model in order to better reflect the specific opportunities and challenges that arise in the triangular context. It should be pointed out that, since triangular cooperation is a relatively new mode of cooperation, there is high demand at political level for empirical evidence and proven results.

At the end of each project, a final report is prepared. The fund's management is exploring the possibility of engaging accredited Latin American organizations to carry out an external ex post evaluation, which could be pursued around six months after the conclusion of a project. Also, when a project has ended, a final report is prepared.

### Accountability

The staff involved in the implementation of the German contribution reports regularly to the Fund's management, who can revise the financial transactions made in the fund's sub-account at any time. It is worth noting that there are still no mandatory accountability measures between the cooperating stakeholders.

As administrator of the fund, GIZ is accountable to the BMZ. Evidently, there is a strict distinction between the resources belonging to the Regional Fund and resources belonging to other projects and programs, whose teams are in charge of the implementation of the German contribution to the triangular project.

## BENEFICIARIES

Beneficiary groups vary according to the project. In general, beneficiaries are populations in Latin America, the Caribbean or other regions where projects of triangular cooperation are being carried out.

## RESULTS

Of the 29 projects approved and started, 22 are currently active (see table 2). Projects of triangular cooperation with the participation of 17 Latin American, Caribbean and African (Morocco and

Mozambique) countries address diverse issues ranging from water, housing, environment and climate change, to risk management (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH,

n.d.). It should be pointed out that one project was concluded prior to the expected date, by mutual agreement between all cooperating partners, due to a lack of ownership on the part of the beneficiary.

► TABLE 2: TRIANGULAR PROJECTS SUPPORTED BY THE REGIONAL FUND

NO.	AREA	BENEFICIARY	PARTNERS	DURATION	AMOUNT (IN EUROS)
1	Disaster risk management	Mozambique	Brazil, Germany	2013–2015	2,400,000
2	Metrology	Mozambique	Brazil, Germany	2015–2017 (phase II)	895,000
3	Environment and climate change	Peru	Brazil, Germany	2012–2014	4,400,000
4	Youth employment	Dominican Republic	Chile, Germany	2011–2013	400,000
5	Youth employment	Dominican Republic	Chile, Germany	2013–2016 (phase II)	600,000
6	Employment	El Salvador	Chile, Germany	2012–2015	240,000
7	Consumer protection	Guatemala	Chile, Germany	2012–2015	160,000
8	Food security	Guatemala	Chile, Germany	2014–2015	600,000
9	Participatory public policy	Haiti	Chile, Germany	2014–2016	600,000
10	Waste management	Honduras	Chile, Germany	2012–2015	200,000
11	Waste management	Colombia	Chile, Germany	2012–2014	240,000
12	Social development and territorial management	Paraguay	Chile, Germany, Australia	2011–2014	4,400,000
13	Audit Courts	Peru	Chile, Germany	2014–2016	675,154
14	Waste management	Bolivia	Costa Rica, Germany	2015–2017	486,800
15	Environment and climate change	Morocco	Costa Rica, Germany	2013–2016	900,000
16	Indigenous justice	Bolivia	Colombia, Germany	2014–2015	600,000
17	Waste water	Bolivia	Mexico, Germany	2012–2013	600,000
18	Waste water	Bolivia	Mexico, Germany	2014–2016 (phase II)	600,000
19	Sustainable consumption and production within the framework of the Pacific Alliance	Peru, Colombia	Mexico, Chile, Germany	2014–2016	1,049,000
20	Waste management	Dominican Republic	Mexico, Germany	2014–2016	720,000
21	Small and medium businesses	Guatemala, Honduras	Mexico, Germany	2015–2017	472,388
22	Environment and climate change	Colombia	Mexico, Germany	2013–2015	804,000
23	Sustainable housing and urban development	Colombia	Mexico, Germany	2013–2015	600,000
24	Management of contaminated lands	Peru	Mexico, Germany	2014–2016	600,000
25	Biodiversity	Nicaragua	Panama, Mexico, Germany	2014–2016	750,000
26	Local fiscal administration	Guatemala	Peru, Germany	2013–2014	400,000
27	Education	Guatemala	Peru, Germany	2013–2015	500,000
28	Civil registry	Honduras	Peru, Germany	2015–2017	800,000
29	Civil registry	Paraguay	Peru, Germany	2013–2014	580,000

Source: (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, n.d.)

Many partners in triangular cooperation play a dual role within the fund's framework, and considering the diversity of many Latin American countries, it is not contradictory for a country to be both a beneficiary of one triangular project and a new donor in another. This has been the case with Peru, for example, which has been receiving the support of Brazil and Germany for the creation of a Centre for Environmental Technology, while at the same time contributing to improving the operating capacity of Paraguay's Civil Registry Office.

Mexico is one of Germany's most outstanding partners in the area of triangular cooperation. To date, the Regional Fund has financed 9 projects with multiple beneficiaries, for which Mexico has acted as the Latin American donor. For example, a cooperation project named "Fostering the re-use of purified waste waters for agricultural irrigation in Bolivia" is being implemented (phase I: 2011-2013, phase II: 2014-2016). Deeply affected by climate change, Bolivia has sought the support of Mexico and Germany, as both countries have shown themselves to be competent in this area. Following research visits and training seminars, 220 experts and collaborators were trained, the regulatory and standardizing framework in Bolivia is being improved, and 6 municipalities have improved their water treatment structures (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, n.d.).

The cooperation between Morocco, Costa Rica and Germany for the "Improvement in the management and sustainable use of forests, protected areas and basins" (2013-2016) is considered particularly innovative, and reveals that the separation between partner and beneficiary roles vary – formally, Morocco is the beneficiary country while Costa Rica has the role of the Latin American partner. In practice, however, the transfer of experiences and knowledge is reciprocal: Costa Rica shares its expertise as a pioneer in the management of protected areas and payment systems for environmental services, and Morocco is sharing its good practices in the management of basins and

the prevention of forest fires. Several pilot projects have been launched within this framework in both countries, involving local governments and other political institutions, as well as the private sector and civil society. There are future plans to disseminate the results of the cooperation in the region of the Middle East and North Africa (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, n.d.).

## ANALYSIS

### Success factors – strengths

In only a few years of existence, the Regional Fund has attracted much international attention. It is generally considered an appropriate instrument for exploring new pathways of cooperation between traditional donors and emerging countries, and for fostering cooperation on equal terms with the beneficiary country in the lead.

Indeed, demand-orientation is one of the Regional Fund's strengths: starting at the proposal stage it is necessary to demonstrate the alignment of the measure with the strategic development priorities of the beneficiary country. Linking triangular cooperation with the South-South and triangular cooperation objectives of the Latin American or Caribbean partners, and with Germany's bilateral portfolio in partner countries, may also contribute to the creation of synergies and increase the sustainability of the cooperation. Also, as is illustrated by the example of the cooperation between Morocco, Costa Rica and Germany, triangulation enables multiple constellations which can easily break away from traditional donor-recipient structures.

Another success factor is its emphasis on mutual learning and the exchange of knowledge and experiences both on a political and on a technical level. Through its high-level conferences and its training program, the Regional Fund does not only contribute to advancing and anchoring the concept in the region, but also to the systematic compilation of practical experience and empirical evidence of a relatively-unexplored mode of cooperation. On many occasions, actors involved in different triangular

cooperation projects within the same country meet for the first time at an event organized by the Regional Fund. Building professional triangular cooperation networks may also have a “matchmaking” effect, meaning that it stimulates new initiatives between partners who would probably have not emerged otherwise.

The administrative team and the GIZ offices in partner countries assist and support the cooperating partners whenever requested. These close relations/ties enable the administrative team to design and implement training and knowledge sharing activities tailor-made to meet the needs and expectations of the parties involved.

A precondition to offer trainings and exchanges based on the needs of the cooperating parties is the close follow-up by the management team of the fund, and by the GIZ offices in partner countries. The assistance provided at different stages contributes to continuous improvement in the quality of proposals and project management. However, the scope of measures could be greater if training courses were offered in more languages additional to Spanish.

For a fund with relatively limited resources, the centralization of the functions of cashier, administrator and implementer in GIZ offers advantages in terms of efficiency. With its worldwide presence, broad sectoral experience and high trust standards, GIZ can assure quality in administration, financial management and implementation.

## Challenges

In the beginning, the Regional Fund’s Latin American partners and beneficiary countries were critical of the lack of participation: despite the fact that triangular cooperation seems to be an appropriate instrument for promoting more horizontal relationships between involved partners, and without considering the important financial and conceptual contributions by partners, the funding decision are made unilaterally in Germany. Close contact between partners and the trust arising from joint activities have aided in stemming this criticism.

The triangular mode of cooperation has created high expectations. For instance, it is expected that transaction costs will reduce over time. At the moment they have proven to be difficult to estimate, and it has not yet been possible to prove their effect. In the short term, transaction costs continue to be significant, also because triangular projects usually last for a relatively short time, thereby minimizing the possibilities for scale. Nonetheless, the initial indicators are positive: a project of triangular cooperation between Bolivia, Mexico and Germany in the area of water treatment is now in its second phase, thereby significantly reducing transaction costs.

To date, selection criteria are very broad and there are no sectoral restrictions. If demand continues to grow, a situation may arise in future in which not all qualified proposals can be considered, and it will be necessary to establish more selective criteria to enable the prioritization of the best-graded proposals, or to space the application rounds of project proposals.

### 2.1.3. FUNDING LEADERSHIP AND OPPORTUNITIES FOR WOMEN (FLOW)

Funding Leadership and Opportunities for Women<sup>22</sup> (FLOW) was created in May 2011, by a ministerial order from the Ministry of Foreign Affairs (BZ)<sup>23</sup>, as a successor to the MDG3 (Millennium Development Goal 3) Fund, which was active from 2008 to 2011. FLOW is a non-reimbursable resources fund for programs and projects that promote poverty reduction through strengthening equality of rights and opportunities for girls and women.

The MDG3 Fund was created by the Government of the Netherlands in response to the alarming results of a study published by the Association for Women's Rights in Development (AWID), which showed a reduction in financing (Batliwala, Rosenhek, & Miller, 2013) for civil society organizations that promote gender equality and the achievement of Millennium Development Goal 3 (MDG3) since the year 2000 (Hoebink (ed), 2011). As an indispensable measure to complement existing government efforts, the creation of FLOW built on the results and impacts achieved during the active period of the MDG3 Fund, and offered continued financial support to organizations whose social, political and even humanitarian work may not generate financial profits to allow them to survive.

The creation of this fund also sought to underpin the inclusion of horizontal policies of gender equality in all aspects of development cooperation of the Government of the Netherlands. The trend in Dutch development cooperation toward fostering the work of civil society organizations has been developing since approximately 2005: in that year, civil society organizations received 21% of the Netherlands'

ODA resources, following multilateral organizations which received 29% (Organization for Economic Cooperation and Development (OECD), 2006). Similarly, the strengthening of cooperation with local and international NGOs enables the Government of the Netherlands to position its activities and policies at a level different to the multilateral and bilateral, and so complement its actions at those levels.

The creation of FLOW, as a successor to the MDG3 Fund, was also the result of collaboration between five beneficiary organizations of the MDG3 Fund in support to the BZ's efforts to renew the fund. This preparation process also meant an intensive lobbying to persuade the Parliament of the Netherlands of the need to extend financing of the MDG3 Fund and renew it for another period (Batliwala, Rosenhek, & Miller, 2013).

### FINANCING SOURCES

The only funding source of FLOW is the Government of the Netherlands through the Ministry of Foreign Affairs.

### Volume of operations

From 2008 to 2011, the MDG3 Fund, FLOW's predecessor, invested EUR 82 million in 45 projects around the world. It was initially expected that the amount of financing would be EUR 70 million over a period of three years, but due to the demand of civil society organizations for more resources, the period was eventually extended to four years (Batliwala, Rosenhek, & Miller, 2013).

Continuing the set-up applied to the MDG3 Fund, FLOW's financing period is 4 years, starting on the 1st of January, 2012 and ending the 31st of December, 2015. In the beginning, the Government

<sup>22</sup> <http://www.flowprogramme.nl/Public/HomePage.aspx>

<sup>23</sup> The current Ministry for Foreign Affairs, Foreign Trade and Development Cooperation of the Netherlands has had different names due to changes in government and cabinet restructuring over a number of years. In current documents, the name Ministry of Foreign Relations (BZ) refers to the Ministry of Foreign Relations, Foreign Trade and Development Cooperation. For further information, see BZ's official website at <http://www.government.nl/ministries/bz>.

of the Netherlands assigned EUR 70 million to finance projects over this period (Ministry for European Affairs and International Cooperation of the Netherlands, 2011). Due to the outstanding response by women's rights organizations to the new fund, and thanks to the large number of applications received, the financing amount was increased to EUR 80.5 million for 34 projects worldwide, to be carried out until the end of 2015 (Funding Leadership and Opportunities for Women (FLOW), n.d./ b). On May 29, 2013, the BZ announced the availability of additional EUR 5 million for FLOW. In order to assign this additional amount, FLOW opened another application and selection period, at the end of which it was decided to finance additional activities for 28 of the 34 FLOW projects already under implementation. In other words, FLOW made available a total of 85.5 million for projects funding over a period of 4 years (PwC, Femconsult, 2014).

## ORGANIZATIONAL STRUCTURE AND GOVERNANCE MODEL

This fund's resources are aimed exclusively at improving the position of women and girls at a political level, within public administration and economic activities, and at ending violence against women. These resources are part of the ODA contributions by the Government of the Netherlands, and are also part of the Dutch strategy to achieve the Millennium Development Goals. The funds continuity, whether under the same name or structure, depends entirely on the political, strategic and financial program of the Government of the Netherlands within the framework of its development cooperation strategy, as well as on lobbying and advocacy work by women's and girls' organizations carried out both in the Parliament of the Netherlands and directly with the BZ.

The strategic agenda, as well as project evaluation and selection, are carried out by the Ministry of Foreign Affairs of the Netherlands. Within the Directorate for International Cooperation (DGIS), which is part of the Department of Human Rights, the

Gender Equality Unit designated a team of ministry staffs plus an external consultant for the evaluation and categorization of funding applications.

The management of FLOW, similarly to its predecessor, has been commissioned to a consortium comprising PricewaterhouseCoopers (PwC, the main representative) and the specialized consulting firm Femconsult. This consortium, through its main representative, has the authority to make the necessary decisions in the BZ's name to ensure the fund's proper function, its operations and the achievement of its objectives and policies. The consortium is also authorized to determine regulations and funding ceilings for grants within the framework of the Grants Regulation by the Ministry of Foreign Affairs of the Netherlands (Ministry of Foreign Affairs of the Netherlands, 2012). The consortium's management contract with the Government of the Netherlands also includes support activities, technical advice and knowledge transfer from experts to the unit responsible for the fund within the BZ and projects, as well as the monitoring and evaluation of the latter (Femconsult, 2014).

## Laws/regulations, legal status

FLOW's legal status is that of a government project-financing program which management has been subcontracted to a specialized private consortium. Therefore, FLOW cannot be considered a trust fund.

The following ministerial decisions, directives and strategies constitute the legal basis for the functioning of FLOW (Funding Leadership and Opportunities for Women (FLOW), n.d./ a):

- ▶ Decree on subsidies and grants, Ministry of Foreign Affairs, 2005
- ▶ Regulation on subsidies and grants, Ministry of Foreign Affairs, 2006
- ▶ Ministerial Order on Development Cooperation, 2009 (DJZ/BR/0501-09) which determines subsidy ceilings and donations in accordance with the

- 2006 Regulation
- ▶ Standard Strategy for Development Cooperation – Order by the Ministry for European Affairs and International Cooperation on the 1st of December, 2010
- ▶ Order by the Ministry for European Affairs and International Cooperation (now the Ministry of Foreign Affairs, Trade and Development Cooperation) on the 10th of May, 2011 (DJZ/BR-0457/11), also known as the FLOW Regulation, and its amendment on the 15th of June, 2011
- ▶ Policies regulating additional financing for FLOW – Ministerial Order by

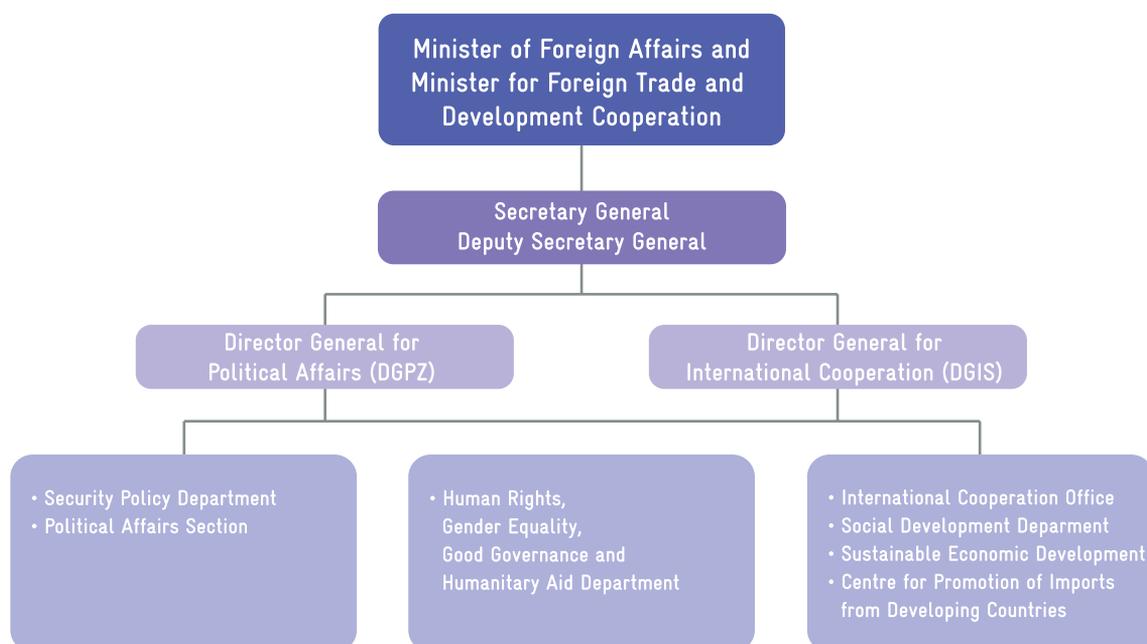
the Ministry for Foreign Trade and Development Cooperation on the 29th of May, 2013

### Governance model

The fund’s strategic direction and the final decision on projects are carried out at ministerial level, where the Minister of Foreign Affairs and the Minister of Foreign Trade and Development Cooperation oversee the final stage of the proceedings concerning strategic decisions on the fund. Within the BZ, the Department of Political Affairs and the Department of International Cooperation decide jointly on issues of human rights and gender equality (see figure 11).

▶ FIGURE 11: ORGANIZATION OF FLOW GOVERNING LEVEL

### Governing Level



Source: (Ministry of Foreign Affairs of the Netherlands, 2013)

## FINANCIAL MANAGEMENT

FLOW's financial management is one of the management tasks assigned to the PwC/Femconsult consortium, and consists of supervising the financial management of beneficiary organizations in accordance with approved projects and plans. All financial activities, as well as the fund's general administration, must be reported to the BZ, in accordance with the regulations and ministerial orders governing FLOW.

The replenishment mechanism of this fund, and other development cooperation funds belonging to the Government of the Netherlands, depends on the overall ODA planning that takes place every four years (Organisation for Economic Cooperation and Development (OECD), 2011), and which must be approved by the parliament. The last replenishment of the fund was EUR 70 million, which was then increased on two occasions, finally reaching EUR 85.5 million. The Ministry of Foreign Affairs announced in June 2015 that FLOW will fund a third round of projects. This new replenishment makes available EUR 93 million for the period 2016-2020 for projects in low and lower-middle income countries. In contrast to the previous funding periods, this third funding phase will be administered by the Ministry of Foreign Affairs itself (Ministry of Foreign Affairs of the Netherlands, 2015).

## PROJECT SELECTION PROCESS

### Call for applications

The BZ opens calls for applications every three or four years: the first and second funding periods have had a financing time frame of 4 years each. In the case of the first FLOW funding period, the announcement of its creation as a successor to the MDG3 Fund was made through specialized events in the presence of officials from the BZ. The official

announcement of its creation as a successor to the MDG3 Fund and the call for applications were made on May, 2011, over the website of the Ministry of Foreign Affairs. The call for applications closed on the 29th of July, 2011. Applications for resources are received in both Dutch and English.

For the recently announced 2016-2020 funding period, applications deadline was August 2015. Due to working deadlines for the present study, all changes or updates made to the FLOW policy framework for the third funding period have not been included in this study, but can be found under the Website of the Government of the Netherlands<sup>24</sup>.

### Eligibility

Organizations requesting financing from FLOW must be independent, non-profit, civil society organizations with accredited legal status, either within the Netherlands or internationally, whose work contributes to the reduction of structural poverty in developing countries through the promotion of equality of rights and opportunities for women and girls. Aspiring organizations must have their headquarters or operations in developing countries.

Additionally, the organizations' work must be focused on at least one of the following specific FLOW areas of action:

- ▶ promote security by combating violence against women, and actively involving women in security, reconstruction and peace processes;
- ▶ promote economic independence by giving women speaking and voting rights on issues of food security, employment, property rights and access to safe drinking water;
- ▶ promote women's participation and representation in politics and public administration.

<sup>24</sup> For more information, see: <https://www.government.nl/topics/grant-programmes/documents/decrees/2015/06/12/funding-leadership-and-opportunities-for-women-flow-2016-2020>

Organizations interested in FLOW funding may apply for resources individually or submit a joint application as part of a consortium of applicants, which may only include organizations meeting the requirements listed above. If this is the case, organizations must select a consortium representative to apply on behalf of the consortium as a whole, and who will be responsible for the implementation of the project. Additionally, applicants may direct questions on formalities regarding applications to the BZ, which will then publish them and their answers anonymously on the Fund's web page. For project applicants working with other thematic funds, such as the Global Fund for Women, financing will also be considered as long as the organizations involved in the consortium and the objectives of the project are in line with FLOW objectives.

The following organizations are not eligible for financing: organizations or activities which are financed by the Dutch Ministry of Foreign Affairs, whether directly or indirectly, during FLOW's financing period; and organizations that have already received any other specific modality of financing by the BZ.

## Selection

The Minister of Foreign Affairs decides on resource allocation for projects. The decision date for the last selection process was the 15th of November, 2011 (Ministry for European Affairs and International Cooperation of the Netherlands, 2011). According to the impact study on the MDG3 Fund published by AWID in 2013, the selection process for organizations and projects was rigorous, and focused on the organizations with the most solid experience working with women's rights at both local and global levels, as well as their capacity for multiplication of efforts. Considering that financing is earmarked for civil society organizations, and that one of FLOW's objectives is to make good use of the results achieved through the MDG3 Fund, of the 45 organizations previously funded by the MDG3 Fund, 17 were selected once again to be funded by FLOW (Batliwala, Rosenhek, & Miller, 2013).

The selection process is carried out in the following stages (Ministry for European Affairs and International Cooperation of the Netherlands, 2011):

- **Stage 1:** an assessment committee from the Ministry of Foreign Affairs, comprising two staff members of the Ministry and eventually an external consultant, evaluates the applications for resources. The selection process is carried out according to legislation governing grants of non-reimbursable financing, along with the Standard Strategy on Development Cooperation and FLOW guidelines (Ministry of Foreign Affairs of the Netherlands, 2010). The evaluations committee categorizes applications, and those which best meet the requirements are prioritized at the time of the funding decision. Applications which do not comply with the threshold eligibility criteria are rejected and do not continue to the next phase. In this phase, applications are evaluated according to two sets of criteria:

- • **Thirteen threshold criteria** (Ministry for European Affairs and International Cooperation of the Netherlands, 2011):

- ▶ Applicants must be non-profit, civil society organizations with accredited legal status.
- ▶ They must operate internationally in pursuit of reducing structural poverty in DAC countries, working jointly with non-profit, civil society organizations to promote equal rights and opportunities for girls and women.
- ▶ The applicant must demonstrate, up to a predetermined year, that at least 25% of its income does not come from funding by the Dutch Ministry of Foreign Affairs. Furthermore, expected FLOW funding must not exceed 75% of the total annual income of the applicant organization. For organizations applying for resources as part of a consortium, this criterion applies to the entire consortium.
- ▶ The gross salary of the directors and

managers of the applicant organization must be in reasonable proportion to the seniority of the position, geographical location and the size and complexity of the organization.

- ▶ The applicant must ensure appropriate financial management, through effective, efficient implementation of activities based on existing experience in the activities for which funding is being requested.

- ▶ The amount of the application for resources must be a minimum of EUR 1 million and a maximum of EUR 6 million. The duration of activities must not last more than four years. If the duration is shorter than 4 years, the amount of the application must be proportionately lower considering the minimum duration of twenty-four months. Both aspects must be visible through the budget and multi-year estimate of the application.

- ▶ The applicant's project must not include proselytization activities.

- ▶ The project must include activities in two or more ODA-recipient countries, according to the OECD-DAC country classification.

- ▶ The project must not include activities involving commercial services or investments.

- ▶ The project must be related to activities that qualify for funding through the ODA budget, under OECD-DAC criteria.

- ▶ The applicant must be based in an ODA-recipient country, or the proposed activities carried out in an ODA-recipient country.

- ▶ Proposed activities must be focused on at least one of FLOW's areas of action (see the Eligibility section for this case study).

- ▶ The project must not be related to girls' secondary education, sexual and reproductive health and rights, construction work and infrastructure or improvements in equipment.

- • Criteria related to the quality of work carried out by the applicant organization or consortium representative:

- ▶ Record of operations for the last three years, in which the applicant must show their capacity for achieving the planned objectives and results, obtaining third-party contributions for implementation and ensuring project sustainability.

- ▶ The planning, monitoring and evaluation system used by the applicant must be sufficient for monitoring the progress of their results, impact and sustainability at both program and organizational levels. The organization must regularly commission independent evaluations of its programs and projects, and of its operations. The organization must have a quality control system for its processes.

- ▶ Financial and administrative management: the applicant organization must have methods for quality and financial evaluation of its partner organizations, and be able to identify and anticipate deficiencies and contingencies. Furthermore, the organization must have a large number of donors.

- **Stage 2:** only those applications that best meet the first two sets of criteria will pass to stage 2. At the end of this stage, projects meeting the requirements will be awarded available funds according to the ranking established in stage 1. At this stage, a project or program is evaluated according to the criteria listed below:

- • Criteria related to the **quality of the project or program proposal:**

- ▶ The projects relevance to public policy will be evaluated according to its relevance and contribution to development, its importance in achieving FLOW objectives, its contribution to the strategies of development cooperation of the Dutch Government, its relevance to the country where project activities are to be carried out, and finally how they ensure complementarity and alignment.

- ▶ Innovative characteristics.
- ▶ A contextual analysis of the problem, the objectives of the project that intend to solve it, and how these objectives analyze contextual findings on the issue.
  - ▶ Position of partners in the project: how the project contributes to building institutional capacity in partner countries where projects will be carried out.
  - ▶ Details on how outcomes, outputs, activities and funding will be achieved, as well as the connection between products to be obtained and the funding necessary to do so (cost-benefit analysis).
  - ▶ Description of expected outcomes, outputs and funds in SMART terms (Specific, Measurable, Acceptable, Realistic, Time-bound).
  - ▶ System for risk management, monitoring and corrective action, containing a risk analysis, and methods for monitoring and error-correction.
  - ▶ Sustainability of activities, in other words, whether they create a lasting effect for the target group at a society level, as well as contributing to the institutional sustainability of the applicant organization and its partners.

## IMPLEMENTATION – PROJECT MANAGEMENT

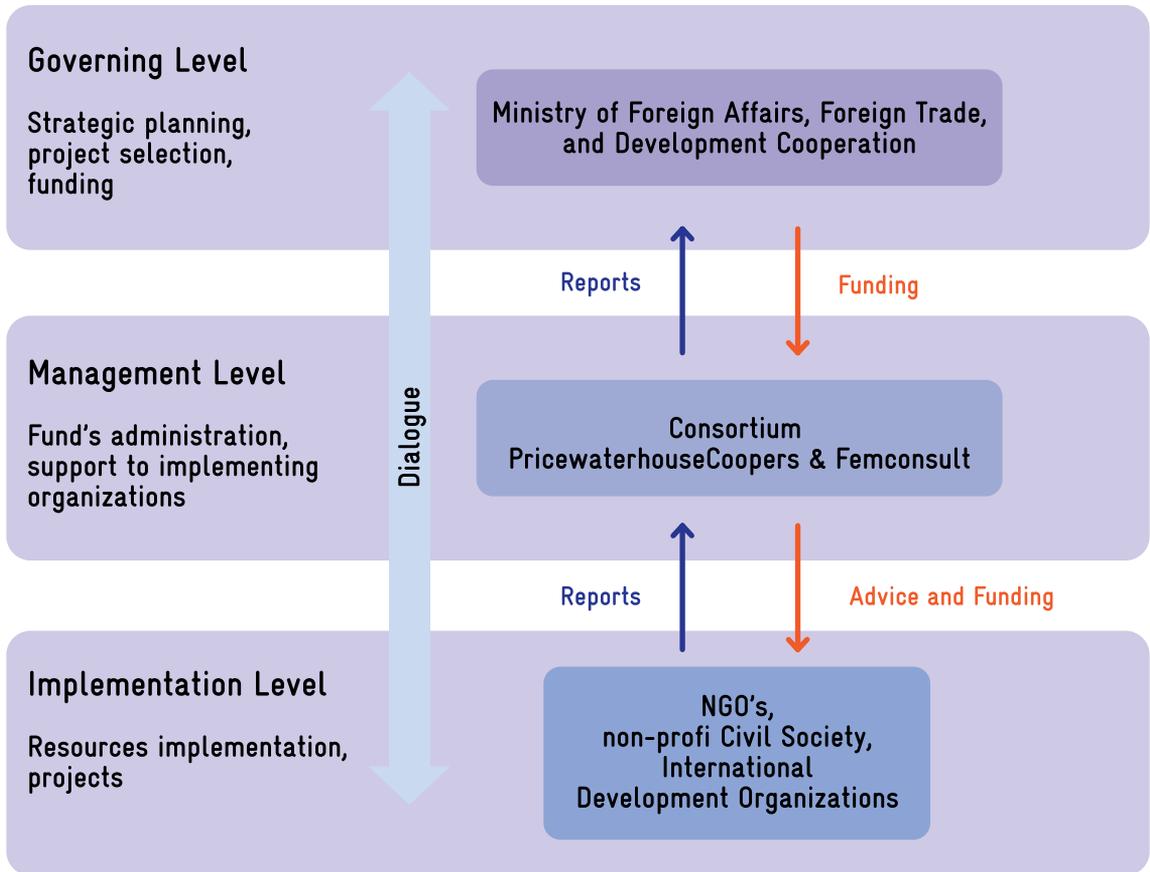
FLOW beneficiary organizations carry out all project implementation. Both the administration of the fund and its leadership within BZ maintain open,

continuous dialogue with beneficiary organizations to facilitate and improve mutual learning, as well as readjusting strategies to achieve optimum results (Batliwala, Rosenhek, & Miller, 2013). In the case of FLOW, project implementation started, on average, halfway through 2012, approximately six months after selection of the first projects (PwC, Femconsult, 2014). Beneficiary organizations must follow the SMART principle during the implementation, the monitoring of activities, and program evaluation (Funding Leadership and Opportunities for Women (FLOW), n.d./ c), as explained in a document created by the fund's management. This concept implies the utilization of indicators that are specific, measurable, acceptable, realistic and time-bound. The use of SMART indicators goes hand-in-hand with the application of the fund's logical framework at all project levels (Funding Leadership and Opportunities for Women (FLOW), n.d./ c).

## ACCOUNTABILITY – M&E

FLOW's full monitoring system, as well as that of each project, is based on the logical framework approach. This monitoring protocol (PwC, Femconsult, 2014), adapted by FLOW's management to the particularities of the fund's objectives, supervises the progress of each project, the effectiveness of its implementation, as well as the impact created at societal level. Under the same approach, FLOW's management consortium is accountable to the Dutch Ministry of Foreign Affairs. A visualization of the governance structure and interaction between stakeholders of the fund is found below (figure 12):

► FIGURE 12: FLOW GOVERNANCE MODEL



Source: Created by the authors, based on (Ministry for European Affairs and International Cooperation of the Netherlands, 2011)

Information on projects and implementing organizations available on the fund's website does not include details on delivered amounts, project duration, progress reports and/or audits. To date, FLOW's management has published on its website one overall report on activities and progress achieved for 2012-2013, and one additional funding report. In the Web sites of PwC and Femconsult there is also no detailed information available on the fund. However, and since this is a funding program by the Dutch Government, all fund operations are subject to auditing and control by the Dutch State in accordance with applicable laws.

### At project level

Beneficiary organizations must report to the fund's management in accordance with the conditions set out in their respective grant decision, which constitutes a binding agreement between the beneficiary, the Government of the Netherlands as donor, and FLOW's management. According to the monitoring protocol designed by FLOW's management, activities must correspond to outcomes and outputs, as well as the expected impact at societal level. The monitoring protocol also considers the existence of external factors beyond the control of implementing organizations, in such a way that they are able to internalize adjustments to their projects in order to achieve their objectives (PwC, Femconsult, 2014).

As part of project-level monitoring, FLOW management carries out two visits per year during which they collect information on project progress, thereby strengthening cooperative relationships with beneficiary organizations and providing technical support. FLOW management does not only visit the main implementing organizations, but also other organizations involved in the project or sub-grantees of implementers. This field monitoring also includes participation in workshops and conferences organized by beneficiaries (PwC, Femconsult, 2014).

As part of its planning and accountability to the fund, each beneficiary organization must submit the following documents:

- ▶ Annual plan of activities with its respective budget for each calendar year. This plan must be submitted before November 1st of the year preceding the one covered by the plan of activities.

- ▶ A financial report and an annual narrative on the progress of the organization's activities that are financed with FLOW resources, including an annual audit report for each calendar year. This report must be submitted prior to April 30th of each year.

- ▶ Final financial report and narrative, plus an audit report, to be submitted within six months after the conclusion of the project.

FLOW's management has developed a series of guiding documents and templates for the use of beneficiary organizations in the preparation of the required reports, plans and audits. Also, the administration requires that beneficiary organizations carry out audits that comply with International Standards on Auditing (ISA).

The fund's management has an online platform available to beneficiary organizations and their sub-grantees for the exchange of experiences and knowledge, accessible since 2012 only to the fund's

beneficiaries through FLOW's website.<sup>25</sup> This tool is also part of the capacity building activities for beneficiary organizations as a means to improve implementation. Part of the overall evaluation of the work of beneficiary organizations, as well as the progress of the fund as a whole, includes the observation and evaluation of the exchange between organizations through this platform.

## BENEFICIARIES

According to the impact study on the MDG3 Fund carried out by AWID<sup>26</sup>, this fund delivered 45 grants, 34 of which were awarded to organizations working for women's rights and women's funds focused on strengthening rights. Through the recipient organizations and their awareness-raising activities on women's rights, women and girls around the world have benefited.

Below are some figures on the MDG3 Fund's beneficiaries:

**Types of direct beneficiary organizations:** 57% women's rights organizations, 23% women's funds or community funds, 11% media and communications organizations, 9% development and human rights organizations.

**Regions where direct beneficiary organizations are active:** 32% focus their work on global projects, 30% on projects in Africa, 16% on projects in Latin America, 8% on projects in the MENA region and Asia, and 3% in the Australasian/Pacific regions and Europe, respectively.

## RESULTS

According to AWID's analysis, resources given by the MDG3 Fund achieved a positive impact.

<sup>25</sup> FLOW Community of Practice <https://community.flowprogram.nl/>

<sup>26</sup> The study "Women Moving Mountains" carried out surveys and interviews with 35 out of the 45 direct beneficiary organizations of the MDG3 Fund (Battiwala, Rosenhek, & Miller, 2013).

Down below some examples:

- ▶ 65,558,977 women active in civil society worldwide were influenced and made aware of women's rights and the right to a life free of gender violence.

- ▶ Training the trainer programs qualified 230,266 women, providing them with concrete tools, knowledge and skills to pass on knowledge of the rights of women and girls.

- ▶ The main beneficiary organizations and their sub-grantees carried out activities in 165 countries, not all of which were developing countries.

- ▶ 38 local governments (cities, towns, provinces) and 46 national governments were influenced into supporting gender equality through their programs and results.

- ▶ 14 public policy instruments were influenced into promoting gender equity at institutional level.

According to the two available reports on FLOW, the following are some of the interim results achieved:

- ▶ Economic self-reliance goal: over 200 women were trained by the International Trade Union Confederation on their labor rights and means for active participation. Also, over 5,000 women received support on work-related issues, working conditions, discrimination, inter alia.

- ▶ Participation and representation in politics and public administration: through the KARAMA project, 38 women candidates in Jordan, Libya, Egypt and Tunisia were trained and supported. Additionally, 450 women were trained on leadership capacities to organize watershed events, campaigns, and pressure groups around different topics.

- ▶ Security goal: the first female peace groups were established in Pakistan. Also, during the 16 Days of Activism Against Gender-Based Violence campaign in the same country,

an event on child marriages and a national campaign Safe Age of Marriage were conducted.

- ▶ Sexual Violence: the organization Puntos has organized several cultural events and discussion forums in El Salvador and Nicaragua, as well as a march against violence towards girls and women.

## ANALYSIS

### Success factors – strengths

According to the OECD-DAC Peer Review of 2011, the Dutch Government reduced the number of beneficiary countries from 33 to 15, reducing the number of focus issues to only four: i) security and legal order, ii) water, iii) food security, iv) sexual and reproductive health rights; and the channels of implementation for its development cooperation policy were also reviewed (Organisation for Economic Cooperation and Development (OECD), 2011). As a result of this review, one of the fund's greatest strengths comes to the fore: its thematic focus and its focus on beneficiaries, because the fund joins efforts to position the importance of women's inclusion on issues of political and economic participation, food security, etc., in an horizontal manner without typecasting the focus to include only sexual and reproductive health. This has also allowed the Dutch Government to position itself as one of the main agents supporting gender equality for women and girls worldwide, as well as in support of civil society organizations.

An important strength is its platform for knowledge exchange between beneficiary organizations that enables direct, constant communication between implementers and participants in their programs. Similarly, it allows the donor to ensure the availability of knowledge and experience for feedback to its strategic system, and also to stand out from other funds.

The strategy of working mainly with civil society organizations also helps motivate ownership

at a grassroots level. It should be pointed out that the fund provides resources to international organizations with experience and networks on a grassroots level, as a means to ensure lower fiduciary risks while also connecting to organizations at different levels. Despite being a fund with limited resources in comparison to other funds, grants given to organizations with experience and multiplying potential have enabled a greater outreach and expansion of networks concerned with the issue. In the women's rights sector, the main problem is the lack of resources needed to multiply activities, something identified and addressed by this fund.

Similarly, openness to dialogue and mutual learning between the fund's management, BZ staff and implementing organizations, has created an environment of positive influence on the public policies around this issue.

Beneficiary organizations evaluate the two funding periods as being very positive and almost indispensable for progress on gender equality and the rights of women and girls.

To hire agencies which specialize in program management is a common practice among development cooperation funding mechanisms. Because the fund's administration has been subcontracted to a private consortium with expertise on the issue, it can be speculated that the transaction costs of the fund's administration have been lower than those potentially necessary for the creation of a new internal secretariat to manage the fund. However, it is also possible that the decision to subcontract the fund was driven by the wish to leverage the existing experience of private organizations (consulting firms), instead of building a new structure within the ministry from scratch, even if the transaction costs would not be significantly lower.

On the one hand, it can be deduced that the good performance by the consortium that managed the fund during the MDG3 Fund phase influenced the decision to re-hire it to administer the FLOW Fund, thereby securing any knowledge, networks

and results already obtained. In other words, this was the way to ensure the continued success of the successor.

## Challenges

One of the challenges that also arises from the focus on civil society organizations is how to ensure that the objectives and results sought by projects at a grassroots level are aligned and relevant to national policies and strategies of recipient countries. Although cooperation and financing are focused on civil society organization, as a part of ODA cooperation by the Netherlands, the fund cannot ignore the role of and communication with the political counterpart in each country where recipient organizations are found. This aspect becomes even more important in countries where the work of civil society organizations is carried out in conflict situations. Although the Government of the Netherlands has reinforced its actions of public communication and strategic awareness raising concerning its development cooperation activities (Organisation for Economic Cooperation and Development (OECD), 2011), achieving increased transparency on the work promoted by the fund continues to be a challenge. One of the most effective and even indispensable tools of immediate access to transparency is the fund's online presence. In the case of the MDG3 Fund, not much detailed information is available on the projects financed, its evaluations or results achieved. The most accurate information available comes from the various publications by the AWID organization, and with regard to the FLOW Fund, the information accessible to the general public is limited.

In this respect, the information available on the performance and results achieved by the fund shows only positive aspects and successes, and is not necessarily a basis for constructive criticism on elements to be improved. Finally, the time available between the call for applications and the deadline could be considered too short, especially for small organizations with less experience in these types of procedures.

## 2.2. NON-TRADITIONAL DONOR FUNDS

### 2.2.1. ECONOMIC DEVELOPMENT COOPERATION FUND (EDCF) OF KOREA

Until the mid-1990s, the Republic of Korea was a recipient country of ODA resources. These resources given to Korea, mainly by the United States and Japan in the form of loans and grants of over USD 33.1 billion (period 1945-1999), enabled the country to recover economically and socially from the war which had resulted in the division of the Korean peninsula. Most of the resources received were concessional loans (Choi, 2011), that is approximately USD 26,235.8 or 79% (Korea Eximbank, 2007). The possibility of attracting foreign investment for development defined Korean foreign and development policy, as it enabled the country to establish a disciplined fiscal and trade policy. Its status as an ODA recipient ended in 1995 when Korea was officially removed from the World Bank's list of ODA recipients. However, since the end of the 1980s, Korea's economic and industrial growth has allowed it to initiate activities of development cooperation with other countries.

Since the 1960s, Korea began to carry out activities of development cooperation by participating in technical training programs and workshops for developing countries. In 1982, the International Development Exchange Programme was launched as Korea's first technical cooperation program with other developing countries, financed entirely by the Korean Government (Hwang, 2011). Korea's first step towards an institutionalized system for Korean international cooperation was created in 1986 when the Law No.3,863 created the Economic Development Cooperation Fund<sup>27</sup> (EDCF). Its first official administrative operations began in May 1987, under the administration of the Korea Export-Import Bank (Eximbank). From the beginning, the EDCF has provided mainly reimbursable financing

(loans) for development activities. Non-reimbursable donations are the responsibility of the Korea International Cooperation Agency (KOICA) created in 1991 after the EDCF. While the EDCF is headed by the Ministry of Strategy and Finance (MOSF), KOICA is overseen by the Ministry of Foreign Affairs (MOFA). Both government entities cooperate on and coordinate most of Korean development activities in Africa, Asia and Latin America, under the strategic oversight of the Prime Minister's Office.

Since 2010, the Republic of Korea became part of the OECD-DAC countries and has since carried out a process of harmonization and systematization of its international development cooperation activities, in accordance with the standards and requirements of the OECD-DAC. The first review of the Korean development cooperation policies and activities within the OECD framework was published in 2012. This implies that the suggestions expressed by the OECD-DAC in this review are still being processed and applied to the Korean international cooperation system.

In general, the Korean ODA system has delivered many more resources through loans and bilateral cooperation than through donations and multilateral cooperation. This strategy has arisen from Korea's positive experience as a beneficiary of development loans, which motivated the country to exercise fiscal discipline to achieve its own development (Development Assistance Committee (DAC), 2012).

## FINANCING SOURCES

The starting capital given to the EDCF by the Korean Government was approximately USD 27,250,800<sup>28</sup> (KRW 30 billion). The EDCF's only donor and financier is the Government of the Republic of Korea (Korea Eximbank, 2011/ e).

<sup>27</sup> More information under: <http://www.edcfkorea.go.kr/edcfeng/index.jsp>

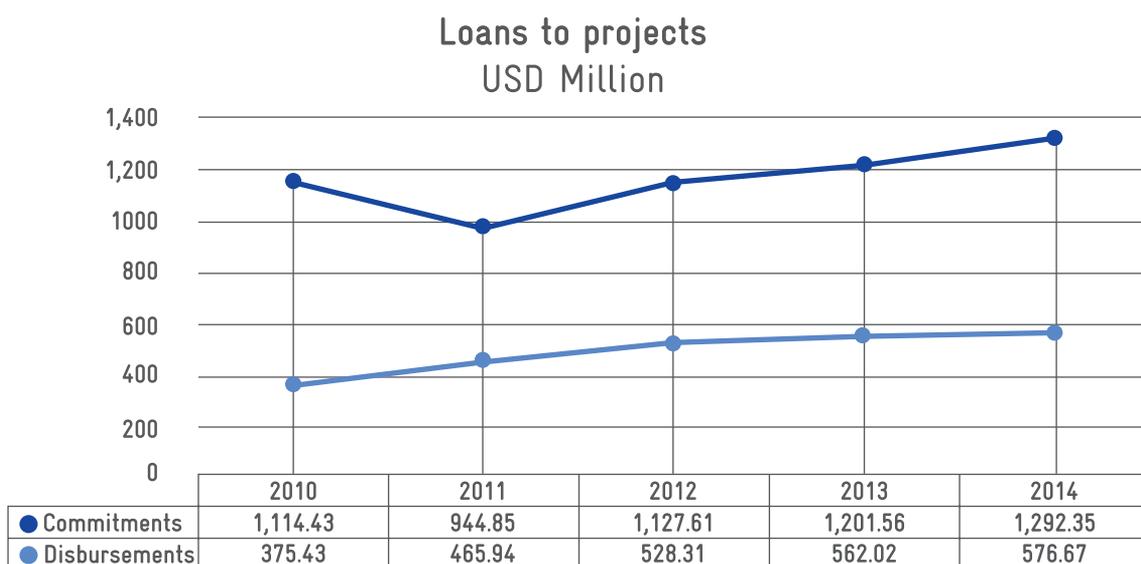
<sup>28</sup> Exchange rate used to convert Korean Won to US Dollars: USD 1 = KRW 1,093.945, of 31 December 2014. Source: <https://www.google.com/finance?q=USDKRW>

## Loan volume

The EDCF has gradually increased the amount of resources provided in the form of concessional loans (see figure 13). However, there is a gap between the resources committed and the resources effectively

disbursed to recipient countries (Korea Eximbank, 2011/ d). In 2014, approximately USD 715.68 million of committed resources were not disbursed. From 2010 to 2014, the fund has disbursed approximately USD 2,508 million to projects.

► FIGURE 13: EDCF LOANS - AMOUNTS COMMITTED & DISBURSED



Source: Elaborated by the authors, based on (Korea Eximbank, 2014)

## ORGANIZATIONAL STRUCTURE AND GOVERNANCE MODEL

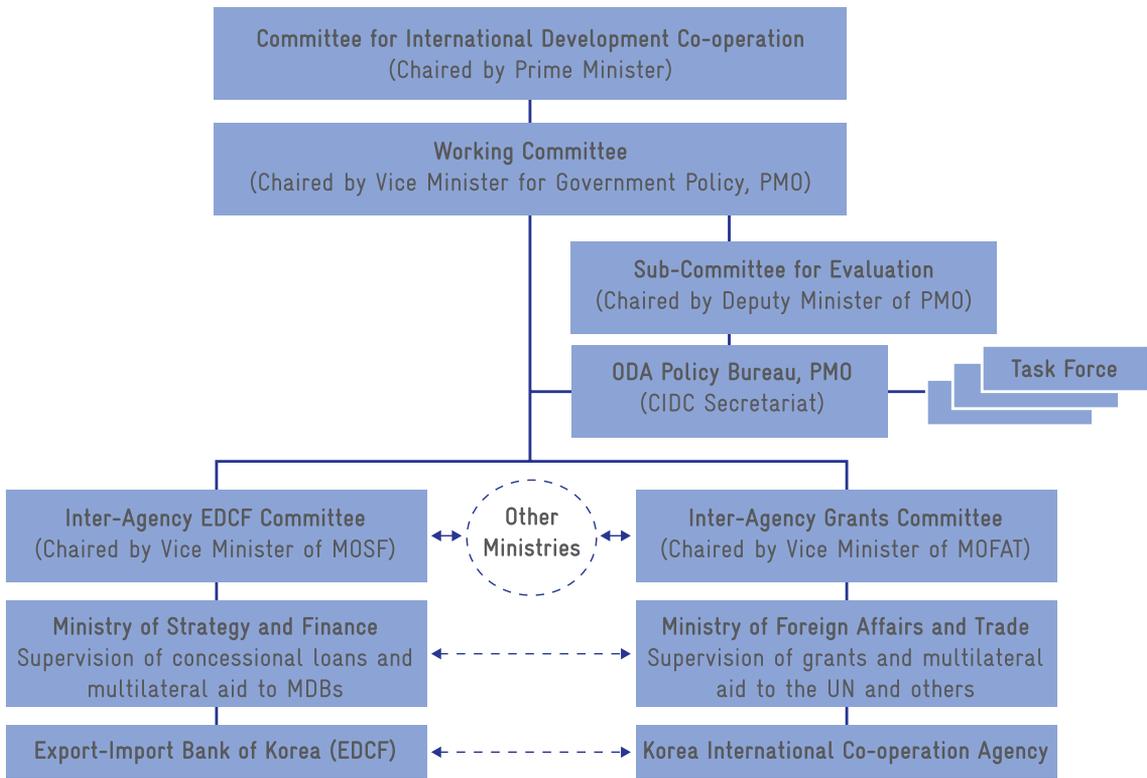
### Laws, regulations, legal status:

Immediately after Korea's entry into the OECD-DAC, in 2010 the Korean Government issued the Basic Law on International Development Cooperation and a Presidential Decree, which purpose was to define the objectives and legal directives for the Korean ODA and international cooperation system (Hwang, 2011). This law also seeks to organize the responsibilities of public ODA-implementing bodies. To complement the Basic Law, the Korean Government created the Strategic Plan for International Development Cooperation 2010 and Mid-Term ODA Policy 2011-2015. As part of the

Korean OECD-DAC system, the EDCF is governed under this legal system, plus Law No. 3,863 which established its creation. Resources administered by ECDF are part of Korea's contributions to bilateral Official Development Assistance, and its functioning is the direct responsibility of the Ministry of Strategy and Finance (MOSF).

The EDCF's trustee is the Eximbank of Korea. The position of the EDCF within the Korean international development cooperation system and its relationship to the Committee for International Development Cooperation (CIDC) is represented below (see figure 14).

► FIGURE 14: INSTITUTIONAL STRUCTURE OF KOREAN ODA



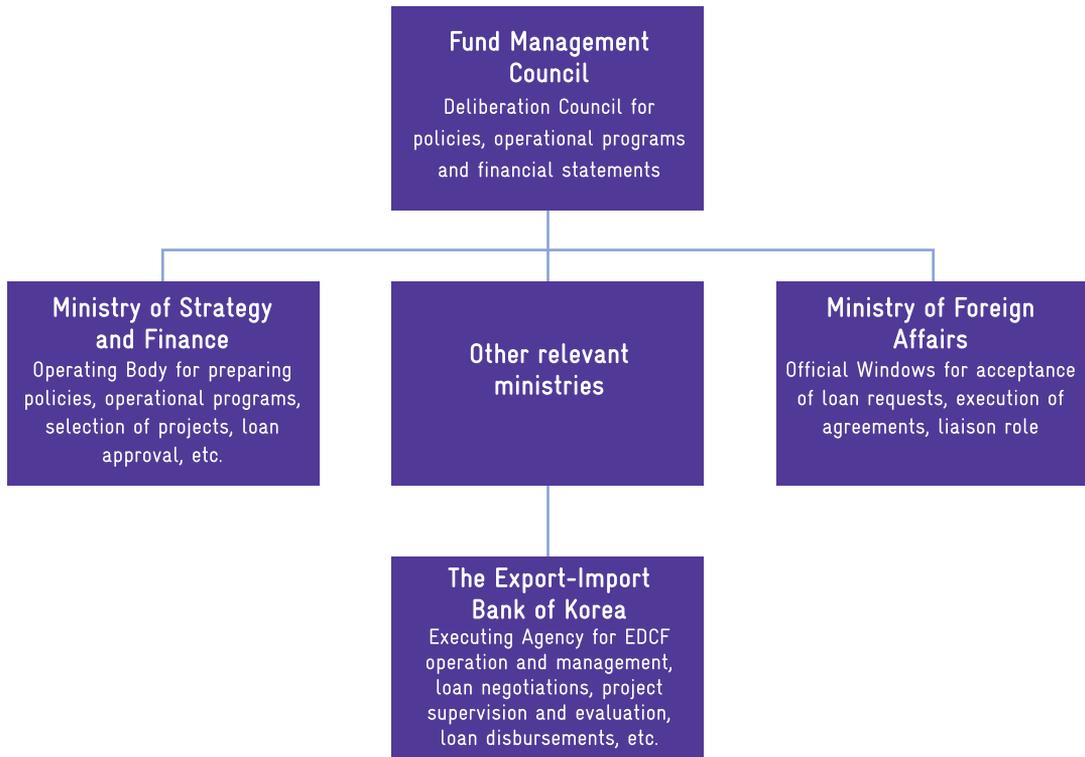
Legend: MDB: Multilateral Development Banks; PMO: Prime Minister's Office  
Source: (Development Assistance Committee (DAC), 2012)

### Governance model

The coordination of the national development aid and cooperation strategy is carried out by the Committee for International Development Cooperation (CIDC), chaired by the Prime Minister of the Republic of Korea, plus 24 members from relevant ministries and government departments involved in ODA policies, as well as external experts and representatives from non-governmental organizations. The CIDC issues all policies and strategies to be followed and implemented by all Korean international development cooperation agencies and entities. It also evaluates the performance of the system and its implementing agencies.

The Fund's Management Council is the main deliberation and decision-making body on the fund's loans policy, following all guidelines and decisions by CIDC. The Council is also responsible for the review of the fund's financial statements and its operational projects, as well as for the coordination and decision-making on assistance policies for important projects. The Council consists of representatives from twelve ministries and agencies of the Government of the Republic of Korea. The president of the EDCF Council is the Minister of Strategy and Finance (see figure 15).

► FIGURE 15: EDCF GOVERNANCE MODEL



Source: Adapted from (Korea Eximbank, 2011/ c)

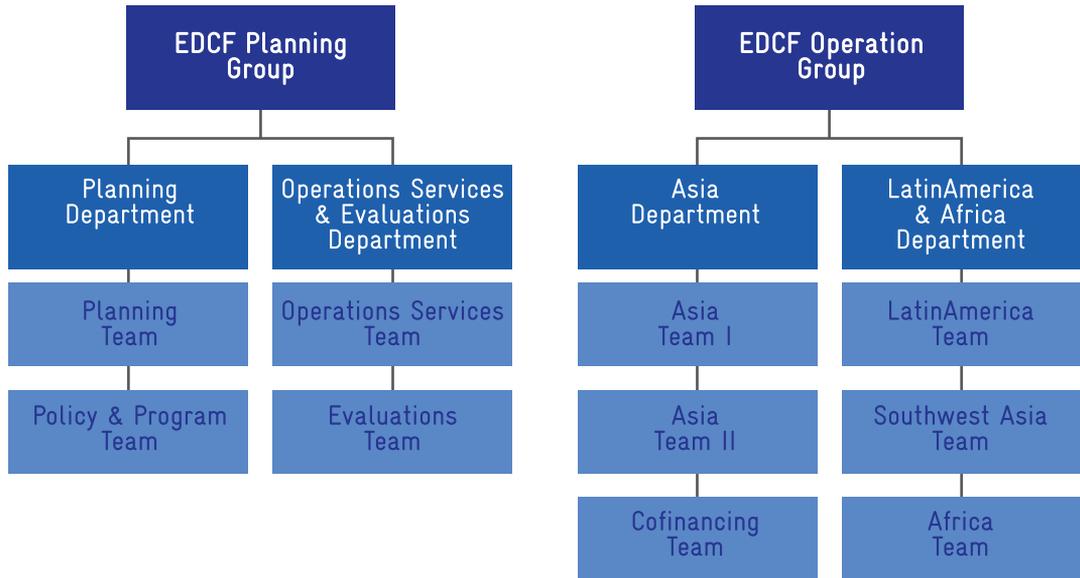
The **Fund’s operating body is the Ministry of Strategy and Finance (MOSF)**. This ministry is responsible for the selection of projects that qualify for approval (Steps 3 and 4 of the selection process) and for approving loans. It is also responsible for preparing the first drafts of the fund’s financial statement, for operational programs, as well as for the main policies on the fund’s operation and management.

The **Ministry of Foreign Affairs (MOFA)**, also known as the fund’s “official window,” is responsible for receiving loan applications from partner countries through Korean embassies and consulates abroad, for carrying out inter-governmental development agreements, as well as for acting as development cooperation liaison. It works in coordination with the MOSF on decisions concerning the granting of loans.

The **Import Export-Bank (Eximbank) of Korea**, as trustee of the fund is in charge of the Fund’s operation and management, of negotiating loans, of coordinating the assignment of appraisal and evaluation missions, as well as for the disbursement of resources. The Bank is responsible for receiving interest payments and principal repayments, as well as for supervising and evaluating projects. The President of the Eximbank is also the Chairman of the EDCF.

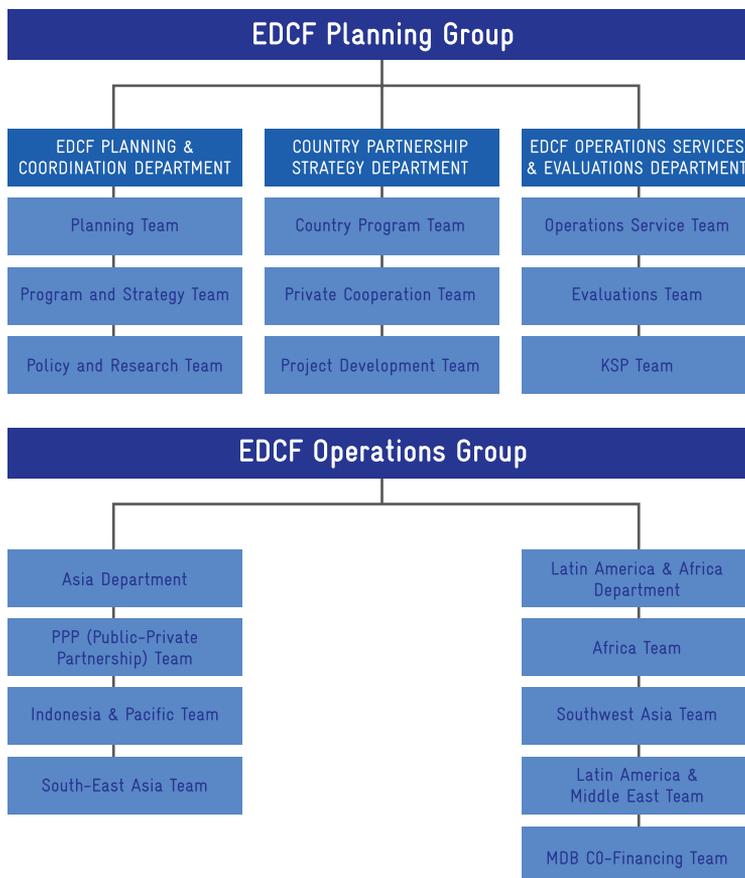
Between 2013 and 2014, the organizational structure of the EDCF in the Eximbank was changed. The Planning Group added a new subdivision, namely the Country Partnership Strategy Department. The Operations Group redistributed the different Asian countries teams, and added two new expertise teams: the Public-Private Partnership Team and the MDB Co-Financing Team (see figures 16 and 17). Both the Planning Group and the Operation Group report to the Chairman.

► FIGURE 16: EDCF ORGANIZATIONAL CHART WITHIN EXIMBANK, UNTIL 2013



Source: (Korea Eximbank, 2011/ a)

► FIGURE 17: NEW EDCF ORGANIZATIONAL CHART WITHIN EXIMBANK



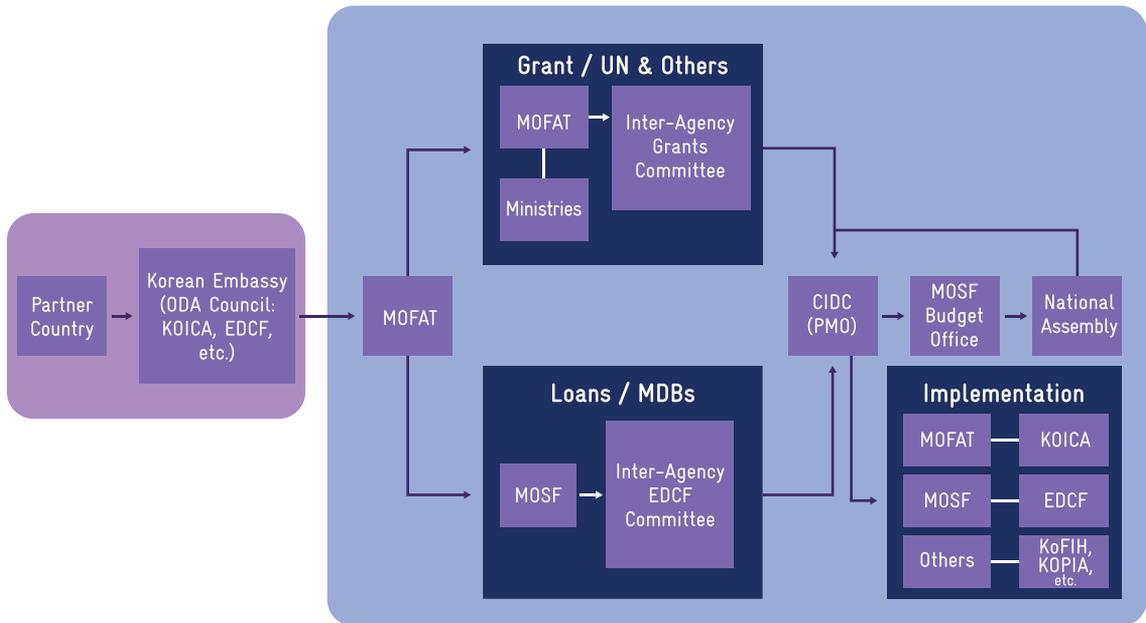
Source: (Korea Eximbank, 2011/ b)

## FINANCIAL MANAGEMENT

In accordance with the Basic Law, the Korean Government must define its ODA strategies and quantities by sectors and regions for periods of five years (Prime Minister’s Office Republic of Korea, 2012). In other words, although the central government replenishes the EDCF each year, the

annual amounts are already defined or, in other words, pre-assigned. The planning and definition process for the ODA budget, which also defines the amount to be administered by the EDCF, can be seen below (figure 18). This figure shows the “demand driven” element, not only of the EDCF, but also the overall Korean model of international cooperation.

► FIGURE 18: PLANNING STRUCTURE FOR KOREAN ODA BUDGET

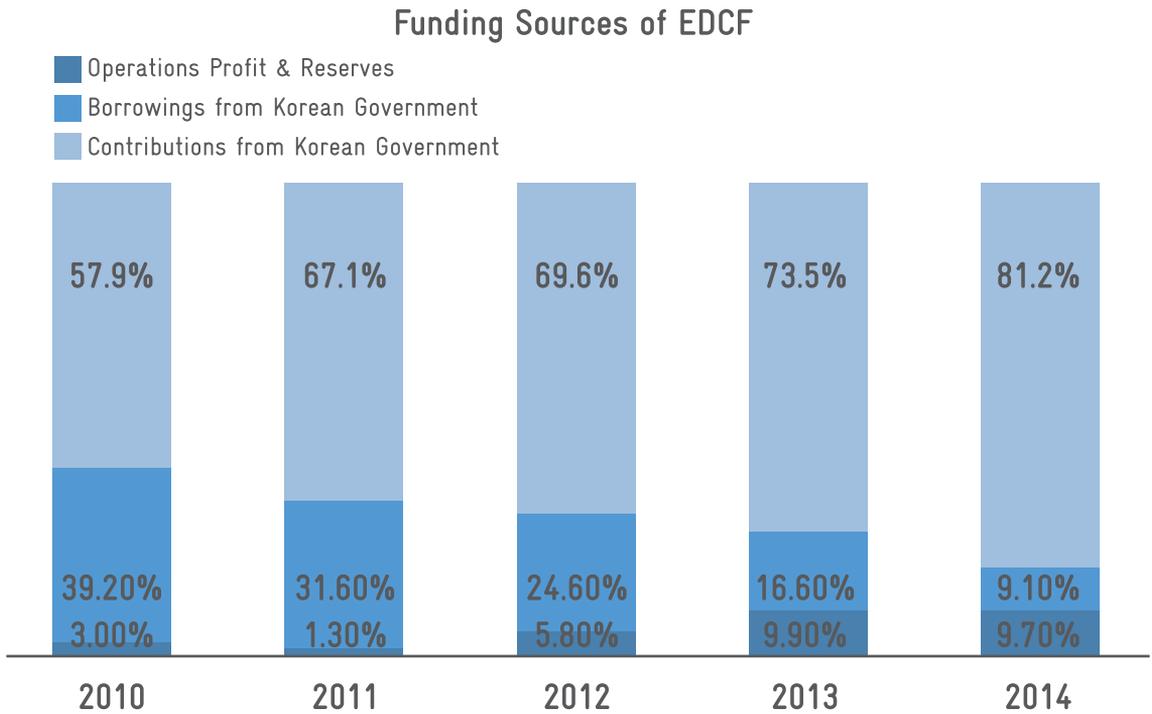


Source: (Development Assistance Committee (DAC), 2012)

Between 2010 and 2013, EDCF financing sources were, approximately on average (Korea Eximbank, 2014), see figure 19:

- 70% CONTRIBUTIONS BY THE GOVERNMENT OF KOREA
- 24% BORROWINGS FROM THE GOVERNMENT OF KOREA
- 6% OPERATIONAL PROFIT AND RESERVES

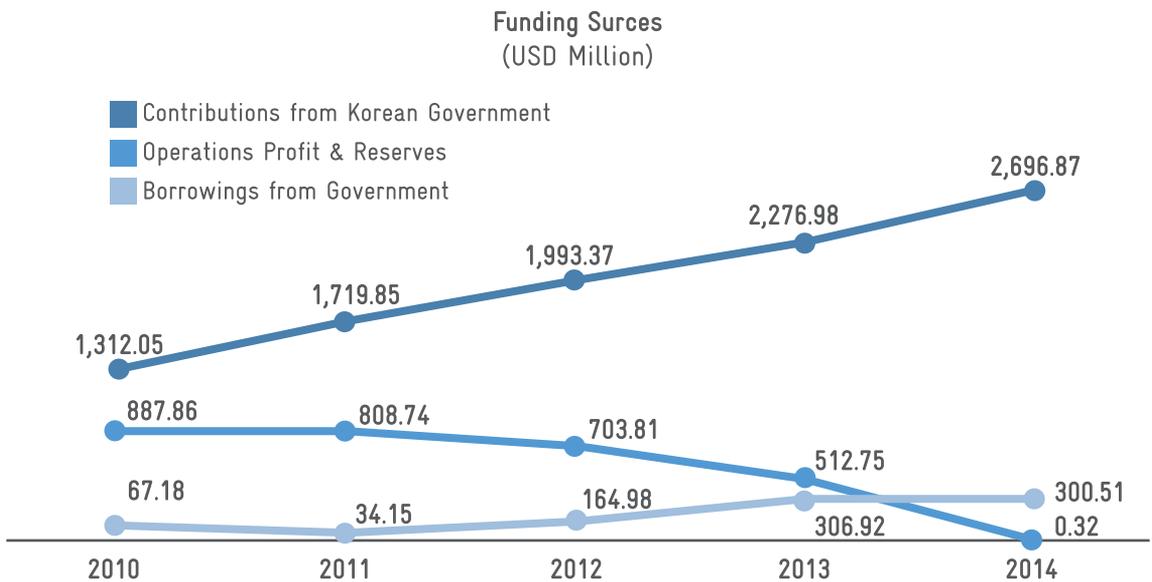
► FIGURE 19: FUNDING SOURCES OF EDCF - PERCENTAGES



Source: Elaborated by the authors based on (Korea Eximbank, 2014)

With regard to the amount of resources administered, the Korean Government has gradually increased its contributions to the fund and reduced the amounts of loans to the fund (see figure 20).

► FIGURE 20: EDCF FUNDING SOURCES - USD MILLION



Source: Elaborated by the authors based on (Korea Eximbank, 2014)

## PROJECT SELECTION PROCESS

The EDCF grants loans based on a demand-driven policy. In other words, there is no fixed period for submitting applications or for receiving applications for fund's resources. As part of the Korean ODA system, the project selection process that leads to the granting of loans is part of the general process of bilateral development cooperation between Korea and its partner countries.

### Eligibility

The EDCF only grants loans to governments or government bodies in developing and least developed countries, depending on their level of per capita income and development index. As part of gradual improvements being carried out within the Korean ODA system, based on the recommendations of OECD-DAC review, Korea has reduced the number of focus countries for cooperation to 26: 14 in Asia, 8 in Africa and 4 in Latin America, (Development Assistance Committee (DAC), 2012). Furthermore, the EDCF applies OECD-DAC eligibility criteria. Also, project objectives must not be profit-driven (commercially non-viable).

## TYPES OF LOANS:

The general conditions for concessional loans granted by the EDCF are:

- ▶ Loan amount in relation to project cost: up to 100% of total project cost
- ▶ Annual interest rate: from 0.01% to 2.5%
- ▶ Payment term: up to 40 years, including a maximum grace period of 15 years
- ▶ Payment currency: Korean Won (in special cases such as untied loans, payments can be made in USD or EUR)
- ▶ Interest payment frequency: semi-annual
- ▶ Principal repayment method: equal semi-annual installments

Between 2013 and 2014, the EDCF redesigned its loans portfolio, and created new types of loans that enable more cooperation with the private sector. The types of loans granted by the EDCF (Korea Eximbank, 2015; Korea Eximbank, 2011/ b) are currently the following (table 3):

▶ TABLE 3: TYPES OF LOANS

1. Loans to governments or corporations in recipient countries	Loans for development projects: intended for infrastructure projects such as road building and transportation, hospitals, educational and training institutions, water supply, irrigation and sanitation systems, in harmony with the economic development plans of each country.
	Loans for equipment: intended for the procurement of equipment and materials necessary to carry out projects within the framework of each country's development plan.
	Loans for public-private partnerships (PPP): resources intended to finance public-private partnerships for development. Resources can be assigned to public organizations or private businesses.
	Program loans: for funding comprehensive sectoral development plans in recipient countries.
	Sector development loans: for funding specific sectors with a simplified procedure.
	Private sector loan: for funding companies of developing countries.
2. Loan to international development finance institutions that contribute to the economic development of developing countries	
3. Equity participation to the company for PPP Projects: intended for Special Purpose Companies in order to increase support to PPP projects	
4. Equity participation to the fund by international development financial institutions (IDFI): intended to fund industrial development of climate changes projects through collective investment schemes.	
5. Private sector "Two-step" loan: resources intended for financial institutions in the partner country to finance sub-loans to final beneficiaries. The focus is usually on financing small and medium businesses in the manufacturing and agricultural sectors and other industries.	

Source: (Korea Eximbank, 2015; Korea Eximbank, 2011/ b)

The following types of loans were part of the portfolio until 2013:

▶ Loan for the import of commodities: finances the importation of specific commodities as agreed upon bilaterally, the acquisition of which is indispensable for the country's economic stability.

▶ Mixed credits: a combination of concessional loans and exportation credit from the Eximbank of Korea.

▶ Compact loans: consists of concessional loans valued below 2 million in Special Drawing Rights<sup>29</sup>, and may be planned as a loan for the acquisition of equipment or a loan for development projects.

### Co-financing

The EDCF also works with multilateral development banks (such as the World Bank or the Asian Development Bank) under co-financing schemes at project-level for those projects needing large amounts of resources. There is also co-funding cooperation with the private sector at project-level, preferable within the structure of public-private partnerships. Between 2013 and 2014, the fund has expanded its expertise and portfolio offer on PPP, especially for large scale infrastructure projects (Korea Eximbank, 2015).

### PROJECT DEVELOPMENT AND LOAN GRANTING PROCESS:

The process, from the creation and planning of project proposals to the beginning of implementation, can be understood in two phases, with several steps involved (see figure 21) (Korea Eximbank, 2015; Korea Eximbank, 2014):

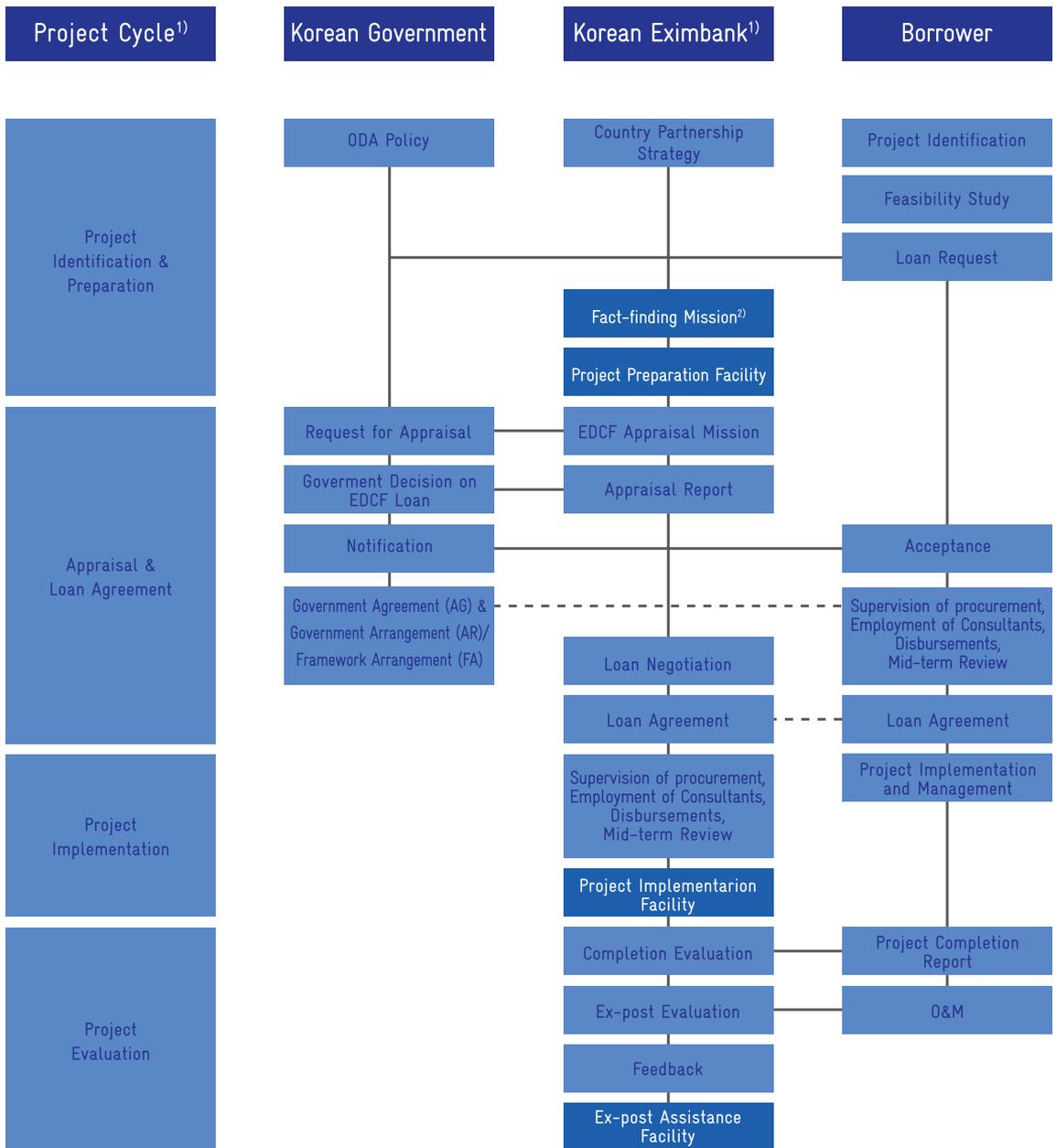
### PHASE 1 – IDENTIFICATION AND PREPARATION OF PROJECTS:

▶ **Step 1 – Dialogue on strategies and general preparation of projects:** the EDCF finances projects or programs which contribute to national development plans and strategies in partner (recipient) countries. EDCF's funding strategy is designed according to ODA criteria and takes national development plans of partner countries into consideration. Therefore, the EDCF in cooperation with KOICA and other agencies within the Korean ODA system maintain a permanent dialogue with counterparts in partner governments, as a means to identify projects and priorities.

▶ **Step 2 – Preparation of projects:** partner countries must develop projects proposals to be presented together with a formal loan request to EDCF in accordance with OECD eligibility conditions, meaning that their technical and economic characteristics must be viable. Partner countries must have previously carried out a feasibility study, which is used as a basis for the design of the project proposal. The feasibility study can also be carried out by other organizations, such as multilateral development banks. The Eximbank offers technical support to partner countries for carrying out feasibility studies for projects looking for EDCF loans, as well as assistance in the preparation of project proposals. This support is financed through donations. Once the proposal has been completed, the responsible government entities in partner countries must submit the loan request together with all relevant documents (i.e. feasibility study, implementation plan) to the respective embassies of the Republic of Korea in their countries. All applications are first sent to MOFA, which will then forward them to MOSF for their evaluation.

<sup>29</sup> Equivalent to approximately USD 3 million.

► FIGURE 21: SELECTION, GRANTING, AND IMPLEMENTATION PROCESS OF EDCF LOANS



Source: (Korea Eximbank, 2011/ d; Korea Eximbank, 2015)

## IMPLEMENTATION – PROJECT MANAGEMENT

Projects and programs financed by the EDCF are implemented by the agency or government body of the partner country, also called the borrower or the implementing agent. The latter may hire external consultants through a public tender to carry out the project's specific activities. The implementer must short-list up to 5 suitable consultants for pursuing the different implementation activities of the project, and must take into account the Quality-Based Selection Method recently developed by the bank (Korea Eximbank, 2015). All the process and documents regarding the employment of consultants must be approved by Eximbank prior execution (Korea Eximbank, 2014; Korea Eximbank, 2011).

The disbursement of resources is carried out according to the Loan Agreement, at request of the borrower. For disbursement requests, the implementing agent must follow the fund's guidelines and disbursement procedures, depending on the procurement type (services or goods). During the implementation period, the partner government and implementing agent may request technical advice from the Eximbank. This advice is carried out by an Implementation Services Facility from the Eximbank, financed by the bank through donations (Korea Eximbank, 2014).

Projects are also implemented by international multilateral organizations such as the World Bank, the Asian Development Bank, the UNDP, together with government counterparts in partner countries.

## ACCOUNTABILITY – M&E

The EDCF's evaluation system is based on the principles of impartiality, independence, credibility, usefulness and partnership. Also, the criteria applied to the evaluation of projects and activities are relevance, efficiency, effectiveness, sustainability and significance. This last criterion was previously named "impact" under the DAC's five evaluation criteria. In 2013-2014,

the EDCF replaced it through "significance", for better understanding, implementation and measurement (Korea Eximbank, 2015).

The structure of EDCF and its activities as part of Korean ODA consider different types of evaluations at fund and project levels. These evaluations may be carried out by the implementing partners or the borrower, or externally by a third party. The EDCF also carries out joint evaluations with the governments of partner countries.

- ▶ Evaluation of policies and strategies: this is usually carried out on the level of planning and cooperation between governments, and cooperation between agencies within the Korean ODA system.
- ▶ Evaluation of strategic assistance to partner countries: consists of an evaluation of the country-strategy within the Korean ODA framework.
- ▶ Thematic or sectoral evaluation: evaluation of the progress achieved in the sectors of interest to Korean cooperation, specifically water and sanitation, education, health, telecommunications, and energy.
- ▶ Evaluation of programs or projects: each project must include a system of monitoring and evaluation of activities based on the OECD-DAC logic of results. During project implementation, the Eximbank carries out intermediate evaluations including field visits to the sites where projects are implemented to obtain evidence of implementation progress. Upon completion of the project, the Eximbank carries out a final evaluation on the project, reviewing its results and comparing them to the original objectives and indicators. The project's executing agent and the borrower must submit a Final Report within 6 months after the project's conclusion.

At project level, each implementing agency must submit progress reports to the fund on regular basis, including the state of the implementation, outcomes and outputs, and the execution schedule. After six

months of project completion, the implementing partner must submit a Project Completion Report to the bank. Approximately two years after project completion, the Eximbank carries out an Ex-post evaluation. The goal of this evaluation is to assess the impact of the project according to the criteria of relevance, efficiency, effectiveness, impact and sustainability in beneficiary countries. The results of this evaluation give feedback to the beneficiary country, as well as to the fund and the Korean ODA system. The Eximbank also offers post-completion technical support services to beneficiary countries who request them, in the event that contingencies emerge as a result of the implemented activities, as well as to ensure the sustainability of outcomes and impacts.

Since 2011, the Korean development cooperation system has been introducing new mechanisms for improving its monitoring and evaluation schemes in order to meet the OECD-DAC standards. Between 2013 and 2014 the EDCF focused on improvements of its thematic and sectoral evaluation procedures, in cooperation with other Korean ODA agencies and partner governments. In 2014, the fund executed a pilot evaluation using its new evaluation criteria (see table 4) for assessing the Highway No. 18 Improvement Project in Vietnam. To ensure the impartiality of this pilot evaluation, the EDCF entrusted the Korean Inha University to conduct the evaluation, putting special attention on the effectiveness of the new criterion “significance”.

► TABLE 4: EDCF - NEW EVALUATION CRITERIA 2013 - 2014

OECD-DAC CRITERIA	NEW EVALUATION CRITERIA (2013)	MODIFIED NEW EVALUATION CRITERIA (2014)
<b>RELEVANCE</b> <ul style="list-style-type: none"> <li>- Alignment with development policy in the partner country</li> <li>- Consistency with EDCF's support strategy</li> </ul>	<b>RELEVANCE</b> <ul style="list-style-type: none"> <li>- Alignment of policy</li> <li>- Ownership</li> <li>- Appropriateness of targeting</li> <li>- Appropriate planning for project evaluation</li> </ul>	<ul style="list-style-type: none"> <li>- Alignment between the project and national development strategies/priorities of partner countries</li> <li>- Alignment with EDCF's support strategy</li> <li>- Clear specification of intended output prior to project implementation</li> <li>- Appropriateness of output quantity and quality compared to the demand from target population</li> <li>- Logical linkage between actual output and output goal</li> </ul>
<b>EFFICIENCY</b> <ul style="list-style-type: none"> <li>- Completion of the project within a given timeline and budget</li> <li>- Cost-benefit analysis</li> </ul>	<b>EFFICIENCY</b> <ul style="list-style-type: none"> <li>- Technical efficiency</li> <li>- Distributive efficiency</li> </ul>	<ul style="list-style-type: none"> <li>- Technical efficiency</li> <li>- Distributive efficiency</li> <li>- Procedural efficiency</li> </ul>
<b>EFFECTIVENESS</b> <ul style="list-style-type: none"> <li>- Achievement of output and outcomes</li> <li>- Management of project performance</li> <li>- Changes made in project scope</li> </ul>	<b>EFFECTIVENESS</b> <ul style="list-style-type: none"> <li>- Achieved project output and outcomes</li> <li>- Project coverage</li> </ul>	<ul style="list-style-type: none"> <li>- Achievement of direct effect</li> <li>- Appropriateness of the project output according to future demand</li> <li>- Project coverage</li> </ul>
<b>IMPACT</b> <ul style="list-style-type: none"> <li>- Socioeconomic impact</li> <li>- Institutional impact</li> </ul>	<b>SIGNIFICANCE</b> <ul style="list-style-type: none"> <li>- Salience of output in accomplishing outcome</li> <li>- Size of input</li> </ul>	<ul style="list-style-type: none"> <li>- Sufficient per year maintenance and management costs to ensure sustainability of project effect</li> <li>- Catalytic effect of the project on overall national development</li> <li>- Need for additional investments to achieve the ultimate effect of the project</li> </ul>
<b>SUSTAINABILITY</b> <ul style="list-style-type: none"> <li>- Manpower, systems, financial management, adequacy of management</li> </ul>	<b>SUSTAINABILITY</b> <ul style="list-style-type: none"> <li>- Environmental, financial, technical, and institutional sustainability</li> </ul>	<ul style="list-style-type: none"> <li>- Inherent sustainability</li> <li>- Demands of the state and the people for service</li> <li>- Environment, financial, technical and institutional sustainability</li> </ul>

Source: (Korea Eximbank; EDCF Evaluation Team Inha University, 2014)

The activities of EDCF as a whole are evaluated every year though an external independent auditor that assesses EDCF's financial operations compliance to the Korean National Accounting Standards. Also, as mentioned before, the CIDC evaluates the performance of the EDCF and all implementing entities of the Korean ODA, in order to include lessons learned and new directions into its policies and strategies.

## BENEFICIARIES

### Countries and regions

The EDCF had funded 337 projects and programs in 52 countries, 26 of which are priority partner countries at global level. The fund focuses its financing mostly on Asia, followed by Africa (Korea Eximbank, 2015).

### Focuses/Priority sectors

The EDCF's main financing sectors are<sup>30</sup>:

- ▶ Transportation, the sector with the highest cumulative amount of funding, with a total of 92 projects in 23 countries; USD 3.7 billion
- ▶ Water supply and sanitation; USD 1.8 billion
- ▶ Energy; USD1 billion
- ▶ Health; USD 1.2 billion
- ▶ Information and Communications Technologies (ICT); USD 733 million

## RESULTS

The EDCF's financing is focused mainly on infrastructure projects. Here are some exemplary projects:

### Transportation

- ▶ Myanmar: The Korea-Myanmar Friendship (Dala) Bridge Project, USD 137.8 million
- ▶ Philippines: Expansion and emergency excavation of the GSO Road, 2012, USD 22.3 million.
- ▶ Cambodia: Rehabilitation phase II of National Highway 3, 2011, USD 36.1 million

### Information and Communications

#### Technology (ICT)

- ▶ Bangladesh: National project to develop ICT human resources, 2006-2011, USD 21 million.
- ▶ Indonesia: Project to expand the internet, 2005-2011, USD 25 million.

### PPP Projects

- ▶ Vietnam: Thinh Long Bridge Construction Project, USD 46 million

## ANALYSIS

### Success factors – strengths

Several of the EDCF's success factors come from the Korean Government's measures for improving its ODA system. One of its strengths is the establishment of a working group within the EDCF with the sole purpose of creating medium term (recipient) country-strategies, in coordination with KOICA, MOFA and other government bodies involved in the Korean ODA system. In this way, the fund seeks to increase efficiency in its planning and support activities for and with partner countries. Similarly, cooperation agreements are set with other international development cooperation donors in order to promote and improve joint projects, especially with other multilateral development banks.

<sup>30</sup> Amounts until 2014. (Korea Eximbank, 2015)

With regard to the work with partners, one success factor has been the greater participation of the counterparts in the implementation at the recipient country, which fosters capacity building, ownership, and knowledge sharing activities with the recipient country. The most recent evaluation of the ICT sector highlights the effectiveness of the implemented projects, meaning that projects were implemented according to plan, even creating synergies within the sector in the recipient country. Considering that every project provides an opportunity for knowledge sharing with partner countries, one important challenge for the fund is the diffusion of knowledge among projects and relevant actors in the system. For this to occur, the EDCF carries out a Knowledge Sharing Programme organized by the Ministry of Finance, in cooperation with the World Bank (Ministry of Strategy and Finance of Korea, 2011/ b).

From the perspective of emerging donorship, the Korean case, through the EDCF (and KOICA) as relatively young OECD – DAC agencies, has a special role towards partners in developing countries: Korea is one of the best examples of economic development and transition from being a post-war devastated country, to an industrialized new donor. Its characteristics and experience can be of great interest for emerging and developing countries, and a central topic for knowledge sharing activities.

## Challenges

In the case of infrastructure projects, such as the transportation sector, one of the greatest challenges is the maintenance of equipment and infrastructure after project completion, a situation which requires to plan additional funding to guarantee such upkeep and maintenance.

Another clear challenge for the fund, similar to projects in the transportation sector, can be found in the implementation stage carried out entirely by the counterpart in the partner country. Although it is positive and desirable that the recipient

country takes responsibility for and ownership of the implementation, this can mean an increase in costs and an extension of deadlines. Also, handing over more implementing responsibilities to partner countries may imply necessary capacity building activities for executing partners prior to the execution of the projects. This is a common trade-off between the criteria of ownership and efficiency.

The clear division between the technical, non-reimbursable cooperation provided by KOICA and the bilateral reimbursable cooperation provided by the EDCF has created concerns regarding effectiveness and alignment with ODA overall criteria. The OECD-Development Assistance Committee has even suggested to the Korean Government to review this two-pillar system and assess the possibility of creating a single agency responsible for implementing the Korean ODA (Hwang, 2011) . In response to this challenge, since 2010/2011 the Korean Government has decided to create a system for generating universal country strategies under which both KOICA and the EDCF should operate. This development has implied that the CIDC's coordination capacity must be adapted and increased (Hwang, 2011). From the academia, there is also the suggestion to consider the creation of a unified country evaluation system for both EDCF and KOICA activities, as these agencies are the major implementers of Korean ODA resources (Jeong & Oh, 2013).

Additionally, the increase in technical human resources in the area of OECD-DAC indicators and strategies, as well as in sectoral and thematic areas, is considered a crucial factor for improving the performance of Korea's ODA work in and with its partner countries. Therefore, the constant training of EDCF staff to ensure more and better support and experience in the administration and execution of EDCF resources in beneficiary countries is a permanent challenge that can provide greater benefits if timely addressed.

Further challenges are:

- ▶ A greater level of independence for the EDCF's evaluation unit, to ensure the legitimacy and transparency of its evaluation processes.
- ▶ To set clear performance indicators for all project phases, from the preliminary evaluation phase on, as reference for ex-post evaluations.
- ▶ The need to establish specific evaluation guidelines for each sector.
- ▶ To promote greater participation of the private sector, from Korea and the recipient countries, in the planning and execution of projects to increase funding resources, leverage impact, reduce ODA risk, and improve efficiency.

## 2.2.2. AMAZON FUND

It is estimated that approximately 15% of Brazilian greenhouse gases (GHG) in 2012 – from 57% in 2005 - are a result of deforestation and the changing use of land in its rainforests. Furthermore, almost 50% of the Brazilian territory is legally considered as Amazon Biome, where the population has been steadily increasing, from 3.5 million in 1950, to 20 million in 2000, to 24.3 million inhabitants in 2008 (Velasco Gomez, et al., 2015).

The origin of the Amazon Fund dates back to the proposal presented by the Brazilian government during the COP 12 in Nairobi (2006), which suggested that tropical countries should be compensated for reducing GHG emissions through the reduction of deforestation and forest degradation. This proposal was joined by others, such as that one which had been submitted by countries led by Papua New Guinea and Costa Rica during the COP 11 in Montreal (2005) when deforestation definitely became part of the official discussions within the Conference of the United Nations Framework Convention on Climate Change (UNFCCC).

The Brazilian proposal was reaffirmed during the COP 13 in Bali (2007), when Brazil introduced the mechanism called the Amazon Fund<sup>31</sup>. The main characteristic of the proposal is its format i.e. a fund capable to receive voluntary donations based on performance to reduce deforestation in the Amazon and to apply these resources on initiatives that would reinforce Brazil's commitment to combat forest loss. This proposal represented a contrast to other formats e.g. complex market mechanisms. The performance would be measured based on the historical average deforestation rate for ten years (1996-2005), to be revised every five years. Each yearly deforestation rate, measured since 1988 by the Project Satellite Monitoring of Brazilian Amazon Rainforest (PRODES) under direction by the Brazilian Space Research Institute (INPE), would be compared to the ten-year average. In the event of a reduction, Brazil could receive the grant resources. For verification, Brazil proposed the creation of a technical and scientific committee, made up of experts in climate change, land-use and carbon monitoring.

The Amazon Fund was formally established on the 1st of August, 2008 in Brazil, by way of Presidential Decree No.6,527. Beginning operations in 2009, this fund was the first mechanism in the world to implement the REDD+ climate financing model (KfW Development Bank, 2012; KfW Development Bank, 2010). The first country to confirm participation in the fund as a donor was Norway, promising resources from its own International Forest Climate Initiative (Forstater, Nakhooda, & Watson, 2013).

It can be said that the main purpose of the Amazon Fund is to raise international funds to be invested as non-reimbursable grants i.e. financial assistance in projects that prevent, monitor and control deforestation and forest degradation in the Amazon Biome. The fund identifies projects and channels international resources to activities with up-scaling potential, in support of Brazil's forest and environmental policies and strategies for the Amazon region (Forstater, Nakhooda, & Watson, 2013).

<sup>31</sup> More information under: [http://www.amazonfund.gov.br/FundoAmazonia/fam/site\\_en](http://www.amazonfund.gov.br/FundoAmazonia/fam/site_en)

The Amazon Fund is part of an institutional, political and technical effort by the Government of Brazil to control deforestation in the Amazon Biome, and to internationally position its institutional and political efforts against deforestation. The fund receives resources from international and national donors, to which the Brazilian Government accounts its due use in the fight against deforestation in the Brazilian Amazon region, as well as the allocation of 20% of these resources to monitor the deforestation process in other Brazilian regions and other tropical countries.

The quality and quantity of all kind of projects supported have evolved significantly: at the end of 2010 the Amazon Fund supported 13 projects, but by the end of August 2015 this number had risen to 75. To date, the fund supports more than 230 other institutions through partner organizations in the amount of USD 546 million. The projects selected are monitored regarding the achievement of their expected results and impacts according to the projects' own logical framework which itself is linked to the logical framework of the fund (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2014).

## FINANCING SOURCES

The fund's financing is carried out through fundraising under the "ex-post" model. In other words, international donors give resources to the fund for already achieved objectives, which are GHG emissions reduction by reducing deforestation and forest degradation, and fostering conservation and the sustainable use of the Amazon forest.

The fund has several donors. Practically since its inception, the main donor has been the Kingdom of Norway. In September of 2013, the Brazilian Development Bank (BNDES) and the Government of Norway signed a new donation agreement and extended their cooperation until December of 2021. From 2009 to 2014 the Kingdom of Norway donated approximately NOK 1 billion per year to the fund,

i.e. over USD 882.3 million<sup>32</sup> (Amazon Fund, n.d./a).

The second main donor is the Federal Republic of Germany, through the KfW Development Bank, the German Government's development bank, which in December of 2010 committed to provide EUR 21 million in gradual instalments up to the end of 2015. For this purpose, the Governments of Germany and of Brazil signed a Financial Contribution Contract within the framework of the Official Financial Cooperation between the two countries (Amazon Fund, n.d./a). BNDES is committed to use this resources to fund projects within the Amazon Fund's scope, and to monitor and evaluate them according to the fund's directives (Amazon Fund, n.d./a). In the last German-Brazilian Governmental negotiations, on August 2015, the German Government pledged additional EUR 100 million.

The third major donor to the Amazon Fund is the Brazilian oil company Petrobras, which has signed a number of donation agreements with BNDES since October, 2011. Petrobras has made contributions of USD 6.5 million up to August 2015. Similarly to the procedure with the resources from the Kingdom of Norway and the German Government, the resources provided by Petrobras are earmarked for exclusive use within the fund's context.

By way of agreements or donation contracts, all donors transfer the responsibility for project analysis and selection, as well as monitoring and accountability to BNDES, and the donated resources are managed in the Amazon Fund's account in BNDES.

## Replenishment

The replenishment of the fund, or the task of raising further funds, is the responsibility of BNDES, as the fund's manager, and it is linked to the reduction of GHG emissions in the Amazon. While BNDES is responsible for fundraising, the process itself is embedded in the whole governance model of the fund, requiring the participation several fund's governance bodies (see table 5 and figure 22)

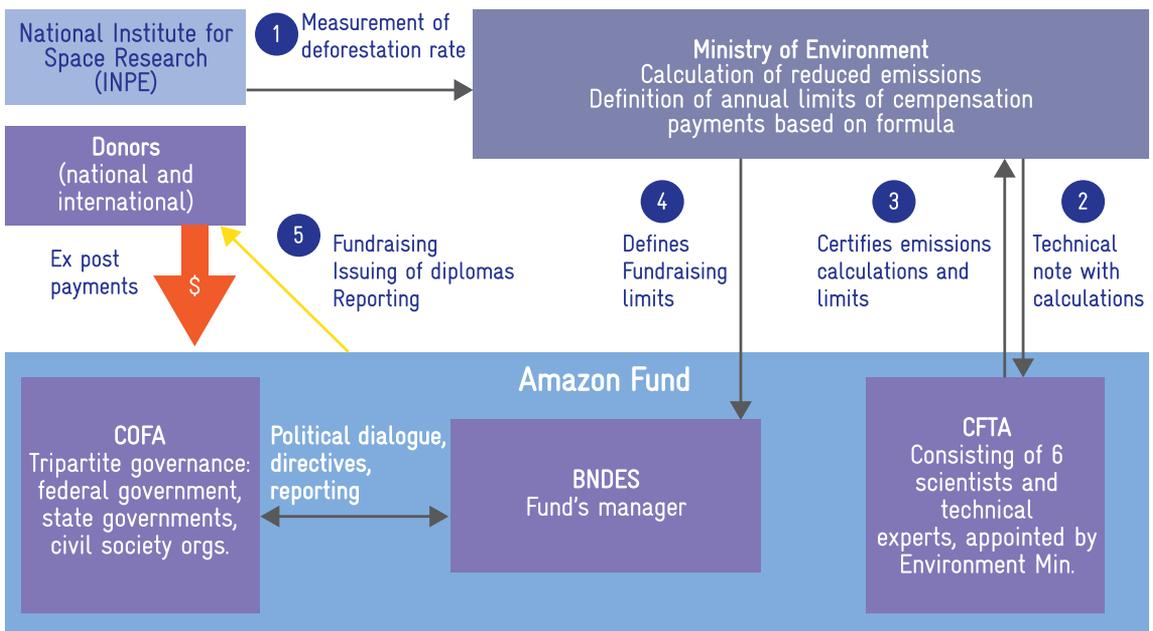
<sup>32</sup> Data provided by the Fund until August/September 2015.

► **TABLE 5: AMAZON FUND FUNDRAISING PROCESS**

DESCRIPTION OF PHASES	GOV. BODIES INVOLVED
1. The National Institute for Space Research (INPE, its Portuguese abbreviation) undertakes regular measurements of deforestation in the Amazon Biome, and hands in this information to the Ministry of Environment	INPE→Ministry of Environment
2. The Ministry of the Environment calculates the limit for annual fundraising for the Amazon Fund, which is done considering the difference between the historical average rate of deforestation and deforested areas, contrasted with the deforested area of the year being evaluated. This result is multiplied by the amount of CO2 present in the biomass, calculated in metric tons of carbon per hectare. The Ministry of Environment makes the calculation based on the measurements done by INPE. The Ministry prepares a technical note for the Technical Committee of the Amazon Fund (CTFA) with the calculation of the effective reduction in CO2 emissions resulting from the prevention of deforestation, together with an equivalent contribution value that corresponds to the fundraising limit of the Amazon Fund for the forest year in question.  The formula used is: $ED = (TDM - TD) * tC/ha$  ED: Reduced carbon emissions resulting from deforestation (in tons of carbon / tC) TDM: Average deforestation rate (in hectares/ ha) TD: Annual deforestation rate for the period (in hectares/ ha) tC/ha: Tons of carbon per hectare of forest	Min.of Environment ↔ CTFA
3. The Technical Committee of the Amazon Fund (CTFA) meets to evaluate the methodology used and to corroborate the calculation made by the Ministry of Environment.	CTFA↔Min.of Environment
4. The Ministry of Environment sends the minutes of the evaluation meeting with the CTFA to BNDES, informing the bank of the fundraising limit for the forest year in question.	Min.of Environment →BNDES
5. The BNDES proceeds to raise funds according to the limit set by the Ministry of Environment and approved by the CTFA.	BNDES

Source: Elaborated by the authors, based on (Amazon Fund, 2015; Amazon Fund, 2011)

► **FIGURE 22: AMAZON FUND FUNDRAISING PROCESS EMBEDDED IN GOVERNANCE STRUCTURE**



Source: Adapted by the authors, based on (Amazon Fund, 2015; Wirsig & GIZ, 2012)

The Amazon Fund offers the following benefits to its donors in exchange for the donated resources:

- ▶ Guarantee that the funds will be used exclusively for Amazon Fund projects that contribute to the continual reduction of carbon emissions through the reduction of deforestation rates and the conservation of forest areas in line with the Action Plan for Prevention and Control of Deforestation in the Legal Amazon (PPCDAM). This guarantee is assessed by external auditors.

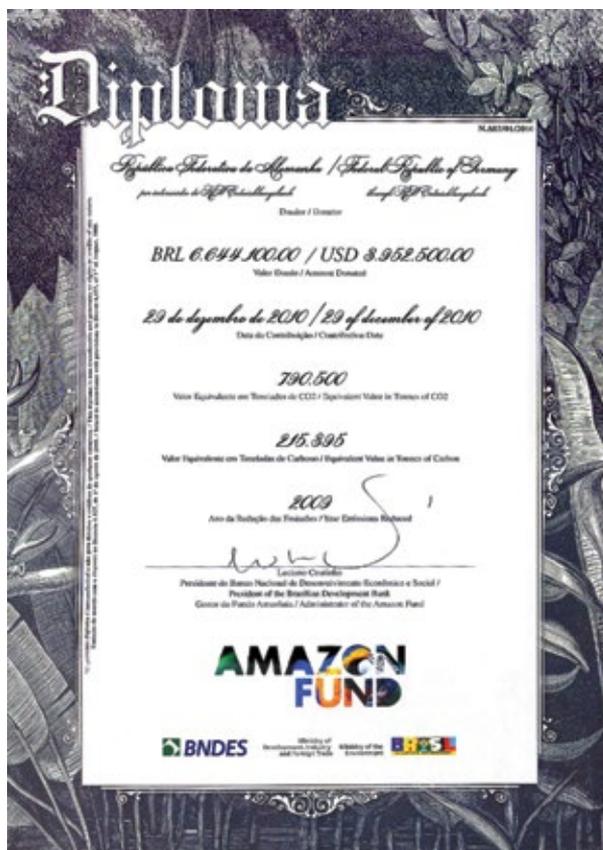
- ▶ Granting of a diploma that informs on the amount that the donor has given to the fund for the reduction of a certain amount of carbon emissions over a specific period.

- ▶ Publication of the donor's name and the amount given in the listing of donors on the annual report on activities and the fund's website.

- ▶ Participation at the yearly meeting between the fund's donors, where reports are given on the fund's performance and that of its projects.

The diplomas (see figure 23) contain the following information: donor name, amount donated in the foreign currency and US Dollars, the equivalent of the donated amount in reduced tons of CO<sub>2</sub>, and tons of carbon, donation date, year of reference for emissions reduced. These diplomas are nominal, non-transferable, non-negotiable, carry no implication of rights to property or any kind of credit, and may not be negotiated on the carbon market.

▶ FIGURE 23: DIPLOMA RECOGNIZING THE CONTRIBUTION OF DONOR TO THE AMAZON FUND



Source: (Amazon Fund, 2010)

## Volume of operations

From its creation in 2009 up to August 2015, the Amazon Fund received the following donations (see table 6):

► TABLE 6: AMAZON FUND - RESOURCES DONATED TO THE FUND<sup>33</sup>

DONOR	AMOUNT (USD)
Kingdom of Norway	882,322,969.68
Federal Republic of Germany	28,323,207.40
Petrobras	6,511,510.85
<b>TOTAL</b>	<b>917,157,687.93</b>

Source: (Amazon Fund, n.d./a)

Up to August 2015, the fund had committed financing to 75 projects at a value of **USD 545,700,079.07**. Of this amount, the fund has disbursed **USD 211,688,718.60**<sup>34</sup> (Amazon Fund, n.d./b).

## ORGANIZATIONAL STRUCTURE AND GOVERNANCE MODEL

### Laws/regulations, legal status

The legal foundations for the Amazon Fund are the following:

- Presidential Decree No. 6,527 issued in August 1st 2008, ordering the creation of the Fund and designating BNDES as manager of the fund
- Presidential Decree No. 6,565 issued September 15th 2008, listing the taxation

provisions applicable to public donations received for preventing, monitoring and combating deforestation, and promoting conservation and sustainable use of Brazil's forests

- Provisional Measure No. 438 from August 1st 2008, added to Decree No. 6,527
- Law No. 12,810 issued May 15th, 2013, regulating donations received by public financial institutions of the Brazilian Union, intended to prevent, monitor and combat deforestation, including compensation programs of environmental services and sustainable use of Brazilian Biomes, according to the applicable law.
- Sustainable Amazon Plan (PAS)
- Action Plan for Prevention and Control of Deforestation in the Legal Amazon (PPCDAM)<sup>35</sup>
- Statutes, guidelines and criteria of the Guidance Committee of the Amazon Fund (COFA)

<sup>33</sup> The exchange rate used for converting funds donated are the rates published by the Central Bank of Brazil on the days when the transfers were made to the Amazon Fund (Amazon Fund, n.d./ a).

<sup>34</sup> Disbursed amounts update from August 2015. For more information, see: [http://www.amazonfund.gov.br/FundoAmazonia/fam/site\\_en/Esquerdo/Projetos/](http://www.amazonfund.gov.br/FundoAmazonia/fam/site_en/Esquerdo/Projetos/)

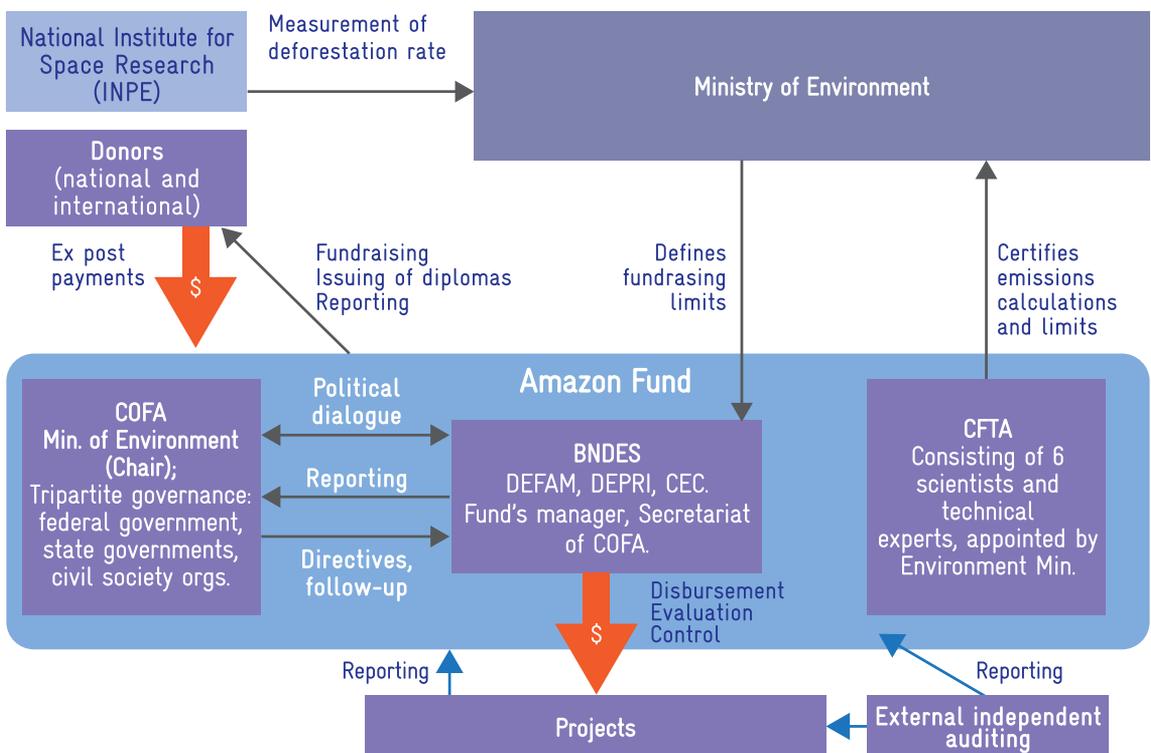
<sup>35</sup> For more information, see: <http://www.mma.gov.br/florestas/control-e-preven%C3%A7%C3%A3o-do-desmatamento/plano-de-a%C3%A7%C3%A3o-para-amaz%C3%B4nia-ppcdam>

## Governance model

The Amazon Fund has an inclusive governance structure comprising representatives from the federal government, the governments of the states of the Brazilian Amazon involved in controlling deforestation, civil society (non-governmental organizations, social movements, indigenous peoples and businesses) and the scientific community, as well as independent auditors.

The fund's governance is headed by three bodies: the Amazon Fund Technical Committee (CTFA), the Amazon Fund Guidance Committee (COFA), and the fund's administrator, BNDES. The interaction between the fund's different governance and functional branches is illustrated below (figure 24):

► FIGURE 24: AMAZON FUND GOVERNANCE STRUCTURE



Source: Adapted by the authors, based on (Wirsig & GIZ, 2012; Amazon Fund, 2015)

A description of each branch of governance follows below:

The **Amazon Fund Technical Committee (CTFA)** was created by the Ministry of the Environment by way of Ministerial Resolution No. 345 in October of 2008.

The committee consists of six experts with outstanding reputation within the Brazilian scientific and technical communities, appointed by the Ministry of the Environment at the recommendation of the

Brazilian Forum on Climate Change. Committee members are appointed for three years, with the option to be re-elected for one more term. Because the CTFA's work is considered to be of public interest, it does not consider remuneration of any kind for its members.

Each year the CTFA meets to evaluate and certify the method used to calculate deforested areas. The calculation is based on measurement of deforestation area provided by the INPE within the framework of the Project Satellite Monitoring of Brazilian Amazon Rainforest (or PRODES, its Portuguese abbreviation).

Based on this information, and considering a constant of 132.3 tC/ha, a conservative figure, the Ministry of the Environment and CTFA determine the amount of emissions reduction and authorizes BNDES to raise a certain amount of resources, and to issue the respective emissions-reduction diplomas.

The **Amazon Fund Guidance Committee (COFA)** can be considered the fund's board of directors. The COFA is in charge of establishing the fund's directives and the criteria for resource allocation. These criteria are updated every two years. Also, the COFA adjusts and redefines the fund's

operative strategies, project prioritization, conditions, modalities of resource application and limits, in accordance with the directives contained in the PAS and the PPCDAM. Since 2009, the COFA established a series of criteria and guidelines for prioritization and decentralization of resource assignment by the fund. The current Guidelines for Criteria applies to the period of 2015 and 2016 (see links list in the annex).

The COFA's composition is defined in the decree that created the Amazon Fund. Its tripartite organization is distributed between the following sectors (table 7):

► **TABLE 7: AMAZON FUND - MEMBERS OF THE GUIDANCE COMMITTEE**

<b>FEDERAL GOVERNMENT REPRESENTATIVES</b> ONE REPRESENTATIVE PER GOVERNMENT BODY	<b>STATE GOVERNMENT REPRESENTATIVES</b> ONE REPRESENTATIVE FROM EACH STATE WITH AN OFFICIAL, VALID PLAN FOR THE PREVENTION AND CONTROL OF DEFORESTATION	<b>CIVIL SOCIETY</b> ONE REPRESENTATIVE PER ORGANIZATION
1. Ministry of Environment 2. Ministry of Development, Industry and Trade 3. Ministry of Foreign Affairs 4. Ministry of Agriculture, Cattle-Raising and Supply 5. Ministry for Agricultural Development 6. Ministry of Science and Technology 7. President's Office 8. President's Secretariat for Strategic Affairs 9. BNDES	10. State of Acre 11. State of Amapá 12. State of Amazonas 13. State of Maranhão 14. State of Mato Grosso 15. State of Pará 16. State of Rondônia 17. State of Roraima 18. State of Tocantins	19. FBOMS – Brazilian Forum of NGOs and Social Movements for the Environment and Development 20. COIAB – Coordination of Indigenous Organizations in the Brazilian Amazon 21. CNI – Brazilian Confederation of Industry 22. FNB – Brazilian Forum of Forestry Activities 23. CONTAG – Brazilian Confederation of Agricultural Workers 24. SBPC – Brazilian Association for the Advancement of Science

Source: (Presidency of the Federative Republic of Brazil, 2008)

Members of the COFA and their alternates are appointed by the heads of the government bodies and agencies mentioned in table 5 for a period of two years, with an option to extend the mandate for a further term. The COFA is also governed under the COFA Internal Bylaws, adopted in 2008. This regulation establishes COFA's purpose, its organization, its functioning, the structuring of its internal commissions and responsibilities of the committee members. Decision-making within the COFA is carried out through consensus between the three sectors. The COFA is chaired by two representatives from the sector of Federal Government bodies for a period of two years, with the option to renew for one

more period. In the past, COFA has been chaired by the current Brazilian Minister of Environment, Izabella Teixeira.

The COFA may create permanent or temporary internal commissions to analyze, study and generate proposals on its responsibility areas, as previously agreed upon with BNDES, in its role as COFA's Executive Secretariat.

This committee meets regularly at least twice a year, and one of the meetings must coincide with the date on which BNDES presents its reports on the fund's performance.

## FINANCIAL MANAGEMENT

The fund's administrator, legal and civil representative is the Brazilian Development Bank (BNDES). BNDES is a public federal company created in 1952, under possession and control of the Brazilian State. The bank manages several funds with a range of social, environmental and development objectives, and is also a member of the United Nations Environment Programme Finance Initiative (UNEP-FI) since 1994. In 2009, along with the creation of the fund, the BNDES created an environmental division within its internal structure, which is responsible for the fund's operations.

Its role as the fund's manager requires an appropriate investment of resources, as well as raising funds from other donors. Any resources that have not yet been disbursed to projects are deposited in two fixed-income investment funds - such as the Gaia and Gaia II Funds. These funds are administered by the *BB Gestão de Recursos-Distribuidora de Títulos e Valores Mobiliários S.A.* – BBDTVM, a subsidiary of the Bank of Brazil, and operates according to the regulations of the Brazilian Securities and Exchange Commission.

BNDES was chosen as the fund's administrator thanks to its excellent reputation as a solid financial institution. BNDES also functions as the executive secretary of the Guidance Committee (Amazon Fund, 2010).

Within BNDES, the Amazon Fund Management Department (DEFAM) which is part of the Environmental Division, manage both the administrative and the financial aspects of the fund. The Priority Department (DEPRI) which is part of the Planning Division submit a preliminary assessment on a project to the Eligibility and Credit Committee (CEC). If approved by CEC, each project is analyzed by DEFAM and submitted to BNDES' Board of Directors (Amazon Fund, 2014; Amazon Fund, 2015). The bank receives 3% of all donations raised to pay some costs and expenses related to the

Amazon Fund, such as travels and auditings, etc.

## PROJECT SELECTION PROCESS

### Call for applications

The Amazon Fund does not have a fixed applications period. In effect, interested organizations can send a previous consultation (Financial Support Request Form) to BNDES at any time.

Notwithstanding, in 2012 BNDES launched its first public call for applications for projects, making up to BRL 100 million available in funding. This special call for applications was particularly aimed at civil society organizations, cooperatives and private foundations, excluding any entity or organization not covered by this description (i.e. federal or public entities). Projects to be supported should aim to strengthen sustainable production activities in the Amazon region. The bank developed a special document with the necessary instructions as a guide for applicants (see links list in the annex). Interested applicants could submit proposals to BNDES, via postal service. As a result of this call for applications process, the fund received 97 applications, of which 38 complied with the requirements and formalities for passing to the next step in the evaluation process i.e. the projects proposal ranking and the preliminary assessment. Of the 38 projects, 18 were finally chosen to receive funding, reaching a funding amount of BRL 100 million (Amazon Fund, n.d.; Amazon Fund, 2012). Out of these, 11 have been already contracted and partially disbursed.

In 2014 the Fund launched a second call for applications, this time focused on promoting the sustainable development of indigenous communities in the Amazon Biome. The fund assigned for this call Territorial and Environmental Management Plans for Indigenous Territories (PGTAs, for its abbreviation in Portuguese) BRL 70 million, and received 20 proposals, from which 9 were selected (Amazon Fund, n.d.; Amazon Fund, 2014). The detailed call can be found in the Fund's website (see links list in the annex).

This last call and the former call have proven to be important instruments for increasing disbursements (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, 2015; Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, n.d.).

## Eligibility

Eligibility criteria are relatively broad. Participation is open to State, Federal or local government entities, non-profit civil society organizations, public and private research institutes, private consulting firms, cooperatives, universities, scientific-technological institutions, environmental organizations, research foundations linked to public entities, environmental agencies, organizations to combat environmental crime, based in the Brazilian Amazon region whose project proposals contribute directly or indirectly to fighting deforestation in the Amazon Biome, within the parameters set out by the PAS and the PPCDAM. Up to date, the fund has approved projects of NGOs, universities, and state and federal environmental government entities. The Brazilian State defines the Amazon Biome as the region extending between the states of Acre, Amapá, Amazonas, Pará, Roraima, Rondônia and parts of the states of, Mato Grosso, Maranhão and Tocantins (a total of 4.2 million km<sup>2</sup>)<sup>36</sup> (Amazon Fund, 2015).

In addition, up to 20% of the funds resources can be implemented in other countries with tropical forests or in other Brazilian biomes to support the development of systems for the monitoring and control of deforestation.

The Amazon Fund supports projects in other Brazilian biomes that contemplates the introduction of a system of environmental registry that is used to record land use and identify forest areas within rural establishments for environmental regulation and conservation purposes (Ministry of the Environment of Brazil, n.d.).

To date, only one international organization has been found eligible to implement an international project: the Amazon Cooperation Treaty Organization. The project's aim is to monitor deforestation and changing land use in the Amazon regions of Ecuador, Peru, Bolivia, Colombia, Brazil, Guyana, Surinam and Venezuela. Although this project is not focused exclusively on the Amazon Biome in Brazil, the deforestation control in the Amazon regions of neighboring countries has positive consequences for Brazil.

All organizations and projects applying for funding must also take into account the Social and Environmental Safeguards of the Amazon Fund, which are inspired by the REDD+ Social and Environmental Safeguards defined in the context of the United Nations. These safeguards seek to guarantee the protection of traditional local communities and the environment. The safeguards are: legal compliance, acknowledgement and guarantee of rights, distribution of benefits, economic sustainability and reducing poverty, environmental conservation and remediation, participation, monitoring and transparency, and governance. Additionally to the Amazon Fund's safeguards, each applicant project must consider the Social and Environmental Safeguards of BNDES (Amazon Fund, n.d.; Amazon Fund, 2012).

## Project modalities

For reasons of efficiency in the processing of financial support applications, and later project monitoring and evaluation, BNDES has divided the areas of investment of the fund's resources according to the following project modalities. This classification serves as a guide for applicants in determining beforehand whether their projects fit the fund's focus categories (table 8):

<sup>36</sup> The Amazon Basin comprises a much larger region: 6.5 million km<sup>2</sup> which crosses into Ecuador, Peru, Venezuela, Guyana, Bolivia and Brazil. The Legal Amazon region comprises 5.2 million km<sup>2</sup> and includes only the area established by the Brazilian Government inside national territory.

► TABLE 8: PROJECT MODALITIES FINANCED BY THE AMAZON FUND

MODALITY	OBJECTIVES	ELIGIBLE ACTIVITIES	CLIENTS
Public forests and protected areas – environmental management and environmental services	To support the expansion of natural reserves and protected forests	Creation of new conservation units, consolidation of existing conservation units, monitoring biodiversity and public forest management, payment for environmental services, preservation of genetic resources, other efforts for the preservation of protected areas	State or federal government bodies, research organizations, NGOs and public interest organizations, private companies
Sustainable productive activities	To support sustainable production, trade and use of natural resources in the Amazon Biome.	Reforestation, forest management, sustainable production chains for wood and its derivatives, recovery of deforested areas, integration of forestry, agriculture and cattle-raising activities, forest certification, renewable energy, ecotourism and other activities with sustainable use of biodiversity	Associations and cooperatives, federal and state government bodies, research organizations, NGOs and public interest organizations, private companies.
Science & Technology Development applied to the sustainable use of biodiversity	To support the development of research, innovation and technology associated with sustainable productive practices	Infrastructure and projects related to science, technology and innovation in the Amazon forest, as well as biotechnology, renewable energy, genetic resources; development of methodological systems for monitoring, image interpretation, georeferencing, reconciliation of real property registration to facilitate deforestation control, rural territorial planning, regularization in the Amazon Forest, qualification of equipment for research institutes, communication and information networks	Government or university research institutes, cooperatives and associations, federal or state government bodies, NGOs and public interest organizations, private companies, science and technology institutes.
Institutional development and improvement to mechanisms of control	To support activities of environmental management, agricultural regulation, licensing, inspection and monitoring in the Amazon Biome.	Ecological and economic zoning, agricultural regulation, area monitoring systems, training and certification, agricultural monitoring systems, equipment and infrastructure, communications and information systems, other efforts in institutional development and improvements to mechanisms of control	Federal or state government bodies in the agricultural and environmental sectors, research organizations supporting public bodies in activities in the Amazon region, environmental control and crime-fighting agencies

Source: (Amazon Fund, n.d./c)

## Selection

BNDES' project selection process is mainly based on the following directives:

- Legal Amazon Deforestation Prevention and Control Action Plan – PPCDAM
- COFA Guidelines and Criteria for allocation for the current period
- Logical Framework of the Amazon Fund

Using the Logical Framework for the Amazon

Fund, developed by BNDES in 2009-2010, the bank analyses how and to what extent each applicant project contributes to achieving the fund's goals. The Logical Framework has a general objective and four components (see table 9), which in turn contain specific logical frameworks of their own. For applicant organizations, the Logical Framework is a guide for project design, so that the objectives, results and the logical framework for each project fit with the Logical Framework of the fund as a whole (Amazon Fund, 2010). A detailed description of the logical framework can be found in the links list in the annex.

► TABLE 9: LOGICAL FRAMEWORK FOR AMAZON FUND PROJECTS

LOGICAL FRAMEWORK				
General strategic objective	Reduce deforestation together with sustainable development in the Amazon Region			
Specific objectives	<p><b>Component 1 : Sustainable production</b> Activities that maintain the forest standing are economically attractive in the Amazon Biome</p>	<p><b>Component 2: Monitoring and control</b> Government efforts ensure man-made activities meet environmental legislation</p>	<p><b>Component 3: Land-use planning</b> The Amazon Biome is submitted to land-use planning</p>	<p><b>Component 4: Scientific and technologic development</b> Science, technology and innovation activities contribute to the recovery, conservation and sustainable use of the Amazon Biome</p>

Source: (Amazon Fund, 2015; Amazon Fund, 2013; Amazon Fund, 2010)

Based on the information above, BNDES carries out the selection process as follows:

**1. Previous consultation or framing phase:**

any organization or state body interested in submitting a project must send a previous consultation to BNDES containing a basic description of the project in question, as well as information on the applicant organization. Within BNDES, this previous consultation is evaluated by the Priorities Department (DEPRI). To prepare a previous consultation, and depending on the objectives of the project to be presented, aspiring organizations must follow the Guidelines and Criteria for the presentation of Previous Consultations to the Amazon Fund for scientific and technological development, public administration and other projects (link to guidelines can be found in the annex). Similarly, depending on the type of organization preparing the application, a series of legal documents must be submitted (link to documents can be found in the annex). In general, information required for a prior financial support request is as follows:

- The organization’s economic and financial information, administrative capacity, history of projects implemented and credit references
- Table of expenses and funding sources for the project

- An estimate of the impacts that the project will have on the organization’s activities
- Summarized description of the organization’s institutional situation
- Environmental information on the project, as well as the organization’s environmental policies and practices, taking into account the Amazon Fund’s Social and Environmental Safeguards
- Project information: objectives, goals and expected outcomes. The project must be designed according to COFA’s directives and criteria. It must also include a detailed implementation plan with administration, monitoring and evaluation activities based on measurable objectives and indicators, in accordance with the Amazon Fund’s Logical Framework.

2. The previous consultation is then assessed by DEPRI. Based on this evaluation, the Eligibility and Credit Committee (CEC), issues the necessary technical recommendations and decides whether the application should continue to the next phase. The bank asks the applicant to contact the DEFAM, in order to proceed with the next phase of project analysis.

**3. Analysis phase:** at this stage, the DEFAM evaluates the project proposal according to the operational policies and risk parameters applied by the bank (evaluation of environmental and socio-

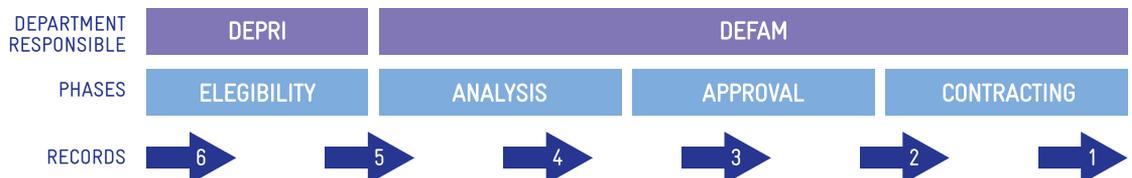
environmental risks). As part of this, DEFAM may carry out studies, technical visits to the applicant, meetings with possible partners of the project, among other activities in coordination with the applicant. Additionally, DEFAM requests additional legal and detailed technical information from applicants. The type of documents to be handed in depend on the type of organizations applying for funding (see link to documents in the annex).

**4. Project approval:** once an application has passed the analysis phase, the Environment Division sends the project proposal together with its analysis and evaluation to the BNDES Board of Directors for discussion and final approval.

**5. Contracting phase:** projects approved by the bank’s Board of Directors must submit the necessary legal documentation, in accordance to the type of organization, for entering into a contracting agreement (see link to documents in the annex).

The selection, analysis and decision phases demand great rigorousness and several evaluation stages by the various divisions and departments of the bank, additionally to the department responsible only for the fund. The process, from application through approval to contracting, is illustrated below, showing that just the first phase, called *framing*<sup>37</sup>, requires eleven administrative protocol records within the fund (figure 25).

► FIGURE 25: BNDES OPERATIONAL STAGES FOR PROJECT SELECTION



Records correspond to protocol levels used by the BNDES due to sufficient and complete information submitted, the proper time for the applicant to obtain and send the requested information, the level of definition and detail of the proposed project as well as the needed time for its analysis and operational technical recommendation to the levels of approval. These levels represent the way the Amazon Fund portfolio information has been disclosed so far.

Source: (Amazon Fund, 2014)

In 2009/2010 the Amazon Fund and BNDES reached an agreement with the German Federal Ministry for Economic Cooperation and Development (BMZ) to pursue a Technical Cooperation Project (PCT) for building the institutional, planning and application capacities of potential proponents to the fund, as well as further developing the Amazon

Fund teams’ know-how on environmental issues, in order to enhance the planning, implementation and monitoring of the fund’s operations. This project is implemented by Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH on behalf of BMZ<sup>38</sup> (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, n.d.).

<sup>37</sup> Meaning to place something "within the framework of..."

<sup>38</sup> For more information under: <https://www.giz.de/en/worldwide/12550.html>

## IMPLEMENTATION – PROJECT MANAGEMENT

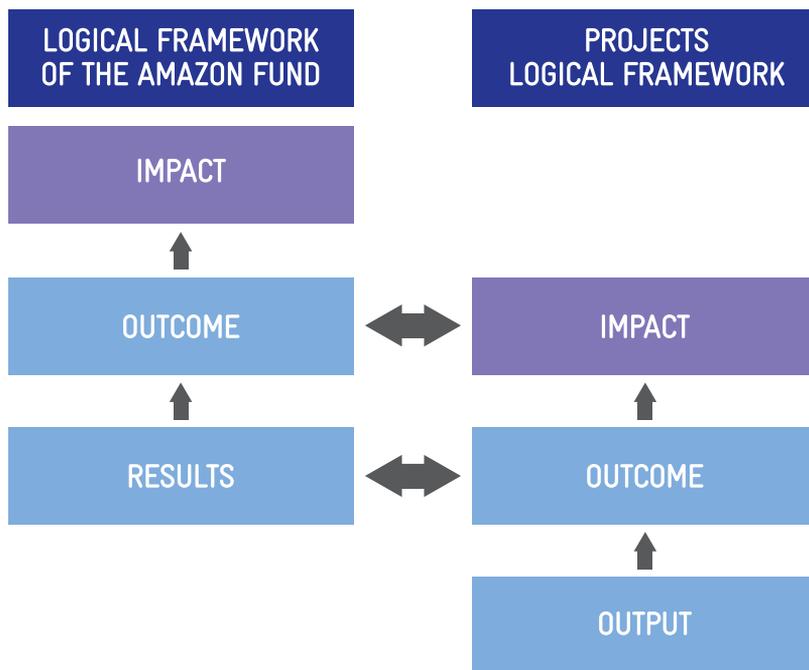
The Amazon Fund does not implement or execute any projects. Implementation is carried out by organizations and entities chosen to receive the fund's resources.

Once a non-reimbursable financial support contract has been signed between BNDES as the fund's representative and the entity or organization receiving the resources, and once the latter has met the conditions necessary for disbursement, the fund transfers the first instalment of the committed resources according to the terms of the contract.

The remaining resources are transferred as soon as the implementer or beneficiary organization submits evidence of the project's implementation and progress to the bank.

The project implementation must be governed by the implementation plan submitted with the project application. It must follow the Fund's Logical Framework for projects (figure 26), which forms part of the Logical Framework of the Fund as a whole. It is agreed upon between the bank and the implementer or beneficiary of its resources during the analysis of the project proposal.

► FIGURE 26: RELATION BETWEEN THE LOGICAL FRAMEWORK OF THE AMAZON FUND AND ITS PROJECTS



Source: (Amazon Fund, 2015)

Once the project has concluded and after the implementing organization has submitted its final reports to the fund, proving appropriate use

of resources, the BNDES proceeds to cancel the organization's obligation to reimburse the resources (Forstater, Nakhooda, & Watson, 2013).

## ACCOUNTABILITY - M&E

The system for monitoring, reporting and evaluation is based on the Logical Framework of the project, which itself is oriented towards the Logical Framework of the fund as a whole, and its therein defined overarching goal. The Logical Framework can be defined as the matrix into which strategic decisions on the use of resources in a project are systematically program, indicating what it aims to achieve (the “what,” or the objectives) and what is expected to be carried out (the “how”, or the means; see the Project selection process and Implementation sections). Additionally to a constant supervision and monitoring of projects, BNDES also applies supplementary procedures as the analysis of project proposals for respecting the Amazon Funds’ socio-environmental safeguards, for the purposes of preventing risks and problems in project implementation.

### At fund level

Presidential Decree No. 6,527 that created the fund also defines in Art. 6 that BNDES must hire annual external auditing services to evaluate the appropriate allocation of resources in accordance with the fund’s governing documents. To comply with the mentioned article, the fund is audited on two levels by two different auditing firms: one is in charge of evaluating the fund’s financial situation, while the other analyses compliance with the fund’s directives and objectives.

In the financial (or accounting) audit, the records of the Amazon Fund’s balance are evaluated, that is, the amounts deposited into the Gaia Funds and any resources that have been kept separate by BNDES for the fund’s administration. Both audits are financed by the fund’s resources and the firms hired are usually international renowned auditing companies with offices in Brazil. Additionally, and as one of the funds managed by BNDES, the Amazon Fund undergoes a third audit hired by BNDES to evaluate its performance as a financial institution. This audit is financed by BNDES’ own resources.

The conclusions of the auditing process contribute to the identification of risks and opportunities, and the eventual need for a “change in direction”, and are as well as accountability instruments with regard to the correct use of the Amazon Fund’s resources.

### At project level

Once the funding contract has been signed and the project implementation process is underway, the implementing organization must submit reports to the fund on the project’s performance and progress. This includes a summary of the main activities implemented, a financial report on the total amount of resources used and accumulated over the reporting period, a project implementation table, and evidence that the implementing organization is up to date with its tax, environmental and labor obligations. As part of their monitoring activities, BNDES officials can visit the project sites where activities are being carried out, or request further financial information when necessary. Once the project has been completed, the implementing organization must submit a final report to the bank, containing an evaluation of the results achieved, the project’s progress according to the indicators of the Logical Framework, the sustainability of the results achieved, any difficulties or problems that arose during implementation, as well as lessons learned and knowledge gained.

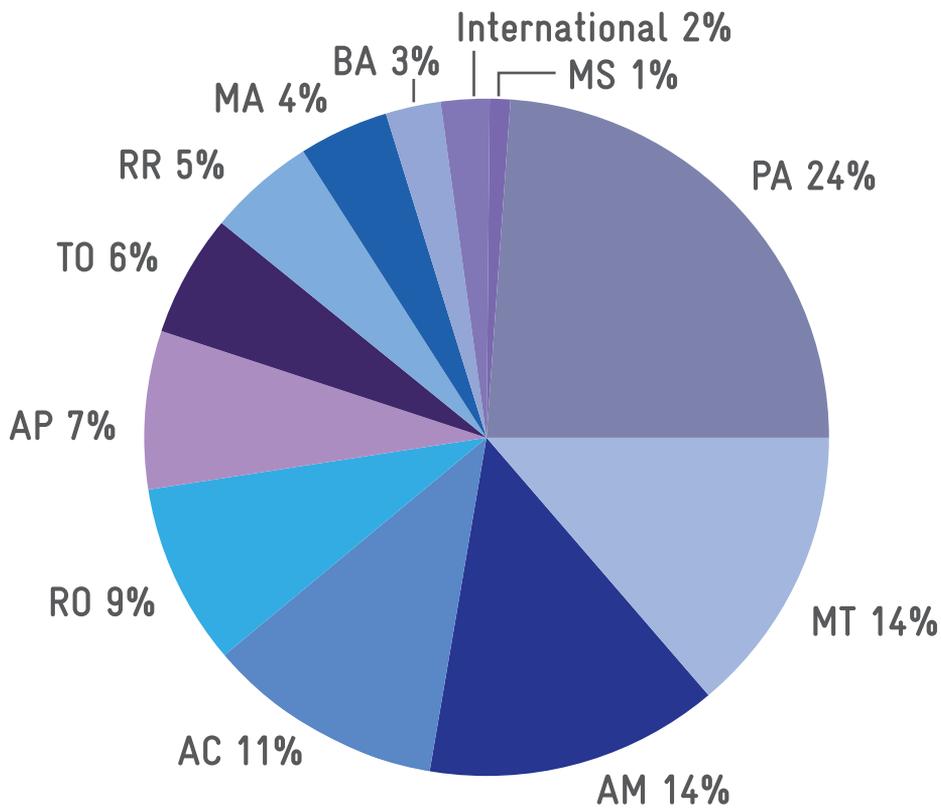
Recently, the fund has started to review its impact monitoring model. Indicators at project level shall enable the fund to aggregate them for measuring overall achieved results and impacts. These aggregated indicators should be accordingly formulated to enable the supply of quantifiable data of a specific strategic area to the fund. In technical cooperation with GIZ, BNDES is reviewing indicators of similar projects in order to apply this new model of aggregated indicators on them.

## BENEFICIARIES

According to the most recent report on the fund's activities (Activity Report for 2014), the State of Pará has received 24% of all the fund's resources for 12 projects. It is followed by the State of Mato

Grosso with 14% for 12 projects and Amazonas with 14% for 7 projects. Of all resources given, only 3% have been granted to an international project implemented by the Amazon Cooperation Treaty Organization (OTCA) (figure 27).

► FIGURE 27: AMAZON FUND - DISTRIBUTION OF RESOURCES BY STATE, 2014

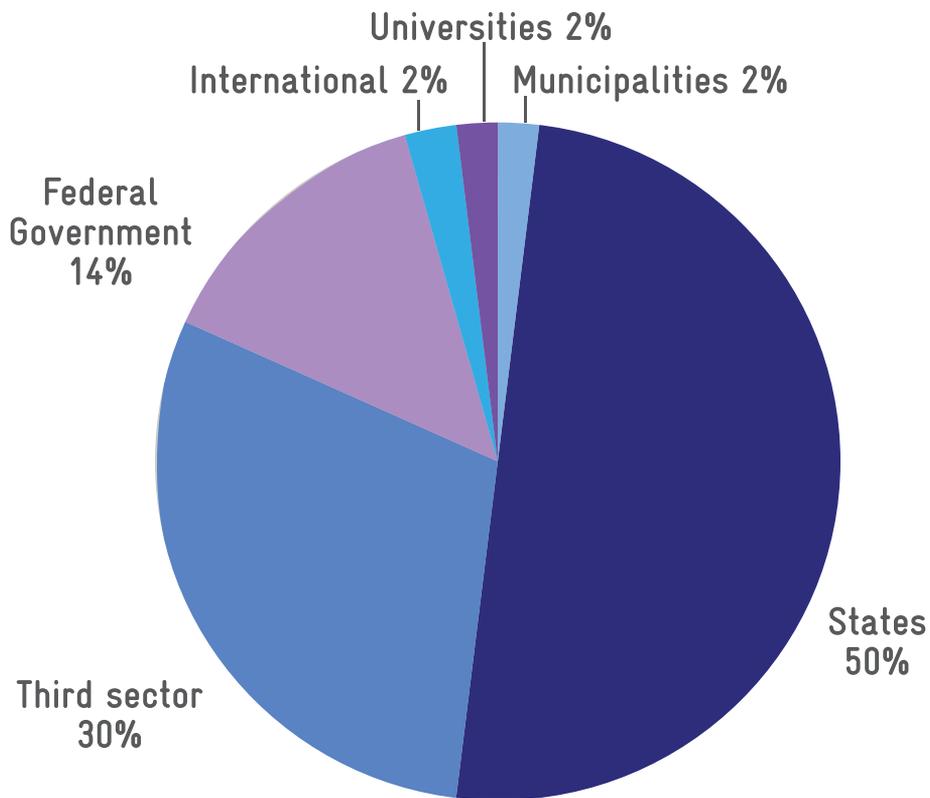


Legend: PA: Pará, MT: Mato Grosso, AM: Amazonas, AC: Acre, TO: Tocantins, AP: Amapá, RO: Rondônia, MA: Maranhão, RR: Roraima  
Source: (Amazon Fund, 2015)

As far as the distribution of resources by implementing organization is concerned, the governments of the states receive the largest amount of capital, although they do not implement most of the projects (21). The third-party sector, or NGOs,

research institutes, community associations, non-profit foundations and private businesses were responsible for the majority of projects (31) but only received 30% of all resources (figure 28).

► FIGURE 28: DISTRIBUTION OF RESOURCES BY IMPLEMENTER, 2014



Source: (Amazon Fund, 2015)

## RESULTS

According to the most recent annual report on the fund's activities for 2014, the different projects and programs funded with Amazon Fund's resources contribute to a 35% fall in deforestation rates (measured period 2009-2014). These projects have achieved, among others, the following results under the overarching goal of contributing to the reduction of deforestation, and sustainable development in the Amazon Biome (Amazon Fund, 2015):

- 8,466 people trained in sustainable economic activities
- Around 2,806 properties now have sustainable production projects
- 2,919 rural properties have benefited from technical assistance
- 2,806 rural properties with sustainable production projects
- 55 municipal environment agencies have been strengthened
- Around 3,142 people have been trained to fight forest fires
- Around 6,682 km<sup>2</sup> of new conservation areas have been created
- Around R\$ 17.9 million (approx. USD 5.34 million) have been invested in scientific and technological research
- 198 researchers have become involved in scientific and technological research in the Amazon region
- 72 scientific publications have been produced

## EXAMPLES OF FUNDED PROJECTS

► TABLE 10: AMAZON FUND - APPROVED PROJECTS

PROJECT	IMPLEMENTING ORGANIZATION	TYPE OF ORG.	AMOUNT	REGION
Projetos Sementes do Portal I and II, for forest recovery and agroforestry development	Instituto Ouro Verde	Non-profit, non-governmental organization	USD 9.4 million	Mato Grosso
Environmental management qualification program	Brazilian Institute of Municipal Administration	Non-profit civil organization	USD 8.1 million	Municipalities of the Amazon Biome
Forest Assistance Program	Sustainable Amazon Foundation	Non-governmental, non-profit organization	USD 11.1 million	Amazon Biome
Small eco-social projects in the Amazon	Society, Population and Nature Institute	Research institute	USD 6.5 million	Mato Grosso, Tocantins and Maranhão
Sustainable settlements program in the Amazon	Amazon Environmental Research Institute	Research institute	USD 13.4 million	Pará
Biodiversity research	Federal University of Pará, Research Development and Support Foundation	Public university, non-profit foundation	USD 2.5 million	Pará
Amazon Public Policies incubator	Federal University of Pará, Research Development and Support Foundation	Public university, non-profit foundation	USD 1.7 million	Pará
National Amazon Forest Inventory	Federal Forest Service and the Federal Government of Brazil	Public entity	USD 40.6 million	Amazon Biome
Green municipalities program	State government of Pará	Public entity	USD 39.4 million	Pará
Sustainable environmental management of indigenous land in the State of Amazonas	State of Amazonas/State Secretariat for Indigenous People	Public entity	USD 6.9 million	Amazonas
Monitoring forest coverage in the Amazon Region	Amazon Cooperation Treaty Organization (OTCA)	International organization	USD 11.8 million	Amazon regions of OTCA member countries: Bolivia, Brazil, Colombia, Ecuador, Guyana, Peru, Suriname and Venezuela

Source: (Amazon Fund, 2015; Amazon Fund, 2014)

## ANALYSIS

### Success factors – strengths

The high standards for operations and transparency of the Amazon Fund's management are among its most decisive strengths. BNDES' designation as administrator of the fund shows a clear intention to guarantee high technical analysis standards as well as fiduciary standards for the fund. This factor allows it to have a unique relationship to its donors, who do not form part of the Guidance Committee and do not influence the fund's governance, project selection, or decision-making in any way. The guarantee of transparent administration processes supported by audits, as well as the fund's diplomas, constitute practically the only consideration donors to the fund receive in exchange for their financing.

A success, inherent in the fund's creation, is the fact of having taken advantage of the opportunity to become the first fund for financing REDD+ mechanisms in the world, establishing a precedent among peers from Latin America and the global South. Today, the Amazon Fund has many lessons learnt to share with countries interested in putting up similar funds.

The fund's governance model is unique: despite being financed by a number of donors, none of them participate in the fund's decision-making process. This ensures that the Guidance Committee in its tripartite structure is formed only by Brazilian entities: from the central government, state governments from within the Amazon Biome, and civil society and scientific organizations. This tripartite governance model seeks to ensure inclusive governance in the fund, accompanied by the proven technical experience of the Technical Committee. The involvement of representatives from state governments, civil society and the scientific community also aims to increase ownership in the fund's governance.

Today, the Amazon Fund demonstrates to have one of the highest project approval and disbursement rates in comparison to other national / regional climate funds. During the last years, and compared to other national/ regional climate funds, the disbursement rate of the Amazon Fund can be considered as adequate. Its success is mainly due:

a) The alignment with national environmental policies, as e.g. the Environmental Registry (*Cadastro Rural Ambiental – CAR*). The Amazon Fund's decision to support the implementation of this policy led to the approval of already 13 projects comprising CAR implementation, worth USD 95 million. This not only contributed decisively to the positive development of the fund's disbursement. It also enabled the policy to be implemented at regional scale in an efficient manner. The fund's resources enable a quick and efficient implementation of this Brazilian public environmental program.

b) The introduction of specific public calls: The decision of launching punctual public calls mirrors the Amazon Fund's capacity for strategic planning with regards to its investments. Public calls as instrument have proven suitable for significantly increasing disbursement, as they support several organizations to realize projects with similar goals in a determined strategic area, hence, time is economized if compared to the spontaneous presentation of projects at the "open counter". Also, public calls have a positive upscaling effect.

Finally, the fund has managed to improve its web presence, and has increased the quantity, quality and regularity of information shared through the site, improving thereby its transparency to donors, implementing partners, and the general public. Yet, it remains a permanent challenge to maintain and further improve these transparency good-practices, as well as to secure the knowledge and experiences generated by its projects, and provide timely knowledge sharing activities that reach all its implementing organizations and the public in general.

## Challenges

One major challenge for the fund is its fundraising model. There is increased interest and demand for accessing to the fund's resources by organizations, which turn the scenario of future scarceness of resources possible.

In this context, the recently created Green Climate Fund (GCF) can be both a challenge and an opportunity for the Amazon Fund. On the one hand, the GCF's ambitious fundraising goal and international attention on its set-up can drag the interest of donors away from national and regional funds. Also, how countries like Norway, Germany, France, Japan and England will handle their climate change financing in the future will be decisive for the sustainability of a regional fund like the Amazon Fund. On the other hand, the Amazon Fund can apply to the GCF as national implementing entity, even if this means the trade-off of going from direct to indirect access.

Moreover, the current international debate around climate financing has underlined the challenge of progressively engaging the private sector at all levels in the quest of combating climate change. Even if the Amazon Fund already counts with one private donor, the fund could put on increasing this type of engagement as well.

It ought to be mentioned that there is a close connection between fundraising and reporting on impacts. The continued improvement of the monitoring and evaluation process at project and fund level, and the adequate communication about achieved results and impacts towards (potential) donors, are both fundamental for successful fundraising.

A further challenge for the fund can be found in the application criteria and the selection process, which are still considered complicated by most applicants, a fact which is reflected by the number of projects approved during the first years of the fund's

operations. The requirements for applications and the selection processes were designed for large scale projects, comparable to those administered by the bank as a financial institution, and small and medium project proponents sometimes have difficulties to meet these. This lack of capacities also reflects in later stages of project implementation and monitoring for funded organizations, too. In this sense, the fund has faced a two-fold challenge: 1) support applicant organizations in improving their capacities on formulating, planning, implementing and monitoring projects according to the fund's criteria, and 2) cope at a technical, sectoral and management level with the increasing demand for technical support coming from implementing organizations. In technical cooperation with GIZ, BNDES is addressing this challenge by building capacities at the recipients' side, as well as expanding its own capacities and know-how as an ongoing process.

### 2.2.3. IBSA FUND (SHORT CASE STUDY)

In 2003, during the G8 meeting in Evian, France, the leaders of India, Brazil and South Africa proposed an initiative to create a dialogue forum for the South. Later, in June 6th 2003, the three countries entered into a formal agreement to create the trilateral IBSA Dialogue Forum ("IBSA" referring to the three countries India, Brazil and South Africa) by signing the Brasilia Declaration. One of the IBSA Dialogue Forum's main objectives is to promote trade between the three countries and achieve a transaction volume of USD 25 billion by 2015. The IBSA Forum also supports trilateral working groups on thirteen issues, including education, public administration, environment, health, social development, energy and transport.

One year after the official creation of the IBSA Forum, in 2004, the three countries decided to create the IBSA Facility for the Alleviation of Poverty and Hunger<sup>39</sup> to fund specific programs and projects to

<sup>39</sup> Further information under: <http://tcdc2.undp.org/ibsa/>

fight poverty in countries facing underdevelopment and post-conflict situations. Because one of the central objectives of the IBSA Forum is the promotion of triangular and South-South Cooperation, the administration of the IBSA Fund was entrusted to the UN Office for South-South Cooperation (UNOSSC), a special unit within the UNDP. The IBSA Fund officially began operations in 2006, and the headquarters of its secretariat is located in New York.

Since 2006 the IBSA Fund has financed a range of projects in 13 countries. The sectoral focus of its funding is diverse, and most projects concentrate on agricultural activities and food security.

## FINANCING SOURCES

Donors to this trust fund are India, Brazil and South Africa. Each country is committed to make a contribution of USD 1 million per year, although these direct contributions are added to contributions in kind by recipient governments, as well as those made by private partners and the UNDP.

### Volume of operations

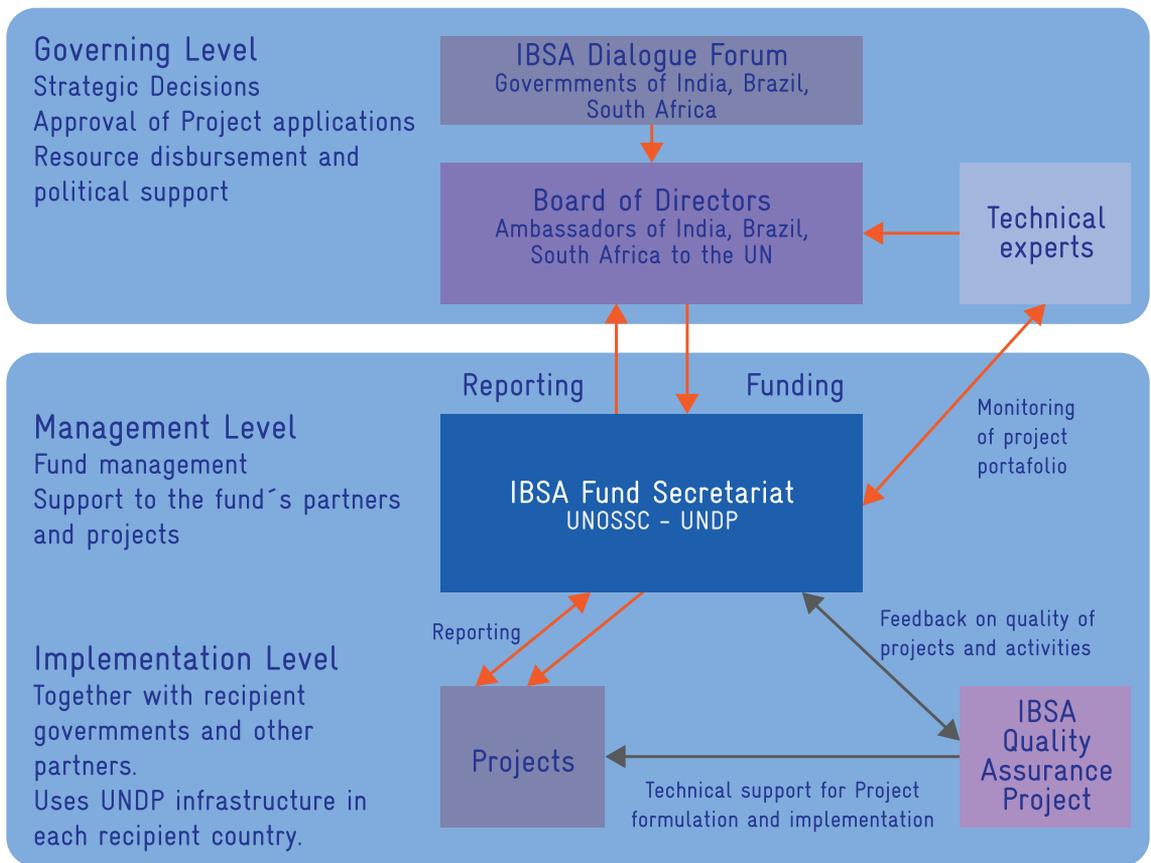
Compared with other funds and international development cooperation financing mechanisms, the IBSA Fund has relatively few resources. According to the annual operations report for 2014, contributions accumulated since its creation in 2004 reached USD 27 million. Approximately USD 14 million have been disbursed to projects. (United Nations Office for South-South Cooperation/ UNDP, 2014).

## ORGANIZATIONAL STRUCTURE AND GOVERNANCE MODEL

The IBSA Fund is governed by a Board of Directors consisting of the Ambassadors and Permanent Representatives to the UN of each donor country, who also coordinate strategic orientation with their respective governments, according to decisions made jointly with and within the IBSA Forum. The Board of Directors is advised by technical experts who monitor the progress of the fund and its projects. The ambassadors and their consulting teams meet every three months to decide on new applications for resources, analyze the monitoring and progress of projects, and to provide strategic directives to the secretariat.

The secretariat and the trust fund management are the responsibility of the UNOSSC-UNDP at the UNDP offices in New York. The UNOSSC-UNDP, as the fund's manager, applies the standards and procedures established for the fund's financial management, and initiates dialogue with potential implementation agencies or organizations. It also gives advice and support in the formulation of projects, and provides technical support during implementation. The following figure of IBSA's governance model (figure 29) is based principally on the authors' inferences from the limited official information available on the fund.

► FIGURE 29: IBSA ORGANIZATIONAL STRUCTURE



Source: Created by the authors, based on (United Nations Office for South-South Cooperation/ UNDP, 2014)

## PROJECT SELECTION PROCESS

The IBSA Fund grants resources based on demand. In other words, governments or government bodies from developing countries may at any time express their interest in obtaining resources from the fund for specific projects. Governments can contact the IBSA Fund’s focal points directly at the UNDP offices in their respective countries, and initiate conversations on a specific project proposal.

The fund is open to proposals by any developing and underdeveloped country, and projects applying must be proposed by the government of a country, meaning that the fund does not grant resources without the political support of central governments.

Similarly, applicant projects must also meet the following requirements:

- Contribute to fighting poverty and hunger, and achieving the Millennium Development Goals
- Guarantee national ownership and leadership by the recipient governments
- Foster South-South cooperation
- Make use of the capacities of IBSA countries
- Strengthen local capacities
- Strengthen ownership by recipient countries
- Guarantee sustainability
- Guarantee a visible impact
- Provide the possibility of replication
- Encourage innovation

To date, granted amounts range from approximately USD 529,000 (e.g. project in Vietnam) to USD 2,840,000 (e.g. projects in Haiti). The duration of project implementation is on average three years. Several projects have extended their implementation period due to obstacles and challenges in the execution of activities, such as delays in obtaining construction permits at project locations, lack of local specialized staff for training and capacity building, extreme weather conditions, armed conflicts, equipment theft, increases in the prices of working materials, and other obstacles (United Nations Office for South-South Cooperation/ UNDP, 2013).

## IMPLEMENTATION – PROJECT MANAGEMENT

Projects financed by the IBSA Fund are carried out in collaboration with national and local governments, as well as with UN organizations. The cooperation with UNDP and its Office for South-South Cooperation implies that at project implementation level UNDP's infrastructure, networks and capacities in each country are partially used. The Secretariat, in addition to managing the fund's resources at the instruction of the Board of Directors, provides technical support to project implementing organizations.

## ACCOUNTABILITY – M&E

Based on the limited information available on the details of the fund's operations, it was not possible to verify the conditions of the fund's M&E functions. It can only be assumed that with the UNDP as fund manager and co-implementer on several projects, the M&E system applied at project level is probably designed according to the UNPD's logical framework of objectives, indicators and results.

## BENEFICIARIES

Most of the IBSA Fund's grants have been delivered in the African continent. 45.3% of resources have been invested in projects in the Republic of Cabo Verde, Guinea Bissau, Burundi, Sierra Leone, Sudan and South Sudan. 18.8% of the fund's resources have been invested in Asia, where beneficiary countries include Laos, Vietnam, Cambodia and East Timor. In the Middle East, 18.4% of the fund's resources have been invested in several projects in Palestine. In Latin America, only 16.9% of the fund's resources have been granted to projects in Haiti and Guyana (United Nations Office for South-South Cooperation/ UNDP, 2014).

Approximately 31% of resources have been invested in projects focused on agriculture and food security, including: rehabilitation of rice-seed production in Vietnam, as well as the rehabilitation of agricultural production and livestock processing in Guinea Bissau. Public health received 26% of resources for projects such as strengthening the infrastructure for fighting HIV/AIDS in Burundi, and for the rehabilitation of a cultural and hospital center in the Gaza Strip of the Palestinian Territories (United Nations Office for South-South Cooperation/ UNDP, 2014).

## ANALYSIS

### Strengths and challenges

Although the IBSA Fund operates with relatively low amounts of funding, it has managed to position itself as an innovative tool among the sector of new donors, emerging countries and South-South cooperation. This has also brought greater visibility to the fund's donor countries and the IBSA Forum as a joint meeting and learning space for emerging countries from the South. It could even be argued that its small size allows donors a certain freedom to experiment on joint development financing, something that larger sums would possibly not allow. However, if its donors' aim is to achieve a

greater impact, it will be necessary to expand the volume and number of projects. The fact of having the UNDP as the fund's trustee and secretariat reaffirms the position of the three donor countries as supporters of the UN's multilateral system. Furthermore, the choice of UNDP as manager of the fund can be assumed to be pragmatic, as it allows the fund's donors to spare themselves the cost of creating a secretariat and organizational structure from scratch. Unfortunately, this is only an assumption, as the fund does not publish information on the conditions of its cooperation with UNDP, making it less possible to know how much the organization is charging for managing the fund.

Furthermore, there is not much literature available on the activities and impact of projects financed by the IBSA Fund. There is criticism by civil society organizations concerning the lack of available information on neither projects nor the fund itself. The lack of mechanisms for information access does not allow civil society organizations or the academia to monitor or evaluate the fund (Stuenkel, 2014), a situation which affects the fund's image among organizations which could potentially become co-implementers on grassroots level.

## 2.3. FINANCIAL INTERMEDIARY FUNDS:

### 2.3.1. GLOBAL FUND TO FIGHT AIDS, TUBERCULOSIS AND MALARIA (GFATM)

The first initiatives concerning the idea of this fund were motivated by Kofi Annan, UN Secretary General from 1997 to 2006. During the years 2000 and 2001 the creation of a fund to finance the fight against the worst diseases of recent years – AIDS, tuberculosis and malaria – was promoted at the summits of the G8, the African Union, and the UN General Assembly. The Global Fund to Fight AIDS, Tuberculosis and Malaria<sup>40</sup> (GFATM) was finally created in January of 2002 and its headquarters are located in Geneva, Switzerland. At the time of the creation of the fund, and during its first years, its organization was closely linked to existing structures within the United Nations – specifically the World Health Organization (WHO). Since its inception, the GFATM's defining characteristic has been the decision to create a central structure that is as small and efficient as possible, and not to establish fund's offices in each recipient country (Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ) GmbH, 2006).

In 2010-2011, by decision of the Board of Directors, the GFATM separated its administration from the WHO structures due to criticism over the bureaucratic burden of linking its work to that organization. This separation from the UN system meant a change in the fund's legal status, and since 2012 it has functioned as a foundation under Swiss law.

#### FINANCING SOURCES

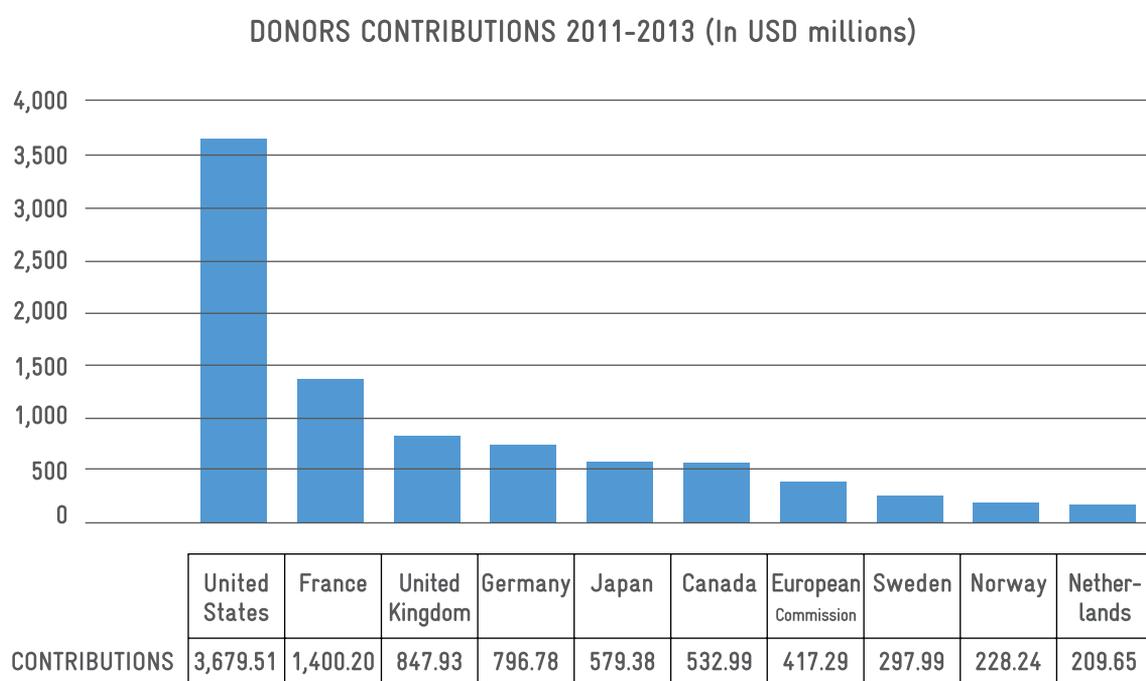
The GFATM finances programs and projects through donations by national governments, businesses and private foundations, and funds raised by non-profit organizations. Governments and private organizations providing resources to the GFATM are the fund's donors (trustors). A large part of the money given by donor governments is pooled from each country's development cooperation resources, and it is estimated that most of these funds are previously earmarked for the health sector.

<sup>40</sup> For more information see: <http://www.theglobalfund.org/en/>

**National governments:** since 2002 a total of 56 governments have given funds to the GFATM. The governments of the United States, France, the United Kingdom, Germany, Japan, the European Union, Canada, Italy, Spain, the Netherlands and Switzerland are among the largest donors to the fund since its creation (figure 30). Also, under the debt-for-development initiative *Debt2Health*, the

governments of Australia and Germany exchange the debt of developing countries with high disease burdens for financing resources for the fund. For example, instead of paying its debt to a creditor country, a debtor country may pay the same resources into the fund as a means to finance projects in its own territory (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, n.d.).

► FIGURE 30: GFATM - CONTRIBUTIONS BY MAIN GOVERNMENTAL DONORS 2011 - 2013



Source: (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2012/ b)

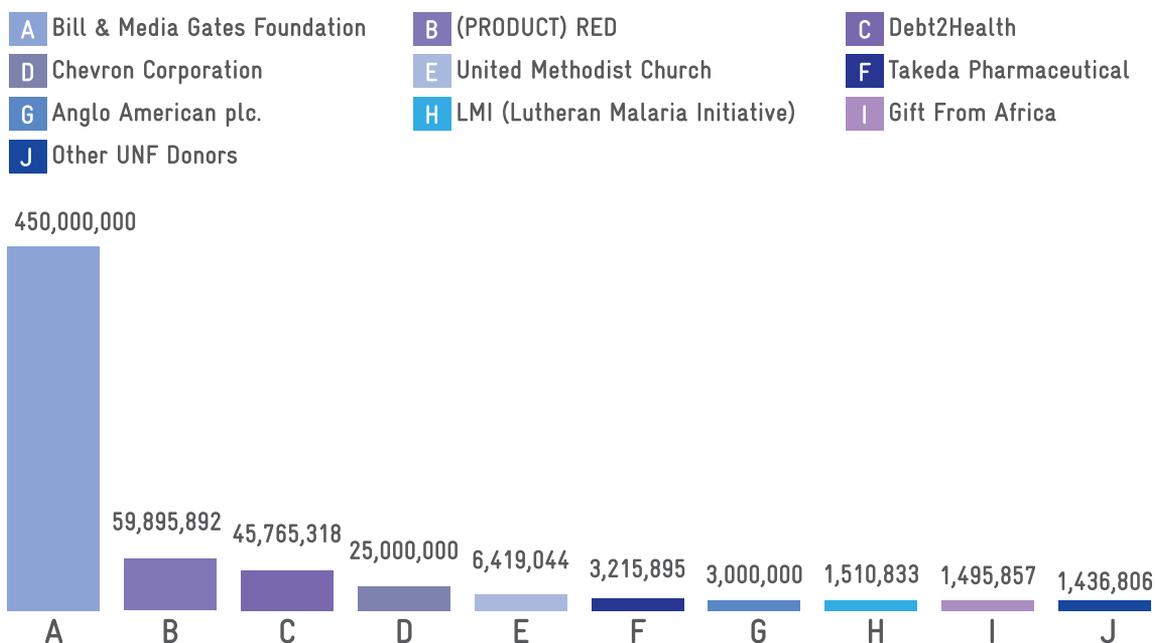
The private sector (private businesses and foundations): between 2011 and 2013, the highest financial contributions came from: the Bill & Melinda Gates Foundation (US), Chevron (US), BHP Billiton Sustainable Communities (UK), Takeda Pharmaceuticals (Japan), United Methodist Church.

The following organizations contribute to the GFATM on a smaller scale or through

strategic fundraising partnerships, implementation improvements and greater project visibility: Coca-Cola, the Lutheran Malaria Initiative, RED (UK), Goodbye Malaria, Comic Relief (UK), Vale mining company, the United Nations Foundation through “Gift from Africa” and United against Malaria Partnership, Standard Bank (Africa), inter alia. Contributions from the non-governmental sector from 2002 to 2011 are shown in figure 31.

► FIGURE 31: GFATM - PRIVATE SECTOR CONTRIBUTIONS AND FUNDRAISING INITIATIVES 2011 - 2013

### CONTRIBUTIONS PRIVATE DONORS 2011-2013 (in USD)



Note: (RED)TM and Partners: American Express, Apple, Bugaboo International, Converse, Dell + Windows, GAP, Giorgio Armani, Hallmark, Motorola Foundation, Motorola Inc. & Partners, Starbucks Coffee, Media Partners and (RED) Supporters, Motsepe.

Source: (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2012/ b)

#### Replenishment

The fund's replenishment mechanism is periodic and voluntary. It was designed in 2003 and considers financial planning in three-year intervals; the first meeting for this purpose was held in March of 2005. GFATM replenishment meetings bring together representatives from donor governments, private donors, civil society organizations, and the fund's partners to discuss the financial needs for carrying out strategies together with the Board of Directors, the Secretariat of the fund and the trustee. Amounts are determined based on resources received in previous years, the progress on achieving the fund's strategy, the current financial status, and an evaluation of the effectiveness and efficiency of work carried out. Once the necessary amount has been determined for continuing with project and program financing, a pledging conference is organized, where donors promise to provide the necessary amounts. To date, four pledging conferences have been held, which are documented on the fund's website.

After each replenishment period, the Board of Directors decides what percentages of available resources will be assigned to projects aimed at each disease. For the 2014-2016 period the Board of Directors assigned 50% of resources for HIV/AIDS, 32% for malaria and 18% for tuberculosis (The Global Fund to Fight AIDS, Tuberculosis and Malaria, 2014/ b).

#### Volume of operations

From the beginning of its operations up to 2011, the GFTAM gradually increased the amount of resources approved and disbursed (table 11). While in 2011 around USD 15.7 billion were disbursed, in 2014 this amount increased to approximately USD 25,282 billion (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2015). It should be noted that financing approved refers to the maximum amount of financing resources assigned to already-approved projects, while financing disbursed consists of resources effectively paid out to the principal recipients (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2012/ b).

► TABLE 11: GFATM –RESOURCES APPROVED AND DELIVERED TO PROJECTS (IN USD BILLIONS) 2002 – 2011

YEAR	APPROVED FUNDING	DISBURSED FUNDING
2002	1,400	<0.1
2003	2,800	0.2
2004	4,100	0.9
2005	6,100	1,900
2006	7,900	3,200
2007	10,100	5,000
2008	14,000	7,200
2009	18,400	10,000
2010	21,700	13,000
2011	22,900	15,700

Note: figures are rounded off

Source: (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2012/ b)

Until the first half of 2015, the fund had committed around USD 29.2 billion and effectively disbursed around USD 27.2 billion. However, the maximum approved amount is over USD 33 billion, meaning that more resources are potentially available (Table 12).

► TABLE 12: GFATM – RESOURCES ASSIGNED, COMMITTED AND DISBURSED IN 2015

CUMULATIVE DISBURSEMENTS UP TO 2015 (USD)			
DISEASE	AMOUNTS SIGNED	AMOUNTS COMMITTED	AMOUNTS DISBURSED
HIV/AIDS	16,989,966,851	15,254,157,536	14,542,466,531
Tuberculosis	5,008,400,427	4,491,733,100	4,330,866,909
Malaria	9,988,435,317	8,478,511,189	7,584,310,929
HIV/Tuberculosis	550,966,481	358,166,703	230,247,033
Health Systems Strengthening	721,539,072	564,223,310	516,366,289
<b>TOTAL</b>	<b>33,259,308,148</b>	<b>29,146,791,839</b>	<b>27,204,257,691</b>

Source: (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2015)

## ORGANIZATIONAL STRUCTURE AND GOVERNANCE MODEL

### Laws, regulations and legal status:

Since 2011, the GFATM is a non-profit foundation under Swiss law, registered at the Commercial Registry in Geneva. The GFATM's statutes (amended in November of 2011) constitute the legal basis, complemented by applicable Swiss law, and do not indicate any specific period of duration for the fund. The GFATM has a detailed governance system described through statutes, regulations and

guidelines, comprising all operational and strategic levels of its work: governance, administration, strategy, finance, monitoring and evaluation.

### Governance model

The main GFATM structures are:

The **Global Fund Board** is responsible for the development of strategies, supervision of governance, financial commitments, evaluation of organizational performance, risks, and activities management with the fund's partners, resource mobilization, and promotion. This body meets regularly at least twice a year.

The Board comprises a total of twenty members with voting rights, as well as eight members without voting rights, each of them representing a constituency<sup>41</sup> (table 13). Within the Board all

voting members have the same responsibilities and legal powers. The division into blocs of donors and implementers is used only in the event of a lack of consensus and application of majority votes.

► TABLE 13: GFATM - COMPOSITION OF BOARD OF DIRECTORS AND ITS CONSTITUENCIES

BOARD		
DONOR COUNTRIES Eight votes from donor countries and two votes from private donor organization	IMPLEMENTING COUNTRIES Seven votes from developing countries and three votes from representatives of affected communities and NGOs	NON-VOTING SEATS Eight ex-officio non-voting members
Canada and Switzerland	Eastern Europe and Central Europe	Board Chair
European Commission (Belgium, Italy, Portugal, Spain)	Eastern Mediterranean Region	Board Vice-Chair
France	Southern and Eastern Africa	Executive Director of the Global Fund
Germany	Latin America and the Caribbean	One Swiss citizen
Japan	Southeast Asia	Representative of WHO
Denmark, Ireland, Luxemburg, the Netherlands, Norway, Sweden	Central and Western Africa	Representative of Joint United Nations Programme on HIV/AIDS (UNAIDS)
United Kingdom and Australia	Western Pacific	Fund Partners: Roll Back Malaria, Stop TB, UNITAID
United States	NGO from communities affected by the diseases	Trustee: World Bank
Private Foundations	NGO from developed countries	
Private Sector	NGO from developing countries	

Source: (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2014/ c)

<sup>41</sup> Each constituency has a board member, an alternate board member, and a constituency focal point (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2015)

Decision-making by the Board is done through consensus. If consensus is not possible, a majority of two thirds of those present is required, of the groups listed below, to approve a motion: a) all eight donors, one private donor and one private foundation; b) seven developing countries, two non-governmental organizations, one representative from a non-governmental organization suffering from AIDS or living in a community affected by tuberculosis or malaria. A motion is not approved if four members of voting groups object to the motion. All decisions approved by the Board of Directors are documented and communicated to both voting and non-voting members. Furthermore, the Board of Directors may meet only if the majority of members from each of the aforementioned voting groups is present, and in the presence of the Board Chair and Vice-Chair.

The Board delegates part of its decision-making, advisory and oversight functions and processes to three permanent committees: (i) the Strategy, Investment and Impact Committee; (ii) the Finance and Operational Performance Committee; and (iii) the Audit and Ethics Committee. Committee members are selected through a process focused on experience and competencies, and they do not form part of the Board. Each committee has one member representing the constituencies as in the Board, except for the Audit and Ethics Committee which is formed by members of the constituencies and independent experts.

While the Board is responsible for dictating the fund's general strategies, committees are in charge of designing changes to policy, recommending criteria for future strategic direction, and outlining concrete changes to ongoing decisions, which are then implemented by the Secretariat.

A brief description of each committee is given below:

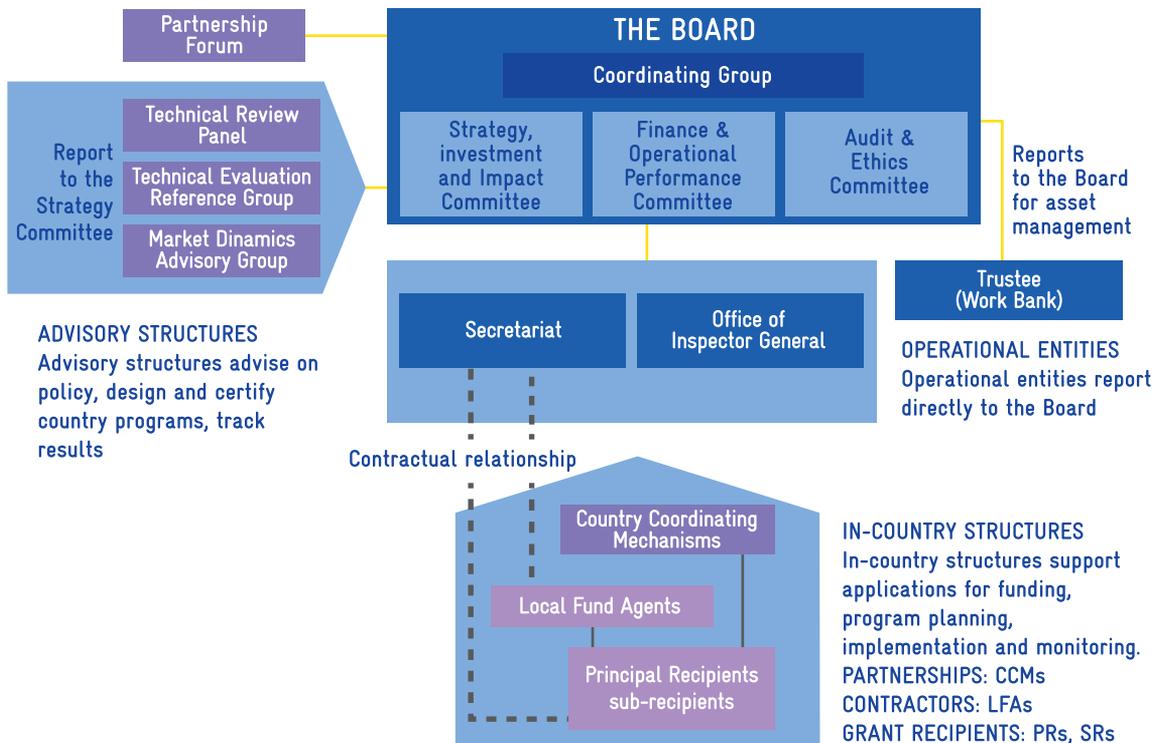
▶ **Strategy, Investment and Impact Committee (SIIC):** it has 16 members and reflects the governance model of the Board, plus the chair of the Technical Review Panel and the director of the Technical Evaluation and Reference Group. It oversees the strategic direction of the Fund and ensures optimal performance of the fund's investments. The Technical Review Panel, Technical Evaluation Reference Group and Market Dynamics Advisory Group provide the Board, through the SIIC, technical advisory on their respective areas.

▶ **Finance and Operational Performance Committee:** the GFATM's trustee reports to the Board on the fund's financial status and performance through this committee. It has 14 members. This committee decides, advises and oversees on key financial issues like budget and cash-flow, performance indicators, investment policies, inter alia.

▶ **Audit and Ethics Committee,** made up of 8 members, including 5 independent experts and three representatives from the groups with representation on the Board.

In addition, the Board has a Coordinating Group that facilitates connection and collaboration between the Board and its committees according to the fund's governance and operations documents. The Board also delegates risk-management, governance and institutional development activities to the Coordinating Group. The interaction between the Board and the rest of the fund's bodies can be seen in figure 32.

► FIGURE 32: GFATM - GOVERNANCE MODEL



CCM: Country Coordinating Mechanism; LFA: Local Fund Agent;  
PR: Principal Recipient; SR: Sub-recipient

Source: (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2014/ a)

**Assurance structure:** or Office of the Inspector General, headed by the Inspector General, is an independent body of the GFTAM, created in order to ensure objectivity and quality in the recommendations and advice given to the fund, through the Audit and Ethics Committee. As an Assurance Structure, the Office of the Inspector General has the power to evaluate, supervise and review all fund operations, processes, activities and systems, and on that basis make recommendations and observations to the board. The Inspector General also maintains constant dialogue with the fund’s Executive Director.

**Secretariat:** responsible for the fund’s operational functioning. The Executive Director

of the Secretariat is chosen by and reports directly to the Board. The Secretariat is responsible for implementing action plans, strategies and policies designed by the committees based on the approval by the Board, and for administrative and financial operations. It is also in charge of: supporting advocacy and resource mobilization, analyzing information on the performance of programs and projects, developing strategies and policies under the supervision of the Board, providing support to the Country Coordinating Mechanisms, managing Local Fund Agents, inter alia.

**Partnership Forum:** constitutes an advisory and dialogue forum which brings together a network of organizations and individuals interested in GFATM’s

work around the world. The forum meets every two and a half years. At each meeting, the Partnership Forum reviews the progress of GFATM's activities, using this information as a basis for developing recommendations for improving the fund's strategy, direction and implementation, as well as its policies and practices.

**Advisory Structures:** in place since 2011, report to the Board through the Strategy, Investment and Impact Committee.

- ▶ **Technical Review Panel:** made up of experts on the three diseases, the panel issues technical and strategic recommendations based on lessons learned through the different programs and projects implemented. Procedures and information on the meetings of this panel are kept confidential to avoid inappropriate lobbying and maintain the integrity of the panel's technical work.

- ▶ **Technical Evaluation Reference Group:** made up of experts on technical evaluation, this group supervises and ensures independent evaluations of the fund's activities and makes non-binding recommendations to the Board and the Secretariat.

- ▶ **Market Dynamics Advisory Group:** made up of market experts; in place since 2011, this group is in charge of analyzing the impact of the fund's buying power in the development and production of medicines and health related products to fight the three diseases.

#### **National structures:**

One of the fund's main characteristics is the structuring of Country Coordinating Mechanisms (CCM) under the same multi-stakeholder logic of the fund's own central structure. The CCM can be defined as a governing body for each country's programs and projects, the Fund Agent as a supervisory body, and the Principal Recipient as the implementing entity. The latest reform to the fund's structures and processes sought to strengthen

the role of Country Coordinating Mechanisms to ensure greater ownership of processes, as well as transparency and alignment. Figure 33 shows the role of the Country Coordinating Mechanism and its interaction with the fund. A brief description of each structure is given below:

- ▶ **Country Coordinating Mechanisms:** made up of local representatives from the public and private sectors and civil society, representatives of bilateral cooperation by donor countries active in the country, the academia, the media, unions and people affected by HIV/AIDS, tuberculosis and malaria. This mechanism ensures the efficient, effective use of resources provided by the fund, as well as ownership of processes and decisions by national stakeholders. It is also in charge of:

- ▶ coordinating the development of applications for fund resources,
- ▶ nominating Principal Recipients,
- ▶ ensuring consistency of implementation with GFATM guidelines,
- ▶ supervising effective implementation of programs and projects,
- ▶ ensuring constant participation in national dialogue around the national strategy or plan for health and/or development,
- ▶ convening stakeholders into a national dialogue to agree on the funding split and distribution.

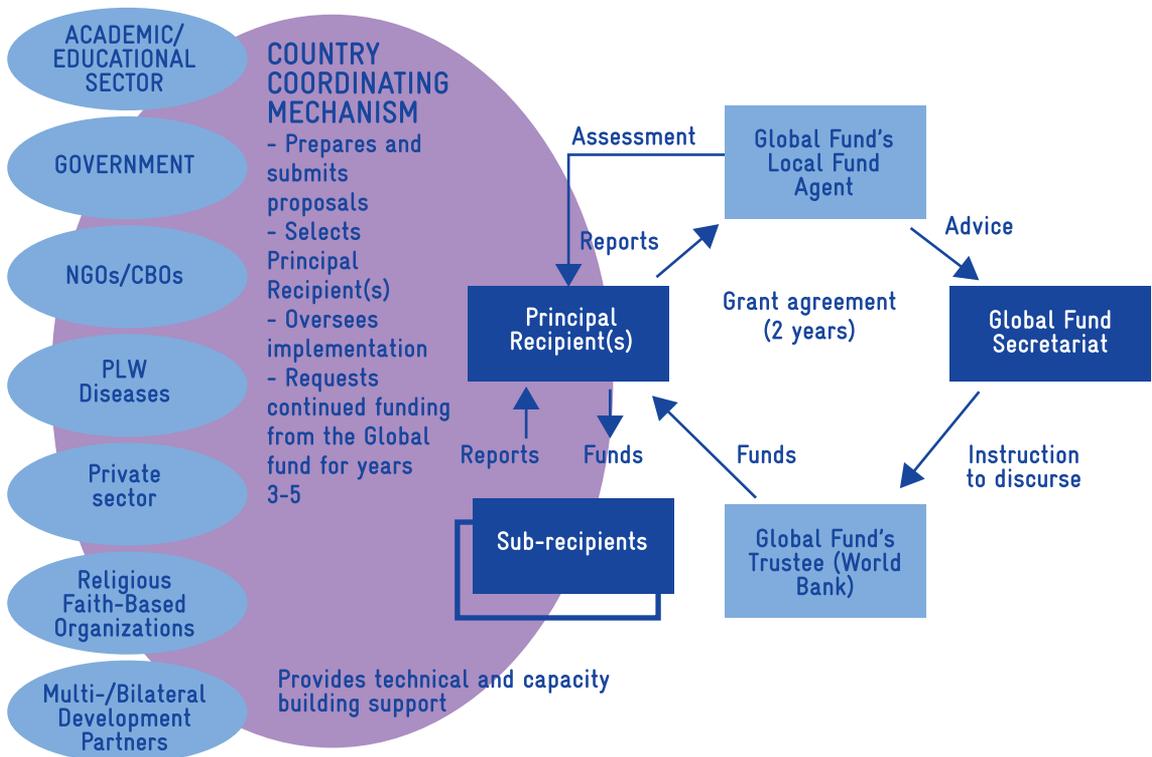
The GFTAM funds the operational and administrative costs of the Country Coordinating Mechanisms that require support, through a resources request by the recipient country including a detailed cost and operation program.

- ▶ **Local Fund Agent:** hired locally by the fund to carry out activities of supervision, verification and reporting on the performance of programs and projects financed in a country. Because the fund does not have its own offices in the different countries of implementation, it could be said that the Local Fund Agent is the fund's

eyes and ears on the field. Organizations acting as Fund Agents in different countries are usually international consulting or auditing firms with offices in the different countries, or the United Nations Office for Project Services (UNOPS). The Fund Agent gives objective advice to GFATM on the identification of risks which may impact project performance. The functions of the Local Agent are mostly financed by the fund.

► **Principal Recipients:** local government entities, local or international civil society organizations, or religious organizations may be chosen as Principal Recipients. An international multilateral organization (e.g. UNDP) may temporarily be designated as interim Principal Recipient only when no appropriate local body is available for implementation, under the condition that the interim organization presents a plan for capacity-building among local organizations.

► FIGURE 33: GFATM - COUNTRY COORDINATING MECHANISM



Source: (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2003)

## FINANCIAL MANAGEMENT

The World Bank has been GFATM's trustee since its creation in 2002. The World Bank is in charge of receiving the contributions of donor governments, as well as debt-exchanges under the *Debt2Health* initiative, among others. The bank is also responsible for making disbursements to Principal Recipients under the instruction of the GFATM's Secretariat, and for disbursing the resources necessary for the Secretariat's administrative and operational management (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2012/ a). The trustee reports regularly on the financial status of the fund to the Board and the Secretariat. As the fund's trustee, the bank receives donations directly from donors and these resources are kept in the bank's common reserve, where investments and cash reserves administered by the bank are also held. The fund's resources are also invested according to the investment directives approved by the fund's Finance and Operational Performance Committee, under the bank's own investment strategies, rather than those of the fund. Resources are administered mainly in US Dollars, and only a portion of the resources are kept in Euros. Technical and policy details on resource management are defined in the fund's governance documents and the contract between the fund and the World Bank.

## PROJECT SELECTION PROCESS

### Call for applications

Following the reform to its funding model, the GFATM has given more flexibility to its funding request reception phases. Applicants may initiate the application process when they see fit, in accordance with national processes in each country. However, applicants must take into account the fact that the fund is replenished every three years, meaning that grant planning is calculated over three-year funding periods. It must also be taken into account that the Technical Review Panel (TRP) carries out four funding-request assessment sessions per year. For

each funding period, the GFATM sets out "funding windows" – or nine submission dates for funding requests. Dates for the 2014–2016 period are published on the fund's website (see link in the annex).

### Eligibility

Eligibility criteria are focused on countries, and not necessarily on the organizations that will implement and execute the resources (Principal Recipients). In principle, any kind of organization may be a Principal Recipient: ministries, religious organizations, etc. Principal Recipients must take part in the ongoing country dialogue process and meet the following minimum criteria: (a) proven competency in the administration of resources and transparent, reliable resource management systems; (b) the necessary institutional and program-level competencies, such as a legal status appropriate for receiving the fund's resources, a clear organizational structure, adequate monitoring systems, etc.; (c) transparent procurement and supply management competencies, with clear quality criteria; and (d) M&E competencies that enable the gathering of necessary information on project progress to be reported to the fund, and to enable other evaluations (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2003).

The GFATM has designed an Eligibility List (see link in annex), with the criteria used to determine which countries can receive resources. These requirements can be defined as a classification of developing countries plus the World Bank's income-level criteria, the type of disease present in each country, and the degree of disease burden according to WHO and UNAIDS estimates. Only countries meeting the eligibility requirements can receive resources.

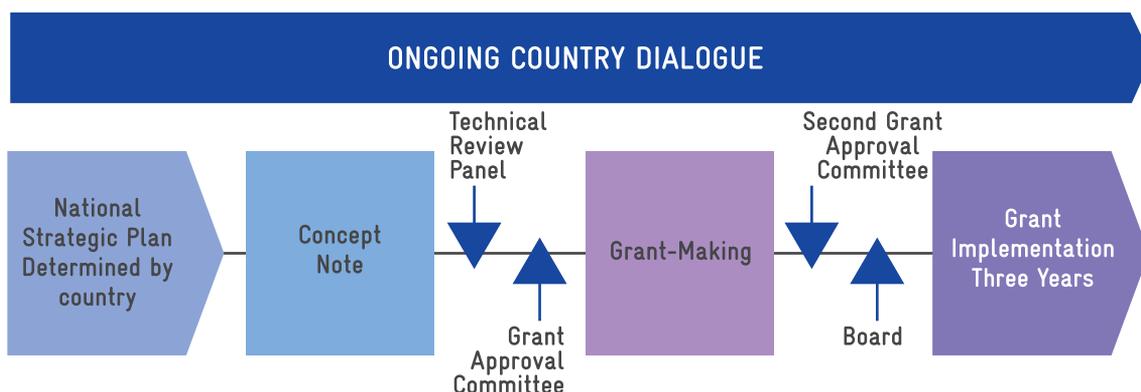
The GFATM also receives regional or multi-country applications for funding, which must be submitted through the Regional Coordinating Mechanism, or through a regional governmental organization. Processes are similar for multi-country or regional applications, but there are also specific requirements and documents that must be taken into account.

## Selection

The resource allocation process for individual countries, reviewed and restructured in 2009-2011,

lasts 11 months. The project selection process (figure 34) is summarized below.

► FIGURE 34: GFATM - FUND APPLICATION PROCESS



Source: (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2014/ d)

► **1. Ongoing country dialogue:** a permanent dialogue process facilitated by the Country Coordinating Mechanism, involving participation of representatives from government, donors, civil society, academia, technical agents, the media, private sector, trade unions, people affected by the diseases or living in populations at risk. This dialogue must be framed within the country's national strategy and the mobilization of the resources necessary to fight these diseases. Countries may request resources for one of the three diseases, or to strengthen their health systems.

► **2. Concept Note preparation and design:** the Concept Note must be based on the national strategic plans of each country, and include feedback from the Ongoing Country Dialogue. The Concept Note must consider and include an analysis of the country's situation and context, including an overview of current and upcoming funding expected for the duration of the funding period, and a prioritization of funding needs

(Funding Request), as well as information on the necessary implementation arrangements and a risk assessment.

► **3. Submission of the Concept Note to the fund:** together with the Funding Request, the Concept note can be submitted by the Country Coordinating Mechanism at any time, but observance of the dates of the four evaluation sessions by the Technical Review Panel is highly recommended.

► **4. Evaluation by the Technical Review Panel (TRP):** the Panel carries out four evaluations per year. Evaluations analyze whether applications have a potential for maximum impact. It is possible that the TRP may request that applicants improve their Concept Note to have it evaluated again in the next assessment session, or notify when Concept Notes are ready to continue to the following phase. This decision is made at fund level, and not at the level of the CCM/country.

▶ **5. Assessment by the Grant Approvals Committee (GAC):** at this phase, the upper-ceiling for the grant is determined. Grant-making considers funding available from a country's indicative funding, as well as available "incentive" funds. This decision is made at fund level, and not at country-level.

▶ **6. Grant-making and selection:** the Secretariat works jointly with Principal Recipients recommended by the Country Coordinating Mechanisms to fine-tune and consolidate the Concept Note, and create the Performance Framework, Budget and Work Plan. The Grant, including all previous documents, must be evaluated a second time by the GAC before being finally presented to the Board.

▶ **7. Grant implementation:** the Board approves a grant, once it has been fine-tuned and is ready to be signed by all parties.

## IMPLEMENTATION – PROJECT MANAGEMENT

The GFATM does not carry out implementation activities. Implementation is delegated to Principal Recipients, and execution is handed over to national and international governmental organizations, national and international non-governmental organizations and private businesses, and foundations legally designated as GFATM implementers. Bilateral development cooperation organizations cannot be Principal Recipients, however they may advise Principal Recipients and beneficiary governments on capacity-building to improve funding implementation.

Since the beginning of the fund, many organizations, ranging from governmental to private to civil society organizations, did not have the technical or institutional capacity to enable them to gain access to and/or implement GFATM's resources. Simultaneously to the creation of the fund, the German Government, through GIZ (back then GTZ) under

commission of the Federal Ministry for Economic Cooperation and Development (BMZ), created the BACKUP Initiative in 2002 with the objective of providing support to recipient governments and implementing organizations both on the conception and preparation of funding applications, and on the implementation of funding. This model of technical support has created capacities to ensure the sustainability of grants through strengthening health systems, increasing participation by civil society and promoting gender equality (Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH, n.d.). There is currently a range of initiatives and organizations offering diverse technical assistance programs on a variety of levels: the German Government, the Government of the United States, the Stop TB Initiative, the Roll Back Malaria Initiative, the French initiative 5%, the Joint United Nations Programme on HIV and AIDS, the WHO, etc. Funding for this technical assistance does not generally come from the fund's resources, but rather from additional bilateral or multilateral cooperation resources. For a list of organizations offering technical support, please consult the links list in the annex.

Principal Recipients can also delegate implementation activities to sub-recipients, who are usually small civil society organizations with experience on the field. Organizations with local knowledge and experience are usually preferred as implementing sub-recipients, regardless of their institutional size. Principal Recipients are responsible for allocating the necessary resources to sub-recipients to carry out their activities, and are therefore legally responsible to GFATM for their performance.

## ACCOUNTABILITY – M&E

### At fund level

Accountability, monitoring and evaluation at fund level functions as follows:

▶ **Integrated Evaluations:** the GFATM orders integrated evaluations by independent organizations on different components or the whole fund. All evaluations and studies are available on the fund's website.

▶ **Evaluations by the Technical Evaluation and Reference Group:**

▶ *Five-Year Evaluation:* from 2007 to 2009 a Five-Year Evaluation (see link in annex) was carried out on the fund's efficiency, effectiveness and organization, the environment in the sixteen partner countries; and the impact on health of increasing measures against the three diseases which still persist in eighteen countries.

▶ *360° Stakeholder Assessment:* online survey carried out in 2006 to prioritize aspects to be assessed as part of the Five-Year Evaluation, with participation of over 900 stakeholders.

▶ *Assessment of the Proposal Development and Review Process:* an assessment carried out by an independent body in charge of evaluating the development and review of proposals at both global and country levels.

▶ *Assessment of Country Coordinating Mechanisms*

▶ **Evaluations by the Audit and Ethics Committee:** evaluates the Inspector General's auditing and evaluation plan, selects and designates an external auditor for the fund and offers its considerations to the Board.

## At project level

The GFATM uses a three-level M&E structure:

▶ **Grant-negotiation level:** at this level, the Principal Recipient and the Country Coordination Mechanism design an M&E plan

and a Performance Structure, documents which will serve as implementation and monitoring guidelines for programs and projects.

▶ **Implementation level:** the Local Fund Agent must carry out onsite data verifications, as well as Rapid Service Quality Assessments (RSQAs). The Principal Recipient is in charge of including the implementation's progress in the Progress Update/Disbursement Request. Also, the Fund's Secretariat carries out between 10 and 20 Data Quality Audits per year, done by independent organizations hired by the GFATM.

▶ **Grant-renewal level:** in order to be able to request grant renewals, the Principal Recipient must coordinate with the Country Coordinating Mechanism to present the achievements and progress made, as well as an M&E Plan and Performance Structure for the new funding period.

The fund has made a series of explanatory guideline documents available to implementers of fund resources as a way to ensure appropriate M&E (a link to the document list is included in the annex). Also, implementers may request technical assistance from the different organizations mentioned in the Implementation section to ensure proper M&E.

## BENEFICIARIES

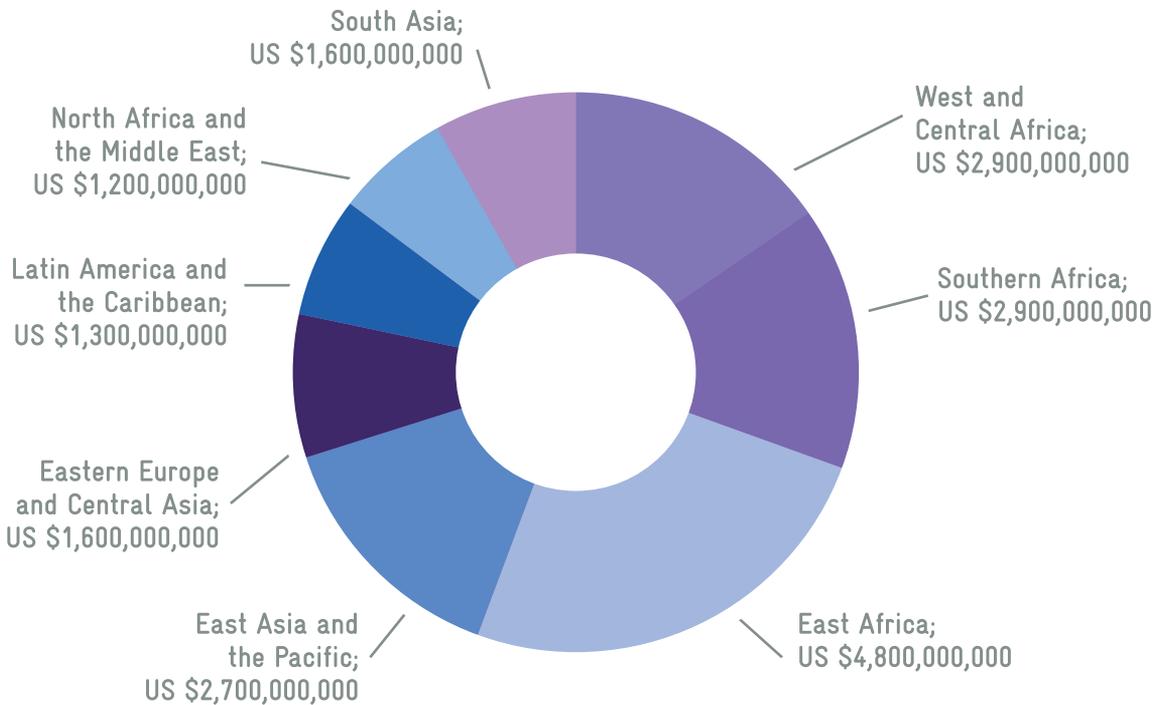
Affected inhabitants and those at risk of infection in recipient countries are considered to be the beneficiaries of this fund.

## Countries and Regions

The GFATM has financed programs and projects in 140 countries in all the world's developing regions. The GFATM has focused a large part of its efforts on East, Southern, and West and Central Africa (Data until End 2012) (figure 35).

► FIGURE 35: GFATM DISBURSEMENTS DISTRIBUTION BY REGION – 2012

### CUMULATIVE DISBURSEMENTS BY REGION – 2012



Source: (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2012/ b)

#### Focus/priority sectors

Historically, most resources have been aimed at the prevention and treatment of HIV/AIDS. During the replenishment process for 2014-2016 the Board estimated financing need of approximately USD 58 billion for HIV/AIDS, USD 15 billion for TB, and USD 14 billion for malaria (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2013).

#### RESULTS

The funding provided by GFATM has achieved results at many levels. Some of these results are listed below:

- Antiretroviral treatment of AIDS in Namibia: between 2005 and 2010 AIDS-related hospital deaths were reduced by 98%. This country

was one of the first to ensure pediatric antiretroviral treatment for 87% of eligible children.

- Fighting tuberculosis in Cambodia: the fund has given around USD 24 million for the detection and treatment of tuberculosis in Cambodia. In 2012 these grants represented 31% of national budget set aside for controlling this disease, increasing tuberculosis detection rates by 65%.

- Treatment of malaria in Bangladesh: the fund has been financing programs and projects in Bangladesh since 2007. These resources have enabled increased coverage of malaria prevention and treatment services, with 55% of homes now possessing two or more insecticide-treated mosquito nets.

The latest update report with information for the first half of 2015 (The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM), 2015) indicates

that in monetary terms, the GFATM disbursed approximately USD 25,295 billion in 2014 for the treatment and prevention of the three diseases, and to date:

- ▶ 507 grants are active,
- ▶ 7.3 million people are currently on antiretroviral treatment,
- ▶ 450 million mosquito nets have been distributed,
- ▶ 12.3 million positive cases of tuberculosis have been detected and treated.

## ANALYSIS

### Success factors – strengths:

**Transparency:** the GFATM is characterized by its efforts to improve transparency in the fund's work and that of funded projects. In addition to make all financial details on donations available to the public, it publishes reports on the progress achieved toward meeting the fund's strategies and goals. The grant database provides detailed information by country, as well as highly specific information for proposal creation, resource implementation and monitoring and evaluation.

**Board Governance:** one of the GFATM's strengths is the constituency-based structure of its Board, where different sectors have a representatives in the Board (Heimans, 2002). Similarly, participation on the Board with voting rights by stakeholders from developing countries and representatives of people affected by the diseases is an excellent example of inclusion and a better distribution of decision-making power that favors the resource-recipient group (Abbott & Gartner, 2011). The simplification of a number of processes and the reduction of the time between resource requests and disbursements also represent a strength shown by the GFATM over the last three years.

**Direct access and ownership:** the GFATM has been characterized by giving high priority to active participation by local stakeholders through the direct access modality, as a way to ensure

ownership of processes and implementation at local level (Bottom-up approach) (Bartsch & Kohlmorgen, 2007).

**Capacity/Flexibility to reform:** in 2009 the Board approved the design and policies of a new funding model. The funding model's restructuring process began in 2010 and was approved in early 2014. To date, the majority of processes have been reformed and the fund's new funding model is being applied.

### Challenges

In the Five-Year Evaluation, one of the first critical observations on the GFATM's major funding flows into countries is the imbalance that external funding causes on local investments and budgets. Because international resources are, in many cases, far greater than national resources set aside for the treatment of the three diseases, ministries of health, who are usually the local counterpart, may achieve a kind of budgetary and even political "independence" from the national situation (Lázaro Rüter, Müller, & Peláez Jara, 2014). One of the suggested solutions to tackle this challenge is to seek greater participation by national cooperating partners, especially the private sector. Likewise, to avoid this imbalance in governance, it has become critical to anchor all projects to national development strategies, one aspect the GFATM's new funding model seeks to improve.

Capacity building in beneficiary countries, especially for smaller implementing organizations, has been a challenge for the fund's effectiveness since the GFATM's inception. The BACKUP Initiative implemented by the Government of Germany through GIZ is one measure that has proven an effective response to this challenge.

Other challenges identified are:

- ▶ A better control on cases of corruption and mismanagement of funds, and effective rapid-response mechanisms.
- ▶ Rapid incorporation of medical and technological advancements, in strategy and implementation

### 3. REFLEXIONS ON THE DESIGN OF FUNDS<sup>42</sup>

The aim of this study was to explore different case studies of IDC funds and provide conceptual orientation on the processes of creation, design and reform of funds. As a whole, the case studies exemplify a part of the wide diversity of fund types. Each one has strengths and success factors, while also facing several challenges. Nonetheless, these characteristics are highly contextualized and can vary significantly: what works for one fund may not necessarily work for all, for which reason it is not recommended to draw general conclusions.

Despite the lack of a single model or “pattern,” there are certain common points: from the examples studied, it can be deduced that the governance model and operative processes (financial and administrative management) must be coherent with the fund’s objectives and the circumstances in which it operates. This raises to the following structural questions:

- ▶ **What is the best organizational structure and governance model to ensure that the fund has the capacity to achieve its objectives?**

- ▶ **Where will the necessary resources come from?**

- ▶ **How will the financial and program management be organized to ensure effectiveness and efficiency in the fund’s operations?**

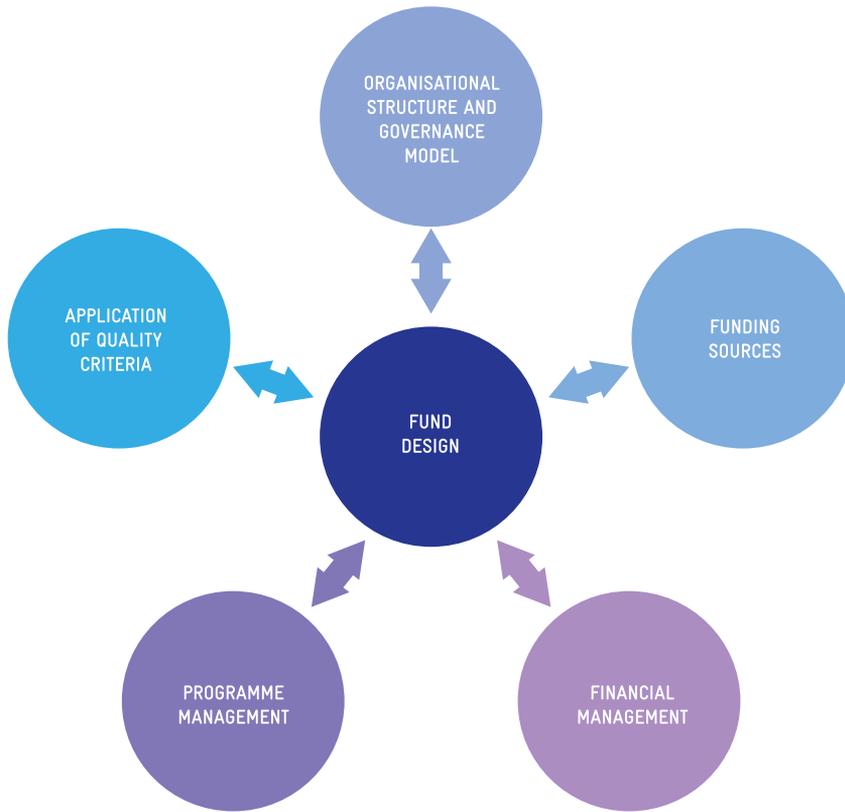
- ▶ **Which quality criteria must be applied and how should it these operationalized in practice?**

Additionally to these structural questions, a fund’s design or reform includes the following basic elements, which together form the specific design of each fund: (i) organizational structure and governance model, (ii) funding sources, (iii) financial management, (iv) program management (including monitoring and evaluation), and (v) the application of quality standards. These elements are not independent from one another, but rather overlap each other. In other words, a decision on the specific provisions of one element may have repercussions – possibly unexpected ones– on the remaining elements (see figure 36).

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<sup>42</sup> With contributions by Dr. Ulrich Müller, senior advisor at GIZ.

► FIGURE 36: ESSENTIAL ELEMENTS FOR THE DESIGN OF A FUND



Source: Elaborated by the authors

Considering the lack of common standards for the creation and design of a fund, the aim of this chapter is to encourage reflection on the context within which the fund evolves and operates, and the possible interdependencies and interactions between the essential elements of a fund.

First, the context of a fund will be briefly explored. Based on a synthesis of case studies, the five essential

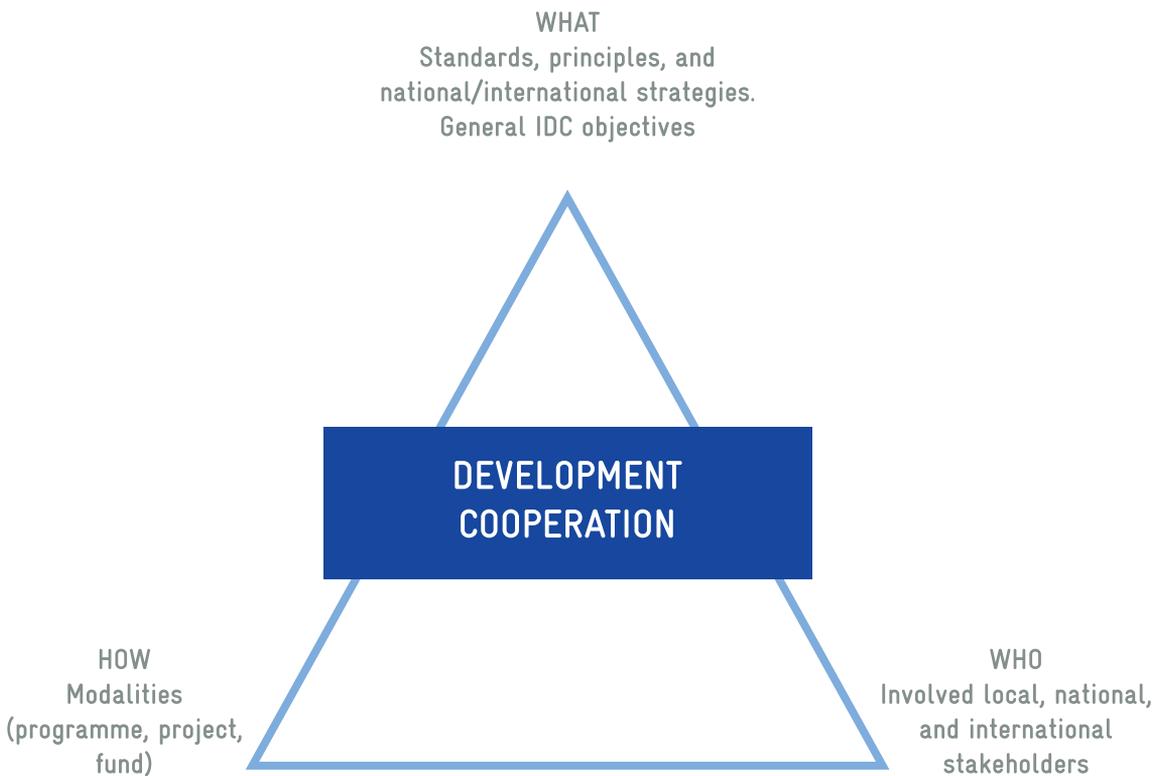
elements and the links that may exist between them will be analyzed. At the end of each sub-chapter, key questions will be presented which may be useful in evaluating different conceptual choices and their implications on the fund as a whole. These questions do not represent an exhaustive list and can doubtless be explored in greater depth. The objective of this checklist is rather to provide orientation during the conception or restructuring phase of a fund.

### 3.1. CONTEXTUAL ANALYSIS

As with any IDC activity, any emerging or existing fund is integrated into a broader context that cannot be ignored, and must be reflected in its design or reform. There is no doubt that this complex environment has several levels of influence over numerous factors and stakeholders, all of them with different interests and powers. However, and in order to reduce this

complexity, the fund's context can be defined as the interaction between the *what*, the *how* and the *who* (see figure 37). In other words, the necessary analysis must consider the externally-defined strategies and objectives (what), the decision on the modus operandi (how), and the stakeholders constellation of which the fund is or is going to be part of (who).

► FIGURE 37: CONTEXTS OF FUNDS



Source: Elaborated by the authors

The *what* comprises the regulatory framework in which cooperation takes place, including current national and international standards for development, and the overall cooperation objective in question. The *how* refers to the methodology and modalities applicable to the cooperation, and the *who* involves stakeholders at different levels who have a positive or negative influence over the potential impact of the cooperation. A clear understanding of this operational logic is essential for planning and carrying out any kind of development cooperation activity.

Analyzing the legal and political framework, a comparison of different methodological alternatives,

and a mapping of actors can increase the quality of the program design, and later its strategic development and adjustments. As mentioned in the following section, a fund's design also involves a *what*, a *how*, and a *who*.

A series of questions is listed below to support the reflection around the design or restructuring of a fund. Not all of them are relevant to all funds or at all times, but all of them may encourage ponderation over the essential aspects, the different functions, and structures of funds. Therefore, it is recommended that this catalogue of questions is used as an initial guide in the process of designing, analyzing or restructuring a fund.

## 3.2. ORGANIZATIONAL STRUCTURE AND GOVERNANCE MODEL

The chapter 1.5.1 mentions that every fund meets the two basic functions of governance and administration (financial management/ cashier services and program management), which can be divided between a number of bodies (organizational structure), and which jointly ensure the proper operative functioning of a fund (governance model). Ideally, the organizational structure and governance model are the basis on which the fund's objectives are translated into concrete, effective operations. In other words, both must respond to the fund's internal regulatory needs and contribute to effective, timely decision-making. On the one hand, this requires specifying the division of roles, the spheres of cooperation, and the hierarchical levels between different bodies. On the other hand, a decision must be made regarding which and how organizations and/ or individuals should participate in the different bodies, and on the creation of transparent selection mechanisms (institutional or ex officio representation, by vote or by rotation, public tenders, direct hiring, etc.).

Clearly, the cases reviewed here vary significantly in terms of both organizational structure and governance model: global funds such as the GFATM, or national funds such as the Amazon Fund operate within complex environments characterized by a wide range of stakeholders at all levels. Under these circumstances, a more inclusive governance model can help increase legitimacy and ease the coordination between involved parties.

Many donors contributing own resources are rarely content to remain in the role of "silent co-financier" with neither speaking nor voting rights. Instead, they often demand the right to involvement in decision-making and to be able to influence the allocation of resources. At the same time, local leaders and coalitions often have a pivotal role in achieving change on the ground. A lack of involvement by the latter not only makes field work more difficult, but might also have severe consequences for the fund's

legitimacy. Involving local stakeholders from the beginning in the fund's governance can be a measure to overcome eventual resistance, and achieve their commitment to the fund's objectives.

In the GFATM, for instance, decision-making by multi-stakeholder mechanisms at the national level (represented by the Country Coordinating Mechanisms) is essential for the fund's overall governance model. Nevertheless, moderating between different – and sometimes even antagonistic – perspectives and interests is not an easy task and may bring high transaction costs.

In the case of national funds, it is recommendable to include from the start local stakeholders e.g. civil society, academia, the private sector, and local co-financiers in the decision making (governing) body. Such an inclusive governance model strengthens national ownership of the fund, thus reducing the need for future reform processes, and also gives the fund a mechanism to balance and/or reduce the influence of external/ multilateral donors. Giving an official governance role to the different stakeholders may also contribute to a certain "check and balances". For example, at IBSA and the GFATM, there are technical and advisory committees that bring together involved stakeholders and provide them with a role in the fund without their direct participation in core governance decisions. In the case of IBSA, the technical committee is part of the governing level, but has no vote in decisions. The technical committee rather advises the ambassadors, and maintains an exchange with the secretariat on a technical level. In the case of the GFATM, part of the reform to the fund's financing model and governance system involved the creation of technical committees to advise the board on specific areas, and even make decisions on behalf of the board, in accordance with the fund's governance documents. While committee members are not members of the board, their advice is an important part of the governance structure because it "decentralizes" certain topics from the board.

Funds such as IKI, FLOW and EDCF are the exclusive instruments of bilateral cooperation by the Governments of Germany, the Netherlands and Korea respectively, and are therefore governed by them. In all three cases, the governing bodies are relatively homogeneous and small, comprising the relevant ministry and its officers specialized in the fund's thematic area. Furthermore, the planning of these funds is incorporated into the ODA planning structure of each country. This means that the fund must include mechanisms for coordinating with other ODA funding and management bodies within the same country, to avoid duplication of efforts or sending contradictory strategic messages to beneficiaries. In the case of EDCF, one of the greatest governance challenges is achieving an optimal coordination between the strategies of KOICA (under oversight of the Ministry of Foreign Affairs) and EDCF (under oversight of the Ministry of Strategy and Finance). In other words, there is the necessity to reduce difference of strategies between reimbursable and non-reimbursable funding. Under the recommendation of the first OECD-DAC evaluation of the Korean ODA system, the Korean international cooperation system has already started improvement measures around its coordinating mechanisms and agencies at all levels.

Such a governance model has the potential to create lower coordination efforts, a relatively fast decision-making process and a higher degree of political coherence, thereby increasing the potential for effectiveness. However, processes and mechanisms for coordination between the different bodies responsible for development cooperation within the same country, in order to ensure political coherence, should not be underestimated, but should in fact be acknowledged from the beginning of the planning of funding mechanisms.

At the same time, it could be argued that such a model could be seen as being dominated by the donors, making it less inclusive. This aspect may be "compensated for" on another level: for example, IKI and FLOW are present in a large number of countries and accept funding requests from a diverse range of organizations, thereby achieving a certain level of diversity in stakeholders and perspectives at project level. Also, the agreement of the recipient country and the alignment of project proposals with national development strategies are always essential selection criteria.

The following questions are suggested for this section:

- ▶ 1. What functions has the fund to fulfill, and how are these functions divided among the governance bodies of the fund?
- ▶ 2. What is the hierarchical relation between the different governance bodies, and which relations of cooperation and accountability exist among them?
- ▶ 3. How is the relation between the fund and its governance bodies formalized? How can the legal relation between the fund and its different bodies, especially the cashier, be described?
- ▶ 4. Which public, non-public, national and international actors should participate, either directly or indirectly, in the fund's governance?
- ▶ 5. How are the different stakeholders involved in the governance coordinated, and how are possible conflicts mediated?
- ▶ 6. How can individual stakeholders be prevented from dominating the governance bodies or influencing other actors in an appropriate manner?
- ▶ 7. Which individuals are eligible for governance roles, and what are the selection mechanisms?
- ▶ 8. What mechanisms enable state or third party supervision and control over the governance bodies?
- ▶ 9. What measures can be taken to minimize transaction costs?

### 3.3. SOURCES OF FINANCING AND CO-FINANCING

The sources of financing and co-financing of funds are traditionally bilateral donors and, to a lesser extent, multilateral organizations (including other funds and financial facilities). Funds allow supporting an issue without having the necessary implementation structures in place. Also, there are private sources of financing (see Spotlight II) such as the private sector and civil society (including religious) organizations and foundations, plus national and multinational corporations.

One key question for any fund is the amount and frequency of replenishment. It is always an advantage to access diversified sources of financing, including innovative ones such as taxes or earnings from the extraction of raw materials, as it is the case for the Norwegian Pension Fund, for example. Once the resources have been deposited in a fund, they are “decoupled” from the principle of annuality and are no longer accessible to politics. As was seen in chapter 1.4, it is precisely this possibility of making certain budgetary resources “independent” from political situations that suffices as an explicit reason to create a fund. Governments, however, may be tempted to limit such autonomy by allocating rather modest amounts for only short-term periods. The direct consequence of such a measure is a short program cycle, which works against long-term planning with a potential for transformative impact.

Many funds are replenished each year, and others in periods of three or four years, depending in many cases on a country’s ODA planning period (FLOW, EDCF, IKI) and strategic international cooperation (IBSA). In spite of the fact that IKI’s sources of funding were linked to the carbon certificates market, the

German Government and Parliament have ensured its annual replenishment through parliamentary and ministerial decisions.

In the case of many multilateral funds, a certain financial fluctuation has often been reported. In IDC there are also trends, and issues that occupy a high place on the global agenda at a certain time<sup>43</sup> may easily lose interest, and consequentially funding. For political reasons, some donor commitments can be relatively volatile (*forum shopping*), and there is always a certain risk that at the end of a replenishment round, the voluntary contributions do not reach the total amount needed.

Nonetheless, the example of the GFATM shows a different situation due to the fact that public interest has remained constant over the course of recent years, and partly thanks to the support of eminent persons.<sup>44</sup> In contrast, the lack of interest on the issue of gender equality worldwide led to the creation of FLOW as a bilateral fund: the growing lack of funding for women’s rights organizations in the early 2000s caused the closure of NGOs and the discontinuity of their activities. This in turn alarmed the Government of the Netherlands, who in 2008 decided to create a fund to change this situation.

Obviously, diversifying sources of financing is an essential task for any fund, not only for ensuring financial sustainability and increasing the predictability of available resources, but also for achieving more strategic, long-term planning; and also for mitigating the risks of non-payment by any of the donors.<sup>45</sup> Nonetheless, the experiences of a

<sup>43</sup> At the time when a fund is gaining momentum, it can take the opportunity to exercise influence over donors who wish to participate in the fund and “ensure” their influence.

<sup>44</sup> In 2011, a number of corruption scandals within GFATM were revealed which, following strong criticism, led to a restructuring of the fund’s governance. The German Government briefly threatened to withdraw. This gesture caused a great deal of controversy, especially in the sector of civil society monitoring German development cooperation, and unleashed public debate on the proper use of budgetary resources, on one hand, and the reliability of German IDC, on the other (Entwicklungspolitik Online (EPO), n.d.).

<sup>45</sup> The problem is not always regarding incoming, but also with outgoing resources. Especially in emergency situations, many donors are willing to release substantial amounts quickly, and even ODA-recipient countries find solidarity with affected populations in the face of humanitarian disaster. Depending on the state of the crisis, the identification and implementation of appropriate projects constitutes a major challenge for a fund, for which reason delays in disbursement are very common.

number of funds show clearly that the more donors or co-financiers there are at fund level, the more complex its financial administration can be. Global mechanisms such as the GFATM can impose their fundraising, M&E and reporting standards to donors, but smaller funds generally have to accept the requirements of co-financiers. In practice, applying different M&E systems, corresponding to different reporting cycles, and preparing individualized financial and progress reports for each donor lead to a heavy workload, especially with regard to low-volume earmarked contributions. As a consequence, many funds have introduced measures for reducing transaction costs, such as minimum amounts for financed and earmarked contributions, or accepting

co-financing only at project level and not at fund level. In justified cases, however, it may appear reasonable to make an exception to such rules, such as when there is a strategic/ political interest in cooperating with a particular partner.

Other aspects are possible reputational risks which can arise especially in cooperation with private businesses and corporate foundations. Mapping the stakeholders involved helps identify like-minded partners and potential future co-financiers, and it helps design smart fundraising strategies. It is obviously essential to carefully select future public or non-public co-financiers, considering the criteria of viability, profitability and possible reputational risks.

The following questions are suggested for this section:

- ▶ 10. What domestic and international sources supply the fund, and under which conditions?
- ▶ 11. At which levels is co-financing allowed?
- ▶ 12. How is co-financing formalized?
- ▶ 13. Is it necessary to establish a minimum co-financing amount?
- ▶ 14. What would be the reasons/ criteria not to accept co-financing by a specific source?
- ▶ 15. Who is in charge of the fundraising strategy and how is it implemented?
- ▶ 16. What human and financial resources are needed to meet the requirements of different co-financiers?
- ▶ 17. Should beneficiaries contribute with their own resources (whether in cash or in-kind)?

### 3.4. FINANCIAL MANAGEMENT

Designing a fund's financial management means defining which body is to be responsible for managing the resources and how this is to be done. In many cases, the fund's secretariat or manager is also in charge of its financial management. In other cases, the financial management is the sole responsibility of a specialized financial institution as "cashier." For example, both financial and administrative management of EDCF is carried out by the Eximbank of Korea, meaning that, according to MOSF directives, the bank may (or should) apply its banking and control standards to the fund's resources. In the case of the Amazon Fund, the BNDES bank was chosen as the fund's manager precisely because of its good rating and the bank's reputation as a finance

and credit institute. On the other hand, this means that in practice, at the level of fund governance and operations, financial-technical aspects might take precedence over political-strategic decisions. The interaction between the different bodies can be challenging, especially if they represent different organizational cultures. Banks are generally very experienced in ensuring transparency in the administration of resources for both governments, donors and funds. On the other hand, they are naturally more familiarized with financing large infrastructure projects than with the working practices and stakeholders that are found in many IDC projects. From a banking perspective, it is more effective to promote large projects which can create multiplier

effects. In the sustainable forestry sector, in contrast, not all implementers have the capacity to absorb and manage substantial amounts of resources. However, because small executing stakeholders are rooted in local communities, they also have access to highly specialized knowledge and links to affected populations. Therefore, from an IDC perspective, cooperation with this kind of stakeholders can be an advantage, despite the likelihood of higher transaction costs. In order to overcome the lacking absorption and implementation capacities on the executors' side, the Amazon Fund, in technical cooperation with GIZ, offers technical support to potential recipients of the fund.

Therefore, the financial management structure, as pointed out above, must be incorporated and clearly defined in the governance model. If the fund's governing body decides to subcontract the management of the fund to organizations in the UN system, the latter's standards and processes will usually apply.

### 3.4.1. LINE ITEMS AND FUNDING WINDOWS

Practically all case studies examined have a number of internal budgetary line items or funding windows to classify activities according to sectoral, geographical and instrumental focus. The ECDF and IBSA Fund have an "instrumental" orientation, meaning that they foster technical cooperation in a range of issues and regions. The Regional Fund, by contrast, combines its instrumental approach (triangular cooperation) with a geographical presence in Latin America and the Caribbean, although the beneficiary country may also be located in other regions of the world. The other funds studied have the goal of promoting specific issues or sub-topics. In the case of FLOW, for instance, six thematic funding windows are distinguished within the women's rights sector (security, economic self-reliance, participation in politics and public administration, combating sexual violence, child marriage, and post-2015 agenda debate). In the health sector, the GFATM, for instance, focuses on three diseases. Such a concentration enables, on the one hand, maximization of the impact of limited resources

and capacities, and avoiding a vague thematic strategy. On the other hand, there are concerns that the GFATM with its focus on AIDS, malaria and tuberculosis contributes to limiting the overall health agenda to these three pandemics, and hinders more systemic solutions. In its nature as national fund, the Amazon Fund limits its activities to a particular region within the national territory. However, it should be noted that the Brazilian case also carries out cross-border activities in response to interconnected challenges within the Amazon region.

It was observed that all cases define differently, and at different levels, what and how results and impact should be achieved, as well as who the beneficiaries of their resources should be. Despite the fact that IDC funds usually seek to contribute to sustainable development, poverty reduction, and a better quality of life and environment for certain populations or groups within society, the specific formulations of these beneficiaries range from highly generalized to more specific. It is therefore relevant to point out that the formulation of expected results and impacts, as well as their beneficiaries, must be clear and have a basis in the fund's political and financial strategies. Also, the expected results and impacts should be formulated in accordance not only with the country's ODA policy, but also with common IDC practices and principles.

Other factors to take into account are project characteristics (duration and volume), the types of costs to be funded (financing, staff costs, equipment and materials, etc.), financial instruments available (grants, loans, mixed funding), and the type of implementing and execution agencies. As specified in 3.5.1, the selection criteria must be differentiated according to thematic, geographical or instrumental funding windows, and reflect their specific characteristics.

The flow of resources is a question that requires a balance on two levels: on the one hand, it is necessary to analyze the amount of resources the fund has the capacity to raise and disburse. On the other hand, a good cash flow also implies analyzing the fiduciary risks which can be incurred by assigning resources to third agencies with limited implementation capacities, whether the organizations are large or small. There may

be cases of implementing agencies with good absorption capacity, which may struggle on the technical level. Other implementing or executing agents may leverage the fund's activities and reach a high number of beneficiaries, but do not meet the necessary fiduciary standards.

Since funds are not created merely to keep resources in a vault, the best recommendation is to create funding windows and selection criteria which facilitate the cash flow on both levels (entry and exit). Catalogues with very strict selection criteria may create a "bottleneck" effect on the flow of resources, as well as systematic discrimination against potential implementers with a less institutional or absorption capacity, but with high potential for creating change due to their grassroots connections. Funds such as FLOW, for example, reserve a part or all of their funds exclusively for financing projects of civil society organizations and research institutions which could not otherwise compete with large bilateral or multilateral implementing/ executing agencies (positive discrimination). Other funds for example open special application processes for receiving resource applications only by civil society associations, cooperatives and private foundations. By doing so, smaller executors gain vital skills while the outflow of resources is enhanced. Simultaneously, progress is made on particular (sub) topics, taking advantage of accumulated specialized knowledge, as well as the networks of cooperation that these organizations often have at local or regional level.<sup>46</sup>

Also, funds have the potential to stimulate the private sector's commitment to engage in common development challenges. The role of private sector co-financiers has already been discussed in chapter 3.3. Another important role that they can play is that of partner in the implementation of projects financed by the fund. In some cases of public-private partnerships (PPP), they also support the implementation of projects with their own resources. Their contribution is carried out in parallel to the fund's activities and are not accounted for by the fund's administration, although they do multiply its efforts (leverage).

Some funds choose to explore a range of other options to engage with the private sector such as corporate social responsibility projects, public private partnerships and direct investments in collaboration with financial institutions. Developing attractive offers for the private sector is not an easy task, but it is particularly promising, and there is a great deal of interest in exchanging experiences. The EDCF, for example, is carrying out efforts to increase cooperation with the Korean private sector through co-financing in PPP's on a project level.

Keeping donor resources in separate accounts facilitates their financial administration and allows adapting planning cycles, selection criteria, implementation procedures, and M&E to the specific needs of each funding window. However, a too detailed subdivision can increase transaction costs and weaken horizontal or innovative areas.

The following questions are suggested for this section:

- ▶ 18. How many funding windows are planned? What is the ideal number of funding windows to allow both, differentiating between several focus areas and ensuring effective financial management?
- ▶ 19. What criteria (thematic, geographical, and instrumental) are used to distinguish different funding windows?
- ▶ 20. What are the specific selection criteria for each funding window?

<sup>46</sup> It should be mentioned that there is also a certain risk of "overfeeding" organizations which do not have the capacity to absorb large amounts of resources, and of creating expectations of prolonged subsidization which, in the long term, undermine the implementation quality.

### 3.4.2. TYPES OF ACCESS

As explained in chapter 1.5.3, pondering between offering direct or indirect access is inevitable: in recipient countries, there is clear preference for direct access. Additionally, direct access can be one way of strengthening the recipient country's administration capacity, fostering national ownership, the alignment with national strategies, and the use of national systems. Nonetheless, the fund is also subject to fiduciary and accounting standards and regulations, and must be accountable to its donors and the wider public regarding the proper use of resources.

Among the large global funds, the GFATM has been a pioneer in direct access, inspiring much international debate in recent years. However, the multi-stakeholder mechanism applied by the GFATM is not always easy to execute and may tie-up limited capacities in the partner country, which may be lacking for other purposes. Especially in countries where civil society is relatively weak and less organized, the Country Coordinating Mechanism (CCM) tends to be dominated by government actors.

In the case of national funds, such as the Amazon Fund, resources are implemented mainly

through national organizations, meaning access is direct. In some cases, a fund can also aim to become an accredited NIE to gain access to the Adaptation Fund and the GCF.

In the case of IKI, for instance, it accepts both country-based executing agencies and bi- or multilateral ones. The decisive factor is the quality of the proposal and the work experience and quality of the applying agency. In practice, however, such indiscriminate access always results in certain predominance by agencies with vast experience that to a certain degree guarantees an adequate implementation, as in the case of GIZ and KfW in IKI, and country-based organizations in the case of FLOW. In the case of the EDCF, and due to the fact that it only grants concessional loans, part of the resources are implemented by recipient governments in close cooperation with other multilateral development banks, such as the World Bank or the Asian Development Bank. The Regional Fund is a notable exception with GIZ as the sole executing agency, a fact related to the specific provision of this fund as a regular program within German IDC, which objective is to foster the tool of triangular cooperation in the Latin American region but also within German cooperation

The following questions are suggested for this section:

- ▶ 21. What is the most appropriate mode of access (direct, indirect, or mixed)?
- ▶ 22. In the case of indirect access, how can systematic participation (ownership, alignment, use of local and national systems) by the beneficiary country be achieved? Which organizations are accredited as implementing/ executing agencies? Which are the criteria for accreditation? Which fiduciary or implementation risks may occur?
- ▶ 23. In the case of direct access, what strategies exist to mitigate possible fiduciary and implementation risks? What are the options for building up capacities in the beneficiary country so that it gradually takes on more responsibility? Does capacity-building requires more resources, and more time for implementation?

### 3.4.3. FINANCIAL TRANSACTIONS

A crucial aspect of the financial management are obviously transactions involved in fundraising and resource disbursement, plus the regulations on the safeguarding and investment of the fund's assets.

Due to the limited scope of this study, it was not possible to deepen into technical-financial analysis. The experts interviewed were selected due to their overall experience and view on the establishment and evolution of the funds analyzed, and due to their experience in governance issues. None of the interviewees were involved in routine financial processes, and it is likely that many funds would have shown a certain reluctance to disclose the details of their financial management.

Generally speaking, it can be inferred that the governing body receives contributions from donors and co-financiers, and transfers them to the fund's account administered by the cashier. When it comes to collecting the resources, some funds receive a predetermined amount at the beginning of each fiscal year for that year's operations, as in the case of IKI and EDCF. There are also funds that receive resources in several tranches transferred during the fiscal year, as in the case of the Amazon Fund. Others receive resources for operations over a certain number of years, as in the case of FLOW and GFATM. The timetable (when) and the amount to be received should, in all cases, be established in the donation agreement which governs the cooperation between the fund and the donor.

With regard to the disbursement of the fund's resources to executing agencies, and according to the conditions established in the funding agreement, generally the implementing/ executing agency usually requests to the manager and/or the governing body the payment of the full or a partial amount due. If the formal requirements are met, the manager or the governing body instructs the cashier to transfer the funds. It should be specified whether the disbursement is to be made in one tranche, or in a series of instalments, and what the formal prerequisites for payment are. In the case of the EDCF, the different payments, their terms and conditions are defined in the implementation plan. In the case of IKI, payments are made on demand, as long as the implementing/ executing agency can prove that progress is made on the project's performance. Finally, for the purposes of accountability, the level of invoicing required must also be determined: at one extreme, the implementing/ executing agency would have to prove each individual expense, starting with office supplies (such as pencils). At the other extreme, aggregate receipts would be accepted to justify all expenses. The Regional Fund, however, differs from this prototypical structure: as a legally-incorporated program entrusted by the Ministry for Economic and Development Cooperation to GIZ, the Regional Fund is integrated into the resource allocation and distribution established between both institutions. Considering that GIZ is, in most cases, both the fund's manager and the implementing body of the German contribution to a triangular project, the assigned resources are transferred internally within the GIZ budget.

The following questions are suggested for this section:

- ▶ 24. How is fundraising organized?
- ▶ 25. At what times and under what conditions must funds be raised to ensure proper functioning of the fund?
- ▶ 26. At what times and under what conditions are approved resources disbursed to implementing/ executing agencies?
- ▶ 27. Are approved resources transferred as a single payment of the total amount, or in sequential installments? What are the advantages of each of these options, from a financial management perspective on one hand, and from a planning perspective for the beneficiary country on the other?

### 3.4.4. PUBLIC AUDIT AND FINANCIAL CONTROL

In IDC, external audits by large auditing firms is an essential part of accountability and mitigation of financial risks (see also chapters 3.5.3 and 3.5.5). Civil society organizations and the general public have an important “watchdog” role and legitimately claim for independent audits, transparency of information, and citizen participation in such audits.

For donors, audits are therefore generally a sine qua non condition for pledging funds. Most donors insist on the inclusion of a respective clause in grant agreements. For a fund, an independent audit – a costly exercise with an uncertain result – can enhance its credibility and pay off as measure to foster fundraising.

In effect, the majority of cases studied undergo regular external audits. For instance, the EDCF, the GFATM, and the Amazon Fund publish their audit reports annually. As a program implemented by GIZ, the Regional Fund is not subject to regular individual audits. Nonetheless the fund is integrated into the system of external audits at corporate level, where a series of projects is randomly selected for evaluation.

In many countries, IDC institutions and programs may also be reviewed by public control bodies – according to current national legislation – which form part of the executive, legislative and/or judicial powers. Due to differences in legal and technical systems and language in different countries, this aspect has not been compared in the different funds examined here.

As audits are a costly exercise with a high impact on reputation, internal controls are usually in place to detect possible inconsistencies before they are detected through an audit. The internal control system is usually complemented by a response mechanism: the governing body authorizes the higher management levels to resolve problems detected and demands to guarantee that such will not occur again (management response system). The communication of the results of external audits and public controls is a task that deserves the highest attention, as it may hold highly strategic implications. Clearly, it is not possible to control every aspect, but serious fiduciary irregularities such as fraud or misappropriation of resources may jeopardize the fund’s credibility and reputation. Transparent reporting to the public and acknowledgement of a fund’s potential must be an integral part of any crisis management strategy, in order to safeguard a fund’s credibility and reputation.

The following questions are suggested for this section:

- ▶ 28. By what mechanism and with what frequency should external audits be conducted for the fund to operate transparently? Should this be decided together with the fund’s donors?
- ▶ 29. What communication mechanisms will be used to publish information and/or include citizens?
- ▶ 30. How do audits interlock with internal control systems and the fund’s M&E?
- ▶ 31. Are there any public control entities authorized to regulate the fund? How often and with what method are internal controls carried out?
- ▶ 32. What are the follow-up mechanisms for resolving problems identified by internal control?

## 3.5. PROGRAM MANAGEMENT

As explained in chapter 1, funds are mainly financial facilities that sub-contract the execution of the projects they finance. However, a fund is always judged in terms of the projects implemented by a third, for which reason the fund's management cannot be reduced merely to raising and disbursing financial resources. To ensure both the financial sustainability and technical quality of approved projects, a fund's financial and program management must mutually complement and reinforce one another.

The main responsibility of the program management unit is to ensure the fund's proper operative functioning, and provide technical support to the governing body to inform appropriate decision-making. In close coordination with the governing body and the financial management unit, the tasks carried out by the program management unit include the following: to manage the selection process, to prepare grant agreements, and to supervise and support implementing/ executing agencies. Often, the program management unit also assists in fundraising and strategic communication with partners, and facilitates activities of knowledge sharing, mutual learning and continuous training among stakeholders at all levels.

### 3.5.1. ELIGIBILITY CRITERIA AND SELECTION PROCESS

Clear, comprehensible eligibility criteria and selection processes are crucial prerequisites for achieving transparency. It would be a serious mistake to give the impression to the national public, or that of beneficiary countries, that financial support is

being granted in an arbitrary or clientelistic manner, or to inappropriate or unprepared organizations. In the end, defining the project selection criteria with due caution is a risk-mitigation measure, as it is to decide over the types agencies needed to carry out the selected projects. When defining eligibility criteria for the different funding windows, the challenge is to find the best indicators necessary to verify that the applicant organization meets the minimum requirements for ensuring effective program management and implementation. These minimum requirements must also avoid "technical discrimination" against certain kinds of stakeholders, like NGOs for example. Most funds combine criteria such as technical and sectoral experience, proven knowledge on the execution of similar projects, and a solid financial planning. The range of organizations eligible for the funds studied is broad, as shown in table 14.

► TABLE 14: ORGANIZATIONS ELIGIBLE TO IMPLEMENT RESOURCES

FUND	ELIGIBLE ORGANIZATIONS
IKI	Any organization, NGO, bilateral or multilateral agency, research institute, university, or private business with activities in developing and emerging countries.
FLOW	Civil society non-profit organizations, active in beneficiary developing countries.
Regional Fund for Triangular Cooperation	Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ) GmbH.
EDCF	Organizations and government agencies in beneficiary/ partner countries, as well as multilateral development banks and organizations.
Amazon Fund	Organizations of the federal government or state governments of Brazil, civil society organizations, universities, scientific and technological research organizations, private sector businesses based and active in Brazil.
GFATM	Any government, international, non-governmental, or religious organization meeting the eligibility requirements to become a Principal Recipient, operating in eligible countries.
IBSA	Multilateral organizations within the UN system in cooperation with beneficiary countries.

Source: Elaborated by the authors

In the case of IKI, for instance, basic eligibility criteria apply to all interested organizations, with certain considerations depending on the sectoral focus (adaptation, mitigation, or REDD/ biodiversity). In the case of the Amazon Fund, eligibility criteria are clearly and extensively differentiated for different types of applicants. FLOW, by contrast, does not set criteria to make further distinctions between civil society organizations.

Regarding the selection process, two basic models have been identified: on the one hand, some funds accept resource requests at any time, and distribute their available resources until they run out, as is the case of the GFATM, EDCF, Amazon Fund and IBSA. On the other hand, there are funds that

launch official calls for applications setting a specific deadline for the submission of proposals, as is the case with IKI and FLOW. The latter model, based on direct comparison between submitted proposals, has a certain degree of competition between applicants. There are examples of non-competitive funds, where the level of competition between applications has become accentuated and increased over the years, due to high demand and limited resources. Furthermore, competition can stimulate the quality in applications, but it can also exacerbate differences between heterogeneous applicants. To limit the adverse effects of competition, some funds such as the GEF, have introduced the principle of regional proportionality or fixed quotas for eligible countries.

The selection process is organized based on the answers given to two central questions: 1) which amount of resources will be available?; 2) which degree of responsibility will be transferred to the implementing/ executing partners of the project? Additionally, it is important to identify stakeholders who, for one reason or another, should participate in the selection process. The most important consideration regarding the composition of selection committees is to achieve a balance between the representation by technical expertise necessary for making informed decisions, and the representation by political authorities and eventual co-financiers, who must justify the use of resources to their respective public. It should be pointed out that there is always certain risk of conflicts of interest, if a stakeholder involved in project selection is also eligible to implement resources. This also applies to indirect beneficiaries such as subcontractors.

In the case studies presented in chapter 2, the selection processes generally include a series of steps to evaluate formal criteria, the quality of the organization itself and by extension its level of readiness, and the technical quality of the proposal. A more simplified process is only applicable to smaller programs. The pre-selection is carried out within the entity responsible for receiving and registering submitted applications (fund's manager). In a second step, an experts committee assesses the applicants' track record and the project idea. Factors to be considered apart from the eligibility criteria are, for instance, original and innovative methods, secondary impacts, and the potential for replication or upscaling. Based on the full evaluation, a ranking

or a shortlist including a series of recommendations are presented for the final selection to the respective committee, which is often the fund's governing body. In the case of funds of reimbursable resources, such as those of the EDCF, the selection process can be extensive and include a series of in-depth evaluations, and consultation rounds with partner governments. In the case of FLOW, the call for applications is made, on average, every four years and the selection period lasts only a few months. In the case of IKI, the selection process may include an intermediate step in which pre-selected applicants are invited to submit broader formal proposals for the final selection round, or to improve their applications according to the selection committee's recommendations.

It must be considered that the preparation of a proposal always requires time and personnel resources, without any certainty for applicants that this pre-investment will pay off. In the case of the GEF and other global funds, the selection process may take several years, consuming a considerable amount of the domestic contribution. The GFATM pursued reforms to its funding model to introduce a less complex selection process and stimulate the generation of applications. This example shows that the objective must always be to minimize administrative efforts for applicants and the selection committee. It is important to provide transparent information and maintain an open communication. Also, in some cases, it may be wise to provide technical support to ensure the quality of proposals, as done by the EDCF through its advisory teams funded through donations and at no cost to the applicant, or by the Amazon Fund, with technical cooperation by GIZ.

The following questions are suggested for this section:

- ▶ 33. Which type of access should the fund have?
- ▶ 34. What thematic and organizational selection criteria are needed to properly choose suitable implementing/ executing agencies?
- ▶ 35. Within the chosen governance model, what units/ bodies/ interested parties should be part of the selection process?
- ▶ 36. How many phases do the application and project-selection processes have? Are different phases needed depending on the funding window/thematic focus of the application? How does the procedure in each phase work?

### 3.5.2. SUPERVISION OF AND SUPPORT FOR IMPLEMENTING AGENCIES

As specified above, a fund does not implement individual projects itself. However, the fund should be ready to accompany implementing/ executing agencies throughout the project cycle including the definition of a lean but effective steering structure for the project, the elaboration of a work plan, and the launch of project activities. This task is usually assumed by the fund manager or a secretariat and involves targeted technical assistance, supervision and – in some cases – also discipline measures and sanctions.

Tailor-made assistance and supervision enhances the effectiveness of the specific project, yet overprotective or even paternalistic attitude towards the executors or beneficiaries should be absolutely avoided. The premise ought to be the subsidiarity principle as a way to maximize, as much as possible, the ownership of the parties involved in the project implementation.

For a fund's program management, it is necessary to keep in mind that project implementation is almost always carried out in complex contexts with

many stakeholders involved at all levels. Failing to proactively include them in project planning and implementation may have serious consequences for the success of the project. Effectively, many funds demand the future implementer specifies its plans for managing the project in coordination with other stakeholders, as is the case of FLOW. It should be pointed out once again that, while project implementation is subcontracted to an executing agency, the fund will be held responsible for the impact achieved by implementing agencies. Therefore, selection criteria and progress reports play a crucial role (see 3.5.3).

Another task often performed by a fund – without it necessarily being legally formalized – is the inter-institutional coordination of stakeholders within the fund's area of focus at national level. Sometimes a fund can be conceived as a “single or preferential port of entry” to sectoral funding in certain country. Such a mandate often explicitly requires the coordination of several ministries as well as other public and private stakeholders. It is recommendable to clarify this coordination role at an early stage and provide the necessary political backing, in order to avoid future political struggles between affected ministries and other national ODA-implementing agencies.

The following questions are suggested for this section:

- ▶ 37. Which tasks must be met by a program management unit?
- ▶ 38. What are the channels of communication with implementing/ executing agencies?
- ▶ 39. What challenges faced by implementers/ executors should be addressed?
- ▶ 40. What kind of aid, training and support does the fund offer?
- ▶ 41. Is the fund integrated into inter-institutional coordination mechanisms at national or international level? If so, what role does it have in these mechanisms?

### 3.5.3. MONITORING, EVALUATION AND ACCOUNTABILITY

A system for monitoring, reporting, and evaluation strengthens a fund's management, measures the development impact in beneficiary countries, and helps estimate the progress made in the implementation of the donors' ODA plans, strategies and policies. Also, short and medium-term monitoring and evaluation enables the generation of lessons learned as feedback for the fund's overall planning. Therefore, the M&E system is also an institutional tool for mutual learning, and not just for the interaction between a fund and its projects, but also for the interaction between projects, as can be seen in the case of the Regional Fund, for example.

All the examples analyzed for this document include monitoring, reporting and evaluation mechanisms, at both project and fund levels. At project level, the cases of IKI, EDCF and FLOW require that funded projects use monitoring and evaluation systems based on the OECD's logical framework of objectives, indicators, results and impacts. In the field of triangular cooperation, possible concepts for measuring the specific impact of this relatively new tool are still being explored. The Regional Fund participates actively in this conceptual debate, elaborates new standards, and has carried out a number of workshops on the topic.

All cases require implementing agencies to submit progress reports on the project implementation, together with detailed financial reports on the use of resources. Once a project has been completed, the fund asks for a final report, and may even carry out its own final evaluation, either by the fund's staff or through independent evaluators. It can be considered nearly a common practice to carry out evaluations on finalized projects several months or years after their completion, in order to analyze and measure the impact created in the medium term, as well as its sustainability.

M&E information generated by projects is vital for the management and evaluation of the fund as a whole. In the end, a fund's success is largely based on the performance of the different projects it finances. IKI, EDCF, the GFATM, and the Amazon Fund have opted to carry out regular overall fund evaluations, as well as evaluations after longer periods of time (e.g. the last 3 or 4 years).

The definition of the M&E criteria is a question partly conditioned by donors, by the fund's manager, and even by the fund's sectoral focus. If donors are traditional countries, it is likely that the M&E system will be based on OECD-DAC criteria, as it is the case with IKI, FLOW and the Regional Fund. If the fund's manager is a multilateral organization, the latter will bring its own monitoring and evaluation system, as it is the case with IBSA. If the manager is a financial institution such as a development bank, the financial criteria will probably influence more, as is the case with the EDCF. Regardless of the funds' set-up, it is essential that donors, as well as the governing body and the manager define, with reasonable detail, their M&E system and criteria, and how the latter is anchored in the performance standard of the fund as a whole. In the case of the Amazon Fund, its manager BNDES has been adapting the fund's M&E into a system of aggregated indicators to enable its implementing agencies (many of them NGOs) a better M&E at project level.

The definition of the M&E system and criteria must also consider mechanisms of prevention of and response to irregularities, both at project and fund levels. At project level, these measures are usually included in the grant or implementation contract, and usually consider the legislation of the country where the fund is located, as well as the legislation of the country where the funded projects are to be implemented. Similarly, many funds choose to create a code of ethics for the fund's administration level, as well as for the project implementation level, as is the case of the GFATM.

There are different M&E concepts and systems, and it would not be appropriate to give preference for one over another. The important factor is to consider that different options should be assessed in order to select a concept that fits best for achieving

the fund's objectives, and which is internationally recognized. At the crucial phase of designing the M&E system, it should be considered to have it reviewed by an external sounding board.

The following questions are suggested for this section:

- ▶ 42. What is the most appropriate M&E system for the fund's objectives and structure? Do the fund's donors demand the use of a specific system?
- ▶ 43. How does the M&E system at fund level engage with the system at project level? How does it connect with the audit system?
- ▶ 44. How does the information generated by the M&E is articulated into the learning processes at both fund and project levels?
- ▶ 45. How does the M&E information is shared with the fund's donors and the general public?

### 3.5.4. LEARNING AND TRAINING

One of the biggest opportunities that funds can offer compared to stand-alone projects and programs is the potential to catalyze learning processes: similar to a laboratory situation, the parallel execution of several projects with the same sectoral, geographical or methodological focus can accelerate synthesis of experiences and knowledge gained in daily practice. Clearly, the M&E results (see 3.5.3) submitted through progress reports provide a solid base for such an effort. Technical support and constant communication with implementers can also be an important source of information (see 3.5.2).

The Regional Fund is a good example for institutionalized learning at different levels: its systematic progress reviews and final evaluation enable the identification of common challenges, new trends and methodological solutions, which may be of interest to other projects. Also, the fund's management maintains a close communication with the partners, a practice that not only allows to offer pragmatic, additional assistance, but also helps identify training needs. The teams responsible for the

execution of activities in the different organizations involved can participate in interactive trainings which foster the exchange of best practices and lessons learned. This method of continuous training contributes to the professionalization of human resources, and to the institutional leverage of the instrument of triangular cooperation.

A visible effect of these activities is a significant improvement in the quality of proposals. In addition, regional conferences and events contribute to expanding the concept of triangular cooperation and developing a common political vision. Yet, learning is not intrinsic to funds. This means that ensuring proper knowledge exchange and a learning process between implementers and the fund itself requires planning and resources. In the case of the Regional Fund there is an indicator for measuring learning progress, and a quarter of the total volume is set aside for training and exchange activities. Furthermore, FLOW promotes knowledge sharing between projects, and between the fund and projects through its online exchange platform for grantees called FLOW Community of Practice<sup>47</sup>. IKI uses a similar strategy, where even the German Ministry

<sup>47</sup> For more information, see: <http://www.flowprogramme.nl/Public/GranteePage.aspx?id=9>

for the Environment leads exchange meetings at ministerial level with its counterparts in beneficiary countries. In the case of the EDCF, the fund carries out a knowledge exchange program called Knowledge Sharing Program in partnership with

other development banks. This program conveys knowledge through different modules, e.g. policy consulting, joint consulting with international organizations, and comprehensive system consulting<sup>48</sup>.

The following questions are suggested for this section:

- ▶ 46. Which added value will knowledge sharing activities, ongoing learning, and training workshops provide to the stakeholders involved at different levels?
- ▶ 47. What are the objectives of a strategy for knowledge sharing, continuous learning and training?
- ▶ 48. What resources would be needed for learning and knowledge sharing activities, and how would these be reflected in the outcome-oriented indicators system?
- ▶ 49. Which knowledge exchange formats fit best (on-site, online, blended, etc.) for the fund's purposes?

### 3.5.5. RISK MANAGEMENT

In financial administration, risk management is a standardized task. However, the identification and mitigation of non-financial internal and external risks should also be an integral part of strategic planning and program management. Obviously, managing financial risks, on the one hand, and implementation and security risks, on the other, correspond to different units within a fund's organizational structure. For pragmatic reasons, however, they are presented together in this section, despite an unavoidable overlap with the topic of audits and financial controls (3.4.4). Effectively, unforeseeable events such as natural disasters, political unrest or violent conflicts, either in beneficiary or donor countries or in the country where the fund is located, create uncertainty around the execution of a project. The same happens with financial risks in cases of low return of investment, misappropriation, and corruption in the organizations involved.

To identify possible risks and classifying them according to their severity degree, probability, and thematic sector is essential to establishing an

effective risk management mechanism. Additionally, many co-financiers condition their commitment to the existence of a risk management system consistent with international fiduciary and integrity standards.

Risk management is a task that influences all stages of the cycle of a project. As mentioned above, the formulation of eligibility criteria serves to highlight eventual risks tied to the fiduciary and management capacities of the implementing/ executing agency and the quality of the proposal. Some funds, for example, demand already in their application forms information about possible implementation risks, as well as strategies to mitigate them. During implementation, the project must be supervised and monitored, accompanying the executor according to its capacities and identified risks. In order to detect an emerging crisis as soon as possible, a fund needs to identify threshold parameters that can trigger a series of gradual reactions in an action plan based on the analysis of the current risks together with the executor. Such action plan may include training and advisory, in order to prevent future problems. In this sense, training the implementing partners can also be

<sup>48</sup> For more information see: <http://www.edcfkorea.go.kr/edcfeng/index.jsp>

considered as a risk-mitigation measure. Whenever necessary, a fund has to act firmly and should not be frightened to take ultima ratio measures in order to avoid compromising the sustainability of the fund as a whole. Such a risk management may even include drastic measures e.g. stopping or cancelling a project, or substituting the implementation agency.

Clearly, risks do not only occur at project level, but also at fund level. There are external risks such as lack of financial and human resources, changes in the regulatory framework, lack of acceptance by the local or national public. Internal risks could be poor planning, ineffective communication, or conflicts of personal integrity. Effectively, internal and external risks may be closely related: a lack of acceptance, for example, may be the result of a poor communications

strategy, which in turn may be caused by a lack of financial or human resources.

It is therefore appropriate to consider all possibilities for risk mitigation, starting with the rules of operation and the governance structure. To avoid poor planning, for example, a system for reviewing and readjusting strategic plans could be put in place, as well as technical advisory committees to better inform decision-making. A range of choices can help ensure the quality and integrity of staff, starting with a respective clause in employment contracts, a flexible remuneration system, and the outlook of an attractive career path. Finally, risk management must be articulated in M&E and internal control systems at all levels, to facilitate iterative learning processes to learn from past mistakes, and avoid them.

The following questions are suggested for this section:

- ▶ 50. How is the risk management system articulated on the different levels of a fund?
- ▶ 51. How is this system intertwined with those of M&E and accountability?
- ▶ 52. How can be differentiated between operational, sectoral and implementation risks?

### 3.5.6. HUMAN RESOURCES

Over time, IKI, the EDCE, the GFATM, and the Amazon Fund have all increased their personnel, technical and organizational capacities in response to their fund's development and the evolution of the environment in which they function. In the eyes of its donors and the general public, a fund's solidity and legitimacy are not only based on transparent financial functioning, but also on relevant technical expertise.

### 3.5.7. APPLYING QUALITY CRITERIA

The commitment to quality in IDC did not only start with the Paris Conference on Aid Effectiveness (2005) which produced the Paris Declaration and its

five principles of effective aid: ownership, alignment, harmonization, results and mutual accountability. Many of the globally-recognized quality criteria, such as monitoring, evaluation and risk management, have already been addressed in previous chapters. Other fundamental concepts that guide the IDC of many donors are sustainable development, transparency, and mainstreaming or – at a minimum – applying the “do-no-harm” principle to horizontal issues like gender equality, human rights and environment.

The debate on the quality of aid – not specific only to the area of funds – is vast and has not been free of controversy. For example, in the debate on the principle of aid effectiveness, as one of the most debated topics in the context of multilateral and basket funds, the findings are ambiguous: on the one hand, the potential of funds for upscaling and

donor harmonization is highlighted. For many developing countries, resources provided through global funds now represent 10-15% of the total ODA received. On the other hand, funds are often blamed for undermining national ownership, and bypassing the beneficiary country's domestic systems (Lázaro Rüter, Müller, & Peláez Jara, 2014). Kizilbash Agha & Williamson (2008), for example, maintain that:

“Common funds can easily weaken domestic accountability systems. At important multi-stakeholder events, such as joint reviews, they can draw attention to the accountability demands of the funding modality itself. Prescriptive guidelines on the use of common-fund resources can also conflict with the objectives of local government decentralization whenever these include a genuine devolution of resource-allocation decisions”  
(Kizilbash Agha & Williamson, 2008).

Funds generally do not take part in the decision on quality criteria for IDC. For them, in contrast, the challenge consists of integrating them into funding decisions and routine processes. It should be mentioned that quality criteria do not only apply to the fund, but are also obligatory in project implementation. At the design and reform stages, opportunities for anchoring quality criteria at all a fund's levels should be explored. A window for direct access, for instance, might be a possibility to increase the ownership of beneficiary countries. Nonetheless, their institutional and absorption capacities should be carefully analyzed, in order to avoid potential fiduciary or implementation risks. The rejection or non-accreditation of an implementing/ executing agency in a partner country could have serious political repercussions. Such situations can often be avoided by using flexible models for sharing responsibility with the beneficiary country, or by gradually transferring this responsibility, and offering ex-ante capacity building options or ongoing training.

The following questions are suggested for this section:

- ▶ 53. What national and international norms and standards apply to the definition of the fund's quality principles?
- ▶ 54. Should any other type of criteria be taken into account?
- ▶ 55. How are quality principles integrated in the fund's routine processes?
- ▶ 56. How is the application of quality principles monitored and evaluated? Who performs this task?

## 4. FINAL RECOMMENDATIONS FOR DECISION MAKERS<sup>49</sup>

The seven case studies presented in chapter 2 constitute a basis for understanding, comparing, and finding inspiration in the different concepts and best practices of a wide range of funds. Also, chapter 3 offered a catalogue of guiding questions to identify the specific needs and priorities for a fund in the process of creation or reform. In December 2014, chapters 1 to 3 were presented to and discussed with experts from AMEXCID and GIZ. The results of this debate led to the following conclusions, which are presented here as stimuli for further reflection and research.

First, it is necessary to emphasize that there is no such thing as a single model or pattern for a successful fund, since they are created for several reasons and under diverse circumstances. The diversity of funds is also reflected in relation to financing sources, beneficiaries, management models, criteria for selecting implementing agencies, etc.

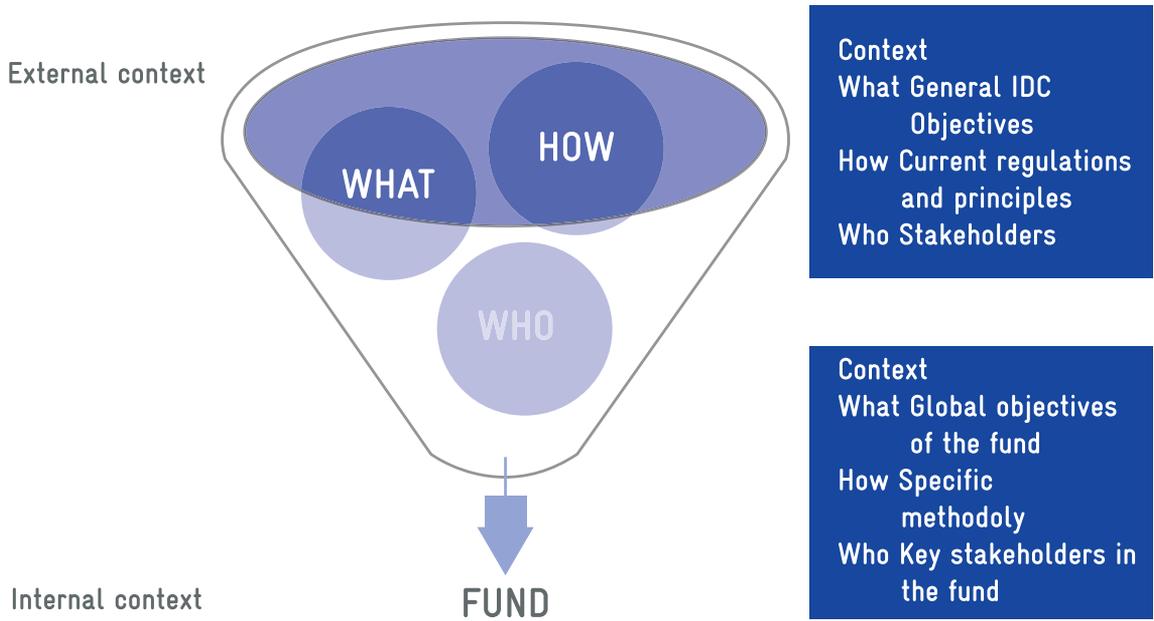
Second, funds are much more than mere financial instruments, and can often contribute to a range of secondary objectives, such as capacity-building, generating new knowledge and systematizing

mutual learning, or gathering, coordinating, and quantifying a country's different ODA sources. Fund administration is therefore a demanding task and should not be reduced to its purely technical and financial functions only.

Third, funds generate high expectations, however, they are no panacea for all development challenges, and each case requires an appropriate combination of ambitious but reachable and viable goals. A successful, sustainable fund must respond to the context in which its activities will be carried out. In the short term, the environment (the *what*, *who* and *how*) is unchangeable and, therefore, it defines the framework for the fund's design. It is therefore recommended to start with a systematic and thorough analysis of the external framework defined by the broader objectives for IDC (the *what*), the instruments and modes available for IDC (the *how*), as well as the main stakeholders (the *who*), in order to obtain a clear view of the fund's structural possibilities and limitations. In a second step, this analysis should serve as a "filter" for determining the fund's design elements (see figure 38).

<sup>49</sup> With contributions by Dr. Ulrich Müller, senior advisor at GIZ.

► FIGURE 38: ANALYSIS OF THE CONTEXT AND DESIGN OF FUNDS



Source: Elaborated by the authors

For the design, set-up and operations of funds the following eight reflections were extracted as “food for thought” rather than as definitive conclusions.

► **Have both an ambitious strategic vision and a realistic (financial) planning:**

Before launching a new fund it is essential to have a long-term vision of what the fund should achieve in terms of both, tangible results on the ground, and strategic impact in politics. It is also required to forge strong cross-institutional partnerships which provide the necessary resources and technical support. Ideally, the fund’s management also has certain flexibility to enable thematic and/or methodological innovations. What matters in IDC is the impact in the beneficiary countries, and not just criteria of multiplicability or profitability. Correspondingly, a fund’s success indicators should not be defined or interpreted from a bureaucratic or financial perspective only.

Obviously, if the goal is to shape the fund into a strategic financial instrument, the necessary financial and human resources must be provided. There is a certain tendency in funds to underestimate program management and operational costs. Often, fund administration, and especially their program management units, suffer a chronic lack of resources for carrying out M&E tasks, knowledge management, and supervision and support for implementers. The availability of enough, well-trained staff is a vital challenge for many funds, and in some cases, cross-subsidies have been observed from other IDC programs to funds in terms of both financial and human resources. Due to the pressure to either lower or cut transaction costs, many implementing partners submit unrealistic proposals, which later hamper the quality of projects to be carried out. In the long term, this practice can cause even higher costs. Realistic upfront cost calculations guided by the principle of economic efficiency are essential.

► **Achieve a balance between a clear set-up and operational flexibility:**

Each fund must be based on a solid concept and fundamental principles to guide action, especially in difficult or conflict situations. At the same time, the design has to suit the needs and challenges a fund faces in daily operations. As a living organism, a fund interacts with its environment, reacts and contributes to events and debates in both donor and beneficiary countries. The ability to respond to changing contexts, emerging challenges and unforeseen conflicts requires flexibility. Although it is necessary for the fund to evolve, no room should be given to uncontrolled ad hoc changes, or to those guided by personal interests. In many cases, a period of incremental adjustments begins as soon as a fund is launched in order to take the concept “from paper to practice” and test its functionality. Such readjustment phase is not only normal, but actually desirable at some point in time. Therefore each fund needs to find balance between a solid, firm set-up, and the flexibility to respond to new developments. If in practice a fund’s organizational structure becomes a “straitjacket” tied down by bureaucratic procedures, the fund will be hampered in its attempt to achieve its development objectives, and to become a strong, strategic tool for IDC.

► **Develop a coherent governance model and organizational structure, and clarify roles and responsibilities:**

Creating a sophisticated but lean governance model and organizational structure is certainly no easy task. The idea is neither to create an overregulated apparatus which can be difficult to manage, nor to leave aspects of the fund’s functioning to a legal or administrative void. The governance model of a fund must be consistent with its main functions (general oversight and steering, cashier services, and fund administration) and translated into a

suitable organizational structure in which the roles and responsibilities of the stakeholders involved are clearly defined and assigned. If the stakeholders do not have the mandate and competence to take the initiative for certain decisions, there is a risk of governance gaps. On the other hand, parallel structures and duplicated responsibilities might not only absorb resources, confuse the general public and diminish a fund’s acceptance among possible donors and beneficiaries, but can also unleash or exacerbate rivalries, role conflicts, and deadlock.

► **Ensure smart and efficient working relations between the fund’s different bodies:**

Once the basic organizational structure is in place, it is not practical to overload the governing body with functions and competences that can be delegated to the administrator or other subordinate bodies, such as technical and advisory committees. The criteria of subsidiarity and practicability should define the working relation between the governing and administrative bodies. High-level political commitment is crucial to gain visibility and the necessary support for transforming the fund into a strong and strategic IDC tool, therefore the governing body should focus on the fund’s political and strategic steering. Considering the busy schedules of high-ranking officials, the workload and number of meetings should be limited to a minimum in order to avoid delays in decision-making. Accordingly, the fund manager often assumes secretary functions and prepares the decision-making by the governing body. Funds evolve over time, and so must do the governance model and organizational structure. Again, a balance must be sought between firmly-established roles which provide the necessary security for all stakeholders, and the flexibility to give each stakeholder enough room for maneuver, and to respond to changing realities.

### ‣ Develop strategies for cooperation with strategic partners:

Interactions with the most important partners - donors and co-financiers on the one hand, and implementing organizations and beneficiaries on the other – must be built with care. It is important to map them, and understand their motivations and interests. Due to its intermediary nature, a fund must ensure connectivity and constant communication with both stakeholder-groups. Insufficient coherence and coordination between their budgetary or programming cycles might turn into a significant obstacle. The operational processes must be designed in a way that ensures harmonization between the activities of raising and disbursing financial resources. Therefore, it is also recommended to develop and maintain a pipeline of projects ready for implementation.

Criteria for cooperation and non-cooperation are needed. Attracting and keeping additional donors and co-financiers is vital for many funds. Nevertheless, each fund should thoroughly assess potential candidates: are their interests in line with the fund's objectives and principles? Do they expect to participate in fund allocation and strategic decision making? Are there reputational risks associated with certain actors? It is also necessary to decide who is and who is not to be admitted as an executing partner. In particular, cooperation with “smaller” implementers, which may not necessarily be able to compete with large bilateral or multinational agencies and consulting firms, may be of great benefit: many civil society and academic organizations maintain close ties with local communities, or possess specialized knowledge and experience. However, it is not always easy for them to meet the fiduciary and organizational requirements to implement large sums of money. The private sector may also be an indispensable ally for expanding impact and creating sustainable market solutions. It is recommendable to experiment with exclusive funding windows and other incentives aimed at increasing the presence of these stakeholders.

### ‣ Emphasize the importance of M&E:

There is often a lack of clarity regarding the levels of results expected at project level and in the fund as whole. Often, immediate results from individual activities (output), such as providing training courses or other tools, are confused with larger impacts which are not directly attributable to such interventions (impact), e.g. political change or improvements in the living standard of families in need. This implies the necessity to carefully define the indicators to measure and monitor the fund's different results and impacts. And ideally, these definitions must be clear for all stakeholders involved in the fund.

For some implementers, M&E standards are not yet an integral, automatic element of project management. It is necessary to engage in dialogue and offer training opportunities for implementers to internalize M&E requirements, and to enable them to provide the data needed for M&E on a fund level. Ideally, the fund itself will set a positive example through good management results at different levels, the formulation of indicators, the prudence of its management, and through continuous evaluation every few years. Through a dialectic process, the fund and its implementers can learn together.

### ‣ Pay attention to knowledge management and learning:

Over time, funds accumulate considerable organizational and technical expertise and implementation experience. This knowledge is not only documented in progress and status report, evaluations and strategic papers, but also translated into daily routines and practices of staff members. Effective knowledge management goes far beyond the mere storage of project files. It is about producing concise information that guides future action and untapping the tacit knowledge of the personnel. Especially if staff fluctuation is high, the transfer of knowledge must be given priority.

Sound knowledge management requires standards for documentation practices, as well as spaces for formal and informal exchange, such as working groups, communities of practices, round tables, etc. Also, the knowledge management strategy should be guided by the principle “quality before quantity” and focus on bottom up approaches.

In IDC, knowledge has become a key resource for the future, and effective knowledge management is an important prerequisite for improving the fund’s overall performance and becoming a learning organization – which, in turn, can help attract additional donor funding. Learning organizations are built upon learning staff. Indeed, many IDC practitioners tend to develop a purely sectoral or even sub-sectoral perspective which is at least partly due to a high degree of professionalization and specialization. This phenomenon, known as “silo mentality”, can hinder intra-institutional knowledge sharing and undermine a fund’s capacity for self-reflection, renewal and innovation. Yet, in the face of increasingly interconnected global development challenges, the ability to “think out of the box” and adopt a rather holistic view become ever more important soft skills. Therefore a fund should promote an open, dialogue-oriented organizational culture, and make learning an integral part of human resource development.

Learning not only takes place at fund level but also at project level: during a project’s life cycle, the implementing agency explores what works and what does not work in practice. These insights are highly valuable for other implementers and the fund itself as well as the broader IDC community. Yet, mutual learning and knowledge sharing will not happen automatically but need to be promoted proactively. The fund manager can choose among a wide range of interactive online tools. At the same time, the importance of face-to-face meetings should not be underestimated.

Especially smaller partner organizations may face challenges at different stages of project preparation and implementation, and often need assistance to fully understand the application process, submit promising proposals, manage the grant, and meet M&E, integrity and other standards. Close relations with the implementers help identify these gaps and develop need-based support. Unfortunately, knowledge sharing, training and advisory services are rarely ever taken into account and budgeted for during a fund’s design phase. In order to close the funding gap and provide the required capacity development, GIZ and other actors developed so called “readiness” or “back up” initiatives. By doing so these readiness programs, which often operates as funds themselves, contribute to increasing the effectiveness of global funds and leveraging the allocated resources.

#### ► Promote good internal and external communication:

With a good communication strategy and well documented show cases the fund can gain visibility and voice in its respective field of action, raise awareness among beneficiaries, implementing partners and potential supporters, and increase its legitimacy and acceptance among the general public. Also internally, smooth communications play a major role for the proper functioning of a fund. It is recommended to standardize information flows, yet without falling into the trap of generating excessive and indigestible amounts of data. Professional communication requires highly-skilled human resources, which can be provided either internally or externally. However, the necessary budget is not always made available from the very beginning. But even if there is a specialized communications team, communication should be considered as a common task by all personnel with the senior management leading by example.

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# ANNEX

List of Web links accessible to the public on the different regulations, application documents, forms, and information of each case study:

## International Climate Initiative (IKI)

1. Information on support for projects under the International Climate Initiative of the German Federal Ministry for the Environment, Nature Conservation, Building and Nuclear Safety: [https://www.international-climate-initiative.com/fileadmin/Dokumente/2015/Information\\_on\\_support\\_for\\_projects\\_under\\_the\\_IKI\\_rev.pdf](https://www.international-climate-initiative.com/fileadmin/Dokumente/2015/Information_on_support_for_projects_under_the_IKI_rev.pdf)
2. Project reporting: Interim and final reporting templates <https://www.international-climate-initiative.com/en/project-promotion/reporting/>
3. Online Knowledge Platforms: <https://www.international-climate-initiative.com/en/media-centre/knowledge-platforms/>

## Regional Fund for the Promotion of Triangular Cooperation in Latin America and the Caribbean

1. Information and Criteria (ES): <http://www.giz.de/de/downloads/bmz2014-sp-informacion-criterios-fondo-regional-cooperacion-triangular.pdf>
2. Project proposal template (ES): <http://www.giz.de/de/downloads/bmz2014-sp-formato-propuesta-proyecto-fondo-regional.pdf>

## Funding Leadership and Opportunities for Women (FLOW)

1. FLOW Formats: Progress reports, final report, audit protocol, SMART concept, monitoring protocol, annual plan and budget: <http://www.flowprogramme.nl/Public/GranteePage.aspx?id=8>
2. FLOW Community of Practice: <http://www.flowprogramme.nl/Public/GranteePage.aspx?id=8>

## Economic Development Cooperation Fund (EDCF) of Korea

1. Loan documents i.e. pledge of loan, proposal form for loan, agreement between governments template, loan agreement template, criteria for selection of consultants, procurement of goods and services, final report template, feasibility study template: [http://www.edcfkorea.go.kr/edcfeng/bbs/pubal/list.jsp?bbs\\_code\\_id=1317863918187&bbs\\_code\\_tp=BBS\\_4](http://www.edcfkorea.go.kr/edcfeng/bbs/pubal/list.jsp?bbs_code_id=1317863918187&bbs_code_tp=BBS_4)

## Amazon Fund

1. Guidelines and Criteria for Allocation of Resources and Focus in 2015 – 2016: [http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site\\_en/Galerias/Arquivos/diretrizes\\_criterios/COFAs\\_GUIDELINES\\_25\\_06\\_2015.pdf](http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site_en/Galerias/Arquivos/diretrizes_criterios/COFAs_GUIDELINES_25_06_2015.pdf)
2. Public call for sustainable production projects: [http://www.fundoamazonia.gov.br/FundoAmazonia/export/sites/default/site\\_pt/Galerias/Arquivos/chamada\\_publica/Chamada\\_Publica\\_-\\_25.04.2012.pdf](http://www.fundoamazonia.gov.br/FundoAmazonia/export/sites/default/site_pt/Galerias/Arquivos/chamada_publica/Chamada_Publica_-_25.04.2012.pdf)

3. Public call for projects on Territorial and Environmental Management Plans for Indigenous Territories: [http://www.fundoamazonia.gov.br/FundoAmazonia/export/sites/default/site\\_pt/Galerias/Arquivos/Chamada\\_PNGATI\\_23\\_09\\_14.pdf](http://www.fundoamazonia.gov.br/FundoAmazonia/export/sites/default/site_pt/Galerias/Arquivos/Chamada_PNGATI_23_09_14.pdf)
4. Logical Framework of the Amazon Fund: [http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site\\_en/Galerias/Arquivos/Publicacoes/LOGICAL\\_FRAMEWORK\\_September\\_2010.pdf](http://www.amazonfund.gov.br/FundoAmazonia/export/sites/default/site_en/Galerias/Arquivos/Publicacoes/LOGICAL_FRAMEWORK_September_2010.pdf)
5. Guidelines and criteria for the presentation of Previous Consultation for projects from science/technology/innovation sector, public administration sector, other sectors (PT): [http://www.fundoamazonia.gov.br/FundoAmazonia/fam/site\\_pt/Esquerdo/como\\_apresentar\\_projetos/](http://www.fundoamazonia.gov.br/FundoAmazonia/fam/site_pt/Esquerdo/como_apresentar_projetos/)
6. Legal documents for financial support (PT): [http://www.fundoamazonia.gov.br/FundoAmazonia/fam/site\\_pt/Esquerdo/como\\_apresentar\\_projetos/Documentos/index.html](http://www.fundoamazonia.gov.br/FundoAmazonia/fam/site_pt/Esquerdo/como_apresentar_projetos/Documentos/index.html)
7. Provisions applicable to BNDES agreements, and rules and instructions for monitoring (PT): [http://www.bnDES.gov.br/SiteBNDES/bndes/bndes\\_pt/Institucional/Apoio\\_Financeiro/disaplic.html](http://www.bnDES.gov.br/SiteBNDES/bndes/bndes_pt/Institucional/Apoio_Financeiro/disaplic.html)
8. Performance report template (PT): [http://www.fundoamazonia.gov.br/FundoAmazonia/export/sites/default/site\\_pt/Galerias/Arquivos/Downloads/Modelo\\_Relatorio\\_de\\_Desempenho.doc](http://www.fundoamazonia.gov.br/FundoAmazonia/export/sites/default/site_pt/Galerias/Arquivos/Downloads/Modelo_Relatorio_de_Desempenho.doc)  
[http://www.fundoamazonia.gov.br/FundoAmazonia/export/sites/default/site\\_pt/Galerias/Arquivos/Downloads/Modelo\\_Relatorio\\_de\\_Desempenho.doc](http://www.fundoamazonia.gov.br/FundoAmazonia/export/sites/default/site_pt/Galerias/Arquivos/Downloads/Modelo_Relatorio_de_Desempenho.doc)
9. Evaluation of results template (PT): [http://www.fundoamazonia.gov.br/FundoAmazonia/export/sites/default/site\\_pt/Galerias/Arquivos/Downloads/Modelo\\_Relatorio\\_de\\_Avaliacao\\_de\\_Resultados.doc](http://www.fundoamazonia.gov.br/FundoAmazonia/export/sites/default/site_pt/Galerias/Arquivos/Downloads/Modelo_Relatorio_de_Avaliacao_de_Resultados.doc)

### **The Global Fund to Fight AIDS, Tuberculosis and Malaria (GFATM)**

1. Submission dates for each funding window: <http://www.theglobalfund.org/en/applying/country/registration/>
2. Documents for multi-country applicants: <http://www.theglobalfund.org/en/applying/country/materialsmulti/>
3. Guidelines and tools for indicators setting, M&E and performance: <http://www.theglobalfund.org/en/me/documents/>
4. Governance documents: <http://www.theglobalfund.org/en/governance/>
5. Eligibility and guidelines for Country Coordinating Mechanism: <http://www.theglobalfund.org/en/ccm/guidelines/>
6. Eligibility List: <http://www.theglobalfund.org/en/fundingmodel/process/eligibility/>
7. Risk management policy: [http://www.theglobalfund.org/documents/board/32/BM32\\_13-RiskManagementPolicy\\_Report\\_en/](http://www.theglobalfund.org/documents/board/32/BM32_13-RiskManagementPolicy_Report_en/)
8. Types of technical cooperation and organizations that provide it: <http://www.theglobalfund.org/en/fundingmodel/technicalcooperation/>
9. The Five-Year Evaluation: <http://www.theglobalfund.org/en/terg/evaluations/5year/>

# ABOUT THE AUTHORS

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Currently works as a Project Manager for the Alliance for Financial Inclusion (AFI) at Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), GmbH. Previously, she was the head researcher for the internal project (Eigenmaßnahme Globale Mechanismen) on global mechanisms, as part of which she investigated the role of new actors in international development cooperation, especially that of global funds and trans-national networks. The results of the above project has served as a point of departure for this study. Lena Lázaro Rüter is the principal co-author of this study, together with Melani Peláez, and was in charge of its concept and general design.

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### Dr. Ulrich Müller

Contributed to this publication as a source of reference/backstopper and co-author of two chapters. He joined Deutsche Gesellschaft für Internationale Zusammenarbeit (GIZ), GmbH in 1997 and currently works as senior consultant in the Division of Education, Social Protection and Health. He was responsible for the commission of the internal project on global mechanisms (Eigenmaßnahme Globale Mechanismen), the results of which have largely been the inspiration for this study.

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## Publicaciones del Proyecto para el Fortalecimiento Institucional de la AMEXCID

- 1** Study  
Experiences of Middle-Income Countries in International Development Cooperation, 2014.
- 2** Reporte  
Proceso de preparación de las Organizaciones de la Sociedad Civil Mexicana para la Primera Reunión de Alto Nivel de la Alianza Global para la Cooperación Eficaz al Desarrollo, 2014.
- 3** Colección de Textos  
Monitoreo y Evaluación de la Cooperación Alemana, 2015.
- 4** Documentación de procesos  
Construcción de una estrategia de colaboración de AMEXCID con el Sector Privado. Acompañamiento en el marco del Proyecto de Fortalecimiento de AMEXCID (2013-2015), 2015.
- 5** Colección de Textos  
El Sector Privado en la implementación de los Objetivos de Desarrollo Sostenible. Documentos presentados en la conferencia "Construyendo una nueva alianza global: la Agenda de Desarrollo Post-2015 y la participación del Sector Privado", 2015.
- 6** Study  
Exploring International Development Cooperation Funds. International Experiences on Governance and Design of Funds, 2015.
- 7** Colección de Textos  
Diversidad, Género y Liderazgo en la Cooperación Internacional para el Desarrollo, 2016.

