

TECHNICAL SHEET – AID MODALITIES

4 – POOL FUNDING

I. Description

In a pool funding mechanism, two or more donors jointly finance a programme or action on the basis of commonly agreed objectives and reporting formats. The programme would be managed by one of the donors or a third party. There would be no earmarking of funds from individual donors.

II. Legal framework

The current financial regulation (FR) allows the European Commission to contribute to pool funds when these are managed by either a Member State Agency or an International Organisation that has been assessed to meet internationally accepted standards in relation to inter alia accounting, internal control, auditing and procurement. The Commission cannot directly contribute to a pool fund – or joint programme – that is managed by a private sector entity, unless the tasks transferred to such a body only include technical expertise and administrative tasks that do not involve the exercise of public authority or the use of discretionary powers of judgement (Art. 57).

The European Commission contribution to a pool fund is subject to a number of specific requirements (e.g. policy objectives, geographical scope, EU rules on nationality and origin, restrictions on eligibility of costs and local taxes, EU rules on nationality and origin, etc.). However, a pragmatic approach is possible and the European Commission may decide to consider that the specific EC requirements are met as long as the amount contributed by other donors is sufficient to pay for the activities that are ineligible under the EU rules.

The European Commission can under the current financial regulation receive special financial contributions from the Member States that would contribute to the implementation of specific EC programmes. These contributions are integrated in the general EC budget and managed in accordance with standard procedures.

The Commission-proposed revised financial regulation would not change the basic principle that the Commission cannot entrust a private sector body with the management of a pool fund; an option that continues to be limited to Member State Agencies or International Organisations. However, the expected increased flexibility on re-granting (see Technical Sheet 2 – Regranting) would provide some limited possibilities in this respect in cases where it can be justified to award a grant directly to the entity managing the trust fund (see Technical Sheet 9 – Direct award of grants).

Under the Commission-proposed financial regulation the European Commission would be able to receive contributions from other donors and manage pool funds (referred to as trust funds in the financial regulation) on the basis of rules and procedures agreed amongst the donors and with more flexibility of staff resources.

III. Needs covered

Needs

- § Enhance the actor-based dimension of CSO support and allow for targeted funding (on the basis of the specificities of actors in their own contexts) (need 5)
- § Support role of CSOs in political dialogue & monitoring of government and donor policies and practices (need 6)
- § Increase harmonisation & cost-effectiveness of aid delivery (need 12)

IV. Key issues to be considered when using this modality

- § Pool funding should be limited to the cases where it has been proven to be the most **cost-effective** modality in view of the high initial transaction costs related to the establishment of a genuine multi-donor delivery channel (initial coordination & consensus building on management procedures).
- § Pool funding could be used with a **medium/long-term perspective** and could increase the **predictability** of funding, but concentration of funds **risks to create orphan sectors and/or areas**, and to **reduce the possibility to answer to innovative approaches** (loss of flexibility, limited right of initiative).
- § Pool funding should only be used when donors fully agree with the objectives of the actions or programmes to be financed through the modality (i.e. visibility cannot be the only reason for joining/not joining a pool fund), and **refrain from extending the original mandate**. In that case, it is

useful for setting rapidly targeted funds towards specific goals, particularly interesting in case of emergency, fragility or transnational programmes.

- § Pool funding can offer a **number of advantages**: better governance (ensured by the funds rules), enhanced donor coordination and lesser risk of duplication, higher predictability and critical mass of funding.
- § Pool funding should be based on a **dialogue** so that CSOs & LAs are actively involved in programming and consultation phases. Particular attention should be given to how the dialogue with CSOs & LAs is structured, as well as how to maintain a political dimension in the donor/CSO/LA relationship. Pool funding should not just be a means to reduce administrative costs for donors.
- § Pool funding should not follow a one-size-fits-all approach but should be adapted in line with the local **context**. Further, existing studies regarding pool funding should be carefully examined in order to **draw all the conclusions from past experiences** and identify possible areas where further studies would be relevant.
- § Pool funds could be a way to simplify procedures and **harmonise** application and reporting formats. Its comparative advantage should include a **promotion of a 'European approach'**, focusing on poverty reduction and participation.
- § The precondition for pooling funds would be a wide discussion involving all stakeholders on (i) the identification of the development priorities in a given region or sector and (ii) the assessment of the optimal responses to address these development priorities. The role of the LA (including the national or regional LA associations) in such a discussion would be instrumental. Apart from their role in the programming phase, the LA (including the national or regional LA associations) would have an equally important role to play in the monitoring and the evaluation of the implementation of the pool-funded actions.
- § A **variety of disbursement modalities** are available (calls for proposals, tendering, direct grants, etc.) and they should be chosen with flexibility according to the aims of the pool-fund, the activities envisaged and the targeted groups of actors.

V. Strengths and weaknesses

Strengths

- § Allows for better focalization of a larger amount of aid in a geographical or thematic area
- § Permits establishment of more ambitious and structured programmes or the possibility to integrate several components
- § Allows for a reduction of transaction costs, greater economies of scale and enhanced coordination/harmonisation of donors support;
- § Allows for more flexibility in administration of funds for donors (particularly those delegating their cooperation);
- § Unifies and simplifies the criteria and demands of monitoring, reporting/etc prescribed to beneficiary organizations;
- § Enhances predictability of funds.

Weaknesses

- § Entails high initial costs (required to set up a joint strategy and formal contractual arrangements)
- § Risk of loss of diversity and flexibility (in case of too limited objectives/sectors and actors) and of outreach capacity to support certain CSOs;
- § Small scale CSOs may be excluded because of competition and lack of capacities and information, unless targeted modalities are foreseen for them;
- § If sole source of financing, may lead to dependence and increased vulnerability to government pressure and control;
- § Risk of less funding available in total (donors may be saving money through pooling);
- § Although it might roll out funds efficiently, lifespan may be too limited to strengthen civil society;
- § Pool funds tend to be perceived by CSOs&LAs as a donor-driven initiative, often lacking CSO&LA consultation and ownership

VI. Feasibility

The EC will be able to manage trust funds in line with EC procedure, provided the new proposed Financial Regulation is adopted, but its capacity to engage in pool funding remains restricted. Despite this limit, this modality should be part of the 'EU modality toolbox', and a number of positive examples and lessons of experience (the CSO Forum on aid effectiveness and Better aid initiative for instance) can support the EC in developing this modality. There are however different views on whether local actors favour pool funding and if it is relevant for long-term commitment.

In order to assess the feasibility of pool funding in a particular context, the following criteria should be considered: cost-effectiveness, added value, donor agreement as well as the flexibility of EC rules. Indeed, the constraint that the EU can only support pool funds managed by an international donor or a Member State Agency limits the possibility of EU contribution to existing and future funds managed by other types of bodies (e.g. foundations). The potential for further flexibility in pool funding, allowing in

particular for the involvement of Southern organisations, should therefore continue to be explored in the context of the post-2013 financial perspective.

Further, an added value of the EC compared to other Member States regarding pool funding lies in the fact that the EC represents all Member States. From the perspective of the EU, EU pool funding would be both suitable to promote the specific EU dimension and politically attractive for reasons of efficiency and visibility, in line with the Commissions proposal for the review of the Financial Regulation.

LAs from EU Member States are increasingly getting involved as donors in cooperation activities with its "southern" partners. The pooling of their resources without earmarking may have a deterrent effect to participate in a pool fund given the risks of loss of visibility of the Member State LA, and difficulties to report to their constituencies on how the resources were used and have political benefits on their territory.

Pool-funding is welcomed for its relevance for programme financing particularly in support of decentralization processes and its potential of creating a bigger envelope rather than fractured projects with multiple reporting, auditing and monitoring systems. It requires a strong focus on utilization of local service providers, through accountable tendering procedures.

In terms of conditions needed for pool-funding to be feasible, they include namely: (i) accessible information on disbursements; (ii) a transparent selection process of projects; (iii) visibility of individual donors ensured; (iv) adequate consultations to agree on sector/s to be supported and programme priorities to ensure proper ownership; (v) sound steering capacity during implementation with the involvement of national LA associations.