Trust Funds at the African Development Bank: Managing an Expanding and Changing Portfolio

Trust fund disbursements at the Bank are reasonable, but expectations on timelines at fund establishment are often unrealistic. Procurement management, implementation by nongovernmental organizations (NGOs), performance indicators, and fund oversight deserve management attention.

During the past decade, the development community has seen evolution in the use of trust funds as an additional instrument for cooperation and support. Trust funds are now an important source of financing for pre-investment studies, enhanced project-cycle work, capacity building, and analytical studies. A key criticism heard inside and outside the Bank is that trust funds are not disbursing quickly enough. This motivated OPEV to conduct a quick-turnaround evaluation on the establishment and implementation of 28 bilateral and thematic trust funds. The evaluation mainly addressed improved procedural effectiveness of trust fund implementation. Development effectiveness and impact of the funds will be assessed in a second phase.

The Bank’s trust fund portfolio expanded rapidly and shifted to thematic trust funds. Since the Bank’s 2006 trust fund reforms, the scale and scope of the AfDB trust fund portfolio has changed substantively. In 2006, the portfolio mainly consisted of bilateral funds. Annual contributions to the funds were about UA40 million and disbursements about UA6.5 million. By 2011, annual contributions rose to about UA85 million and disbursements increased to UA40 million, and 75 percent of this total was from thematic funds. The rapid increase of thematic trust funds since 2006 raised a new set of challenges that require rethinking by management.

Trust Fund Management at the African Development Bank. An Independent Evaluation
Full report available online at operationsevaluation.afdb.org
As the portfolio grows, there is evidence of overlap in the types of activities funded. Many of the smaller funds do not have enough resources to ensure support to approved projects and recipients; they lack the necessary economies of scale. Several water-related trust funds offer opportunities for greater synergies. Some bilaterally funded activities could create critical mass for the South-South thematic fund. Three private sector-oriented funds require similar expertise but are managed by different vice presidencies. Other multilateral development banks (MDBs) have provided a framework or platform to allow related trust funds to be strategically coordinated and serviced, while distinct governance arrangements are maintained for individual funding windows on the platform.

The perception of pervasive low disbursements is not justified. This evaluation finds that the perception of pervasive low disbursements is not justified. The indicators for the overall portfolio appear reasonable. Applying a calculation based on the approach used for ADB/ADF lending results in an annual disbursement rate for 2011 of 31 percent for thematic funds and 40 percent for bilateral funds. These compare with ADB and ADF investment-lending disbursement rates of 15 percent and 18 percent respectively.

One would expect trust funds with a primary focus on technical assistance to disburse faster than investment lending. There are individual trust funds with slow disbursements for reasons specific to those funds, such as the Congo Basin Forestry Fund (CBFF), which relies on execution through nontraditional, NGO partners, or the Rural Water Supply and Sanitation Initiative (RWSSI), which is disbursing against capital investments. Without those two funds, the disbursement rate for thematic funds would rise to a very credible 45 percent.
No progress in delegation of authority for fund-financed projects. Expectations at fund establishment are often unrealistic.

To speed up trust fund processing times, the Bank made efforts to gain greater delegation of authority for approval of projects over US$100,000, as is customary in other MDBs. This is a particular problem for bilateral funds. There is still no progress in this matter.

Perceptions about disbursements can often be traced to the setting of expectations when a fund is established. It is crucial that realistic time frames, implementation arrangements, and the potential reputational risks be put on the table to avoid excessively ambitious targets. By their nature, multidonor trust funds require more time for start-up.

Emphasis on implementation: more guidance and capacity development in trust fund procurement management and partnering with NGOs.

While the reforms and subsequent reviews have focused on the establishment and activity-vetting of trust funds, the issues of implementation have been largely ignored. Although disbursements appear reasonable, a range of serious concerns regarding the execution of trust-funded activity is increasingly evident.
Applicability of Fiduciary Policies. Reviews of individual trust funds and donors have repeatedly called for simplification and streamlining of financial management and procurement. Yet donors place their funding with the Bank because of its fiduciary policies, and it is unclear if they are willing to accept the heightened risks of allowing greater flexibility. For the most part, the issue is more in the application of policies and the identification of alternatives within existing rules when standard practices are found to be impractical. The challenge is whether the task manager has the capability and confidence to make such a judgment or has access to effective support to help in such a decision. Often this is not the case.

Partnering with NGOs. One of the advantages of trust funds is their flexibility in providing funds to NGOs and other parties who are not eligible for traditional Bank lending. However, this opportunity raises challenges in adapting Bank policies and practices to these nontraditional partners. The Bank will have to provide more “on the ground” support to such NGOs, and this will have serious resource and time implications.

Costs for Fund Management. Since trust funds represent a small percentage of AfDB financial support to clients compared with lending, many consider them a secondary priority. Moreover, trust-funded activities have high transaction costs for a task manager—there are no additional resources provided for managing such activities. Without a detailed assessment of the administrative costs of alternative trust fund models, the Bank is traveling blind on this crucial issue.

The Bank’s Partnerships and Cooperation Unit, ORRU, is not well equipped or organizationally placed to fulfill its role in trust fund oversight and management support. This evaluation sees a clear need for a unit such as the Bank’s Partnerships and Cooperation Unit (ORRU) to oversee, monitor, and report to management on the bilateral and thematic trust funds, provide trust fund management support, assess policy gaps, and interact with donors as well as manage bilateral trust funds. ORRU currently is not set up to fulfill such a role and has little credibility with thematic fund managers. Without clear authority, ORRU is not able to effectively carry out its function. In addition, ORRU’s placement in an operational vice presidency represents a potential conflict of interest. But it should be emphasized that the sector departments are principally responsible for actual trust fund implementation, especially for thematic funds.

Internal Bank performance indicators for trust fund disbursements, costs, and processing times are weak. Despite ORRU’s quarterly reporting and the setting of targets by the Bank, there is very little data compiled in a consistent and reliable manner. There is much confusion over the data that are available and there is a great lack of understanding of the meaning and applicability of the various measures reported. There is also limited cooperation by the thematic fund managers in providing information to ORRU. This evaluation has set forth a number of indicators that should provide a basis for discussion among the various stakeholders to determine which ones are most critical to their needs.
Management Response and CODE

CODE welcomed the findings of the evaluation on the chronic challenge of low disbursement rates and its potential implication for the reputation of the Bank. Members also highlighted their concerns and hopes that Bank management would soon clarify trust fund performance indicators and the role of the Partnerships and Cooperation Unit, ORRU.

CODE observed that important questions had been left out by this evaluation, such as how to best revise the Trust Fund Policy and Strategy, the development impact of trust funds, and more detailed information about why it took so long for certain funds to take off, such as the Micro-Credit and Migration and Development Funds. CODE underscored the need for the planned second phase of the OPEV evaluation to complete some of the unfinished business.

Management agreed with most recommendations, with only a few reservations on others. On the testing of the "platform" approach, management suggested a review of existing structures, with the goal of proposing possible ways to achieve new synergies, with platforms as one option, by the end of 2013. Secondly, while trying to seek full delegation of authority for activity approval, management preferred to start with raising existing thresholds. Third, there was some disagreement on preferences for detailed models for procurement support.

CODE suggested further details on the action plan from management for the implementation of the recommendations.
Recommendations

To enhance trust fund management and synergies, the Bank should undertake several policy and institutional reforms, rationalize operational processes, and strengthen reporting. It should:

1. Clarify the scale, scope, and modality of future trust funds at the Bank, in view of the changing size and composition of the trust fund portfolio.

2. Test the "platform" approach to related trust funds, similar to the models applied by the AsDB and the World Bank.

3. Incorporate a review of trust fund experience with NGOs in the ongoing Bank review of civil society organization partnerships.

4. Finalize the status and role of the Partnerships and Cooperation Unit, ORRU.

5. Ensure progress on delegation of authority in the approval of trust-funded projects, replace the setting of arbitrary thresholds, and enhance annual reporting. Report on processing times under the various trust funds.

6. Clarify the implementation modality, management structure, and resources required for trust fund management, with a realistic timeline for disbursements.

7. Conduct a costing analysis to inform management of the Bank’s costs for the management and execution of trust funds and approved projects.

8. Revise key performance indicators proposed in the task force report to the SMCC, taking into consideration the analysis and indicators prepared in this evaluation.

9. Revamp ORRU’s website to make it user-friendly and informative.

10. Develop an action plan to enhance procurement capabilities and support to trust funds and related activities.

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