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SUMMARY OF THE LOCAL INITIATIVES FUNDS AUDIT AND EVALUATION PLANNING STUDIES

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Internal Audit Report and Evaluation Report

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Introduction

The Audit and Evaluation Committee requested Performance Review Branch (PRB) to review FUND projects in the Americas, Asia and Africa geographic branches to assess the management and administration of FUND projects and to determine whether FUND projects are a good mechanism for development cooperation. Consequently, an internal audit preliminary survey (cf. Annex A) and an evaluation planning study of FUND projects (cf. Annex B) were initiated. The evaluation planning study and preliminary audit survey are meant to be complementary sources of information for the Audit & Evaluation Advisory Committee.

CIDA's coding and project information systems, coupled with the lack of an agency-wide definition for a FUND project created a challenge in determining an accurate FUND population, that is, how many FUND projects does CIDA support and what is their total value. In total, 184 FUND projects were identified of which 103 (excluding CFLIs, PSUs, and SPPEs) are coded as LOB 7, the Local Initiatives Model. The total value of these projects is approximately CDN \$830 million, of which CDN \$85 million is coded under LOB 7.

Objective of the Preliminary Audit Survey and Evaluation Planning Study

The objective of the preliminary examinations was to identify potential audit and evaluation issues, concerns and good practices. The initial stage of both an evaluation and an audit is designed to familiarize the review team with the entity to be examined and to define and describe the entity, identifying potential issues, concerns and lines of inquiry. Both examinations include describing the main types and characteristics of FUND projects, preliminary interviews with key agency staff, a review of files and documents and a preliminary review of the management and administration of a sample of FUND projects.

Methodology

The audit and the evaluation approached the review of FUND projects from slightly different perspectives but when taken together the findings represent a more complete picture of the management and results of FUND projects. The audit examines those processes and procedures related to management results, which are a necessary precursor to enabling results which in turn yield development results. On the other hand, the evaluation examines both enabling results and development results more specifically. If management results are sound, then enabling results would predictably be effective and lead to sustainable development results. The complementarity in the results chain is mirrored in the complementarity of the audit and the evaluation approaches.

The methodology included the collection and review of relevant documentation, on-site fieldwork and observation, flow charting of work processes, file reviews, and interviews with key staff, together with a limited number of site visits to sub-projects. Guides and questionnaires were prepared and utilized during the fieldwork stage. Detailed interview

notes and summaries were completed for each interview as necessary. The countries and FUND projects examined were selected based on cross sectional representation, materiality, logistical efficiencies and country program evaluation and audit plans.

General Findings and Conclusions

In both the evaluation study and the audit survey, notable differences were found in the results achieved as well as in the management of FUND projects, not only between countries but also between FUND projects within countries. A review of past CIDA evaluations revealed that FUND projects have achieved varied results with some projects achieving better results than others and that the achievement of intended and unintended results depends on various factors, ranging from internal issues of management/administrative mechanisms to external factors residing with partner NGOs. From an Agency perspective, a significant finding was the lack of uniformity in the way FUND projects were managed and in the results achieved. In some cases, this variability resulted in flexibility during project planning that allowed greater adaptability to a particular situation, whereas in other cases this variability indicated a need for more training and improved advice, guidance and direction.

Strategic Considerations

The Agency's SAE strategy gives FUND projects sufficient latitude to undertake a broad range of activities. This has both benefits and risks. Strategically, the lack of linkages between sub-project results, the overall FUND results, and country program priorities is a concern in most projects. A majority of interview respondents, both managers at HQ and field staff, identified a need for improved strategic direction for the FUND projects they administered and better integration of FUND projects with each other; as well as integration of sub-projects within FUND projects. In addition, evaluations and interviews revealed that the lack of clear definitions and purpose for FUNDS is also a concern.

The future role of FUND projects in the new program based approaches outlined in the policy statement on 'Strengthening Aid Effectiveness' needs to be exploited. The Sector-Wide Approaches (SWAs)¹ may involve contributing aid funds to a common pot that the recipient country would then use to implement its sectoral plan. Lessons from CIDA's experience with various large FUND projects could contribute to more effective management and monitoring of such SWAs for both the recipient country and donors.

FUND projects have a number of potential benefits and characteristics that support aid effectiveness, for example sub-projects are locally owned and controlled and benefits accrue almost immediately to the target population. Additionally, interviews and observations showed that Canada and CIDA achieve a fair degree of visibility and good will from the FUND projects, particularly among the local populations.

¹ SWAs involve coordinated efforts to set out strategic approaches in a particular sector (such as health or education).

Operational Considerations

Both the evaluation and audit reviews noted that the management and administration of FUND projects are key in influencing their success. As well, the co-ordinator's training, experience, management skills and focus were noted as paramount to the success of any FUND project.

Recent changes to authority levels are having an impact on the management and administration of funds, as well as roles and responsibilities. There appears to be some misunderstanding about the changes to signing authorities and their impacts. It seems that many Heads of Aid were not aware of the changes or their impact; and, second, there are different interpretations of the criteria and processes under which the authorities applied. It should be noted that during the preparation of this report, Internal Audit was informed that clarification directives, to implement corrective action, were issued by the affected Branches.

Although a generic management framework, based on the CFLI guidelines, is in place for some of the FUND projects reviewed, its application could be strengthened and so further support Strengthening Aid Effectiveness. Some FUND projects had well developed, documented sound management practices, processes and procedures while others had areas requiring significant improvement. Nevertheless, generally speaking, staff are capable but require support and some training in their areas of responsibility.

Resources and Results

Similar to other donors' experiences, most CIDA FUND projects find it difficult to measure results of sub-projects beyond the output level and find that most FUND projects have not achieved sustainable results at the sub-project level. CIDA evaluation reports and interviews revealed that most sub-projects are not sustainable beyond support from the FUND project. A key observation is that the achievement and measurement of results seem to be better in FUND projects with larger sub-project budgets.

Many FUND projects report inadequate resources, both human (in the field and at headquarters) and financial, that translate into poor monitoring of sub-projects and inadequate measurement of results. High staff turnover both at the field-level and at CIDA HQ leads to a lack of continued focus and planning for sub-projects. The lack of monitoring and evaluation of the overall FUND project and its sub-projects is a recurring theme in many reports and interviews.

Recommendations

The sample size provided sufficient evidence to show that improvements are needed in the way FUND projects are managed and that lessons need to be shared. Based on these initial findings, PRB recommends that:

1. Evidence gathered was sufficient to indicate broad areas for improvement and therefore no further audit work be undertaken.

2. The Senior Vice President, in collaboration with the bilateral branches, should ensure that strategic direction is provided, coordination and integration of the Funds and sub-projects occurs so that these may efficiently and effectively contribute to CIDA's SAE goals and objectives.

Management Response:

In FY 04-05, the Senior VP's staff, in consultation with the program branches, will develop revised operational procedures on structuring and managing FUNDS so that their strategic potential can be better exploited. Once these are developed, PRB will consider sending a reminder to staff on Entre Nous of the necessity to monitor and evaluate all projects, including FUND projects, using the Framework of Results and Key Success Factors, and the standards for evaluation in the CIDA Evaluation Guide.

3. The Senior Vice President, in collaboration with the bilateral branches, should develop and implement operational manuals and procedures for FUNDS projects to support standardized and institutionalized means of conducting business.

Management Response:

The report notes that while the management and administration of FUND projects are critical conditions for success, the existing CFLI guidelines need to be strengthened so as to support *SAE* and to ensure Agency wide adherence to guidelines and authorities as well as consistency in management practice. In order to make operations simpler, more integrated and to foster delivery of measurable results in less time and at less cost with due accountability, the Senior VP, in collaboration with the program branches, will initiate work in FY 04-05 on managerial standardized practices and institutionalized means of conducting FUND business.

4. Based on operational requirements, the VPs bilateral branches should review and rationalize the organizational structure, resources and authorities of Funds projects.

Management Response:

In 2004-2005, the bilateral branches, with BOG assistance, will support a review that aims to rationalize FUND organizational structures, examine resource requirements and clarify the authorities for FUND projects. The results of such a review would be incorporated into the Agency Roadmap. This review, could include, for example, a definition of the accountability and roles of FUND coordinators, HOAs and PRCs as well as criteria for operational strategies relating funds to broader strategic goals, guidelines on eligibility and selection criteria for FUND sub-projects as well as guidelines on performance monitoring and reporting responsibilities.

5. The VPs bilateral branches should ensure that sufficient training, including financial and management practices as appropriate to the duties of the coordinator's position, is provided.

Management Response:

The Bilateral VPs, in FY 04-05 will support the development of a corporate learning initiative to assist FUND coordinators in becoming qualified administrators and in adopting appropriate financial and management practices.

6. The Evaluation Division of Performance Review Branch integrate the issues raised as part of this study into ongoing and future country program evaluations (where FUND projects exist) and collaborate with program branches on project-level evaluations of FUND projects.

Management Response:

This approach has been/or will be adopted in the country program evaluations of Haiti, Hungary, South Africa, the Philippines, Brazil and Tanzania. Project-level evaluations include the Hanang Participatory Development Fund (completed), the Brazil Technology Transfer Fund (ongoing), the HIV/AIDS Small Grants Fund (ongoing), the Knowledge for Development Fund (new in 2003-2004), the Balkans Local Initiatives Program (new in 2003-2004), an evaluation planning study for the Global Environment Facility (ongoing) and a mid-term review of the Climate Change Fund (new in 2003-2004). As noted in the response to Recommendation 2, in 2004-05, PRB will remind staff of the obligation to evaluate FUND projects - as with any investment - using the Framework of Results and Key Success Factors and the CIDA Evaluation Guide.

7. The Senior Vice President, in collaboration with the bilateral branches, should develop an agency-wide definition and guidelines for FUND projects.

Management Response:

In order to determine and report on the size and nature of the CIDA FUND population, an Agency definition of a FUND project will be developed and incorporated into FUND guidelines and Roadmap-associated material in FY 04-05.

ANNEX A

Local Initiatives Funds (LOB 7)

Preliminary Audit Survey Report

Introduction

Under Treasury Board policy, internal audit is required to provide assurance to CIDA management on: risk management strategies and practices; management control frameworks and practices; and, information used for decision-making and reporting. Within that framework and based on a preliminary risk assessment of the Agency audit universe, an internal audit of Local Initiatives Funds was included in the 2002-2003 Audit Plan of the Performance Review Branch and was endorsed by A&E Committee. The audit was to be carried out in two stages, a preliminary survey to be conducted first, and a decision about further audit work to be made based on the survey report. This report covers the preliminary survey findings.

Objective of the Preliminary Survey

The preliminary survey stage of an audit is designed to familiarize the audit team with the entity to be audited; to define and describe the audit entity and to identify potential audit issues, concerns and lines of inquiry. It includes describing the main types and characteristics of local initiatives funds, preliminary interviews with key agency staff, a review of files and documents and a preliminary review of the management and administration of a sample of Funds to identify the audit objectives, criteria and potential issues to be audited in the detailed audit phase. The specific objectives of the survey are:

- To identify the population by defining and describing the types of mission administered funds, funds-type projects and mechanisms the Agency uses in delivering developmental assistance;
- To review adequacy of the management framework;
- To review compliance with CIDA policies and procedures;
- To review the adequacy of risk management;
- To review the reporting of results and the integrity of the information;
- To refine the scope of the audit, identify audit criteria and lines of inquiry.

Methodology

For the purpose of this report, the term "Fund" is used to identify the Line of Business 7, which is referred to as "Mission Administered Funds", "Fund Project" or "Project" and, any activities or undertakings financed by the Fund are referred to as sub-projects. The reason for this nomenclature is that within CIDA "project" sometimes refers to a fund such as CFLI, a PSU, a bilateral project such as Canada China Legal Aid and Community Legal Services Project or an activity or series of activities funded by a Gender Fund, for example.

A more complete picture of the audit population was created, in three stages. First, the survey developed a listing all of the Funds that are coded within Corporate Memory as LOB 7, at the same time trying to identify coding anomalies and inconsistencies. A second stage involved reviewing a sample of the files available at HQ. Since LOB 7 Funds are activities delegated to the field, file documentation at headquarters is limited and generally does not include operational or sub-project information.

The third stage consisted of interviews at HQ and fieldwork, including further interviews, in selected countries in Asia, Africa and Americas Branches. The countries selected were Thailand, Cambodia, Vietnam, Kenya, Democratic Republic of Congo and Honduras. In each country, the Funds identified by the Head of Aid and the Fund coordinator as LOB 7 were reviewed. Several times, field staff stated that Funds coded as LOB 7 in Corporate Memory were not Local Initiatives.

The fieldwork included the collection and review of relevant documentation, observation, flow charting of work processes, file reviews, and interviews with key staff, together with a limited number of site visits to sub-projects. These visits were cursory and limited because the focus of the survey was at the level of Fund management and associated practices. Guides and questionnaires were prepared and utilized during the fieldwork stage. Detailed interview notes and summaries were completed for each interview as necessary. The countries and Funds examined were selected based on cross sectional representation, materiality and logistical efficiencies.

The preliminary survey included:

- Meeting with CIDA program branch personnel to get a general sense of the issues and the types of small Funds CIDA supports;
- Discussing areas of greater and lesser management effectiveness;
- Identifying and gathering basic documentation for review;
- Discussing management and administration processes for implementing the Funds;
- Reviewing financial information by year and fund type;
- Conducting file and document review; and
- Conducting preliminary fieldwork on a sample of Funds.

The survey provides:

- An identification of the LOB 7 population;
- A preliminary assessment of the issues and concerns with respect to management and administration practices;
- A preliminary assessment of the level of compliance with policies and procedures;
- A preliminary assessment of the adequacy of risk management;
- A preliminary assessment of the achievement of results, how they are captured and reported and the integrity of the information; and,
- A preliminary report assessing the need for further audit work; including if necessary lines of inquiry and audit criteria for use during the fieldwork phase of the audit; and, an audit program to conduct the detailed testing during the fieldwork phase.

Background

a. Audit Entity

One of the first steps was to identify and define the audit entity, i.e. how many Funds of this nature CIDA supports. Different searches gave different results depending on the wording or definition used. Corporate Memory searches were based on Line of Business (LOB) 7 which is defined as:

This Line of Business includes activities which are generated and managed in the field without significant involvement from Headquarters and include projects such as, Small Project Funds, WID Funds, Green Funds, and "micro-réalisations" projects (very small scale activities financed from development funds). The Canada Fund for Local Initiatives is a special case due to the allocation mechanism. Projects are generally, although not necessarily, small. Accountability is often formally delegated to the Head of Aid in the appropriate Canadian Post.

There is some variety in the makeup of funds that could be considered as local initiatives or mission administered. The value can range from \$500,000 to over \$15 million and not only can funds be managed by a number of different organizations e.g. LEAs, PSUs etc., but the level of CIDA staff involvement also varies. In addition, there are funds-type projects not identified as LOB 7, for example, the Caribbean region's proposed Social Infrastructure Program (4 responsive funds valued at \$40 million) is described as LOB 4: Responsive Development Model; Cambodia Canada Development Program (CCDP) II, coded as LOB 3: Quick Transfer Model.; and, the Kenyan Gender Equity Support Project, identified as LOB 5: The Iterative Model. These discrepancies suggest potential problems with data integrity, particularly at the aggregate and corporate level.

LOB#7 is comprised of four categories, CFLIs, PSUs, SPPEs and “other,” which is, for this report referred to as FUND projects. It should be noted that, as of March, 2002, SPPEs ceased to exist and are therefore were excluded from the fieldwork. As well Canada Funds, and PSUs were excluded from the fieldwork, mainly because they have been audited many times. Numerical data on the excluded funds are presented for information purposes and to provide a more complete picture of LOB 7 Funds.

Compared to the other seven delivery mechanisms used by the Agency, LOB#7 has one distinctive characteristic. Responsibility for the FUND is formally delegated to the HoA. The description of Line of Business 7, under Corporate Documents, notes that accountability is often formally delegated to the Head of Aid and later refers to the Canada Fund for Local Initiatives, in reference to "Governing Policies, Acts, Regulations and Guidelines", as a guide for "most Mission Administered Funds". The CFLI Guidelines state:

"The Head of Aid (HOA) ⁵ is responsible and accountable to the HOM for the efficient and effective management of the Canada Fund Program and for ensuring that the CF is administered in accordance with these Guidelines and appropriate Government and CIDA financial and contracting regulations and authorities, including those relating to the management of local costs (see CIDA's Financial Standards for Local Costs). Specifically, the HOA is responsible for managing the Canada Fund Co-ordinator and for assessing all proposed Canada Fund projects and making recommendations for approval to the HOM, as appropriate. (Projects cannot be approved by the HOM without the recommendation of the HOA.) The HOA can reject a project proposal on the basis of pre-determined criteria or lack of funding ..."

For Local Initiatives Funds, within an overall approved Project Approval Document, there is a lump sum budget allocated to finance various initiatives called “sub-projects”, to undertake a number of activities in support of the Fund's main objective. The lump sum budget plus management and administrative costs constitute the approved Fund budget. Once sub-projects are selected and approved, the funds are transferred to the recipient under a separate contribution agreement. A detailed description and flow chart of the processes involved in the Bilateral Directed Mechanism, the programming mechanism used to identify and approve LOB7 Funds, can be found in the Geographic Programs Roadmap 5.2.

In terms of the number of Funds/year, LOB # 7 rank as the third most frequent funding mechanism, after LOB # 5 - The Iterative Model and LOB#8 - The Responsive Model. In FY 01/02 there were 410 disbursing Funds, an increase of 90 (28%) from FY 99/00. Over the three years from FY 99/00 to 01/02, LOB # 7 Funds represented about 15% of all LOB Funds, 1124 of 7251. In annual disbursement values, they rank fifth out of eight, with annual disbursements of between \$64-66 million each year.

HQ FILE REVIEW:**Materiality of Local Initiatives Funds**

From a Corporate Memory download of March 4, 2002, the survey population was identified as 252 different project files, of which 44% were identified as CFLIs, 9% as SPPEs, 6% as PSUs and 41% as “others”.

SUMMARY OF LOB#7 PROJECTS: FY 99/00 - ½						
Branch	CFLI	PSU	SPPE	Other	Total	%
AMEB	51	5	1	34	91	36%
Americas	27	10	5	27	69	27%
Asia	25	1	16	34	76	31%
CEE	8	0	0	8	16	6%
Total	111	16	22	103	252	100%
	44%	6%	9%	41%	100%	

DOLLAR VALUE OF LOB#7 PROJECTS: FY 99/00 - 01/02(millions)						
Branch	CFLI	PSU	SPPE	Other	Total	%
AMEB	36,1	3,6	0	26,4	66,2	34.7%
Americas	22,7	8,3	1,4	29,5	61,9	32.4%
Asia	28,7	1,2	2,4	22,3	54,6	28.6%
CEE	1,4	0	0	6,9	8,3	4.3%
Total \$	88,9	13,1	3,8	85,1	191	100%

Description of the Survey Population

Of the total population of LOB#7 projects, the HQ file review identified 125 different Fund files, excluding CFLIs and PSUs, over the three selected fiscal years, 1999-2002. SPPEs were included in the file review but not in the fieldwork. Of these 125 projects, a sample of 88 files were examined, representing 70% of the selected population. In total these 88 projects had PAD approvals for \$133.135M which represented 63% of the approved PADs for all SPPEs and “other” projects. The reviewed files covered between 53- 68% of annual disbursements for SPPEs and “other” projects over the three years.

OBSERVATIONS and RECOMMENDATIONS

General

The survey found notable differences in the management practices of Funds, not only between countries but also between Funds within countries. Some Funds had documented strategies such as the Viet Nam Gender Strategy which guides SWIF Phase I and II, by detailing the goals and objectives of the gender strategy, providing the Vietnamese context, identifying strategic entry points to the CDPF and by providing guidelines for integrating gender issues. Others such as SEAFILD in South East Asia had established methodologies and approaches that promote intergration of sub-projects, donor and Fund coordination. As well, The Management Manual, GESP II laid out well documented management practices, processes and procedures. Other Funds were not as well developed in their strategic and management practices and had areas requiring improvement.

From an Agency perspective, one of the most significant findings was the inconsistency between funds and countries, in the way Funds were managed. While recognizing that each country is different; that pressures and demands vary, that there are differences in structures, reporting relationships and also practices and processes; the variation in management practices cannot be accounted for by these differences. Standardization in the broadest sense; an operational manual, work instruments and training, is needed.

The co-ordinator's training, experience, management skills and focus are paramount to the success of any Fund. A key finding of the survey was the pivotal position and the critical role of the Fund co-ordinator. The co-ordinator controls, almost completely, the flow of information, both financial and operational, between CIDA and the individual, organization or beneficiary accessing the Fund. These elements of the co-ordinator's are at the root of many of the operational issues raised in the survey.

Mission administered funds have a number of potential benefits and characteristics that support aid effectiveness, for example sub-projects are locally owned and controlled and benefits accrue almost immediately to the target population. Additionally, interviews and observations showed that Canada and CIDA achieve a fair degree of visibility and good will from the Funds, particularly among the local populations.

CORPORATE ISSUES

Strategic Direction / Integration

Strategic direction for the Funds was developed according to CIDA's six priorities of human needs; gender equality; infrastructure services; human rights, democracy, and good governance; private-sector development; and the environment. In September 2000, *CIDA's Social Development Priorities: A Framework for Action* introduced a greater sectoral focus for CIDA on four key areas: health and nutrition, HIV/AIDS, basic education, and child protection, with gender equality as an integral part of all of these priority areas.

The Agency's strategy gives the Funds sufficient latitude to undertake a broad range of activities. Funds and sub-projects are by definition responsive, demand driven and cover a wide spectrum of activities. This underscores the importance of having an effective operational strategy, integration among funds and sub-projects, and explicit eligibility and selection criteria for the sub-projects. Without an explicit operational strategy and the supporting tools and procedures, there is a risk of losing sight of the larger picture and concentrating solely on individual sub-projects and focusing on results at the output level.

A majority of interview respondents, both managers at HQ and field staff, identified a need for improved strategic direction for the funds they administered and greater integration of funds; as well as integration of sub-projects within funds. A good example of this approach can be found in the GESP II Annual Workplan document which refers to, among other things, institutional linkages and cooperation among civil society and public sector agencies, as well as collaborating with other donors. It goes on to provide detailed plans to achieve such goals. Within a Fund, other than meeting general eligibility criteria there is little evidence to show how sub-projects are related one to another and how they combine towards achieving Fund outcomes and impacts. There was no evidence of Fund co-ordinators meeting together or meeting as a group with the Head of Aid to discuss strategies or to ensure that they were acting in concert to achieve broader country objectives.

Nevertheless, the survey found that, for the most part, staff involved in the management and execution of Funds were dedicated, aware of the strengths and weaknesses of the funds and conscientious. They sometimes lacked the experience, training and support needed to resolve some of the problems and ensure Funds reached their full potential. Co-ordinators, largely as a function of their duties, tend to focus on individual sub-projects, without sufficient regard for the broader strategic goals and the need for horizontal and vertical integration. This observation is supported by a number of evaluations as well as the recent Roundtable Discussion on Decentralized Small Project Fund Management with Locally Engaged Professionals (LEPS), which included HQ staff, as part of a CIDA Orientation Program at HQ. The tendency to focus on sub-projects increases the need for independent input from PRCs and the HOAs, to ensure that the sub-projects not only provide benefits at the grass roots level but also support corporate, program and country

goals. Thus there is a need for clear strategic direction, co-ordination and integration if Funds and sub-projects are to effectively and efficiently contribute to CIDA's SAE goals and objectives.

Local Initiatives Funds and Strengthening Aid Effectiveness

Local Initiatives Funds support some of the key features of CIDA's policy initiative on strengthening aid effectiveness. For example, Funds encourage and support local control and ownership, since funding is generally provided to local government and non-government organizations, often at the "grass roots" level.

Funds could also be a key mechanism to increasing CIDA's field presence, providing not only heightened visibility but also increased knowledge and intelligence about the political, economic and social strengths and weaknesses of a country. By improving CIDA's field presence and knowledge they contribute directly to the knowledge based initiative as well as forming stronger alliances with country partners.

Improvements to the strategic direction and management of Funds would further increase their contribution to SAE, for example strengthening the link to national institutions and improving ties with other donors' programs through a better co-ordination.

Financial Authority Levels

Recent changes to authority levels are having an impact on the management and administration of funds, as well as roles and responsibilities. There appears to be considerable misunderstanding or lack of communication about the changes to signing authorities and their impacts.

As of February 22/01 new delegations of authorities were agreed to and signed by the Minister and the President. According to the delegations, the Head of Aid/ Co-operation has authority to sign Funds' contribution agreements, which are non-competitive, up to a value of Cdn \$15,000. Under the new authorities, only the Minister is authorized to approve delegation authority and

"Delegated authorities must be exercised solely by persons officially designated...and these authorities must have been delegated by the Minister to the positions occupied by these persons. Persons...may not re-delegate these authorities."

Given this explanation, as found in the "Delegation of Authorities and Contractual and Financial Signing Authorities: Explanatory Notes", Some CIDA staff have been implementing LOB 7 Funds sub-projects without proper authority levels, for example, exceeding the signing authority limit for the HOA and identifying the Project Review Committee, in the FUND PAD, as having approval authority for sub-projects. As of February, 2001 many Funds' contribution agreements signed by the Heads of Aid were not in full compliance with the delegation instrument. Anecdotal evidence suggests two reasons for this. First, it seems that many Heads of Aid were not aware of the changes or their impact; and, second, there are different interpretations of the criteria and processes under which the authorities applied. It should be noted that during the preparation of this

report, Internal Audit was informed that clarification directives, to implement corrective action, were issued by the affected Branches.

Sub-project approvals for the HQ file review of Funds are summarized below:

SUMMARY OF SUB-PROJECT APPROVALS FOR FUNDS SURVEYED

Branch	HoP	HoA	Project Committee	CIDA HQ	Both CIDA HQ & HoA	Not CIDA	Total
AMEB	4	8	1	3	0	0	16
Americas	2	5	2	10	1	2	22
Asia	10	21	4	4	8	3	50
Total	16	34	7	17	9	5	88
% Total	18%	39%	8%	19%	10%	6%	100%

Although LOB#7 are called local initiatives, 29% of sub-projects require approval at headquarters. In the Americas Branch, the number of HQ approvals are virtually the same as field approvals (10 HQ versus 9 field). HQ project approval increases the administrative burden and raises questions as to the "mission-administered" nature of the Fund.

Given that the delegation of authority cites generic positions, the seven PADs that name the project committee as the sub-project approval authority do not comply with the delegation of authorities. This mechanism is most frequently used in the Asia Branch, which generally also has the largest project approval committee memberships, ranging from 5 - 11 persons.

The HoA has the PAD-approved delegated authority to select sub-projects in 49% of the projects surveyed. Most sub-project Contribution Agreements exceed the \$15,000 limit and are selected through an allocation (not competitive) process and so approvals exceed the delegated authority.. On the other hand a \$15,000 limit for a \$300K to \$500K Fund places a significant burden on FUND management and administration, by requiring at least a doubling of the number of sub-projects in most cases, an apparently unreasonable and perhaps unintended effect. Also, the current delegation restricts the HOA'S ability to effectively interact with and establish sound relationships with country partners thereby limiting the HOA's contribution to Strengthening Aid Effectiveness.

Human Resources Expenditure

Most managers interviewed noted a concern for the amount of resources needed to manage and administer local Funds and this was also expressed as a "high transactional" cost. For example for most Funds, proposals are received and initially reviewed by the HOA and then transferred to the Coordinator for assessment. The coordinator may then contact the proposal sponsor to further develop and refine the proposal, which can be a labour intensive undertaking involving meetings, site visits, document preparation, etc. The proposal is then assessed, sometimes with the help of advisors or technical expertise, prior to presentation to the Project Review Committee. The PRC is often made up of the HOA, Coordinator, other coordinators, advisors and local officials. Once forwarded by the PRC the proposal is approved by the HOA or sometimes by HQ, on advice from the HOA. The process is then reversed with activity flowing from the approval authority through the coordinator to the recipient, accompanied by all of the encumbent financial and administrative activities, involving the HOA, Mission Administration Officer, financial officers, Fund Coordinator and various support staff.

At the same time, Fund coordinators reported for the most part that resources were adequate for managing the Fund, but that they would like more support, particularly with respect to financial and monitoring activities.

The HQ file review indicated that most Funds have at least one designated manager/coordinator, with varying levels of support from other staff within the Embassy/CHC, the PSU or hired by the Fund Project. Generally, the only staff listed for a Fund is the Fund co-ordinator, even though considerable administrative assistance and operational support may be provided by others. For example, technical advisors, financial officers or PSU managers often provide advice and guidance, as well as direct support in the form of project analysis, financial accounting and analysis and management assistance in the field, without any direct resource charge to the FUND.

Monitoring

Few of the funds reviewed had a structured, scheduled monitoring plan or monitoring process and procedures. Most interview respondents indicated that monitoring would be an expensive, resource intensive activity and currently operates at a minimal level for these reasons. Sound risk management would rationalize the frequency and intensity of a monitoring plan by considering such things as materiality, cost, reliability and expertise of organizations funded, etc. However, there was an absence of effective risk assessment or management that could have contributed to determining the level of monitoring required and associated costs. Monitoring was most often ad hoc, with more attention given to visiting organizations for pre-selection screening, than implementation or operational visits. Monitoring was often coupled with other activities and relied heavily on self-reporting. Even when visited, groups did not have baseline data, making it difficult to assess progress and attribute results.

Monitoring reports were little more than a list of sub-projects visited, most often to attend project events. There was little reporting on results achieved, persons interviewed or analysis of operational and financial performance.

CFLI guidelines state that audits can be used to support project monitoring, but are not mandatory. Of the 88 projects surveyed, eight (8) audit reports were noted (4 Asia; 2 Americas; 2 for AMEB) covering 9% of the projects and roughly 5% of funds disbursed in the first two fiscal years of the survey (\$3.8M and \$2.9M for FY 99/00 and 00/01). Of these eight audits, two were not found in the HQ files but were available on-site; four were management audits performed by major accounting firms; the remaining two were cash verification audits, i.e. income into the FUND bank account; interest earned; and disbursements for sub-projects and administrative expenses).

The HoA is responsible for performance monitoring. This task is generally delegated to the Fund co-ordinator who assesses performance through three methods: the receipt of periodic progress and financial self-reporting; phone calls, correspondence, meetings and attending events; and, on site monitoring which is most often not part of a planned and structured monitoring regime. Thus, the Head of Aid is very dependent upon the Fund coordinator for most of the information about Fund and sub-project performance. This reliance is not without risk and should be mitigated by some form of independent monitoring, with a scheduled and disciplined monitoring plan and program, reporting directly to the HoA.

Reporting

There is a need for more structured, disciplined, timely and thorough operational and financial reporting, particularly sub-project reporting. Fund Reporting to CIDA/HQ on total Fund performance tends to be by activity and outputs mainly, with outcome and impact data deemed “to difficult” or “to soon” to determine. Reports tend to be narrative descriptions of activities and events, and, generally do not provide enough information to assess whether the FUND is accomplishing its goals, and the extent to which it is on track. The information in most reports describes achievements by referring to the number of activities, important events, meetings held and number of participants attending or processed; the information is not management oriented in so far as it cannot be used to demonstrate value for money, efficiency of resource utilization or whether results are being achieved, compared to those that were planned.

Few reports provided statistical analysis of the application, selection and approval process, i.e. number of applications received; rejected by Fund co-ordinator and why; presented to the PRC; approved; nor did they provide summary information such as final reports received; agreements closed and final reports reviewed and approved.

Financial reporting tends to be descriptive, without reconciliation to the Financial Encumbrance provided. Administrative costs are inconsistently reported and , not well defined. Not all reports were timely or found in the files. Overall, there was insufficient information to make an informed decision about a Fund's financial position. Only

occasionally was a Fund's expenditure status compared to the approved PAD budget. Variances between budget and actuals were seldom explained and there was no indication what action was required or if any would be undertaken. In many cases, expenditures are reported in local currencies, not to Canadian dollars, or reconciled to the FEs sent. In most cases, administration expenses were not categorized between salaries/fees, payments to PSUs for cost recovery and other administrative expenses.

There were few final FUND reports found in the files. Funds often had several phases, had budget and staff carried over in to the next phase, and no final report on the previous phase was written. Often when a FUND ended, i.e. the funds were disbursed, many sub-projects were still carrying on activities and had not submitted their final report. Quite frequently, interim and final payments to sub-projects were made without reports being provided, even though the contribution agreement required them. This was especially true in cases where there was no incentive, i.e. a holdback, to produce and deliver a final report. There was little evidence of a tracking system for the due dates and receipts of final sub-project reports; contribution agreements had expired without the groups being notified that the report was overdue; and, in some cases final payments were being made prior to receiving final reports and after the agreement expiry date.

OPERATIONAL

Roles and Responsibilities / Organizational Structures

Roles and responsibilities and organizational structures differed between countries, which is to be expected given the different staff complements. The roles of the Head of Mission, Head of Aid, Fund Manager, Director of the PSU, Review /Approval Committee, the HQ Project Approval Authority and Embassy/CHC Head of Finance/Accounting were diverse, sometimes leading to a lack of clarity and competing or conflicting authority.

In some cases the HoA chairs the Project Review Committee and subsequently is presented with these projects for approval. In others, the Project Review Committee is noted in the PAD as having approval authority.

The CFLI Guidelines recommend the HOA chair the CFLI PRC, but in that situation the HOM approves the recommended projects. To parallel this structure for FUNDS, the HOA would not be a member of the PRC. There are also situations of potential conflict of interest as the Fund Co-ordinator often assists the applicant in the design of the proposal which she/he then recommends. This situation is discussed further in the Selection and Approval section of this report.

For work on a project to be effectively controlled, delegation should occur with no specific overlaps, gaps or splits between responsibilities and accountabilities. Roles and responsibilities are not always clear, as reported in some management audits and evaluations.

Definition and Coding

Preliminary findings indicate there are inconsistencies in identifying small funds and coding them appropriately. Searching CIDA's web site, for example, reviewing project documentation available for a specific bilateral branch, revealed LOB 7 "Funds" which were not included in Corporate Memory searches, while Corporate Memory searches produced numerous LOB 7 Funds which were not identified by the Branches. This suggests inaccurate identification and reporting and the Agency is at risk in making decisions without accurate and reliable data. LOB 7 data is derived from four components, CFLI, PSUs, SPPEs and "other". Data from LOB 7 should provide senior management with complete information on the value of disbursements and the number of projects that fall under the HoA's responsibility in total, and in these four categories. The integrity of this information is essential for all levels of planning, resourcing and management decisions.

For CFLIs, the Corporate Memory data base appears to be accurate. In reviewing the other LOB reports, no CFLIs were found to be incorrectly coded. The accuracy of data entry however is not the same for the PSUs, for any branch or the Agency as a whole. The Corporate Memory data entry instructions are that all PSUs are to be coded as LOB#7. However the variety of codes found on approved PADs for PSUs were: #1 - Blueprint Model; # 2-Transfer Support Model; #5-Iterative Model and # 6-Policy and Advocacy Model; # 7 - Local Initiatives Model.

The remaining projects should be those under the responsibility of the HoA, identified here as "other". As the LOB 7 definition includes only Funds, the following types of projects are not captured by this definition, but are coded as LOB 7: a bilateral project with funding agreements signed between the post and the recipient government or local NGO; contributions to "basket funds" where CIDA contributes to a multi-donor consortium project, or an in country sector wide program approach; and, contribution agreements signed between CIDA HQ and a local entity (usually a NGO) where the Canadian dollar advances are transferred to the Post as FE, and then sent by the Post to the recipient's bank account in local currency.

The LOB 7 definition could be more precise. If it is meant to capture only Funds as stated in the current guidelines, then 15-20% of the current projects coded under LOB 7 would be excluded. If it is meant to capture all activities for which authority is delegated to the HoA, then the current definition is inadequate. Furthermore, the LOB 7 description includes counterpart funds but these funds are not captured in the Agency's coding and counting system, because CPFs are owned by recipient countries and therefore not included in CIDA's database.

Risk Management

LOB 7 criteria lists these Funds as high risk; however most Funds in their LFA cite low risk. Evidence revealed little more than a perfunctory acknowledgement of risk identification, and virtually no risk management, assessment or monitoring. Generally,

only a short paragraph was devoted to identifying, in the broadest socio-economic or political terms, potential risks to the funds. Respondents indicated that risk management is not effectively implemented.

Risk management at the sub-project level is dealt with in a similar fashion and few sub-project PADs show an informed analysis of risk. Although a few FUNDS, such as GESP in Nairobi, have detailed institutional and proposal assessment forms, most Fund Co-ordinators do not carry out a systematic and documented assessment of the applicant's financial and managerial capacity to undertake the project they have proposed,. Sub-project monitoring does not appear to be related to any independent assessment of the risk of not completing the project (results achieved, on time and within budget) in a predetermined fashion.

Identification, Selection and Approval Process

The Fund co-ordinator often invests significant time with some groups helping them develop their proposal, which is a legitimate and needed role, building capacity development and improving the likelihood of sustainability. However, this role increases the need for independent and objective criteria and processes to ensure fair and equitable treatment of all proposals. The process for identifying, selecting and approving sub-projects for funding does not always readily demonstrate fairness, transparency, best value, and accountability for results and could be subject to criticism.

The identification, selection, review and , *de facto*, approval process can be controlled by the Fund co-ordinator, with few, if any checks and balances. The fund co-ordinator occupies a key position in the management and administration of the fund. The co-ordinator controls almost completely the flow of information, financial and operational, between CIDA and the individual, organization and or beneficiary. Consequently there is a need for greater segregation of duties; improved due diligence on the part of the HOA and an independent source of information which validates/verifies sub-project/proposal information. Few Funds maintained a log and history of all proposals and their disposition; few had objective, documented selection and approval criteria and some sort of ranking system; and minutes of meetings or records of decisions were not well documented. In some cases, as noted, the approval process had overlapping responsibilities and lacked appropriate segregation of duties. The identification, selection and approval processes must be perceived as neutral, objective and not seen as biased.

Exchange Rate Impacts

Generally funding for the sub-projects is approved in two currencies: Canadian and local, with the agreement being in local currency. In Regional Funds however, exchange transactions involved three currencies: Canadian, US and local. Consequently, in both cases, there were exchange rate fluctuations resulting in more or less money being available to the project and over or under funding. As well, most conversions were made on a daily exchange rate, rather than, for example as in done in DFAIT and CIC, setting a

rate at the beginning the month to be used that month. Using a daily rate increases the administrative burden and transaction costs.

Training of staff

Respondents indicated a need for more training in the management of funds. They indicated a lack of training in the areas of financial management, monitoring and risk management. The Agency does not have a course in Fund Project Management, nor guidelines, other than CFLI guidelines, or a management/procedures manual to guide and direct the management of these funds.

Recommendations

1. Evidence gathered was sufficient to indicate broad areas for improvement and therefore no further audit work be undertaken.
2. The Senior Vice President, in collaboration with the bilateral branches, should ensure that strategic direction is provided, coordination and integration of the Funds and sub-projects occurs so that these may efficiently and effectively contribute to CIDA's SAE goals and objectives.
3. The Senior Vice President, in collaboration with the bilateral branches, should develop and implement operational manuals and procedures for FUNDS projects to support standardized and institutionalized means of conducting business.
4. Based on operational requirements, the VPs bilateral branches should review and rationalize the organizational structure, resources and authorities of Funds projects.
5. The VPs bilateral branches should ensure that sufficient training, including financial and management practices as appropriate to the duties of the coordinator's position, is provided.

Conclusion

Although a generic management framework, based on the CFLI guidelines, is in place for the Funds reviewed, its application could be strengthened. The Preliminary Survey found mixed results and there were notable differences in the management practices of Funds, not only between countries but also between Funds within countries. Some Funds had well developed, documented sound management practices, processes and procedures while others had areas requiring significant improvement. Overall, there needs to be improvements in financial and operational management as well as compliance with the terms of contribution agreements. Nevertheless, generally speaking, FUND staff are capable but require support and some training in their areas of responsibility.

Appendix A**Funds Reviewed**

Country	Fund	Value	COMMENT
Thailand	SEAGEP	4 000 000	South East Asia
	SEAFILD	7 500 000	South East Asia
	GOLDEN JUBILEE	3 000 000	
	CTTE	500 000	
	WIF	500 000	closed
	CCDP (Cambodia)	5 000 000	
CAMBODIA	Civil Society	1 400 000	
	Health and Nutrition	500 000	
	CFLI	400 000	PSU A/Dir Request
Vietnam	SWIF II	1 000 000	
	Partnership Support	500 000	low activity
Kenya	GESP	500 000	
	HRDDGG	500 000	
	CSDDP	1 000 000	
Congo	FGED	500 000	
	FDUS	500 000	
	FDDD	500 000	
	FPE		
Honduras	Post Mitch	4 500 000	
	Gender Equality	600 000	Closed
	CFLI	300 000	Branch Request

ANNEX B



Evaluation Planning Study for FUND Projects

Executive Report

October 17, 2003

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An **evaluation assessment/planning study** outlines the context for the program, project, activity or investment; describes the population and investment profile; and, identifies any emerging issues, findings and lessons. The aim of an evaluation assessment/planning study is to determine the extent to which a program or investment can be evaluated in a reliable and credible fashion (*evaluability* - see DAC Glossary of Key Terms in Evaluation and Results Based Management). The planning study can develop various options for implementing the evaluation or review. The Terms of Reference for the evaluation normally incorporates the issues and findings from the assessment/ planning study.

1.0 INTRODUCTION

1.1 Background and Purpose

The Audit and Evaluation Advisory Committee requested Performance Review Branch (PRB) to review FUND projects in the geographic branches and assess whether FUND projects are a good mechanism for development cooperation. Consequently, the Evaluation Division initiated this evaluation planning study to define and describe the FUND universe, and to identify potential evaluation issues, concerns and good practices. The purpose of this paper is to inform and seek guidance from the Audit & Evaluation Advisory Committee on the recommendation for further evaluative work. Similarly, the Internal Audit Division conducted a preliminary Audit Survey of Line of Business 7 FUND projects (refer to Appendix A for LOB definitions). Both the evaluation planning study and preliminary audit survey are meant to be complimentary sources of information for the Audit & Evaluation Advisory Committee.

1.2 The Evaluation Planning Study

The inconsistencies in CIDA's coding and project information systems, coupled with the lack of an agency-wide definition for a FUND project, created a challenge in determining an accurate FUND population (i.e. how many FUND projects does CIDA support and what is their total value). In order to capture the entire FUND universe, a broad working definition was developed; thus, ***a FUND project has a lump sum budget approved and allocated to finance various 'initiatives' that address a set of predetermined criteria*** (these initiatives supported by FUND projects are labelled 'sub-projects'). Consequently, projects administered or managed in whole or in part by the field were included and so were all Lines of Businesses (LOBs).

The **value-added** of such an inclusive definition was to find the largest possible population of FUND projects that could reveal their richness, variety and deficiencies. Furthermore, this is the first time CIDA has attempted to define the FUND population; hence it was important that the planning study adopt an inclusive approach to identifying FUND projects. Our rationale was that a smaller and narrower population could always be defined for the purposes of an evaluation.

The lack of a CIDA-definition for a FUND was an issue raised by many project/program officers in interviews, evaluation reports and a special study on French-speaking African countries. Based on these findings and a review of other donors' FUNDS, **the PRB recommends the development of an agency-wide definition and guidelines for FUND projects.**

1.3 Methodology

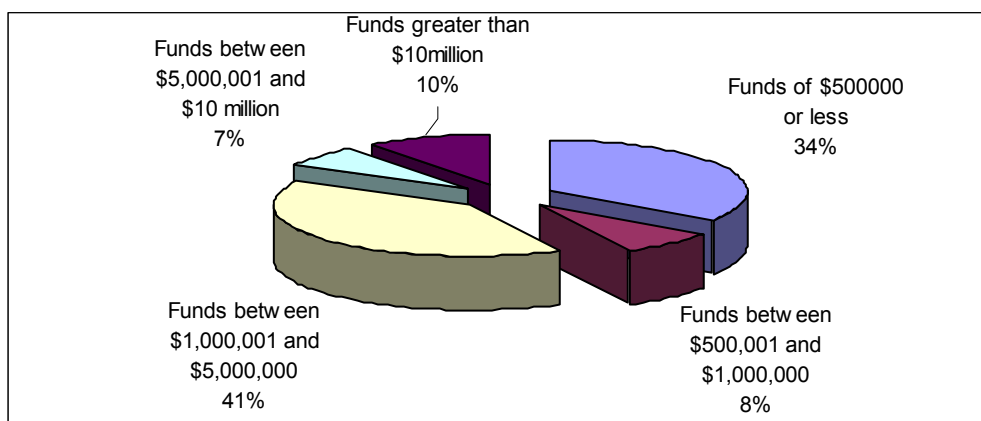
Sources of information included: literature reviews of evaluative-type material on FUND projects; project file reviews; interviews with CIDA staff; roundtable discussion with locally engaged professionals; two missions to Ecuador and Tanzania; and, a special study in 15 French-speaking African countries². The planning study also reviewed FUND projects in other donor agencies in order to understand the different approaches, evaluation methodologies and lessons pertaining to FUNDS³ (refer to Appendix B).

2.0 CIDA FUND PROJECTS

2.1 The FUND Population

The planning study identified 184 projects of which 55 (30%) were identified using sources other than Corporate Reporting Services. The total value of identified projects is approximately \$830 million. Figure 2.1 shows the distribution of FUND projects by budget size. Sixty-two projects (34%) have a budget of \$500,000 or less while the remaining range in size from \$500,001 to \$72 million.

Figure 2.1: Distribution of FUNDS by Budget Size



Project duration is typically 3 years for a \$500,000 project, but between 2 to 5 for the rest. Many FUND projects have more than one phase. Some FUNDS such as the Democratic Development Fund in Guatemala and Kenya have as many as three phases of 4 years each. Sources of funds include: bilateral ODA; multi-donor funds; local currency generated from the sale of Canadian commodities (e.g. fertilizer Lines of Credit/Counterpart funds); or local currency generated through debt conversion (7 in the Americas).

² Report available upon request

³ Includes FUNDS within the World Bank, Inter American Development Bank and the Department for International Development.

Figure 2.2: Summary of FUNDS by Program Branch (1990-2003)

Branch	Number of Projects	% of Total Number	Total Value (\$million)	% of Total Value
Americas	48	26%	280	34%
AMEB	79	43%	310	37%
Asia	46	25%	178	22%
CEE	11	6%	61	7%
Total	184	100%	830	100%

Figures 2.3 and 2.4 provide breakdowns of FUND projects by LOB and by ODA priority respectively. The majority of identified projects (55%) are coded as LOB 7, while the next largest categories are LOB 4 (Responsive Development Fund Model) with 14% and LOB 5 (Iterative Model) with 12%. Our analysis concluded that FUND projects are not limited to LOB 7 and that most of the larger FUND projects are usually not coded as LOB 7.

Figure 2.3: Summary of LOB by Branch

Branch	Number of Projects	LOB 1	LOB 2	LOB 3	LOB 4	LOB 5	LOB 6	LOB 7	LOB 8
Americas	48	4	0	0	10	4	0	27	3
AMEB	79	3	10	3	9	15	1	37	1
Asia	46	5	0	1	7	3	0	29	1
CEE	11	0	0	0	0	0	0	8	3
Total	184	12	10	4	26	22	1	101	8

Figure 2. Projects by ODA Priority4: Breakdown of

CIDA ODA Priority	Number of Projects	% Ratio	Thematic Budget (millions)	% of Total Budget
Basic Human Needs	54	29.0%	280	34.0%
Gender Equality	34	18.5%	79	09.5%
Infrastructure Services	1	00.5%	15	02.0%
Human Rights, Democracy & Good Governance	73	40.0%	177	21.0%
Private Sector Development	9	05.0%	171	20.5%
Environment	13	07.0%	108	13.0%
Total	184		830	

3.0 EVALUATION FINDINGS

The evaluation findings are grouped into 7 broad issues: results, rationale/purpose, partnerships, management/ administration, sustainability, gender equality, and information sharing.

3.1 Results

FUND projects have achieved varied results with some projects achieving better results than others. Achievement of intended and unintended results depends on various factors ranging from management/administrative mechanisms to partner NGOs. The lack of baseline information proves to be the biggest hindrance to assessing achieved intended and unintended results. The lack of linkages between sub-project results, the overall FUND results, and country program priorities is another concern in most projects.

Like other donors' experiences, most CIDA FUND projects find it difficult to measure results of sub-projects beyond the output level. An illustration is a sub-project worth CDN \$5000 and which involves a one-time survey of working children in a particular slum. A key observation is that the achievement and measurement of results seem to be better in FUND projects with larger sub-project budgets. For instance, **larger FUND projects like the Green Fund in Jamaica and the Canada-Poland Entrepreneur's Fund show medium to high-level of achievements at the outcome level.** In fact, of the seventeen organizations partnered with the Green Fund, nine showed high levels of achievement with respect to outcomes.

3.2 Rationale and purpose

There is a distinct difference between the rationale and the purpose of a FUND project. For example, the *rationale* behind using a FUND mechanism for the Canada-Ecuador Fund (FECD) was to minimize the problem of corruption, whereas its *purpose* was poverty reduction. Hence, rationale relates more to why CIDA uses a FUND mechanism and purpose relates to the intended results of the FUND.

The rationale for using FUND mechanisms varies from the lack of democratic practices and political will within partner country for a certain program theme to the need for a quick delivery mechanism in an emergency situation (e.g. natural disaster) to the lack of adequate civil society and government infrastructure. FUND projects are also frequently used to experiment with new program priorities or themes (such as gender equality and good governance funds) without getting involved with local governments. These examples demonstrate the flexibility of the FUND mechanism.

With regards to the overall purpose of a FUND, the biggest issue arising in evaluations and interviews is the lack of clear definitions and purposes for FUND projects. Most projects fund a smorgasbord of sub-projects and activities in a certain sector, thus making it difficult to focus and plan for results. In some cases, over a project's duration, the purpose of a FUND project evolves with changing local contexts. **A good example of a**

FUND project with a clear purpose that evolved to adapt to changing local contexts and needs is PADEL I in Guatemala. PADEL's initial purpose to support smaller pilot initiatives was modified after 5-6 years and was instead replaced by support and capacity building to larger cooperative associations.

3.3 Partnerships

Some FUNDS support all categories of partners/proposers, - NGOs, CBOs, line ministries, private sector, academic and research institutions - while others are only open to one type of organization, most often NGOs and/or community organizations.

Projects such as the **South East Asia Fund for Institutional and Legal Development (SEAFILD)** have proved effective in selecting good partner organizations; partnership has been a critical factor in SEAFILD's success. Other FUND projects experience ineffective partnerships and weak local partners. Most projects discover that there is a serious need for capacity development and institutional strengthening for partners, especially in RBM, environmental management, gender equality and financial management. Projects recognize the need for rapid institutional assessments to determine organizational and management capacities of implementing agencies, yet these are rarely done due to limited resources of the FUND itself. At the macro-level, partnerships and cooperation between donors and other international organizations is weak in most countries.

Recognizing the importance of strong partners, some FUND projects (such as FECD) have evolved from financial support (such as loans) to local community organizations to the provision of finances coupled with capacity building activities for local organizations. Other projects like the Public Sector Reform Funds in the Americas have the sole purpose of finding and building strong partnerships with local organizations that can later implement a larger bilateral project.

3.4 Management and administration

The management and administration of FUND projects are key in influencing their success. Management structures range from CIDA staff, CEAs, LEAs, NGOs (Canadian, local, or combinations), line ministries, CIDA PSUs, coordinators within PSUs, to Canadian cooperants. Most FUND projects have a Project Selection Committee consisting of members from civil society and government who recommend sub-projects for approval.

Almost all small FUND projects report inadequate resources, both human (in the field and at headquarters) and financial, that translate into poor monitoring of sub-projects and inadequate measurement of results. Factors included: insufficient involvement and support from CIDA HQ staff; unclear management and administration responsibilities for the various actors at the program, project and sub-project levels; unexpected high administration demands due to increased sub-projects with smaller budgets; unrealistic disbursement schedules and agency deadlines; the agency's high reporting requirements.

High staff turnover both at the field-level and at CIDA HQ leads to a lack of continued focus and planning for sub-projects. The lack of monitoring and evaluation of the overall FUND project and its sub-projects is a recurring theme in all reports and interviews.

The level of involvement of CIDA staff in headquarters and the field varies from project to project. It cannot be assumed that a project managed by a CEA or other organization requires little or no involvement on the part of CIDA officers. Although a project may be managed by a CEA or some other organization, there can be significant involvement of CIDA field staff. For example, the new Social Infrastructure Program in the Caribbean will be managed locally by the Caribbean Development Bank; however, a CIDA field representative will review all sub-project proposals above \$35,000 US and intervene when necessary.

3.5 Sustainability

Sustainability at the sub-project level and at the overall FUND level appears to be dependent on a number of factors: results achieved, political will within CIDA for the particular country or program theme, or budget allocations. In cases where FUND projects are experimental and responsive, sustainability of the FUND itself is not an issue.

Most FUND projects have not achieved sustainable results at the sub-project level. Evaluation reports and interviews revealed that most sub-projects are not sustainable beyond support from the FUND. **A recurring lesson for ensuring the sustainability of sub-projects is to support fewer, larger sub-projects rather than a number of smaller projects. Another lesson is to support strategic initiatives that link to and strengthen CIDA's overall country program.** Based on such lessons, a Local Development Fund (LDF) for Nepal will consolidate two local Funds (Gender and Environment) and a possible third (governance) into one integrated Fund. The LDF has been designed to support CIDA's country program in Nepal and act as a flexible mechanism to support larger, more strategic sub-projects.

3.6 Gender Equality

Research indicated there is little integration of gender equality in the planning, design and implementation of FUND projects and their sub-projects, unless it is a Gender Equality Fund. One factor appears to be the general lack of understanding of gender equality issues among local partners. Although most FUND projects attempt to report impacts on men and women at the sub-project level, indicators rarely extend beyond numbers of men and women that may have attended a training session.

A good practice among some of the larger FUND projects (such as FECD and PADEL) is to use gender equality specialists or advisors to assist in mainstreaming gender equality into the sub-project and overall FUND level. However, such dedicated resources would not be available to smaller FUND projects. Other **good practices among some FUNDS include provision of training to local partners to**

promote a common understanding of gender equality issues, as well as support to local partners that are committed to gender equality.

3.7 Information sharing

Research revealed that most FUND projects do not systematically share and exchange information among sub-project partners. This deficiency translates into the lack of linkages between sub-projects and local partners. Recognizing this, **the Brazil Technology Transfer Fund (TTF) adopted a good practice of regularly organizing a ‘Lessons Learned Symposium’ to provide Brazilian and Canadian partners with a forum in which development knowledge could be shared and expanded.**

Many FUND projects also lack linkages and information sharing with other international cooperation initiatives in the same country. Since its involvement in a joint-donor learning forum on district programs, the **Hanang Participatory Development Fund (HPDF) in Tanzania is learning from other donor programs** and this could translate into an improved second phase. In some countries, there is also a lack of information exchange and collaboration among CIDA programs (e.g. the gender equality fund and governance fund). Discussions with locally engaged professionals and other project staff revealed the need for information sharing among different FUND projects. For example, the governance fund coordinator in one country felt he/she could learn from the governance fund in another country and vice versa.

3.8 Conclusions

Based on the findings and the good practices emerging from this study, we conclude that FUND projects can be good mechanisms for development cooperation. However, their ability to achieve sustainable results depends on three factors: management and administration; partnerships at all levels; and strategic planning and orientation.

When one considers the future role of FUNDS in the new program based approaches outlined in the policy statement on ‘Strengthening Aid Effectiveness’, it will become more important to understand these factors and their influences on FUNDS. The Program Based Approaches (PBAs)⁴ may involve contributing aid money to a common pot that the developing country would then use to implement its sectoral plan using a FUND approach with sub-projects. Lessons from CIDA’s experience with various large FUNDS could contribute to more effective management and monitoring of such PBAs. As a step in this direction, PRB is already in the process of developing a lessons document that will identify guidelines and good practices related to the management and administration of FUNDS.

⁴ SWAps involve coordinated efforts to set out strategic approaches in a particular sector (such as health or education).

4.0 RECOMMENDATIONS

4.1 Rationale for Recommendations

The rationale for our recommendations is based on three main issues. The first issue is the materiality⁵ of the FUNDS population. Materiality defined by both the ‘magnitude in absolute terms’⁶ or the total monetary value of the FUNDS population as well as by the ‘qualitative attributes’⁷ warrants further study of FUND projects.

The second issue relates to the high level of interest in FUNDS exhibited by CIDA officers and managers. The planning study managed to link various CIDA staff with one another, which has resulted in knowledge sharing among different officers and managers. For example, ‘quality at entry’ discussion for the Nepal Local Development Fund invited officers of other FUND projects to share their experiences.

The third issue relates to the cost and time involved in conducting a full evaluation of FUNDS that would take into account a sample size representative of all the various characteristics exhibited by FUND projects. The evaluation planning study examined several different evaluation options prior to this final recommendation and decided that a full evaluation of FUND projects would be too costly and time-consuming to be relevant.

4.2 Recommendations

4.2.1 The Evaluation Division of the PRB recommends the integration of the issues from this study into ongoing and future country program evaluations (where FUND projects exist), as well as collaboration with program branches on project-level evaluations of FUND projects. Such an integration and/or collaboration would be the most efficient approach to continue the study of CIDA’s FUND projects while generating lessons and good practices.

4.2.2 As mentioned earlier (see section 1.2), the lack of a CIDA-definition for a FUND was an issue raised by many project/program officers in interviews, evaluation reports and a special study on French-speaking African countries. Hence, based on these findings and a review of other donors’ FUNDS, PRB also recommends that the Senior Vice-president in collaboration with the bilateral branches should develop an agency-wide definition and guidelines for FUND projects.

⁵ The concept of materiality focuses on whether a piece of information is likely to change the opinion or the action of an individual (Institute of Internal Auditors, 1996).

⁶ Magnitude in Absolute Terms refers to certain dollar amounts that are commonly perceived as material, no matter how large an entity’s operations (Institute of Internal Auditors, 1996).

⁷ Qualitative Attributes defined as ‘aside from amounts, qualitative attributes of errors or misstatements make certain activities material’ (Institute of Internal Auditors, 1996).

Appendix A: Definitions of Lines of Business (LOBs)

(Definitions are taken from CIDA's RoadMap 5.2)

LOB 1 - Blueprint model

CIDA (in cooperation with the recipient country) is responsible for significant study, analysis and design before project approval. Costs and expected results are normally clearly defined by CIDA in consultation with project stakeholders prior to project approval. An Executing Agency (EA) is not normally involved in this planning activity, although specialized professional and technical resources may be retained to undertake appraisal, feasibility or design activities. Implementation will normally be carried out by a contracted EA selected competitively through electronic bidding.

LOB 2 – Transfer/Support Model

Transfer/Support projects involve the transfer of resources to a recipient organization or country. Examples are, lines of credit (for services and/or goods); projects with multilateral agencies; projects where CIDA is one of a number of donors in a parallel or co-financing arrangement; or projects where CIDA supports capital activities financed by the Export Development Cooperation (EDC). Sector-wide approaches (SWAPs) and other similar initiatives would be included in this LOB.

LOB 3 – Quick Transfer Model

Quick Transfer projects are small, low cost (maximum \$500,000), short and require immediate implementation. They involve a quick response to initiatives or opportunities that can involve the transfer of ideas and technology.

LOB 4 – Responsive Development Fund Model

The Responsive Development Fund Model is a CIDA directed project where CIDA:

- § determines that the establishment of a Fund is an appropriate means to respond to an identified need;
- § sets a fixed financial envelope (the project budget) and a maximum size for individual sub-projects;
- § establishes a precise set of developmental objectives for the Fund; and,
- § provides clear criteria and a suitable competitive mechanism for access to the Fund by local and/or Canadian organizations.

LOB 5 Iterative Model

The basic principle of an iterative project is to modify project implementation through the continuous application of lessons learned during implementation to achieve expected development results.

LOB 6 - The Policy and Advocacy Model

This LOB is for two types of projects: CIDA's own Policy and Advocacy activities and analytical products; and, for Policy and Advocacy Projects which deal with policies, strategies and concepts, including such areas as human rights, good governance, and democratization. Such projects usually deal with capacity development in these critical areas and may involve very long-term objectives.

LOB 7 Local Initiatives Model

Local Initiatives Projects are generated and managed in the field without significant involvement from Headquarters, except for project approval. Common examples are small project funds, gender funds, and "green" funds. The Canada Fund is a special case due to the allocation mechanisms.

Projects may be labour intensive, but field offices may use contracted resources and/or Program Support Units (PSUs) to minimize the Canadian Post's administrative burden. The management focus of the Head of Aid is normally on ensuring that activities funded meet development criteria and that financial matters are dealt with according to accepted Agency and Government practices.

LOB 8 – Bilateral Responsive Projects

The Bilateral Responsive Projects mechanism allows for the two-step submission of unsolicited proposals to bilateral desks by both the private and the "not-for-profit" sectors.

Appendix B: Summary of Other Donor Funds

	Department for International Development (DFID)	World Bank	Inter American Development Bank (IADB)
Purpose	To provide support to enterprises and projects that contribute to the development process and alleviating poverty	To support small projects which have been identified by communities	To ameliorate the effects of the structural adjustment crises of the 1980's in Latin America, and to become one of the permanent instruments used by the IADB in its fight against poverty
Value	Individual funds range from £ 600,000 to £ 40 million	108 social funds (total budget of approximately \$3.5 billion) in 57 countries	Total budget of \$ 1.3 billion in 16 countries
Types/ Sectors	<ul style="list-style-type: none"> ▪ Business linkages ▪ Civil society ▪ Financial deepening 	Ranges from infrastructure and social services to training and micro-enterprise development	<ul style="list-style-type: none"> ▪ Economic infrastructure ▪ Social infrastructure ▪ Productive activities
Eligibility	Submissions accepted from NGOs, CBOs, private sector enterprises, and academic institutions based in the UK or elsewhere	Submissions accepted from local governments, NGOs, line ministries, community groups and local project committees	Submissions accepted from local governments, NGOs, line ministries, community groups
Process	Competitive process involves the bidder to come up with a concept for evaluation by an independent assessment panel. Detailed proposals are then invited from a short-list, with cost-sharing grants awarded to those initiatives that best meet the fund's objectives	Proposals presented to the social fund for financing. Social funds appraise, finance and supervise these grants, which then may be managed by a wide range of actors	Funds are demand-driven and organized along the lines of private enterprise, with a small, highly qualified and well-paid staff, and a private sector management style
Benefits & Successes	Contracting out funds to external management has: <ul style="list-style-type: none"> ▪ Enabled DFID advisors to concentrate on upstream policy reform; ▪ Led to good fund management--impartiality, transparency, & adaptability; ▪ Added value to country programs. 	<ul style="list-style-type: none"> ▪ Cost efficiency (low overheads/ administrative costs) ▪ Excellent accountability ▪ Quick disbursements ▪ Ability to work in very diverse situations 	<ul style="list-style-type: none"> ▪ Funds have developed a good system of national poverty maps to identify the poor---but have not been successful in reaching the very poor ▪ Subproject execution, administrative overheads and project disbursements were generally very effective and efficient

	Department for International Development (DFID)	World Bank	Inter American Development Bank (IADB)
Findings & Constraints	<p>§Limited coherence with national programs</p> <p>§Little impact on enabling environment</p> <p>§Limited knowledge management to date</p>	<p>▪Limited success with micro-credit;</p> <p>§Poor integration with policy framework</p> <p>§Little learning and information sharing</p> <p>§Lack of impact assessments</p> <p>§Trade off between rapid implementation of projects and building institutional and technical capacity.</p> <p>§Due to operational autonomy, several funds have ended up running as almost parallel governments, confusing beneficiaries and not contributing to capacity building.</p> <p>§Too little learning between social funds and the rest of the public sector.</p> <p>▪Conditions for success of a social fund include political support; high calibre staff; transparency; operational autonomy; consistency with policy; clear objectives; coordination; fitted to local conditions (Rawlings, Sherburne-Benz & Van Domelen, 2000).</p>	<p>▪Limited information on the fund's;</p> <p>§Funds were used primarily to build social infrastructure (e.g. schools) rather than for income generation</p> <p>§Problems of maintenance and sustainability of infrastructure, especially water and sewer projects</p> <p>§Monitoring and evaluation is inadequate-- lack of information systems to capture baseline data</p> <p>§Growing trend toward transforming SIF's from temporary into permanent units of government</p> <p><u>Lessons include:</u></p> <p>§Clearly define the objectives of funds and be consistent with country's comprehensive poverty reduction efforts;</p> <p>§Donor coordination to avoid duplication of efforts;</p> <p>§Increase national financial support for funds;</p> <p>§Do not consider requests of social infrastructure (e.g. health posts) in isolation;</p> <p>§Invest in training and capacity building of local actors and communities;</p> <p>§Disseminate knowledge regarding good practices and experiences;</p> <p>§Improve reach to the poorest, women and indigenous peoples.</p>

Summary of Recommendations 2003 -

Local Initiative Fund Audit and Evaluation Planning Studies - Final Report

Project	Number of Recommendations	Completed	Ongoing
Local Initiative Fund Audit and Evaluation Planning Studies	7		

Recommendations	Management Response	Date	Status
1. Evidence gathered was sufficient to indicate broad areas for improvement and therefore no further audit work is undertaken.			
2. The Senior Vice President, in collaboration with the bilateral branches, should ensure that strategic direction is provided, coordination and integration of the Funds and sub-projects occurs so that these may efficiently and effectively contribute to CIDA's SAE goals and objectives.	In FY 04-05, the Senior VP's staff, in consultation with the program branches, will develop revised operational procedures on structuring and managing FUNDS so that their strategic potential can be better exploited. Once these are developed, PRB will consider sending a reminder to staff on Entre Nous of the necessity to monitor and evaluate all projects, including FUND projects, using the Framework of Results and Key Success Factors, and the standards for evaluation in the CIDA Evaluation Guide.	2004-2005	
3. The Senior Vice President, in collaboration with the bilateral branches, should develop and implement operational manuals and procedures for Funds projects to support standardized and institutionalized means of conducting business.	The report notes that while the management and administration of FUND projects are critical conditions for success, the existing CFLI guidelines need to be strengthened so as to support SAE and to ensure Agency wide consistency in management practice. In order to make operations simpler, more integrated and to foster delivery of measurable results in less time and at less cost with due accountability, the Senior VP, in collaboration with the program branches, will initiate work in FY 04-05 on managerial standardized practices and institutionalized means adherence to guidelines and authorities as well as of	2004-2005	

Recommendations	Management Response	Date	Status
	conducting FUND business.		
4. Based on operational requirements, the VPs bilateral branches should review and rationalize the organizational structure, resources and authorities of FUND projects.	In 2004-2005, the bilateral branches, with BOG assistance, will support a review that aims to rationalize FUND organizational structures, examine resource requirements and clarify the authorities for FUND projects. The results of such a review would be incorporated into the Agency Roadmap. This review, could include, for example, a definition of the accountability and roles of FUND coordinators, HOAs and PRCs as well as criteria for operational strategies relating funds to broader strategic goals, guidelines on eligibility and selection criteria for FUND sub-projects as well as guidelines on performance monitoring and reporting responsibilities.	2004-2005	
5. The VPs bilateral branches should ensure that sufficient training, including financial and management practices as appropriate to the duties of the co-ordinator's position, is provided.	The Bilateral VPs, in FY 04-05 will support the development of a corporate learning initiative to assist FUND coordinators in becoming qualified administrators and in adopting appropriate financial and management practices.	2004-2005	
6. The Evaluation Division of Performance Review Branch integrates the issues raised as part of this study into ongoing and future country program evaluations (where FUND projects exist) and collaborate with program branches on project-level evaluations of FUND projects.	This approach has been/or will be adopted in the country program evaluations of Haiti, Hungary, South Africa, the Philippines, Brazil and Tanzania. Project-level evaluations include the Hanang Participatory Development Fund (completed), the Brazil Technology Transfer Fund (ongoing), the HIV/AIDS Small Grants Fund (ongoing), the Knowledge for Development Fund (new in 2003-2004), the Balkans Local Initiatives Program (new in 2003-2004), an evaluation planning study for the Global Environment Facility (ongoing) and a mid-term review of the Climate Change Fund (new in 2003-2004). As noted in the response to Recommendation 2, in 2004-05, PRB will remind staff of the obligation to evaluate FUND projects - as with any investment - using the Framework of Results and Key Success Factors and the CIDA Evaluation Guide.	2003-2004	

Recommendations	Management Response	Date	Status
7. The Senior Vice President, in collaboration with the bilateral branches, should develop an agency-wide definition and guidelines for FUND projects.	In order to determine and report on the size and nature of the CIDA FUND population, an Agency definition of a FUND project will be developed and incorporated into FUND guidelines and Roadmap-associated material in FY 04/05.	2004-2005	